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INTERNATIONAL FINANCIAL REPORTING STANDARDS

Model Financial Statements 2006

(Preliminary Version)

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About this Publication

This publication is a preliminary version of Deloitte's IFRS Model Financial Statements for 2006. We expect to to publish a final version in January 2007. That final version may reflect some changes from this preliminary version.

This publication contains general information only and is not intended to be comprehensive or to provide specific accounting, business, financial, investment, legal, tax or other professional advice or services. This publication is not a substitute for such professional advice or services, and it should not be acted on or relied upon or used as a basis for any decision or action that may affect you or your business. Before making any decision or taking any action that may affect you or your business, you should consult a qualified professional advisor.

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International GAAP Holdings Limited
Financial statements for the year ended 31 December 2006

The model financial statements of International GAAP Holdings Limited are intended to illustrate the presentation and disclosure requirements of International Financial Reporting Standards (IFRSs). They also contain additional disclosures that are considered to be best practice, particularly where such disclosures are included in illustrative examples provided with a specific Standard.

International GAAP Holdings Limited is assumed to have presented financial statements in accordance with IFRSs for a number of years. Therefore, it is not a first-time adopter of IFRSs. Readers should refer to IFRS 1 *First-time Adoption of International Financial Reporting Standards* for specific requirements regarding an entity's first IFRS financial statements, and to the IFRS 1 section of Deloitte's Presentation and Disclosure Checklist for details of the particular disclosure requirements applicable for first-time adopters.

These model financial statements have been presented without regard to local laws or regulations. Preparers of financial statements will need to ensure that the options selected under IFRSs do not conflict with such sources of regulation (e.g. the revaluation of assets is not permitted in certain regimes - but these financial statements illustrate the presentation and disclosures required where the entity adopts the revaluation model under IAS 16 *Property, Plant and Equipment*). In addition, local laws or securities regulations may specify disclosures in addition to those required by IFRSs (e.g. in relation to directors' remuneration). Preparers of financial statements will consequently need to adapt the model financial statements to comply with such additional local requirements.

The model financial statements do not include separate financial statements for the parent, which may be required by local laws or regulations, or may be prepared voluntarily. Where an entity presents separate financial statements that comply with IFRSs, the requirements of IAS 27 *Consolidated and Separate Financial Statements* will apply. A separate income statement, balance sheet, statement of changes in equity and cash flow statement for the parent will generally be required, together with supporting notes.

Suggested disclosures are cross-referenced to the underlying requirements in the texts of the relevant Standards and Interpretations. In these 2006 model financial statements, we have illustrated the early adoption of IFRS 7 *Financial Instruments: Disclosures* (which is effective for years beginning on or after 1 January 2007). Where the disclosure requirements of IFRS 7 had an equivalent in the predecessor Standard (IAS 32 *Financial Instruments: Disclosure and Presentation*), references to IAS 32 (which continues to be relevant to 2006 financial statements for those entities that have not adopted IFRS 7 in advance of its effective date) are provided in square brackets for users' convenience.

Note that in these model financial statements, we have frequently included line items for which a nil amount is shown, so as to illustrate items that, although not applicable to International GAAP Holdings Limited, are commonly encountered in practice. This does not mean that we have illustrated all possible disclosures. Nor should it be taken to mean that, in practice, entities are required to display line items for such "nil" amounts.
For the purposes of presenting the income statement, statement of changes in equity and cash flow statement, the various alternatives allowed under IFRSs for those statements have been illustrated. Preparers should select the alternatives most appropriate to their circumstances.

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Index to the notes to the consolidated financial statements

Source	International GAAP Holdings Limited			
IAS 1.8(b) IAS 1.46(b),(c)	**Consolidated income statement for the year ended 31 December 2006**			**[Alt 1]**
IAS 1.104		**Notes**	**Year ended 31/12/06**	**Year ended 31/12/05**
IAS 1.46(d),(e)			**CU'000**	**CU'000**
	Continuing operations			
IAS 1.81(a)	Revenue	5	140,918	151,840
IAS 1.88	Cost of sales		(87,899)	(91,840)
IAS 1.83	Gross profit		53,019	60,000
IAS 1.83	Investment revenue	7	3,608	2,351
IAS 1.83	Other gains and losses	8	934	1,005
IAS 1.81(c)	Share of profits of associates	20	1,186	1,589
IAS 1.88	Distribution expenses		(5,087)	(4,600)
IAS 1.88	Marketing expenses		(3,293)	(2,247)
IAS 1.88	Occupancy expenses		(2,128)	(2,201)
IAS 1.88	Administration expenses		(11,001)	(15,124)
IAS 1.81(b)	Finance costs	9	(5,034)	(6,023)
IAS 1.88	Other expenses		(2,656)	(2,612)
IAS 1.83	Profit before tax		29,548	32,138
IAS 1.81(d)	Income tax expense	10	(11,306)	(11,801)
IAS 1.83	Profit for the year from continuing operations		18,242	20,337
	Discontinued operations			
IAS 1.81(e)	Profit for the year from discontinued operations	11	8,310	9,995
IAS 1.81(f)	**Profit for the year**	13	26,552	30,332
	Attributable to:			
IAS 1.82(b)	Equity holders of the parent		22,552	27,569
IAS 1.82(a)	Minority interest		4,000	2,763
			26,552	30,332
	Earnings per share	14		
	From continuing and discontinued operations:			
IAS 33.66	Basic (cents per share)		129.4	136.9
IAS 33.66	Diluted (cents per share)		121.8	130.5
	From continuing operations:			
IAS 33.66	Basic (cents per share)		81.7	87.3
IAS 33.66	Diluted (cents per share)		76.9	83.2

Note: The format outlined above aggregates expenses according to their function.

Source	International GAAP Holdings Limited			
IAS 1.8(b) IAS 1.46(b),(c)	**Consolidated income statement** **for the year ended 31 December 2006**			**[Alt 2]**
IAS 1.104		**Notes**	**Year ended 31/12/06**	**Year ended 31/12/05**
IAS 1.46(d),(e)			**CU'000**	**CU'000**
	Continuing operations			
IAS 1.81(a)	Revenue	5	140,918	151,840
IAS 1.83	Investment revenue	7	3,608	2,351
IAS 1.83	Other gains and losses	8	934	1,005
IAS 1.81(c)	Share of profits of associates	20	1,186	1,589
IAS 1.88	Changes in inventories of finished goods and work in progress		(7,122)	2,118
IAS 1.88	Raw materials and consumables used		(70,393)	(85,406)
IAS 1.88	Employee benefits expense		(9,803)	(11,655)
IAS 1.88	Depreciation and amortisation expense		(12,412)	(13,878)
IAS 1.81(b)	Finance costs	9	(5,034)	(6,023)
IAS 1.88	Consulting expense		(3,120)	(1,926)
IAS 1.88	Other expenses		(9,214)	(7,877)
IAS 1.83	Profit before tax		29,548	32,138
IAS 1.81(d)	Income tax expense	10	(11,306)	(11,801)
IAS 1.83	Profit for the year from continuing operations		18,242	20,337
	Discontinued operations			
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Note: The format outlined above aggregates expenses according to their nature.

Source	International GAAP Holdings Limited			
IAS 1.8(a) IAS 1.46(b),(c)	**Consolidated balance sheet at 31 December 2006**			
IAS 1.104 IAS 1.46(d),(e)		**Notes**	**31/12/06 CU'000**	**31/12/05 CU'000**
	ASSETS			
IAS 1.51	**Non-current assets**			
IAS 1.68(a)	Property, plant and equipment	15	111,235	134,461
IAS 1.68(b)	Investment property	16	136	132
IAS 1.69	Goodwill	17	20,253	24,060
IAS 1.68(c)	Other intangible assets	18	9,739	11,325
IAS 1.68(e)	Investments in associates	20	8,425	7,269
IAS 1.68(n)	Deferred tax assets	10	-	-
IAS 1.69	Finance lease receivables	26	830	717
IAS 1.68(d)	Other financial assets	22	10,411	9,656
IAS 1.69	Other assets	23	-	-
	Total non-current assets		161,029	187,620
IAS 1.51	**Current assets**			
IAS 1.68(g)	Inventories	24	31,364	30,242
IAS 1.68(h)	Trade and other receivables	25	18,490	16,292
IAS 1.69	Finance lease receivables	26	198	188
IAS 1.68(d)	Other financial assets	22	8,757	6,949
IAS 1.68(m)	Current tax assets	10	85	60
IAS 1.69	Other assets	23	-	-
IAS 1.68(i)	Cash and bank balances	45	20,199	19,778
			79,093	73,509
IAS 1.68A(a)	Non-current assets classified as held for sale	12	22,336	-
	Total current assets		101,429	73,509
	Total assets		262,458	261,129

Source	International GAAP Holdings Limited			
	Consolidated balance sheet at 31 December 2006 – continued			
		Notes	**31/12/06 CU'000**	**31/12/05 CU'000**
	EQUITY AND LIABILITIES			
	Capital and reserves			
IAS 1.69	Issued capital	29	32,439	48,672
IAS 1.69	Reserves	30	4,245	3,376
IAS 1.69	Retained earnings	31	110,351	94,986
			147,035	147,034
IAS 1.69	Amounts recognised directly in equity relating to non-current assets classified as held for sale	12	-	-
IAS 1.68(p)	Equity attributable to equity holders of the parent		147,035	147,034
IAS 1.68(o)	Minority interest		24,005	20,005
	Total equity		171,040	167,039
IAS 1.51	**Non-current liabilities**			
IAS 1.69	Borrowings	32	32,611	31,478
IAS 1.68(l)	Other financial liabilities	34	-	-
IAS 1.69	Retirement benefit obligation	39	508	352
IAS 1.68(n)	Deferred tax liabilities	10	4,591	3,693
IAS 1.68(k)	Provisions	35	2,298	2,326
IAS 1.69	Other liabilities	36	180	270
	Total non-current liabilities		40,188	38,119
IAS 1.51	**Current liabilities**			
IAS 1.68(j)	Trade and other payables	37	16,312	21,143
IAS 1.69	Borrowings	32	22,446	25,600
IAS 1.68(l)	Other financial liabilities	34	104	18
IAS 1.68(m)	Current tax liabilities	10	5,133	5,868
IAS 1.68(k)	Provisions	35	3,461	3,247
IAS 1.69	Other liabilities	36	90	95
			47,546	55,971
IAS 1.68A(b)	Liabilities directly associated with non-current assets classified as held for sale	12	3,684	-
	Total current liabilities		51,230	55,971
	Total liabilities		91,418	94,090
	Total equity and liabilities		262,458	261,129

Source	International GAAP Holdings Limited

IAS 1.8(c)(i)
IAS 1.46(b),(c)

Consolidated statement of changes in equity for the year ended 31 December 2006

[Alt 1]

Source		Share capital CU'000	Share premium CU'000	General reserve CU'000	Properties revaluation reserve CU'000	Investments revaluation reserve CU'000	Equity-settled employee benefits reserve CU'000	Hedging reserve CU'000	Foreign currency translation reserve CU'000	Option premium on convertible notes CU'000	Retained earnings CU'000	Attributable to equity holders of the parent CU'000	Minority interest CU'000	Total CU'000
IAS 1.97(b),(c) IAS 1.46(d),(e)														
	Balance at 1 January 2005	23,005	25,667	807	51	470	-	258	140	-	73,917	124,315	17,242	141,557
IAS 1.96(d)	Effect of changes in the accounting for financial guarantee contracts	-	-	-	-	-	-	-	-	-	(21)	(21)	-	(21)
	As restated	23,005	25,667	807	51	470	-	258	140	-	73,896	124,294	17,242	141,536
IAS 1.96(b)	Gain/(loss) on revaluation of property	-	-	-	1,643	-	-	-	-	-	-	1,643	-	1,643
IAS 1.96(b)	Increase/(decrease) arising from a change in existing decommissioning, restoration or similar liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
IAS 1.96(b)	Gain/(loss) on available-for-sale investments	-	-	-	-	81	-	-	-	-	-	81	-	81
IAS 1.96(b)	Gain/(loss) on cash flow hedges	-	-	-	-	-	-	316	-	-	-	316	-	316
IAS 1.96(b)	Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	121	-	-	121	-	121
IAS 1.96(b)	Related income tax	-	-	-	(493)	(24)	-	(95)	(36)	-	-	(648)	-	(648)
IAS 1.96(b)	**Net income (expense) recognised directly in equity**	-	-	-	1,150	57	-	221	85	-	-	1,513	-	1,513
	Transfers (net of any related tax):													
IFRS 7.23(d) [IAS 32.94(k)]	Transfer to profit or loss on cash flow hedges	-	-	-	-	-	-	(60)	-	-	-	(60)	-	(60)
IFRS 7.23(e) [IAS 32.94(k)]	Transfer to initial carrying amount of non-financial hedged item on cash flow hedges	-	-	-	-	-	-	(141)	-	-	-	(141)	-	(141)
IFRS 7.20(a) [IAS 32.94(k)]	Transfer to profit or loss on sale of available-for-sale investments	-	-	-	-	-	-	-	-	-	-	-	-	-
IAS 1.96(a)	Profit for the year	-	-	-	-	-	-	-	-	-	27,569	27,569	2,763	30,332
IAS 1.96(c)	**Total recognised income and expense**	-	-	-	1,150	57	-	20	85	-	27,569	28,881	2,763	31,644
IAS 1.97(a)	Recognition of share-based payments	-	-	-	-	-	338	-	-	-	-	338	-	338
IAS 1.97(a)	Payment of dividends	-	-	-	-	-	-	-	-	-	(6,479)	(6,479)	-	(6,479)
	Balance at 31 December 2005	23,005	25,667	807	1,201	527	338	278	225	-	94,986	147,034	20,005	167,039

Source	International GAAP Holdings Limited

Consolidated statement of changes in equity
for the year ended 31 December 2006 – Alt 1 continued

[Alt 1]

Source		Share capital CU'000	Share premium CU'000	General reserve CU'000	Properties revaluation reserve CU'000	Investments revaluation reserve CU'000	Equity-settled employee benefits reserve CU'000	Hedging reserve CU'000	Foreign currency translation reserve CU'000	Option premium on convertible notes CU'000	Retained earnings CU'000	Attributable to equity holders of the parent CU'000	Minority interest CU'000	Total CU'000
	Balance at 1 January 2006	23,005	25,667	807	1,201	527	338	278	225	-	94,986	147,034	20,005	167,039
IAS 1.96(b)	Gain/(loss) on revaluation of property	-	-	-	-	-	-	-	-	-	-	-	-	-
IAS 1.96(b)	Gain/(loss) on available-for-sale investments	-	-	-	-	94	-	-	-	-	-	94	-	94
IAS 1.96(b)	Gain/(loss) on cash flow hedges	-	-	-	-	-	-	436	-	-	-	436	-	436
IAS 1.96(b)	Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	75	-	-	75	-	75
IAS 1.96(b)	Related income tax	-	-	-	-	(28)	-	(131)	(22)	-	-	(181)	-	(181)
IAS 1.96(b)	**Net income (expense) recognised directly in equity**	-	-	-	-	66	-	305	53	-	-	424	-	424
	Transfers (net of any related tax):													
IFRS 7.23(d) [IAS 32.94(k)]	Transfer to profit or loss on cash flow hedges	-	-	-	-	-	-	(86)	-	-	-	(86)	-	(86)
IFRS 7.23(e) [IAS 32.94(k)]	Transfer to initial carrying amount of non-financial hedged item on cash flow hedges	-	-	-	-	-	-	(180)	-	-	-	(180)	-	(180)
	Transfer to profit or loss on disposal of foreign operation	-	-	-	-	-	-	-	(84)	-	-	(84)	-	(84)
IAS 1.96(a)	Profit for the year	-	-	-	-	-	-	-	-	-	22,552	22,552	4,000	26,552
IAS 1.96(c)	**Total recognised income and expense**	-	-	-	-	66	-	39	(31)	-	22,552	22,626	4,000	26,626
IAS 1.97(a)	Recognition of share-based payments	-	-	-	-	-	206	-	-	-	-	206	-	206
IAS 1.97(a)	Issue of ordinary shares under employee share option plan	314	-	-	-	-	-	-	-	-	-	314	-	314
IAS 1.97(a)	Issue of ordinary shares for consulting services performed	3	5	-	-	-	-	-	-	-	-	8	-	8
IAS 1.97(a)	Issue of converting non-participating preference shares	100	-	-	-	-	-	-	-	-	-	100	-	100
IAS 1.97(a)	Issue of convertible notes	-	-	-	-	-	-	-	-	834	-	834	-	834
IAS 1.97(a)	Share issue costs	-	(6)	-	-	-	-	-	-	-	-	(6)	-	(6)
IAS 1.97(a)	Buy-back of ordinary shares	(5,603)	(10,853)	-	-	-	-	-	-	-	(555)	(17,011)	-	(17,011)
IAS 1.97(a)	Share buy-back costs	-	(277)	-	-	-	-	-	-	-	-	(277)	-	(277)
IAS 1.97(a)	Transfer to retained earnings	-	-	-	(3)	-	-	-	-	-	3	-	-	-
IAS 1.97(a)	Payment of dividends	-	-	-	-	-	-	-	-	-	(6,635)	(6,635)	-	(6,635)
IAS 1.97(a)	Related income tax		84	-	-	-	-	-	-	(242)	-	(158)	-	(158)
	Balance at 31 December 2006	17,819	14,620	807	1,198	593	544	317	194	592	110,351	147,035	24,005	171,040

Note: See next page for discussion of the format of the statement of changes in equity.

Source	International GAAP Holdings Limited			
IAS 1.8(c)(ii) IAS 1.46(b),(c)	**Consolidated statement of recognised income and expense for the year ended 31 December 2006**			**[Alt 2]**
IAS 1.104 IAS 1.46(d),(e)		**Notes**	**Year ended 31/12/06 CU'000**	**Year ended 31/12/05 CU'000**
IAS 1.96(b)	Gain/(loss) on revaluation of property		-	1,643
IAS 1.96(b)	Increase/(decrease) arising from a change in existing commissioning, restoration or similar liabilities		-	-
IAS 1.96(b)	Gain/(loss) on available-for-sale investments taken to equity		94	81
IAS 1.96(b)	Gain/(loss) on cash flow hedges taken to equity		436	316
IAS 1.96(b)	Exchange differences arising on translation of foreign operations		75	121
IAS 1.96(b)	Actuarial gain/(loss) on defined benefit plans (see note)		-	-
IAS 1.96(b)	Other [describe]		-	-
IAS 1.96(b)	Income tax on income/expense taken directly to equity		(181)	(648)
IAS 1.96(b)	Net income/(expense) recognised directly in equity		424	1,513
	Transfers (net of any related tax):			
IFRS 7.20(a) [IAS 32.94(k)]	Transfer to profit or loss on sale of available-for-sale investments		-	-
IFRS 7.23(d) [IAS 32.94(k)]	Transfer to profit or loss from equity on cash flow hedges		(86)	(60)
IFRS 7.23(e) [IAS 32.94(k)]	Transfer to initial carrying amount of non-financial hedged item on cash flow hedges		(180)	(141)
	Transfer to profit or loss on disposal of foreign operation		(84)	-
IAS 1.96(a)	Profit for the year		26,552	30,332
IAS 1.96(c)	Total recognised income and expense for the period		26,626	31,644
IAS 1.96(c)	Attributable to:			
	Equity holders of the parent		22,626	28,881
	Minority interests		4,000	2,763
			26,626	31,644
IAS 1.96(d)	***Effects of changes in accounting policy***			
	Attributable to equity holders of the parent:			
	- increase/(decrease) in retained earnings at the beginning of the period	31	-	(21)
	- [describe]		-	-
	Attributable to minority interests		-	-
			-	(21)
IAS 1.96(d)	***Effects of corrections of errors***			
	Attributable to equity holders of the parent:			
	- increase/(decrease) in retained earnings at the beginning of the period	31	-	-
	Attributable to minority interests		-	-
			-	-

Note: *IAS 1 requires that the financial statements should include a statement showing either all changes in equity (as illustrated in Alt 1 on the previous pages), or changes in equity other than those arising from capital transactions with owners and distributions to owners (as illustrated in Alt 2 above). Alt 2 above illustrates an approach which presents those changes in equity that represent income and expense in a separate component of the financial statements. If this method of presentation is adopted, a reconciliation of the opening and closing balances of share capital, reserves and retained earnings is required to be provided in the notes (see notes 29 to 31).*

The format of the statement is generally an accounting policy choice. However, where the entity has selected the option available under paragraph 93A of IAS 19, Employee Benefits, to recognise actuarial gains and losses outside profit or loss, those actuarial gains and losses are required to be presented in a statement of recognised income and expense as illustrated above. The entity is not permitted to present such changes in a statement of changes in equity as illustrated in Alt 1 on the previous pages.

Source	International GAAP Holdings Limited			
IAS 1.8(d) IAS 1.46(b),(c)	**Consolidated cash flow statement** **for the year ended 31 December 2006**			**[Alt 1]**
IAS 1.104		**Notes**	**Year ended 31/12/06**	**Year ended 31/12/05**
IAS 1.46(d),(e)			**CU'000**	**CU'000**
IAS 7.10	**Cash flows from operating activities**			
IAS 7.18(a)	Receipts from customers		211,138	214,487
	Payments to suppliers and employees		(164,900)	(151,190)
	Cash generated from operations		46,238	63,297
IAS 7.31	Interest paid		(5,259)	(6,154)
IAS 7.35	Income taxes paid		(13,724)	(10,068)
	Net cash generated by operating activities		27,255	47,075
IAS 7.10	**Cash flows from investing activities**			
	Payment for investment securities		(5,393)	(3,762)
	Proceeds on sale of investment securities		3,604	4,000
IAS 7.31	Interest received		2,315	1,304
	Royalties and other investment income received		1,119	879
	Dividends received from associates		30	25
IAS 7.31	Other dividends received		156	154
	Amounts advanced to related parties		(5,637)	(5,088)
	Proceeds from repayment of related party loans		5,088	2,355
	Payments for property, plant and equipment		(22,983)	(11,902)
	Payments for investment property		(10)	(12)
	Proceeds from disposal of property, plant and equipment		9,872	22,295
	Payments for intangible assets		(6)	(358)
	Development costs paid		(502)	(440)
IAS 7.39	Acquisition of subsidiaries	43	(622)	-
IAS 7.39	Proceeds from disposal of businesses	44	7,566	-
	Net cash (used in)/generated by investing activities		(5,403)	9,450
IAS 7.10	**Cash flows from financing activities**			
	Proceeds from issues of equity shares		414	-
	Proceeds from issue of convertible loan notes		4,950	-
	Payment for share issue costs		(6)	-
	Payment for share buy-back to:			
	- equity holders of the parent		(17,011)	-
	- minority interests		-	-
	Payment for share buy-back costs		(277)	-
	Proceeds from issue of redeemable cumulative preference shares		15,000	-
	Proceeds from issue of perpetual notes		2,500	-
	Payment for debt issue costs		(595)	-
	Proceeds from borrowings		17,981	12,177
	Repayment of borrowings		(37,792)	(61,662)
IAS 7.31	Dividends paid to:			
	- equity holders of the parent		(6,635)	(6,479)
	- minority interests		-	-
	Net cash used in financing activities		(21,471)	(55,964)
	Net increase in cash and cash equivalents		381	561
	Cash and cash equivalents at the beginning of the financial year		19,400	18,864
IAS 7.28	Effects of exchange rate changes on the balance of cash held in foreign currencies		55	(25)
	Cash and cash equivalents at the end of the financial year	45	19,836	19,400

Note: The above illustrates the direct method of reporting cash flows from operating activities.

Source	International GAAP Holdings Limited			
IAS 1.8(d) IAS 1.46(b),(c)	**Consolidated cash flow statement for the year ended 31 December 2006**			**[Alt 2]**
IAS 1.104		**Notes**	**Year ended 31/12/06**	**Year ended 31/12/05**
IAS 1.46(d),(e)			**CU'000**	**CU'000**
IAS 7.10	**Cash flows from operating activities**			
IAS 7.18(b)	Profit for the year		26,552	30,332
	Income tax expense recognised in profit or loss		14,466	14,799
	Finance costs recognised in profit or loss		5,184	6,157
	Investment revenue recognised in profit or loss		(3,608)	(2,351)
	(Gain)/loss on sale or disposal of property, plant and equipment		(6)	(67)
	Loss/(gain) on revaluation of investment property		6	(8)
	(Gain)/loss on disposal of business		(1,940)	-
	(Gain)/loss on revaluation of financial assets recognised in profit or loss		-	-
	(Gain)/loss transferred from equity on sale of available-for-sale financial assets		-	-
	(Gain)/loss transferred from equity on impairment of available-for-sale financial assets		-	-
	Impairment loss (reversed) recognised on trade receivables		(40)	430
	Share of profits of associates		(1,186)	(1,589)
	Depreciation and amortisation of non-current assets		14,179	17,350
	Impairment of non-current assets recognised in profit or loss		1,219	-
	Net foreign exchange (gain)/loss		(144)	68
	Expense recognised in profit or loss in respect of equity-settled share-based payment		206	338
	Development costs expensed		502	440
			55,390	65,899
	Movements in working capital			
	(Increase)/decrease in trade and other receivables		(4,143)	2,295
	(Increase)/decrease Inventories		(4,611)	(2,008)
	(Increase)/decrease in other assets		-	-
	Increase/(decrease) in trade and other payables		(539)	(2,627
	Increase/(decrease) in provisions		141	(262)
	Increase/(decrease) in other liabilities		-	-
	Cash generated from operations		46,238	63,297
IAS 7.31	Interest paid		(5,259)	(6,154)
IAS 7.35	Income taxes paid		(13,724)	(10,068)
	Net cash generated by operating activities		27,255	47,075

Source	International GAAP Holdings Limited			

Consolidated cash flow statement
for the year ended 31 December 2006 – Alt 2 continued

Source		Notes	Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
IAS 7.10	**Cash flows from investing activities**			
	Payment for investment securities		(5,393)	(3,762)
	Proceeds on sale of investment securities		3,604	4,000
IAS 7.31	Interest received		2,315	1,304
	Royalties and other investment income received		1,119	879
	Dividends received from associates		30	25
IAS 7.31	Other dividends received		156	154
	Amounts advanced to related parties		(5,637)	(5,088)
	Proceeds from repayment of related party loans		5,088	2,355
	Payments for property, plant and equipment		(22,983)	(11,902)
	Payments for investment property		(10)	(12)
	Proceeds from disposal of property, plant and equipment		9,872	22,295
	Payments for intangible assets		(6)	(358)
	Development costs paid		(502)	(440)
IAS 7.39	Acquisition of subsidiaries	43	(622)	-
IAS 7.39	Proceeds from disposal of business	44	7,566	-
	Net cash (used in)/generated by investing activities		(5,403)	9,450
IAS 7.10	**Cash flows from financing activities**			
	Proceeds from issues of equity shares		414	-
	Proceeds from issue of convertible loan notes		4,950	-
	Payment for share issue costs		(6)	-
	Payment for share buy-back to:			
	- equity holders of the parent		(17,011)	-
	- minority interests		-	-
	Payment for share buy-back costs		(277)	-
	Proceeds from issue of redeemable cumulative preference shares		15,000	-
	Proceeds from issue of perpetual notes		2,500	-
	Payment for debt issue costs		(595)	-
	Proceeds from borrowings		17,981	12,177
	Repayment of borrowings		(37,792)	(61,662)
IAS 7.31	Dividends paid to:			
	- equity holders of the parent		(6,635)	(6,479)
	- minority interests		-	-
	Net cash used in financing activities		(21,471)	(55,964)
	Net increase in cash and cash equivalents		381	561
	Cash and cash equivalents at the beginning of the financial year		19,400	18,864
IAS 7.28	Effects of exchange rate changes on the balance of cash held in foreign currencies		55	(25)
	Cash and cash equivalents at the end of the financial year	45	19,836	19,400

Note: The above illustrates the indirect method of reporting cash flows from operating activities.

Source	International GAAP Holdings Limited

IAS 1.8(e)
IAS 1.46(b),(c)

Notes to the consolidated financial statements for the year ended 31 December 2006

1. General information

IAS 1.126(a)

International GAAP Holdings Limited (the Company) is a limited company incorporated in A Land. The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries (the Group) are described in note 6.

2. Adoption of new and revised Standards

IAS 1.38
IAS 8.28

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- investments classified as at fair value through profit or loss; and
- financial guarantee contracts.

The impact of these changes is discussed in detail later in this note. The impact on basic and diluted earnings per share is disclosed in note 14.

IFRS 7.43

In addition, the Group has elected to adopt IFRS 7 *Financial Instruments: Disclosures* in advance of its effective date of 1 January 2007. The impact of the new Standard has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments. The Group has also elected to present information regarding its objectives, policies and processes for managing capital (see note 40) as required by amendments to IAS 1 *Presentation of Financial Statements* in advance of the effective date for those amendments of 1 January 2007.

IAS 8.30(a)

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

• IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*	Effective for annual periods beginning on or after 1 March 2006
• IFRIC 8 *Scope of IFRS 2*	Effective for annual periods beginning on or after 1 May 2006
• IFRIC 9 *Reassessment of Embedded Derivatives*	Effective for annual periods beginning on or after 1 June 2006
• IFRIC 10 *Interim Financial Reporting and Impairment*	Effective for annual periods beginning on or after 1 November 2006

IAS 8.30(b)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

Note: This listing of Standards and Interpretations is complete at 30 September 2006. The potential impact of any new or revised Standards and Interpretations released by the IASB after that date, but before the issue of the financial statements, should also be considered and disclosed.

Limitation of ability to designate financial assets and financial liabilities through profit or loss

IAS 8.28(a)

Following amendments to IAS 39 *Financial Instruments: Recognition and Measurement* in June 2005, the ability of entities to designate any financial asset or financial liability as 'at fair value through profit or loss' (FVTPL) has been limited.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 8.28(c)

Financial assets that can no longer be designated as at FVTPL are now classified as either loans and receivables, held-to-maturity or available-for-sale financial assets, as appropriate, and measured at amortised cost, or at fair value with changes in fair value recognised in equity, according to their classification. Financial liabilities that can no longer be designated as at FVTPL are classified as 'other' financial liabilities and measured at amortised cost.

IAS 8.28(b),(d)

These changes have been applied by the Group in accordance with the transitional provisions of IAS 39 with effect from the beginning of the comparative reporting period presented in these financial statements (i.e. with effect from 1 January 2005). The amendments result in listed shares held by the Group with a carrying amount at 1 January 2005 of CU1.889 million that were previously designated as at FVTPL being reclassified as available-for-sale investments. Although ordinarily the designation of a financial asset as available-for-sale is made on initial recognition, the transitional provisions of IAS 39 allow such designation to be made on the date of de-designation (1 January 2005). Fair value movements after 1 January 2005 are recognised directly in equity in the investments revaluation reserve.

IAS 8.28(f)

The impact of reclassification is a decrease in the profit for the year ended 31 December 2005 of CU5,000 (net of tax) and an increase in gains recognised in the investments revaluation reserve for the year ended 31 December 2005 of CU5,000. The profit for the 2006 financial year is CU8,000 lower than it would have been had the previous classification continued to apply. Had the relevant gains been recognised in the income statement, they would have been dealt with in the line item "other gains and losses".

Accounting for financial guarantee contracts

IAS 8.28(a)
IAS 8.28(c)

The IASB has also amended IAS 39 *Financial Instruments: Recognition and Measurement* to require certain financial guarantee contracts issued by the Group to be accounted for in accordance with that Standard. Financial guarantee contracts that are accounted for in accordance with IAS 39 are measured initially at their fair values, and subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out in note 3 below.

IAS 8.28(b),(d)

The changes have been applied by the Group in accordance with the transitional provisions of IAS 39 with effect from the beginning of the comparative reporting period presented in these financial statements (i.e. with effect from 1 January 2005).

The application of these amendments results in such financial guarantee contracts now being recognised and measured at the higher of the best estimate of the expenditure required to settle the obligation and the amount initially recognised at fair value less, where appropriate, cumulative amortisation.

IAS 8.28(f)

The impact of this change in accounting policy at the beginning of the comparative period is the recognition of a liability for financial guarantee contracts of CU30,000 and the associated deferred tax asset of CU9,000, with a corresponding adjustment against opening retained earnings. Profit for the year ended 31 December 2005 is CU8,000 higher under the new policy, and financial liabilities as at 31 December 2005 higher by CU18,000. Profits for the year ended 31 December 2006 are CU4,000 lower under the new accounting policy as a result of a probable claim under the financial guarantee that has led to an increase in the carrying amount of the financial guarantee. These changes affect the "other expenses" line item in the income statement.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 1.103(a)
IAS 1.108

3. Significant accounting policies

Statement of compliance

IAS 1.14

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

IAS 31.57

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary (see below).

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

IAS 18.35(a)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

<u>Sale of goods</u>

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Revenue from construction contracts is recognised in accordance with the accounting policy outlined below.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease.

IAS 11.39(b), (c)

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, measured as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Leasing

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

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Currency Units ('CU'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies);and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Currency Units using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

IAS 23.29(a)

Borrowing costs

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

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

IAS 20.39(a)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

IAS 19.120A(a)

Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 41.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of the other equity-settled shared-based payments.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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

Deferred tax is recognised 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 generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

IAS 16.73(a), (b)

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in equity to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 40.75(a)

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Intangible assets

Intangible assets acquired separately

IAS 38.118(b)

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets - research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

IAS 38.118(b)

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

IAS 38.118(b)

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

IAS 2.36(a) ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Restructurings

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

IFRS 7.21
[IAS 32.60(b), 61]

Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 40.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

AFS financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 40. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group’s right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment 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.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

IFRS 7.21
[IAS 32.60(b)]

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Compound instruments

IFRS 7.27

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 40.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

IFRS 7.21
[IAS 32.60(b)]

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 40 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 40 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Hedges of net investments in foreign operations

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 in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses deferred in the foreign currency translation reserve are recognised in profit or loss on disposal of the foreign operation.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

4. Critical accounting judgements and key sources of estimation uncertainty

Note: The following are <u>examples</u> of the types of disclosures that might be required in this area. The matters disclosed will be dictated by the circumstances of the individual entity, and by the significance of judgements and estimates made to the results and financial position of the entity.

Instead of disclosing this information in a separate note, it may be more appropriate to include such disclosures in the relevant asset and liability notes, or as part of the relevant accounting policy disclosures.

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

IAS 1.113

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

<u>Revenue recognition</u>

Note 13 describes the expenditure required in the year for rectification work carried out on goods supplied to one of the Group's major customers. These goods were delivered to the customer in the months of January to July 2006, and shortly thereafter the defects were identified by the customer. Following negotiations, a schedule of works was agreed, which will involve expenditure by the Group until 2008. In the light of the problems identified, management was required to consider whether it was appropriate to recognise the revenue from these transactions of CU39 million in the current period, in line with the Group's general policy of recognising revenue when goods are delivered, or whether it was more appropriate to defer recognition until the rectification work was complete.

In making its judgement, management considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 *Revenue* and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. Following the detailed quantification of the Group's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, the directors are satisfied that the significant risks and rewards have been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with recognition of an appropriate provision for the rectification costs.

IAS 1.116
IAS 1.120

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

<u>Recoverability of internally-generated intangible asset</u>

During the year, management reconsidered the recoverability of its internally-generated intangible asset arising from the Group's e-business development, which is included in its balance sheet at 31 December 2006 at CU0.5 million.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

The project continues to progress in a very satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project. However, increased competitor activity has caused management to reconsider its assumptions regarding future market share and anticipated margins on these products. Detailed sensitivity analysis has been carried out and management is confident that the carrying amount of the asset will be recovered in full, even if returns are reduced. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

Impairment of goodwill

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 the 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.

The carrying amount of goodwill at the balance sheet date was CU20.3 million after an impairment loss of CU15,000 was recognised during 2006. Details of the impairment loss calculation are provided in note 17.

Useful lives of property, plant and equipment

As described in note 3, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During the financial year, the directors determined that the useful life of certain items of equipment should be shortened, due to developments in technology.

The financial effect of this reassessment, assuming the assets are held until the end of their estimated useful lives, is to increase the consolidated depreciation expense in the current financial year and for the next 3 years, by the following amounts:

	CU'000
2006	9
2007	7
2008	4
2009	2

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

5. Revenue

IAS 18.35(b) An analysis of the Group's revenue for the year (excluding investment revenue – see note 7), for both continuing and discontinued operations, is as follows:

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
	Continuing operations		
IAS 18.35(b)	Revenue from the sale of goods	102,469	102,035
IAS 18.35(b)	Revenue from the rendering of services	38,449	49,805
		140,918	151,840
	Discontinued operations		
	Revenue from the sale of goods	64,087	77,661
IAS 11.39(a)	Construction contract revenue	318	182
		64,405	77,843
		205,323	229,683

A portion of the Group's revenue from the sale of goods denominated in foreign currencies is cash flow hedged. The amounts disclosed above for revenue from the sale of goods include the recycling of the effective amount of the foreign currency derivatives that are used to hedge foreign currency revenue. The amount included in revenue from continuing operations is CU - million (2005: CU - million) and revenue from discontinued operations is CU – million (2005: CU – million).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

6. Business and geographical segments

Note: The following analysis by business and geographical segment is required by IAS 14, Segment Reporting, to be presented by entities whose equity or debt securities are publicly traded, or that are in the process of issuing equity or debt securities in public securities markets. If an entity whose securities are not publicly traded chooses to disclose segment information voluntarily in financial statements that comply with IFRSs, that entity should comply fully with the requirements of IAS 14.

Business segments

Products and services within each business segment

IAS 14.81
IAS 1.126(b)

For management purposes, the Group is organised into four major operating divisions – widgets, bicycles, construction and toys. These divisions are the basis on which the Group reports its primary segment information. The principal products and services of each of these divisions are as follows:

Widgets	-	the manufacture and sale of widgets within A Land and overseas.
Bicycles	-	the manufacture of bicycles including leisure bicycles, mountain bicycles and children's bicycles.
Construction	-	the construction and renovation of residential properties in A Land.
Toys	-	the manufacture and sale of toys within A Land and overseas.

Other operations include the development and sale of computer software for specialised business applications, and the leasing out of specialised storage equipment.

During the financial year, the Group disposed of its bicycle business and the Board of Directors announced a plan to dispose of the construction business (see note 11).

IAS 14.5

Segment revenues

Source		External sales		Inter-segment		Other		Total	
		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000	Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000	Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000	Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
	Widgets	75,370	79,467	2,515	1,872	579	428	78,464	81,767
	Bicycles	35,515	49,153	-	-	-	-	35,515	49,153
	Construction	28,890	28,690	-	-	-	-	28,890	28,690
	Toys	63,455	69,542	806	650	-	-	64,261	70,192
IAS 14.67	Other	1,514	2,403	-	-	-	-	1,514	2,403
	Total of all segments							208,644	232,205
	Eliminations							(3,321)	(2,522)
IAS 14.67	Consolidated revenue							205,323	229,683

IAS 14.75

Inter-segment sales are charged at amounts equal to competitive market prices for external sales of similar goods.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 14.52 Segment result

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
	Continuing operations		
	Widgets	29,123	29,640
	Toys	8,774	10,343
	Other	1,011	984
		38,908	40,967
	Eliminations	-	-
	Unallocated	(9,360)	(8,829)
	Profit before tax	29,548	32,138
	Income tax expense	(11,306)	(11,801)
IAS 14.67	Profit for the year from continuing operations	18,242	20,337
	Discontinued operations		
	Bicycles	5,454	9,636
	Construction	4,206	3,481
		9,660	13,117
	Eliminations	-	-
	Unallocated	1,810	(124)
	Profit before tax	11,470	12,993
	Income tax expense	(3,160)	(2,998)
IAS 14.67	Profit for the year from discontinued operations	8,310	9,995
IAS 14.67	Profit for the year	26,552	30,332

IAS 14.55, 56 Segment assets and liabilities

Source		Assets		Liabilities	
		31/12/06 CU'000	31/12/05 CU'000	31/12/06 CU'000	31/12/05 CU'000
	Widgets	116,149	108,034	10,003	11,662
	Bicycles	-	10,012	-	955
	Construction	18,494	20,012	3,104	2,552
	Toys	72,513	70,658	7,135	6,105
	Other	8,346	7,970	220	214
	Total of all segments	215,502	216,686	20,462	21,488
	Eliminations	-	-	-	-
	Unallocated	46,956	44,443	70,956	72,602
IAS 14.67	Consolidated	262,458	261,129	91,418	94,090

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Other segment information

Source		Widgets		Bicycles		Construction		Toys	
		31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05
		CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
IAS 14.66	Carrying amount of associates accounted for using the equity method	-	-	-	-	-	-	-	-
		Year ended 31/12/06	Year ended 31/12/05	Year ended 31/12/06	Year ended 31/12/05	Year ended 31/12/06	Year ended 31/12/05	Year ended 31/12/06	Year ended 31/12/05
		CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
IAS 14.64	Share of net profit/(loss) of associates	-	-	-	-	-	-	-	-
IAS 14.57	Acquisition of segment assets	8,507	6,952	-	325	4,099	1,500	7,317	2,500
IAS 36.129(a)	Impairment losses:								
	Recognised in profit or loss	1,204	-	-	-	-	-	15	-
	Recognised in equity	-	-	-	-	-	-	-	-
IAS 36.129(b)	Reversals of impairment losses:								
	Recognised in profit or loss	-	-	-	-	-	-	-	-
	Recognised in equity	-	-	-	-	-	-	-	-
IAS 14.58	Depreciation and amortisation of segment assets	5,261	5,988	2,120	3,236	967	1,309	3,665	3,202
IAS 14.61	Significant other non-cash expenses	451	155	5	30	9	35	20	60
IAS 14.59	Significant revenues or expenses [describe]	-	-	-	-	-	-	-	-

Geographical segments

IAS 14.81

The Group's four divisions operate in three principal geographical areas – A Land, B Land and C Land. The composition of each geographical segment is as follows:

A Land — The Group manufactures and sells a broad range of all of its products in A Land.

B Land — The Group operates widget manufacturing facilities and sales offices in B Land. Prior to disposal of the division, there was also a bicycle manufacturing facility and sales offices located in B Land.

C Land — The Group operates widget manufacturing facilities and sales offices in C Land.

The Group's revenue from external customers and information about its segment assets by geographical location are detailed below:

IAS 14.69

	Revenue from external customers		Segment assets		Acquisition of segment assets	
	Year ended 31/12/06	Year ended 31/12/05	31/12/06	31/12/05	Year ended 31/12/06	Year ended 31/12/05
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
A Land	148,607	151,814	201,080	202,242	10,459	5,760
B Land	25,898	43,562	39,256	36,428	5,567	2,888
C Land	25,485	25,687	21,684	22,009	3,897	2,629
Other	5,333	8,620	438	450	-	-
	205,323	229,683	262,458	261,129	19,923	11,277

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

7. Investment revenue

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
	Continuing operations		
	Rental revenue:		
IAS 17.47(e)	Finance lease contingent rental revenue	-	-
	Operating lease rental revenue:		
IAS 40.75(f)	Investment properties	18	14
IAS 17.56(b)	Contingent rental revenue	-	-
	Other	-	-
		18	14
IAS 18.35(b)	Interest revenue:		
	Bank deposits	1,650	741
	Available-for-sale investments	154	148
	Other loans and receivables	66	5
	Held-to-maturity investments	445	410
IFRS 7.20(d) [IAS 32.94(k)]	Impaired financial assets	-	-
IFRS 7.20(b) [IAS 32.94(k)]	Total interest revenue	2,315	1,304
IAS 18.35(b)	Royalties	579	428
IAS 18.35(b)	Dividends received	156	154
	Other (aggregate of immaterial items)	540	451
		3,608	2,351

Investment revenue earned on financial assets, analysed by category of asset, is as follows:

	Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
Available-for-sale financial assets	310	302
Loans and receivables	1,716	746
Held-to-maturity investments	445	410
	2,471	1,458
Investment income earned on non-financial assets	1,137	893
	3,608	2,351

Revenue recognised in respect of financial assets at FVTPL is disclosed in note 8.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

8. Other gains and losses

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
	Continuing operations		
IAS 1.87(c)	Gain/(loss) on disposal of property, plant and equipment	6	67
IAS 1.87(d)	Gain/(loss) on disposal of investments	-	-
IAS 20.39(b)	Government grants received for staff re-training	731	979
	Net foreign exchange gains/(losses) (i)	114	(117)
IFRS 7.20(a) [IAS 32.94(f)]	Change in fair value of financial assets designated as at fair value through profit or loss	-	-
IFRS 7.20(a)	Change in fair value of financial assets classified as held for trading	-	-
IFRS 7.20(a) [IAS 32.94(f)]	Change in fair value of financial liabilities designated as at fair value through profit or loss	-	-
IFRS 7.20(a)	Change in fair value of financial liabilities classified as held for trading	-	-
IAS 40.76(d)	Change in fair value of investment property	(6)	8
IFRS 7.20(a) [IAS 32.94(k)]	Recycling of gain/(loss) from equity on disposal of investments classified as available-for-sale	-	-
	Other	89	68
		934	1,005

IAS 21.52(a)

(i) Net exchange losses in the year amounted to CU144,000 (2005: exchange gain of CU68,000), of which net losses of CU114,000 (2005: net gains of CU117,000) are attributable to continuing operations (see above), and net losses of CU30,000 (net losses of CU49,000) are attributable to discontinued operations (see note 11).

No other gains or losses have been recognised in respect of loans and receivables or held-to-maturity investments, other than as disclosed in note 7 and impairment losses recognised/reversed in respect of trade receivables (see note 13 and note 25).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

9. Finance costs

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
	Interest on bank overdrafts and loans	4,412	6,186
	Interest on obligations under finance leases	75	54
	Dividends on cumulative preference shares classified as financial liabilities (note 32)	613	-
	Interest on convertible notes	110	-
	Interest on perpetual notes	52	-
	Other interest expense	25	-
IFRS 7.20(b) [IAS 32.94(k)]	Total interest expense	5,287	6,240
IAS 23.29(b)	Less: amounts included in the cost of qualifying assets	(11)	(27)
		5,276	6,213
IFRS 7.24(a)	Loss/(gain) arising on derivatives in a designated fair value hedge accounting relationship	5	-
IFRS 7.24(a)	(Gain)/loss arising on adjustment for hedged item in a designated fair value hedge accounting relationship	(5)	-
		-	-
IFRS 7.23(d)	Fair value gains transferred from equity on interest rate swaps designated as cash flow hedges of floating rate debt	(120)	(86)
	Unwinding of discounts on provisions	28	30
IFRS 5.17	Unwinding of discount on costs to sell non-current assets classified as held for sale	-	-
	Other finance costs	-	-
		5,184	6,157
	Attributable to:		
	Continuing operations	5,034	6,023
	Discontinued operations	150	134
		5,184	6,157

IAS 23.29(c) The weighted average capitalisation rate on funds borrowed generally is 8.0% per annum (2005: 7.8% per annum).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

10. Income taxes

Income tax recognised in profit or loss

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
IAS 12.79	Tax expense/(income) comprises:		
	Current tax expense/(income)	12,973	14,347
	Adjustments recognised in the current year in relation to the current tax of prior years	-	-
	Deferred tax expense/(income) relating to the origination and reversal of temporary differences	1,643	538
	Deferred tax recycled from equity to income	(150)	(86)
		1,493	452
	Effect of changes in tax rates and laws	-	-
	Write-downs (reversals of previous write-downs) of deferred tax assets	-	-
	Tax expense/(income) associated with changes in accounting policies that cannot be accounted for retrospectively	-	-
	Total tax expense/(income)	14,466	14,799
	Attributable to:		
	Continuing operations	11,306	11,801
	Discontinued operations (note 11)	3,160	2,998
		14,466	14,799

IAS 12.81(c) The total charge for the year can be reconciled to the accounting profit as follows:

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
	Profit from continuing operations	29,548	32,138
	Profit from discontinued operations	11,470	12,993
	Profit from operations	41,018	45,131
	Income tax expense calculated at 30%	12,305	13,539
	Effect of revenue that is exempt from taxation	-	-
	Effect of expenses that are not deductible in determining taxable profit	2,231	1,326
	Effect of concessions (research and development and other allowances)	(75)	(66)
	Impairment losses on goodwill that are not deductible	5	-
	Effect of changes in the expected manner of recovery of assets	-	-
	Effect of revaluations of assets for taxation purposes	-	-
	Effect of unused tax losses and tax offsets not recognised as deferred tax assets	-	-
	Effect of previously unrecognised and unused tax losses and tax offsets now recognised deferred tax assets	-	-
	Effect of different tax rates of subsidiaries operating in other jurisdictions	-	-
IAS 12.81(d)	Effect on deferred tax balances due to the change in income tax rate from xx% to xx% (effective [insert date])	-	-
		14,466	14,799
	Adjustments recognised in the current year in relation to the current tax of prior years	-	-
	Income tax expense recognised in profit or loss	14,466	14,799

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 12.81(c)

The tax rate used for the 2006 and 2005 reconciliations above is the corporate tax rate of 30% payable by corporate entities in A Land on taxable profits under tax law in that jurisdiction.

IAS 12.81(a)

Income tax recognised directly in equity

	Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
Current tax		
Share-issue expenses	(1)	-
Share buy-back expenses	(8)	-
	(9)	-
Deferred tax		
Arising on income and expense taken directly to equity:		
Property revaluations	-	493
Translation of foreign operations	22	36
Revaluations of financial instruments treated as cash flow hedges	131	95
Revaluations of available-for-sale financial assets	28	24
Actuarial movements on defined benefit plans	-	-
Equity accounting adjustments	-	-
	181	648
Transfers to profit or loss:		
Transfer to profit or loss from equity on cash flow hedges	(114)	-
Transfer to profit or loss on disposal of a foreign operation	(36)	-
	(150)	
Arising on transactions with equity participants		
Initial recognition of the equity component of compound financial instruments	242	-
Share issue and buy-back expenses deductible over 5 years	(75)	-
Excess tax deductions related to share-based payments	-	-
Other [describe]	-	-
	167	-
Total deferred tax recognised directly in equity	198	648
	189	648

Current tax assets and liabilities

	31/12/06 CU'000	31/12/05 CU'000
Current tax assets		
Benefit of tax losses able to be carried back to recover taxes paid in prior periods	-	-
Tax refund receivable	85	60
Other [describe]	-	-
	85	60
Current tax liabilities		
Income tax payable	5,133	5,868
Other [describe]	-	-
	5,133	5,868

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

IAS 12.81(a), (g)

2006	Opening balance	Charged to income	Charged to equity	Recycled from equity to income	Acquisitions/ disposals	Exchange differences	Changes in tax rate	Closing balance
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
Temporary differences								
Cash flow hedges	(119)	-	(131)	114	-	-	-	(136)
Equity accounted investments	(1,268)	(356)	-	-	-	-	-	(1,624)
Property, plant & equipment	(3,221)	(1,532)	-	-	517	-	-	(4,236)
Finance leases	(22)	18	-	-	-	-	-	(4)
Intangible assets	(572)	214	-	-	-	-	-	(358)
Available-for-sale financial assets	(226)	-	(28)	-	-	-	-	(254)
Convertible notes	-	9	(242)	-	-	-	-	(233)
Exchange difference on foreign subsidiary	(14)	-	(22)	36	-	-	-	-
Provisions	1,672	42	-	-	-	-	-	1,714
Doubtful debts	251	(8)	-	-	(4)	-	-	239
Other financial liabilities	5	2	-	-	-	-	-	7
Unclaimed share issue and buy-back costs	-	-	75	-	-	-	-	75
Other [describe]	(181)	(32)	-	-	-	-	-	(213)
	(3,695)	(1,643)	(348)	150	513	-	-	(5,023)
Unused tax losses and credits								
Tax losses	-	-	-	-	-	-	-	-
Foreign tax credits	-	-	-	-	-	-	-	-
Other	2	-	-	-	-	-	-	2
	2	-	-	-	-	-	-	2
	(3,693)	(1,643)	(348)	150	513	-	-	(5,021)

IAS 12.81(a), (g)

2005	Opening balance	Charged to income	Charged to equity	Recycled from equity to income	Acquisitions/ disposals	Exchange differences	Changes in tax rate	Closing balance
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
Temporary differences								
Cash flow hedges	(110)	-	(95)	86	-	-	-	(119)
Equity accounted investments	(791)	(477)	-	-	-	-	-	(1,268)
Property, plant & equipment	(2,540)	(188)	(493)	-	-	-	-	(3,221)
Finance leases	(29)	7	-	-	-	-	-	(22)
Intangible assets	(669)	97	-	-	-	-	-	(572)
Fair value through profit or loss financial assets	-	-	-	-	-	-	-	-
Available-for-sale financial assets	(202)	-	(24)	-	-	-	-	(226)
Exchange difference on foreign subsidiary	22	-	(36)	-	-	-	-	(14)
Provisions	1,692	(20)	-	-	-	-	-	1,672
Doubtful debts	122	129	-	-	-	-	-	251
Other financial liabilities	9	(4)	-	-	-	-	-	5
Other [describe]	(97)	(84)	-	-	-	-	-	(181)
	(2,593)	(540)	(648)	86	-	-	-	(3,695)
Unused tax losses and other credits								
Tax losses	-	-	-	-	-	-	-	-
Foreign tax credits	-	-	-	-	-	-	-	-
Other	-	2	-	-	-	-	-	2
	-	2	-	-	-	-	-	2
	(2,593)	(538)	(648)	86	-	-	-	(3,693)

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Deferred tax balances are presented in the balance sheet as follows:

	31/12/06 CU'000	31/12/05 CU'000
Deferred tax liabilities	4,591	3,693
Directly associated with asset held for sale (note 12)	430	-
	5,021	6,693

Unrecognised deferred tax assets

IAS 12.81(e)

	31/12/06 CU'000	31/12/05 CU'000
The following deferred tax assets have not been recognised at the balance sheet date:		
Tax losses – revenue	-	-
Tax losses – capital	11	11
Unused tax credits (expires [date])	-	-
Temporary differences	-	-
	11	11

The unrecognised tax losses will expire in 2008.

Unrecognised taxable temporary differences associated with investments and interests

IAS 12.81(f)

	31/12/06 CU'000	31/12/05 CU'000
Taxable temporary differences in relation to investments in subsidiaries, branches and associates and interests in joint ventures for which deferred tax liabilities have not been recognised are attributable to the following:		
Domestic subsidiaries	120	125
Foreign subsidiaries	-	-
Associates and jointly controlled entities	-	-
Other [describe]	-	-
	120	125

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

11. Discontinued operations

Disposal of the bicycle business

IFRS 5.30
IFRS 5.41

On 28 September 2006, the Board of Directors entered into a sale agreement to dispose of the Group's bicycle business. The proceeds of sale substantially exceeded the carrying amount of the related net assets and, accordingly, no impairment losses were recognised on the reclassification of these operations as held for sale. The disposal of the bicycle business is consistent with the Group's long-term policy to focus its activities in the widget and toy manufacturing industries. The disposal was completed on 30 November 2006, on which date control of the bicycle business passed to the acquirer. Details of the assets and liabilities disposed of are disclosed in note 44.

Plan to dispose of the construction business

IFRS 5.30
IFRS 5.41

On 30 November 2006, the Board of Directors announced a plan to dispose of the Group's construction business, which involves the construction and renovation of residential properties in A Land. The disposal is consistent with the Group's long-term policy to focus its activities in the widget and toy manufacturing industries. The Group is actively seeking a buyer for its construction business and expects to complete the sale by 31 July 2007. On initial reclassification of these operations as held for sale, the Group has not recognised any impairment losses.

IFRS 5.34

The combined results of the discontinued operations (i.e. the bicycle and construction businesses) included in the income statement are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
IFRS 5.33(b)	**Profit for the year from discontinued operations**		
	Revenue	64,405	77,843
	Other gains	30	49
		64,435	77,892
	Expenses	(54,905)	(64,899)
	Profit before tax	9,530	12,993
IAS 12.81(h)	Attributable income tax expense	(2,524)	(2,998)
		7,006	9,995
	Gain/(loss) on remeasurement to fair value less costs to sell	-	-
	Gain/(loss) on disposal of operation (including CU0.12 million reversal of foreign currency translation reserve on disposal of subsidiary)	1,940	-
IAS 12.81(h)	Attributable income tax expense	(636)	-
		1,304	-
	Profit for the year from discontinued operations	8,310	9,995
IFRS 5.33(c)	**Cash flows from discontinued operations**		
	Net cash flows from operating activities	6,381	7,068
	Net cash flows from investing activities	2,767	-
	Net cash flows from financing activities	(5,000)	-
	Net cash flows	4,148	7,068

The construction business has been classified and accounted for at 31 December 2006 as a disposal group held for sale (see note 12)

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

12. Non-current assets classified as held for sale

	31/12/06 CU'000	31/12/05 CU'000
Land held for sale (i)	1,260	-
Assets related to construction business (ii)	21,076	-
	22,336	-
Liabilities associated with non-current assets held for sale (ii)	3,684	-

IFRS 5.41

(i) The Group intends to dispose of a parcel of land it no longer utilises in the next 10 months. The property was previously used in the Group's toy operations. A search is underway for a buyer. No impairment loss was recognised on reclassification of the land as held for sale nor at 31 December 2006.

IFRS 5.41
IFRS 5.38

(ii) As described in note 11, the Group is seeking to dispose of its construction business and anticipates that the disposal will be completed by 31 July 2007. The major classes of assets and liabilities comprising the operations classified as held for sale at the balance sheet date are as follows:

Source		31/12/06 CU'000	31/12/05 CU'000
	Goodwill	1,147	-
	Property, plant and equipment	16,944	-
IAS 2.36(c)	Inventories	830	-
	Trade and other receivables	1,980	-
	Cash and cash equivalents	175	-
	Assets of construction business classified as held for sale	21,076	-
	Trade and other payables	(3,254)	-
	Current tax liabilities	-	-
	Deferred tax liabilities	(430)	-
	Liabilities of construction business associated with assets classified as held for sale	(3,684)	-
	Net assets of construction business classified as held for sale	17,392	-

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

13. Profit for the year

Profit for the year has been arrived at after charging (crediting):

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
IFRS 7.20(e) [IAS 32.94(l)]	Impairment loss (reversed)/recognised on trade receivables (note 25)	(40)	430
	Impairment loss on available-for-sale equity investments	-	-
	Impairment loss on available-for-sale debt investments	-	-
		(40)	430
	Depreciation and amortisation		
	Depreciation of property, plant and equipment	12,587	15,794
IAS 36.126(a)	Impairment of property, plant and equipment	1,204	-
IAS 38.118(d)	Amortisation of intangible assets	1,592	1,556
IAS 36.126(a)	Impairment of goodwill	15	-
IAS 1.93	Total depreciation and amortisation expense	15,398	17,350
	Attributable to:		
	Continuing operations	12,412	13,878
	Discontinued operations	2,986	3,472
		15,398	17,350
IAS 38.126	Research and development costs immediately expensed	502	440
	Employee benefits expense		
	Post employment benefits (see note 39)		
IAS 19.46	Defined contribution plans	160	148
IAS 19.120A(g)	Defined benefit plans	586	556
		746	704
IFRS 2.50	Share-based payments (see note 41)		
IFRS 2.51(a)	Equity-settled share-based payments	206	338
IFRS 2.51(a)	Cash-settled share-based payments	-	-
		206	338
IAS 19.142	Termination benefits	-	-
	Other employee benefits	13,426	14,397
IAS 1.93		14,378	15,439
	Attributable to:		
	Continuing operations	9,803	11,655
	Discontinued operations	4,575	3,784
		14,378	15,439

IAS 1.86

Costs of CU4.17 million have been recognised during the year in respect of rectification work to be carried out on goods supplied to one of the Group's major customers, which have been included in [cost of sales/cost of inventories and employee benefits expense]. The amount represents the estimated cost of work to be carried out in accordance with an agreed schedule of works up to 2008. CU1.112 million of the provision has been utilised in the current period, with a provision of CU3.058 million carried forward to meet anticipated expenditure in 2007 and 2008 (see note 35).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

14. Earnings per share

Note: IAS 33, Earnings Per Share, requires that earnings per share (EPS) information be presented by entities whose ordinary shares or potential ordinary shares are publicly traded, or by entities that are in the process of issuing ordinary shares or potential ordinary shares in public securities markets. If other entities choose to disclose EPS information voluntarily in financial statements that comply with IFRSs, such disclosures should comply fully with the requirements of IAS 33.

Source		Year ended 31/12/06 Cents per share	Year ended 31/12/05 Cents per share
	Basic earnings per share		
	From continuing operations	81.7	87.3
IAS 33.68	From discontinued operations	47.7	49.6
	Total basic earnings per share	129.4	136.9
	Diluted earnings per share		
	From continuing operations	76.9	83.2
IAS 33.68	From discontinued operations	44.9	47.3
	Total diluted earnings per share	121.8	130.5

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
Profit for the year attributable to equity holders of the parent	22,552	27,569
Other [describe]	-	-
Earnings used in the calculation of total basic earnings per share	22,552	27,569
Profit for the year from discontinued operations used in the calculation of basic earnings per share from discontinued operations	(8,310)	(9,995)
Other [describe]	-	-
Earnings used in the calculation of basic earning per share from continuing operations	14,242	17,574

Source		Year ended 31/12/06 '000	Year ended 31/12/05 '000
IAS 33.70(b)	Weighted average number of ordinary shares for the purposes of basic earnings per share (all measures)	17,432	21,130

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Diluted earnings per share

IAS 33.70(a) The earnings used in the calculation of all diluted earnings per share measures are the same as those for the equivalent basic earnings per share measures, as outlined above.

IAS 33.70(b) The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Year ended 31/12/06 '000	Year ended 31/12/05 '000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	17,432	20,130
Shares deemed to be issued for no consideration in respect of:		
Employee options	161	85
Partly-paid ordinary shares	923	900
Convertible notes	-	-
Other [describe]	-	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (all measures)	18,516	21,115

IAS 33.70(c) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	Year ended 31/12/06 '000	Year ended 31/12/05 '000
Convertible notes	4,500	-
Other [describe]	-	-
	4,500	-

Impact of changes in accounting policies

IAS 8.28(f) Changes in the Group's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results reported for 2006 and 2005, they have had an impact on the amounts reported for earnings per share.

The following table summarises that impact on both basic and diluted earnings per share:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	Year ended 31/12/06 Cents per share	Year ended 31/12/05 Cents per share	Year ended 31/12/06 Cents per share	Year ended 31/12/05 Cents per share
Limitation of ability to designate financial assets and financial liabilities as at 'fair value through profit or loss'	(0.05)	(0.02)	(0.04)	(0.02)
Recognition of financial guarantee contracts	(0.02)	0.04	(0.02)	0.04
Other [describe]	-	-	-	-
Total impact of changes in accounting policies	(0.07)	0.02	(0.06)	0.02

Source | **International GAAP Holdings Limited**

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

15. Property, plant and equipment

Source		Freehold land at fair value	Buildings at fair value	Leasehold improve-ments at cost	Plant and equipment at cost	Equipment under finance lease at cost	Total
IAS 16.73(a) IAS 16.73(d),(e)		CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
	Cost or valuation						
	Balance at 1 January 2005	14,750	13,666	306	156,534	630	185,886
	Additions	-	1,205	-	10,657	40	11,902
	Disposals	-	-	-	(27,286)	-	(27,286)
	Acquisitions through business combinations	-	-	-	-	-	-
	Reclassified as held for sale	-	-	-	-	-	-
	Revaluation increase	1,608	37	-	-	-	1,645
	Net foreign currency exchange differences	-	-	-	-	-	-
	Other [describe]	-	-	-	-	-	-
	Balance at 1 January 2006	16,358	14,908	306	139,905	670	172,147
	Additions	-	-	-	22,983	-	22,983
	Disposals	(1,530)	(1,184)	(16)	(19,147)	(624)	(22,501)
	Acquisitions through business combinations	-	-	-	454	-	454
	Reclassified as held for sale	(1,260)	(1,357)	-	(20,785)	-	(23,402)
	Revaluation increase/(decrease)	-	-	-	-	-	-
	Net foreign currency exchange differences	-	-	-	-	-	-
	Other [describe]	-	-	-	-	-	-
	Balance at 31 December 2006	13,568	12,367	290	123,410	46	149,681
	Accumulated depreciation and impairment						
	Balance at 1 January 2005	-	(1,521)	(30)	(25,019)	(378)	(26,948)
	Eliminated on disposals of assets	-	-	-	5,058	-	5,058
	Eliminated on revaluation	-	(2)	-	-	-	(2)
	Eliminated on reclassification as held for sale	-	-	-	-	-	-
	Impairment losses charged to profit or loss	-	-	-	-	-	-
IAS 36.126(b)	Reversals of impairment losses charged to profit or loss	-	-	-	-	-	-
	Depreciation expense	-	(892)	(55)	(14,717)	(130)	(15,794)
	Net foreign currency exchange differences	-	-	-	-	-	-
	Other [describe]	-	-	-	-	-	-
	Balance at 1 January 2006	-	(2,415)	(85)	(34,678)	(508)	(37,686)
	Eliminated on disposals of assets	-	102	4	5,967	500	6,573
	Eliminated on revaluation	-	-	-	-	-	-
	Eliminated on reclassification as held for sale	-	153	-	6,305	-	6,458
IAS 36.126(a)	Impairment losses charged to profit or loss	-	-	-	(1,204)	-	(1,204)
IAS 36.126(b)	Reversals of impairment losses charged to profit or loss	-	-	-	-	-	-
	Depreciation expense	-	(721)	(53)	(11,803)	(10)	(12,587)
	Net foreign currency exchange differences	-	-	-	-	-	-
	Other [describe]	-	-	-	-	-	-
	Balance at 31 December 2006	-	(2,881)	(134)	(35,413)	(18)	(38,446)
IAS 17.31(a)	***Carrying amount***						
	As at 31 December 2005	16,358	12,493	221	105,227	162	134,461
	As at 31 December 2006	13,568	9,486	156	87,997	28	111,235

Total property, plant and equipment held by the Group at 31 December 2006 amounted to CU128.179 million (2005: 134.461 million), comprising the amounts analysed above (2006: CU111.235 million; 2005: CU134.461 million) and assets classified as held for sale (2006: CU16.944 million; 2005: nil).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 36.130(a) to (g)

During the period, the Group carried out a review of the recoverable amount of its manufacturing plant and equipment, having regard to its ongoing programme of modernisation and the introduction of new product lines. These assets are used in the Group's widgets segment. The review led to the recognition of an impairment loss of CU1.09 million, that has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 9% per annum. The discount rate used when the recoverable amount of these assets was previously estimated in 2004 was 8% per annum.

IAS 36.131

Additional impairment losses recognised in respect of property, plant and equipment in the year amounted to CU0.114 million. These losses are attributable to greater than anticipated wear and tear.

IAS 36.126(a)

The impairment losses have been included in the line item [depreciation and amortisation expense / cost of sales] in the income statement.

IAS 16.73(c)

The following useful lives are used in the calculation of depreciation:

Buildings	20 – 30 years
Leasehold improvements	5 – 7 years
Plant and equipment	5 – 15 years
Equipment under finance lease	5 years

Freehold land and buildings carried at fair value

IAS 16.77(a) to (d)

An independent valuation of the Group's land and buildings was performed by Messrs R & P Trent to determine the fair value of the land and buildings. The valuation, which conforms to International Valuation Standards, was determined by reference to discounted cash flows using a discount rate of 10%. The effective date of the valuation is 31 December 2006 (2005: 31 December 2005).

IAS 16.77(e)

Had the Group's land and buildings (other than land and buildings classified as held for sale or included in a disposal group) been measured on a historical cost basis, their carrying amount would have been as follows:

	31/12/06 CU000	31/12/05 CU000
Freehold land	11,957	14,750
Buildings	9,455	12,460

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

16. Investment property

Source		2006 CU'000	2005 CU'000
IAS 40.76	***At fair value***		
	Balance at beginning of year	132	112
	Additions through subsequent expenditure	10	12
	Acquisitions through business combinations	-	-
	Other acquisitions	-	-
	Disposals	-	-
	Property reclassified as held for sale	-	-
	Net (loss)/gain from fair value adjustments	(6)	8
	Net foreign currency exchange differences	-	-
	Transfers	-	-
	Other changes	-	-
	Balance at end of year	136	132

IAS 40.75(d),(e)

The fair value of the Group's investment property at 31 December 2006 has been arrived at on the basis of a valuation carried out at that date by Messrs R & P Trent, independent valuers that are not related to the Group. Messrs R & P Trent are members of the Institute of Valuers of A Land, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's investment property is held under freehold interests.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

17. Goodwill

Source		2006 CU'000	2005 CU'000
IFRS 3.74,75	***Cost***		
	Balance at beginning of year	24,060	24,060
	Additional amounts recognised from business combinations occurring during the year	435	-
	Reduction arising from realisation of deferred tax assets not previously recognised	-	-
	Derecognised on disposal of a subsidiary	(3,080)	-
	Reclassified as held for sale	(1,147)	-
	Effects of foreign currency exchange differences	-	-
	Other [describe]	-	-
	Balance at end of year	20,268	24,060
	Accumulated impairment losses		
	Balance at beginning of year	-	-
	Impairment losses recognised in the year	(15)	-
	Derecognised on disposal of a subsidiary	-	-
	Classified as held for sale	-	-
	Effect of foreign currency exchange differences	-	-
	Balance at end of year	(15)	-
	Carrying amount		
	At the beginning of the year	24,060	24,060
	At the end of the year	20,253	24,060

Total goodwill held by the Group at 31 December 2006 amounted to CU21.4 million (2005: 24.06 million), comprising the amounts analysed above (2006: CU20.253 million; 2005: CU24.06 million) and goodwill classified as held for sale (2006: CU1.147 million; 2005: nil).

IFRS 3.76
IAS 36.130

During the financial year, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's toy operations was impaired by CU15,000 (2005: nil). The recoverable amount of the toy operations was assessed by reference to value in use. A discount factor of 10% per annum (2005: 10% per annum) was applied in the value in use model.

The main factor contributing to the impairment of the cash-generating unit was the failure of one of the newer product ranges to contribute to sales to the extent that product testing had predicted. No write-down of the carrying amounts of other assets in the cash-generating unit was necessary. The goodwill is included in the 'toy' reportable segment disclosed in note 6.

Allocation of goodwill to cash-generating units

IAS 36.134, 135

Goodwill has been allocated for impairment testing purposes to two individual cash-generating units and to five groups of cash-generating units, as follows:

Individual cash-generating units

- Construction operations – A Land
- Widget operations in B Land

Groups of cash-generating units

- Widget operations in C Land
- Bicycle operations – global
- Toy operations – global
- Widget operations – global
- Other operations – global (acquired in 2006)

Source | International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

The carrying amount of goodwill allocated to the global widget cash-generating units, the global toy cash-generating units and to the global bicycle cash-generating units is significant in comparison with the total carrying amount of goodwill. The carrying amount of goodwill allocated to other cash-generating units is not. However, the recoverable amounts of the widget operations in B Land and C Land are based on some of the same key assumptions, and the aggregate carrying amount of goodwill allocated to those units is significant.

Before recognition of impairment losses, the carrying amount of goodwill (other than goodwill classified as held for sale) allocated to cash-generating units that are significant individually or in aggregate is as follows:

	31/12/06 CU'000	31/12/05 CU'000
Widget operations – B Land and C Land	7,000	7,000
Widget operations – global	8,500	8,500
Bicycle operations – global (disposed of in 2006)	-	3,080
Toy operations – global	4,333	4,333
Construction operations – A Land	-	1,147
Other operations	435	-
	20,268	24,060

Widget operations – B Land and C Land

The Widget Operations B Land and Widget Operations C Land units produce similar products, and their recoverable amounts are based on many of the same key assumptions. The recoverable amount of both cash-generating units is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10% per annum (2005: 9.5% per annum).

Cash flow projections during the budget period for both cash-generating units are also based on the same expected gross margins during the budget period and the same raw materials price inflation during the budget period. Both sets of cash flows beyond that five year period have been extrapolated using a steady 11% per annum growth rate. This growth rate exceeds by 0.5 percentage points the long-term average growth rate for the international widgets market. However, management believes, as described in 'Widget operations – global' below, that this rate is reasonable. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of those cash-generating units.

Widget operations – global

The recoverable amount of the widget operations – global units is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10% per annum (2005: 10% per annum). Cash flows beyond that five year period have been extrapolated using a steady 11% per annum growth rate. This growth rate exceeds by 0.5 percentage points the long-term average growth rate for the international widgets market. However, among other factors, the widgets operations – global units benefit from the protection of a 20-year patent on its Series Z widgets, granted in 2002, which is still acknowledged as being one of the top widget models in the market. Management believes that an 11% per annum growth rate is reasonable in the light of that patent, and of other widget-related products being developed, and its intentions of focusing its operations in this industry. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the widget operations – global carrying amount to exceed its recoverable amount.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Toy operations – global

The recoverable amount of the toy operations – global units is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10% per annum (2005: 10% per annum). Cash flows beyond that five year period have been extrapolated using a steady 8% per annum growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the toy operations – global units operate. Management believes that any reasonably possible further change in the key assumptions on which recoverable amount is based would not cause the toy operations – global carrying amount to exceed its recoverable amount.

The key assumptions used in the value in use calculations for the widget and toy operations are as follows:

Budgeted market share	Average market share in the period immediately before the budget period, plus a growth of 1-2% of market share per year. The values assigned to the assumption reflects past experience, except for the growth factor, which is consistent with management plans for focusing operations in the widget and toy industries. Management believes that the planned market share growth per year for the next five years is reasonably achievable
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience, except for efficiency improvements. Management expects efficiency improvements of 3-5% per year to be reasonably achievable.
Raw materials price inflation	Forecast consumer price indices during the budget period for the countries from which raw materials are purchased. The values assigned to the key assumption are consistent with external sources of information.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

18. Other intangible assets

Source		Capitalised development CU'000	Patents CU'000	Trademarks CU'000	Licences CU'000	Total CU'000
IAS 38.118(c),(e)	*Cost*					
	Balance at 1 January 2005	3,230	5,825	4,711	6,940	20,706
	Additions	-	-	-	-	-
	Additions from internal developments	358	-	-	-	358
	Acquisitions through business combinations	-	-	-	-	-
	Disposals or classified as held for sale	-	-	-	-	-
	Net foreign currency exchange differences	-	-	-	-	-
	Other [describe]	-	-	-	-	-
	Balance at 1 January 2006	3,588	5,825	4,711	6,940	21,064
	Additions	-	-	-	-	-
	Additions from internal developments	6	-	-	-	6
	Acquisitions through business combinations	-	-	-	-	-
	Disposals or classified as held for sale	-	-	-	-	-
	Net foreign currency exchange differences	-	-	-	-	-
	Other [describe]	-	-	-	-	-
	Balance at 31 December 2006	3,594	5,825	4,711	6,940	21,070
	Accumulated amortisation and impairment					
	Balance at 1 January 2005	(1,000)	(874)	(3,533)	(2,776)	(8,183)
	Amortisation expense	(682)	(291)	(236)	(347)	(1,556)
	Disposals or classified as held for sale	-	-	-	-	-
IAS 36.130(b)	Impairment losses charged to profit or loss	-	-	-	-	-
IAS 36.130(b)	Reversals of impairment losses charged to profit or loss	-	-	-	-	-
IAS 38.118(e)	Net foreign currency exchange differences	-	-	-	-	-
	Other [describe]	-	-	-	-	-
	Balance at 1 January 2006	(1,682)	(1,165)	(3,769)	(3,123)	(9,739)
	Amortisation expense	(718)	(291)	(236)	(347)	(1,592)
	Disposals or classified as held for sale	-	-	-	-	-
IAS 36.130(b)	Impairment losses charged to profit	-	-	-	-	-
IAS 36.130(b)	Reversals of impairment losses charged to profit	-	-	-	-	-
	Net foreign currency exchange differences	-	-	-	-	-
	Other [describe]	-	-	-	-	-
	Balance at 31 December 2006	(2,400)	(1,456)	(4,005)	(3,470)	(11,331)
	Carrying amount					
	As at 31 December 2005	1,906	4,660	942	3,817	11,325
	As at 31 December 2006	1,194	4,369	706	3,470	9,739

IAS 38.118(d) [The amortisation expense has been included in the line item 'depreciation and amortisation expense' in the income statement. / Of the amortisation charge for the year, CU1.03 million (2005: CU0.98 million) has been included in marketing expenses and the remainder in other expenses.]

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 38.118(a)

The following useful lives are used in the calculation of amortisation:

Capitalised development	5 years
Patents	10 – 20 years
Trademarks	20 years
Licences	20 years

Significant intangible assets

IAS 38.122(b)

The Group holds a patent for the manufacture of its Series Z widgets. The carrying amount of the patent of CU2.25 million (2005: CU2.4 million) will be fully amortised in 15 years (2005: 16 years).

19. Subsidiaries

Details of the Company's subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Subone Limited	A Land	100	100	Manufacture of widgets
Subtwo Limited	A Land	45	45	Manufacture of toys
Subthree Limited	A Land	100	100	Construction of residential properties
Subfour Limited	B Land	70	70	Manufacture of widgets
Subfive Limited	C Land	100	100	Manufacture of widgets
Subsix Limited	A Land	100	100	Financial
Subseven Limited	A Land	100	100	Distribution

IAS 27.40(c)

Although the Company does not own more than half of the equity shares of Subtwo Limited, and consequently it does not control more than half of the voting power of those shares, it has the power to appoint and remove the majority of the board of directors and control of the entity is by the board. Consequently, Subtwo Limited is controlled by the Company and is consolidated in these financial statements.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

20. Investments in associates

IAS 28.37(a) Details of the Group's associates are as follows:

Name of associate	Principal activity	Place of incorporation and operation	Ownership interest 2006 %	Ownership interest 2005 %	Published fair value 2006 CU'000	Published fair value 2005 CU'000
A Plus Limited (i)	Transport	M Land	35	35	2,231	2,069
B Plus Limited (ii)	Steel manufacturing	A Land	17	17	-	-
C Plus Limited	Finance	A Land	40	40	-	-
D Plus Limited (iii)	Transport	R Land	35	25	-	-

(i) Pursuant to a shareholder agreement, the Company has the right to cast 37% of the votes at shareholder meetings of A Plus Limited.

IAS 28.37(c) (ii) Although the Group holds less than 20% of the equity shares of B Plus Limited, and it has less than 20% of the voting power in shareholder meetings, the Group exercises significant influence by virtue of its contractual right to appoint two directors to the board of directors of that company.

IAS 28.37(e) (iii) The reporting date of D Plus Limited is 31 October. This was the financial reporting date established when that company was incorporated, and a change of reporting date is not permitted in R Land. For the purpose of applying the equity method of accounting, the financial statements of D Plus Limited for the year ended 31 October 2006 (2005: 31 October 2005) have been used, and appropriate adjustments have been made for the effects of significant transactions between that date and 31 December 2006 (2005: 31 December 2005).

IAS 28.37(b) Summarised financial information in respect of the Group's associates is set out below:

	31/12/06 CU'000	31/12/05 CU'000
Total assets	42,932	38,178
Total liabilities	(14,848)	(12,218)
Net assets	28,084	25,960
Group's share of associates' net assets	8,425	7,269

	Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
Total revenue	12,054	11,904
Total profit for the period	3,953	5,479
Share of associates' profit for the period	1,186	1,589

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

21. Joint ventures

IAS 31.56 The Group has the following significant interests in joint ventures:

(a) a 25 per cent share in the ownership of a property located in Central District, City A. The Group is entitled to a proportionate share of the rental income received and bears a proportionate share of the outgoings; and

(b) a 33.5 per cent equity shareholding with equivalent voting power in JV Electronics Limited, a joint venture established in C Land.

IAS 31.56 The following amounts are included in the Group financial statements as a result of the proportionate consolidation of JV Electronics Limited:

	31/12/06 CU'000	31/12/05 CU'000
Current assets	1,800	1,850
Non-current assets	8,993	9,854
Current liabilities	936	785
Non-current liabilities	5,858	5,521
	Year ended 31/12/06 CU'000	**Year ended 31/12/05 CU'000**
Income	2,124	2,005
Expenses	1,787	1,763

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IFRS 7.7

22. Other financial assets

Source		Current		Non-current	
		31/12/06	31/12/05	31/12/06	31/12/05
		CU'000	CU'000	CU'000	CU'000
IFRS 7.7	***Derivatives designated and effective as hedging instruments carried at fair value***				
	Foreign currency forward contracts	244	220	-	-
	Interest rate swaps	72	37	212	140
		316	257	212	140
IFRS 7.8(a)	***Financial assets carried at fair value through profit or loss (FVTPL)***				
	Non-derivative financial assets designated as at fair value through profit or loss	-	-	-	-
	Held for trading derivatives that are not designated in hedge accounting relationships	-	-	-	-
	Held for trading non-derivatives	-	-	-	-
		-	-	-	-
IFRS 7.8(b)	***Held-to-maturity investments carried at amortised cost***				
	Bills of exchange (i)	4,304	3,604	2,059	1,658
	Debentures (ii)	500	-	-	-
		4,804	3,604	2,059	1,658
IFRS 7.8(d)	***Available-for-sale investments carried at fair value***				
	Redeemable notes (iii)	-	-	2,200	2,122
	Shares (iv)	-	-	5,940	5,736
		-	-	8,140	7,858
IFRS 7.8(f)	***Loans carried at amortised cost***				
	Loans to related parties (v)	3,637	3,088	-	-
	Loans to other entities	-	-	-	-
		3,637	3,088	-	-
	Total	8,757	6,949	10,411	9,656

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IFRS 7.7 [IAS 32.60(a)]

(i) The Group holds bills of exchange returning a variable rate of interest. The weighted average interest rate on these securities is 7.10% per annum (2005: 7.0% per annum). The bills have maturity dates ranging between 3 to 18 months from the balance sheet date.

(ii) The debentures return interest of 6% per annum payable monthly, and mature in March 2007.

(iii) The Group holds listed redeemable notes returning 7% per annum. The notes are redeemable at par value in 2009.

IAS 28.37(d)

(iv) The Group holds 20% (2005: 20%) of the ordinary share capital of Rocket Corp Limited, a company involved in the refining and distribution of fuel products. The directors of the Group do not believe that the Group is able to exert significant influence over Rocket Corp Limited as the other 80% of the ordinary share capital is controlled by one shareholder, who also manages the day-to-day operations of that company.

IAS 24.17(b)

(v) The Group has provided several of its key management personnel and a joint venture entity with short-term loans at rates comparable to the average commercial rate of interest. Further information about these loans is contained in note 42.

IAS 1.74

23. Other assets

	Current		Non-current	
	31/12/06	31/12/05	31/12/06	31/12/05
	CU'000	CU'000	CU'000	CU'000
Prepayments	-	-	-	-
Other [describe]	-	-	-	-
	-	-	-	-

IAS 2.36(b)

24. Inventories

	31/12/06	31/12/05
	CU'000	CU'000
Raw materials	9,142	10,322
Work in progress	4,490	4,354
Finished goods	17,732	15,566
	31,364	30,242
Classified as part of a disposal group held for sale (note 12)	830	-
	32,194	30,242

IAS 2.36(d)

The cost of inventories recognised as an expense during the period, in respect of both continuing and discontinued operations, was CU127.38 million (2005: CU139.86 million).

IAS 2.36(e),(f),(g)

The cost of inventories recognised as an expense includes CU2.34 million (2005: CU1.86 million) in respect of write-downs of inventory to net realisable value, and has been reduced by CU0.5 million (2005: CU0.4 million) in respect of the reversal of such write-downs. Previous write-downs have been reversed as a result of increased sales prices in certain markets.

IAS 1.52

Inventories of CU1.29 million (2005: CU0.86 million) are expected to be recovered after more than twelve months.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

25. Trade and other receivables

Source		31/12/06 CU'000	31/12/05 CU'000
	Trade receivables	18,034	16,880
	Allowance for doubtful debts	(798)	(838)
		17,236	16,042
	Deferred sales proceeds (note 44)	960	-
	Operating lease receivable	-	-
IAS 11.42(a)	Amounts due from customers under construction contracts (note 28)	240	230
	Other [describe]	54	20
		18,490	16,292

Total trade receivables (net of allowances) held by the Group at 31 December 2006 amounted to CU19.216 million (2005: 16.042 million), comprising the amount presented above (2006: CU17.236 million; 2005: CU16.042 million) and trade receivables classified as held for sale (2006: CU1.98 million; 2005: nil).

IFRS 7.36(c),37 [IAS 32.60(a)]

The average credit period on sales of goods is 60 days. No interest is charged on the trade receivables for the first 60 days from the date of the invoice. Thereafter, interest is charged at 2% per annum on the outstanding balance. The Group has provided fully for all receivables over 120 days because historical experience is such that receivables that are past due beyond 120 days are generally not recoverable. Trade receivables between 60 days and 120 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

IFRS 7.36(c)

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 80% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group. There is no customer who represents more than 5% of the total balance of trade receivables.

IFRS 7.36(c),37

Included in the Group's trade receivable balance are debtors with a carrying amount of CU1.562 million (2005: CU1.033 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 84 days (2005: 85 days).

IFRS 7.16

Movement in the allowance for doubtful debts

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
	Balance at beginning of the year	838	464
	Amounts written off during the year	-	(32)
	Amounts recovered during the year	-	(24)
IFRS 7.20(e) [IAS 32.94(l)]	Increase/(decrease) in allowance recognised in profit or loss	(40)	430
	Balance at end of the year	798	838

IFRS 7.33(a), (b)

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IFRS 7.37(b)

Included in the allowance for doubtful debts are specific trade receivables with a balance of CU63,000 (2005:CU52,000) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of the specific trade receivable and the present value of the expected liquidation proceeds.

Derecognition of financial assets

IFRS 7.13 [IAS 32.94(a)]

During the period, the Group transferred CU1.052 million (2005: nil) of trade receivables to an unrelated entity. As part of the transfer, the Group provided the transferee a credit guarantee over the expected losses of those receivables. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 32). At the reporting date, the carrying amount of the transferred short-term receivables is CU0.946 million. The carrying amount of the associated liability is CU0.923 million.

26. Finance lease receivables

Leasing arrangements

IAS 17.47(f) IFRS 7.7 [IAS 32.60(a)]

The Group enters into finance leasing arrangements for certain of its widget storage equipment. All leases are denominated in Currency Units. The average term of finance leases entered into is 4 years.

Amounts receivable under finance leases

IAS 17.47(a)

	Minimum lease payments		Present value of minimum lease payments	
	31/12/06 CU'000	31/12/05 CU'000	31/12/06 CU'000	31/12/05 CU'000
Within one year	282	279	198	188
In the second to fifth years inclusive	1,074	909	830	717
	1,356	1188	1,028	905
Less unearned finance income (IAS 17.47(b))	(328)	(283)	n/a	n/a
Present value of minimum lease payments	1,028	905	1,028	905
Allowance for uncollectible lease payments (IAS 17.47(d))	-	-	-	-
	1,028	905	1,028	905
Included in the financial statements as:				
Current finance lease receivables			198	188
Non-current finance lease receivables			830	717
			1,028	905

IAS 17.47(c)

Unguaranteed residual values of assets leased under finance leases at the balance sheet date are estimated at CU37,000 (2004: CU42,000).

IFRS 7.7 IAS 32.67

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is approximately 10.5% (2004: 11%) per annum.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

27. Assets pledged as security

Assets with the following carrying amounts have been pledged to secure borrowings of the Group (see note 32):

Source		31/12/06 CU'000	31/12/05 CU'000
IAS 16.74(a)	Freehold land and buildings	23,054	28,851
IFRS 7.14	Trade receivables	946	-
		24,000	28,851

IFRS 7.14

In addition, the Group's obligations under finance leases (see note 38) are secured by the lessors' title to the leased assets, which have a carrying amount of CU70,000 (2005: CU90,000)

28. Construction contracts

Contracts in progress at the balance sheet date:

Source		31/12/06 CU'000	31/12/05 CU'000
IAS 11.40(a)	Construction costs incurred plus recognised profits less recognised losses to date	1,517	1,386
	Less: progress billings	(1,313)	(1,171)
		204	215
	Recognised and included in the financial statements as amounts due:		
IAS 11.42(a)	From customers under construction contracts (note 25)	240	230
IAS 11.42(b)	To customers under construction contracts (note 37)	(36)	(15)
		204	215

IAS 11.40(b),(c)

At 31 December 2006, retentions held by customers for contract work amount to CU75,000 (2005: CU69,000). Advances received from customers for contract work amounted to CU14,000 (2005: nil).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

29. Issued capital

Source		Share capital		Share premium	
		31/12/06 CU'000	31/12/05 CU'000	31/12/06 CU'000	31/12/05 CU'000
IAS 1.76(a)	14,844,000 fully paid ordinary shares (2005: 20,130,000)	14,844	20,130	14,625	25,667
IAS 1.76(a)	2,500,000 partly paid ordinary shares (2005: 2,500,000)	1,775	1,775	-	-
IAS 1.76(a)	1,200,000 fully paid 10% converting non-participating preference shares (2005: 1,100,000)	1,200	1,100	(5)	-
		17,819	23,005	14,620	25,667

Source		Number of shares '000	Share capital CU'000	Share premium CU'000
IAS 1.76(a)	***Fully paid ordinary shares***			
IAS 1.97(a)	Balance at 1 January 2005 and 1 January 2006	20,130	20,130	25,667
	Issue of shares under employee share option plan (note 41)	314	314	-
	Issue of shares for consulting services	3	3	5
	Share buy-back	(5,603)	(5,603)	(10,853)
	Share buy-back costs	-	-	(277)
	Related income tax	-	-	83
	Balance at 31 December 2006	14,844	14,844	14,625

Fully paid ordinary shares, which have a par value of CU1, carry one vote per share and carry the right to dividends.

IFRS 2.48 — The fair value of shares issued for consulting services was determined by reference to the market rate for similar consulting services.

Source		Number of shares '000	Share capital CU'000	Share premium CU'000
IAS 1.76(a)	***Partly paid ordinary shares***			
IAS 1.97(a)	Balance at 1 January 2005 and 1 January 2006	2,500	1,775	-
	Movements [describe]	-	-	
	Balance at 31 December 2006	2,500	1,775	-

Partly paid ordinary shares, which have a par value of CU1, carry one vote per share but do not carry the right to dividends.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Source		Number of shares '000	Share capital CU'000	Share premium CU'000
IAS 1.76(a)	***Converting non-participating preference shares***			
IAS 1.97(a)	Balance at 1 January 2005 and 1 January 2006	1,100	1,100	-
	Issue of shares	100	100	-
	Share issue costs	-	-	(6)
	Related income tax	-	-	1
	Balance at 31 December 2006	1,200	1,200	(5)

Converting non-participating preference shares, which have a par value of CU1, are entitled to receive a discretionary 10% preference dividend before any dividends are declared to the ordinary shareholders. The converting non-participating preference shares convert into ordinary shares on a one for one basis and are due for conversion on 1 November 2011. Converting non-participating preference shares have no right to share in any surplus assets or profits.

Share options granted under the employee share option plan

IAS 1.76(a)

As at 31 December 2006, executives and senior employees have options over 196,000 ordinary shares (of which 60,000 are unvested), in aggregate, with 136,000 of those options expiring on 30 March 2007, and the remainder expiring on 28 September 2007. As at 31 December 2005, executives and senior employees had options over 290,000 ordinary shares, in aggregate, with 140,000 of those options expiring 31 March 2006, and the remainder expiring on 29 September 2006.

Share options granted under the employee share option plan carry no rights to dividends and no voting rights. Further details of the employee share option plan are contained in note 41 to the financial statements.

Redeemable cumulative preference shares

The redeemable cumulative preference shares issued by the Company have been classified as liabilities (see note 32).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 1.74

30. Reserves

	31/12/06 CU'000	31/12/05 CU'000
General	807	807
Properties revaluation	1,198	1,201
Investments revaluation	593	527
Equity-settled employee benefits	544	338
Hedging	317	278
Foreign currency translation	194	225
Option premium on convertible notes	592	-
Other [describe]	-	-
	4,245	3,376

IAS 1.97(c) *General reserve*

	2006 CU'000	2005 CU'000
Balance at beginning of year	807	807
Movements [describe]	-	-
Balance at end of year	807	807

IAS 1.76(b) The general reserve is used from time to time to transfer profits from retained profits. There is no policy of regular transfer.

IAS 1.97(c) *Properties revaluation reserve*

Source		2006 CU'000	2005 CU'000
IAS 16.77(f)	Balance at beginning of year	1,201	51
	Increase/(decrease) arising on revaluation of properties	-	1,643
IAS 36.126(c)	Impairment losses	-	-
IAS 36.126(d)	Reversals of impairment losses	-	-
	Deferred tax liability arising on revaluation	-	(493)
	Reversal of deferred tax liability on revaluation	-	-
	Transferred to retained earnings	(3)	-
	Transferred to equity relating to non-current assets classified as held for sale	-	-
	Other [describe]	-	-
	Balance at end of year	1,198	1,201

IAS 1.76(b) The properties revaluation reserve arises on the revaluation of land and buildings. Where revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to retained profits.

IAS 16.77(f) Distributions from the properties revaluation reserve can be made where they are in accordance with the requirements of the Company's constitution, the Corporations Act and relevant case law. Amounts may also be effectively distributed out of the properties revaluation reserve as part of a share buy-back. Generally, there is no restriction on the payment of 'bonus shares' out of the properties revaluation reserve. However, the payment of cash distributions out of the reserve is restricted by the terms of the Company's constitution. These restrictions do not apply to any amounts transferred to retained profits. The directors do not currently intend to make any distribution from the properties revaluation reserve.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Source		2006 CU'000	2005 CU'000
IAS 1.97(c)	***Investments revaluation reserve***		
	Balance at beginning of year	527	470
IFRS 7.20(a) [IAS 32.94(k)]	Increase/(decrease) arising on revaluation of financial assets	94	81
IFRS 7.20(a) [IAS 32.94(k)]	Cumulative (gain)/loss transferred to the income statement on sale of financial assets	-	-
IFRS 7.20(a) [IAS 32.94(k)]	Cumulative (gain)/loss transferred to the income statement on impairment of financial assets	-	-
	Related income tax	(28)	(24)
	Balance at end of year	593	527

IAS 1.76(b) — The investments revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in profit or loss. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in profit or loss.

Source		2006 CU'000	2005 CU'000
IAS 1.97(c)	***Equity-settled employee benefits reserve***		
	Balance at beginning of year	338	-
	Share-based payment	206	338
	Other [describe]	-	-
	Balance at end of year	544	338

IAS 1.76(b) — The equity-settled employee benefits reserve arises on the grant of share options to employees under the employee share option plan. Further information about share-based payments to employees is set out in note 41.

Source		2006 CU'000	2005 CU'000
IAS 1.97(c)	***Hedging reserve***		
	Balance at beginning of year	278	258
IFRS 7.23(c) [IAS 32.59(a)]	Gain/(loss) recognised on cash flow hedges		
	Foreign currency forward exchange contracts	209	(41)
	Interest rate swaps	227	357
	Currency swaps	-	-
	Income tax related to gains/losses recognised in equity	(131)	(95)
IFRS 7.23(d) [IAS 32.59(b)]	Transferred to profit or loss		
	Foreign currency forward exchange contracts	(3)	-
	Interest rate swaps	(120)	(86)
	Currency swaps	-	-
	Income tax related to amounts transferred to profit or loss	37	26
IFRS 7.23(e) [IAS 32.59(c)]	Transferred to initial carrying amount of hedged item		
	Foreign currency forward exchange contracts	(257)	(201)
	Income tax related to amounts transferred to initial carrying amount of hedged item	77	60
	Other [describe]	-	-
	Balance at end of year	317	278

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 1.76(b)

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

IFRS 7.23(d)

Gains and losses transferred from equity into profit or loss during the period are included in the following line items in the income statement:

	Year ended 31/12/2006 CU'000	Year ended 31/122005 CU'000
Revenue	-	-
Other income	-	-
Finance costs	(120)	(86)
Other expenses	(3)	
Income tax expense	37	26
Other [describe]	-	-
	(86)	(60)

IAS 1.97(c)

	2006 CU'000	2005 CU'000
Foreign currency translation reserve		
Balance at beginning of year	225	140
Translation of foreign operations	75	121
Foreign currency forward exchange contracts	-	-
Deferred tax arising from translation	(22)	(36)
Gain recycled on disposal of foreign subsidiary	(120)	-
Income tax related to gain recycled on disposal of subsidiary	36	-
Other [describe]	-	-
Balance at end of year	194	225

IAS 1.76(b)

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into Currency Units are brought to account by entries made directly to the foreign currency translation reserve. Gains and losses on hedging instruments that are designated as hedges on net investments in foreign operations are included in the foreign currency translation reserve.

IAS 1.97(c)

	2006 CU'000	2005 CU'000
Option premium on convertible notes		
Balance at beginning of year	-	-
Issue of convertible notes	834	-
Related income tax	(242)	-
Balance at end of year	592	-

IAS 1.76(b)

Option premium on convertible notes represents the equity component (conversion rights) of the 4.5 million 5.5% convertible notes issued during the year (see note 33).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

31. Retained earnings and dividends

Source		2006 CU'000	2005 CU'000
IAS 1.97(a),(b)	Balance at beginning of year	94,986	73,917
	Effect of changes in the accounting for financial guarantee contracts	-	(21)
	Restated opening balance	94,986	73,896
	Net profit attributable to members of the parent entity	22,552	27,569
	Payment of dividends	(6,635)	(6,479)
	Share buy-back	(555)	-
	Actuarial gains/(losses) on defined benefit funds recognised directly in retained earnings	-	-
	Related income tax	-	-
	Transfer from properties revaluation reserve	3	-
	Other [describe]	-	-
	Balance at end of year	110,351	94,986

IAS 1.95

On 23 May 2006, a dividend of 32.1 cents per share (total dividend CU6.515 million) was paid to holders of fully paid ordinary shares. In May 2005, the dividend paid was 31.64 cents per share (total dividend CU6.369 million).

Dividends of 10 cents per share were paid on converting non-participating preference shares during the year (2005: 10 cents per share) amounting to a total dividend of CU0.12 million (2005: CU0.11 million).

IAS 1.125(a)
IAS 10.13

In respect of the current year, the directors propose that a dividend of 26.31 cents per share will be paid to shareholders on 25 May 2007. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 21 April 2007. The total estimated dividend to be paid is CU3.905 million. The payment of this dividend will not have any tax consequences for the Group.

In addition, dividends of CU0.613 million (2005: nil) have been paid on redeemable cumulative preference shares classified as liabilities (see note 32).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

32. Borrowings

	Current		Non-current	
	31/12/06	31/12/05	31/12/06	31/12/05
	CU'000	CU'000	CU'000	CU'000
Unsecured – at amortised cost				
Bank overdrafts	520	314	-	-
Bills of exchange (i)	358	374	-	542
Loans from:				
Related parties (ii)	12,917	14,932	-	19,192
Other entities (iii)	3,701	3,518	-	-
Redeemable cumulative preference shares (iv)	-	-	15,000	-
Convertible notes (note 33)	-	-	4,144	-
Perpetual notes (v)	-	-	1,905	-
Other [describe]	-	-	-	-
	17,496	19,138	21,049	19,734
Secured – at amortised cost				
Bank overdrafts	18	64	-	-
Bank loans (vi)	4,000	6,344	10,982	11,060
Loans from other entities	-	-	575	649
Transferred receivables (vii)	923	-	-	-
Finance lease liabilities (viii) (note 38)	9	54	5	35
Other [describe]	-	-	-	-
	4,950	6,462	11,562	11,744
	22,446	25,600	32,611	31,478

IFRS 7.7
[IAS 32.60(a)]

(i) Bills of exchange with a variable interest rate were issued in 2000. The current weighted average effective interest rate on the bills is 6.8% per annum (2005: 6.8% per annum)

(ii) Amounts repayable to related parties of the Group. Interest of 8.0% - 8.2% per annum is charged on the outstanding loan balances (2005: 8.0% - 8.2% per annum).

(iii) Fixed rate loans with a finance company with maturity periods not exceeding 3 years (2005: 4 years). The weighted average effective interest rate on the loans is 8.15% per annum (2005: 8.10% per annum). The Group hedges a portion of the loans via an interest rate swap exchanging fixed rate interest for variable rate interest. The outstanding balance is adjusted for fair value movements in the hedged risk, being movements in the inter-bank rate in A Land.

(iv) 3,000,000 7% redeemable cumulative preference shares were issued on 1 June 2006 at an issue price of CU5 per share. The shares are redeemable on 31 May 2009 at CU5 per share.

(v) 2,500 6% perpetual notes were issued on 27 August 2006 at principal value. Issue costs of CU0.595 million were incurred.

(vi) Secured by a mortgage over the Group's freehold land and buildings (see note 27).

(vii) Secured by a charge over certain of the Group's trade receivables (see notes 25 and 27).

(viii) Secured by the assets leased. The borrowings are a mix of variable and fixed interest rate debt with repayment periods not exceeding 5 years. The current weighted average effective interest rate on the bank loans is 8.30% per annum (2005: 8.32% per annum).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

33. Convertible loan notes

IFRS 7.7
[IAS 32.60(a)]
[IAS 32.67]

4.5 million CU denominated convertible loan notes were issued by the Company on 1 September 2006 at an issue price of CU1.10 per note. Each note entitles the holder to convert to one ordinary share at a cost of CU3 per share.

Conversion may occur at any time between 1 July 2010 and 31 August 2010. If the notes have not been converted, they will be redeemed on 1 September 2010 at CU1. Interest of 5.5% will be paid annually up until that settlement date.

The net proceeds received from the issue of the convertible loan notes have been split between the liability element and an equity component, representing the residual attributable to the option to convert the liability into equity of the Group, as follows:

	CU'000
Proceeds of issue	4,950
Equity component (net of deferred tax)	(592)
Deferred tax liability	(242)
Liability component at date of issue	4,116
Interest charged	110
Interest paid	(82)
Liability component at 31 December 2006	4,144

IFRS 7.7
[IAS 32.94(d)]

The interest charged for the year is calculated by applying an effective interest rate of 8% to the liability component for the four month period since the loan notes were issued.

Source | International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

34. Other financial liabilities

	Current		Non-current	
	31/12/06	31/12/05	31/12/06	31/12/05
	CU'000	CU'000	CU'000	CU'000
Financial guarantee contracts	24	18	-	-
Derivatives that are designated and effective as hedging instruments carried at fair value				
Foreign currency forward contracts	75	-	-	-
Interest rate swaps	5	-	-	-
Currency swaps	-	-	-	-
Other [describe]	-	-	-	-
	80	-	-	-
Financial liabilities carried at fair value through profit or loss				
Non derivative financial liabilities designated as at fair value through profit or loss	-	-	-	-
Held for trading derivatives that are not designated in hedge accounting relationships	-	-	-	-
Held for trading non-derivative financial liabilities	-	-	-	-
	-	-	-	-
Other [describe]	-	-	-	-
	104	18	-	-

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 1.74

35. Provisions

	Current		Non-current	
	31/12/06	31/12/05	31/12/06	31/12/05
	CU'000	CU'000	CU'000	CU'000
Employee benefits (i)	583	2,492	676	1,896
Provision for rectification work (ii)	1,940	-	1,118	-
Warranty (iii)	528	295	-	-
Onerous lease contracts (iv)(note 47)	410	460	504	430
Restructuring and termination costs (v)	-	-	-	-
Decommissioning costs (vi)	-	-	-	-
Other [describe]	-	-	-	-
	3,461	3,247	2,298	2,326

Source		Employee benefits	Rectification work	Warranties	Onerous leases	Restructuring/ termination	Decommiss-ioning
		CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
IAS 37.84(a)	Balance at 1 January 2006	4,388	-	295	890	-	-
IAS 37.84(b)	Additional provisions recognised	-	4,170	338	406	-	-
IAS 37.84(c)	Reductions arising from payments/ other sacrifices of future economic benefits	(3,174)	(1,112)	(90)	(310)	-	-
IAS 37.84(d)	Reductions resulting from re-measurement or settlement without cost	-	-	(15)	(100)	-	-
IAS 37.84(e)	Unwinding of discount and effect of changes in the discount rate	-	-	-	28	-	-
	Contingent liability recognised on the acquisition of Subsix Limited (i)	45	-	-	-	-	-
	Other [describe]	-	-	-	-	-	-
IAS 37.84(a)	Balance at 31 December 2006	1,259	3,058	528	914	-	-

IAS 37.85(a),(b) (i) The provision for employee benefits represents annual leave and vested long service leave entitlements accrued and compensation claims made by employees. On the acquisition of Subsix Limited, the Group recognised an additional contingent liability in respect of employees' compensation claims outstanding against that company., which liability was settled in February 2007.

IAS 37.85(a),(b) (ii) The provision for rectification work relates to the estimated cost of work agreed to be carried out for the rectification of goods supplied to one of the Group's major customer (see note 13). Anticipated expenditure for 2007 is CU1.94 million, and for 2008 is CU1.118 million. These amounts have not been discounted for the purpose of measuring the provision for rectification work, because the effect is not material.

IAS 37.85(a),(b) (iii) The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the Group's 12-month warranty program for electronic toys. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

IAS 37.85(a),(b) (iv) The provision for onerous lease contracts represents the present value of the future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements where applicable. The unexpired term of the leases range from 3 to 5 years.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

(v) The provision for restructuring and termination costs represents the present value of the directors' best estimate of the direct costs of the restructuring that are not associated with the ongoing activities of the Group, including termination benefits. The restructuring is expected to be completed by [date].

IAS 37.85(a), (b)

(vi) The provision for decommissioning costs represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required to remove leasehold improvements from leased property. The estimate has been made on the basis of quotes obtained from external contractors. The unexpired term of the leases range from 3 to 5 years.

36. Other liabilities

Source		Current		Non-current	
		31/12/06	31/12/05	31/12/06	31/12/05
		CU'000	CU'000	CU'000	CU'000
	Lease incentives (note 47)	90	90	180	270
IAS 20.39(b)	Deferred government grants	-	--	-	-
	Other [describe]	-	5	-	-
		90	95	180	270

37. Trade and other payables

Source		31/12/2006	31/12/2005
		CU'000	CU'000
	Trade payables	16,276	21,128
IFRS 2.51(b)	Cash-settled share-based payments	-	-
IAS 11.42(b)	Amounts due to customers under construction contracts (note 28)	36	15
	Other [describe]	-	-
		16,312	21,143

Total trade payables 31 December 2006 amounted to CU19.53 million (2005: 21.128 million), comprising the amount presented above (2006: CU16.276 million; 2005: CU21.128 million) and trade payables associated with assets classified as held for sale (2006: CU3.254 million; 2005: nil).

IFRS 7.7
[IAS 32.60(a)]

The average credit period on purchases of certain goods from B Land is 4 months. No interest is charged on the trade payables for the first 60 days from the date of the invoice. Thereafter, interest is charged at 2% per annum on the outstanding balance. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

38. Obligations under finance leases

Leasing arrangements

IAS 17.31(e)
IFRS 7.7
[IAS 32.60(a)]

Finance leases relate to manufacturing equipment with lease terms of 5 years. The Group has options to purchase the equipment for a nominal amount at the conclusion of the lease agreements. The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

Finance lease liabilities

IAS 17.31(b)

	Minimum lease payments		Present value of minimum lease payments	
	31/12/06	31/12/05	31/12/06	31/12/05
	CU'000	CU'000	CU'000	CU'000
No later than 1 year	10	58	9	54
Later than 1 year and not later than 5 years	6	44	5	35
Later than five years	-	-	-	-
	16	102	14	89
Less future finance charges	(2)	(13)	-	-
Present value of minimum lease payments	14	89	14	89
Included in the financial statements as:				
Current borrowings			9	54
Non-current borrowings			5	35
			14	89

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

39. Retirement benefit plans

Defined contribution plans

The Group operates defined contribution retirement benefit plans for all qualifying employees of its subsidiaries in C Land. The assets of the plans are held separately from those of the Group in funds under the control of trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees of the Group's subsidiary in B Land are members of a state-managed retirement benefit plan operated by the government of B Land. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

IAS 19.46

The total expense recognised in the income statement of CU160,000 (2005: CU148,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2006, contributions of CU8,000 (2005: CU8,000) due in respect of the 2006 (2005) reporting period had not been paid over to the plans. The amounts were paid over subsequent to the balance sheet date.

Defined benefit plans

IAS 19.120A(b)

The Group operates funded defined benefit plans for qualifying employees of its subsidiaries in A Land. Under the plans, the employees are entitled to retirement benefits varying between 40% and 45% of final salary on attainment of a retirement age of 65. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2006 by Mr. F.G. Ho, Fellow of the Institute of Actuaries of A Land. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

IAS 19.120A(n)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at	
	31/12/2006	31/12/2005
	%	%
Discount rate(s)	5.52	5.20
Expected return on plan assets	12.08	10.97
Expected rate(s) of salary increase	5.00	5.00
Expected return on reimbursement rights	-	-
Other [describe]	-	-

IAS 19.120A(g)

Amounts recognised in profit or loss in respect of these defined benefit plans are as follows:

	Year ended 31/12/2006	Year ended 31/12/2005
	CU'000	CU'000
Current service cost	463	442
Interest on obligation	164	137
Expected return on plan assets	(276)	(249)
Expected return on reimbursement rights	-	-
Actuarial losses/(gains) recognised in the year	235	226
Past service cost	-	-
Losses/(gains) arising from curtailments or settlements	-	-
Adjustments for restrictions on the defined benefit asset	-	-
Total	586	556

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 19.120A(g)

[The charge for the year is included in the employee benefits expense in the income statement. / Of the charge for the year, CU412,000 (2005: CU402,000) has been included in cost of sales and the remainder in administration expenses.]

IAS 19.120A(f)

The amount included in the balance sheet arising from the entity's obligation in respect of its defined benefit plans is as follows:

Source		31/12/2006 CU'000	31/12/2005 CU'000
IAS 19.120A(d)	Present value of funded defined benefit obligation	5,905	5,808
	Fair value of plan assets	(4,202)	(4,326)
		1,703	1,482
IAS 19.120A(d)	Present value of unfunded defined benefit obligation	-	-
	(Surplus)/deficit	1,703	1,482
	Net actuarial gains and losses not recognised	(873)	(1,098)
	Past service cost not yet recognised	(322)	(32)
	Restrictions on asset recognised	-	-
	Fair value of reimbursement rights recognised as an asset	-	-
	Other [describe]	-	-
	Net liability/(asset) arising from defined benefit obligation	508	352

IAS 19.120A(c)

Movements in the present value of the defined benefit obligations in the current period were as follows:

	2006 CU'000	2005 CU'000
Opening defined benefit obligation	5,808	5,814
Current service cost	463	442
Interest cost	164	137
Contributions from plan participants	-	-
Actuarial losses/(gains)	230	135
Past service cost	-	-
Losses/(gains) on curtailments	-	-
Liabilities extinguished on settlements	-	-
Liabilities assumed in a business combination	-	-
Exchange differences on foreign plans	-	-
Benefits paid	(760)	(720)
Other [describe]	-	-
Closing defined benefit obligation	5,905	5,808

IAS 19.120A(e)

Movements in the present value of the plan assets in the current period were as follows:

	2006 CU'000	2005 CU'000
Opening fair value of plan assets	4,326	4,788
Expected return on plan assets	276	249
Actuarial gains/(losses)	220	(91)
Exchange differences on foreign plans	-	-
Contributions from the employer	140	100
Contributions from plan participants	-	-
Benefits paid	(760)	(720)
Assets acquired in a business combination	-	-
Assets distributed on settlements	-	-
Other [describe]	-	-
Closing fair value of plan assets	4,202	4,326

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 19.120A(j),(l) The major categories of plan assets, and the expected rate of return at the balance sheet date for each category, is as follows:

	Expected return		Fair value of plan assets	
	2006	2005	31/12/2006	31/12/2005
	%	%	CU'000	CU'000
Equity instruments	15.01	12.03	1,026	986
Debt instruments	9.59	7.49	1,980	1,850
Property	12.21	12.76	1,196	1,490
Other [describe]	-	-	-	-
Weighted average expected return	12.08	10.97	4,202	4,326

IAS 19.120A(l) The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The directors' assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

IAS 19.120A(m) The actual return on plan assets was CU0.72 million (2005: CU0.354 million).

IAS 19.120A(k) The plan assets include ordinary shares of International GAAP Holdings Limited with a fair value of CU0.38 million (2005: CU0.252 million) and property occupied by a subsidiary of International GAAP Holdings Limited with a fair value of CU0.622 million (2005: CU0.62 million).

IAS 19.120A(p) The history of experience adjustments is as follows:

	31/12/2006	31/12/2005	31/12/2004
	CU'000	CU'000	CU'000
Present value of defined benefit obligation	5,905	5,808	4,672
Fair value of plan assets	(4,202)	(4,326)	4,672
Deficit	1,703	1,482	272
Experience adjustments on plan liabilities	230	135	210
Experience adjustments on plan assets	220	(91)	156

In accordance with the transitional provisions for the amendments to IAS 19 *Employee Benefits* in December 2004, the disclosures above are determined prospectively from the 2004 reporting period.

IAS 19.120A(q), The Group expects to make a contribution of CU0.44 million (2005: CU0.44 million) to the defined benefit plans during the next financial year.

40. Financial instruments

Note: The following are examples of the types of disclosures that might be required in this area. The matters disclosed will be dictated by the circumstances of the individual entity, and by the significance of judgements and estimates made to the results and financial position.

IAS 1.124A,124B

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 32, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 29, 30 and 31 respectively.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

The Group's risk management committee reviews the capital structure on a semi-annual basis. As a part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The Group's overall strategy remains unchanged from 2005.

IFRS 7.21[IAS 32.60(b)]

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

(c) Categories of financial instruments

Source		31/12/2006 CU'000	31/12/2005 CU'000
	Financial assets		
	Fair value through profit or loss (FVTPL)		
IFRS 7.8(a)	Held for trading	-	-
IFRS 7.8(a)	Designated as at FVTPL (see below)	-	-
	Derivative instruments in designated hedge accounting relationships	528	397
IFRS 7.8(b)	Held-to-maturity investments	6,863	5,262
IFRS 7.8(c)	Loans and receivables (including cash and cash equivalents)	42,326	39,158
IFRS 7.8(d)	Available-for-sale financial assets	8,140	7,858
	Financial liabilities		
	Fair value through profit or loss (FVTPL)		
IFRS 7.8(e)	Held for trading	-	-
IFRS 7.8(e)	Designated as at FVTPL (see below)	-	-
	Derivative instruments in designated hedge accounting relationships	80	-
IFRS 7.8(f)	Amortised cost	71,369	78,221
	Financial guarantee contracts	24	18
	Loans and receivables designated as at FVTPL		
	Carrying amount of loans and receivables designated as at FVTPL	-	-
IFRS 7.9(c) [IAS 32.94(g)]	Cumulative changes in fair value attributable to changes in credit risk	-	-
IFRS 7.9(c) [IAS 32.94(g)]	Changes in fair value attributable to changes in credit risk recognised during the period	-	-

IFRS 7.9(a) [IAS 32.94(g)]

At the reporting date there are no significant concentrations of credit risk. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such loans and receivables.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IFRS 7.9(d) [IAS 32.94(g)]

Credit derivatives over loans and receivables at fair value

	31/12/06 CU'000	31/12/05 CU'000
Opening fair value	-	-
Realised during the period	-	-
Change in fair value	-	-
Closing fair value	-	-

Financial liabilities designated as at FVTPL

		31/12/2006 CU'000	31/12/2005 CU'000
IFRS 7.10(a) [IAS 32.94(h)]	Cumulative changes in fair value attributable to changes in credit risk	-	-
IFRS 7.10(a) [IAS 32.94(h)]	Changes in fair value attributable to changes in credit risk recognised during the period	-	-

IFRS 7.10(b) [IAS 32.94(h)]

Difference between carrying amount and maturity amount

	31/12/2006 CU'000	31/12/2005 CU'000
Financial liabilities at fair value	-	-
Amount payable at maturity	-	-
	-	-

IFRS 7.31 [IAS 32.56, 57]

(d) Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports quarterly to the Group's risk management committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

IFRS 7.33

(e) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see (g) below) and interest rates (see (h) below). The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the export of widgets to B Land and C Land;
- currency swaps to manage the foreign currency risk associated with foreign currency denominated borrowings;
- forward interest rate contracts to manage interest rate risk; and
- interest rate swaps to mitigate the risk of rising interest rates.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Market risk exposures are measured using value-at-risk (VaR), supplemented by sensitivity analysis, and stress scenario analysis.

FRS 7.33(c)

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

IFRS 7.41

(f) VaR analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies employed to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

While VaR captures the Group's exposure under normal market conditions, sensitivity and scenario analysis, and in particular stress testing, is used to add insight to the possible outcomes under abnormal market conditions. The Group assesses various stress scenarios to measure the impact on portfolio values of extreme moves in markets, based on historical experience as well as hypothetical scenarios. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk, and consequently reflects the decline in liquidity that frequently accompanies market shocks.

Historical VaR (99%, one-day) by risk type	Average		Minimum		Maximum		Year end	
	2006 CU'000	2005 CU'000	2006 CU'000	2005 CU'000	2006 CU'000	2005 CU'000	2006 CU'000	2005 CU'000
Foreign exchange	980	1,340	546	943	1,200	1,600	980	1,350
Interest rate	115	60	85	45	150	95	105	55
Diversification	(45)	(40)	-	-	-	-	(55)	(50)
Total VaR exposure	1,050	1,360	-	-	-	-	1,030	1,355

Details of the sensitivity analysis for foreign currency risk and interest rate risk are discussed later in this note.

(g) Foreign currency risk management

IFRS 7.33, 34 [IAS 32.56]

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2006 CU'000	2005 CU'000	2006 CU'000	2005 CU'000
Currency of B Land	8,297	7,469	1,574	1,671
Currency of C Land	186	135	-	-
Other	-	-	-	-

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Foreign currency sensitivity

The Group is mainly exposed to the currency of B Land (Currency B) and the currency of C Land (Currency C).

IFRS 7.40(b)

The following table details the Group's sensitivity to a 10% increase and decrease in the CU against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss and other equity where the CU strengthens against the relevant currency.

Source		Currency B Impact			Currency C Impact		
		2006	2005		2006	2005	
		CU'000	CU'000		CU'000	CU'000	
IFRS 7.40(a)	Profit or loss	834	1,792	(i)	134	257	(iii)
IFRS 7.40(a)	Other equity	962	1,232	(ii)	70	69	(iv)

(i) This is mainly attributable to the exposure outstanding on Currency B receivables and payables at year end in the Group.

(ii) This is mainly as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

(iii) This is mainly attributable to the exposure to outstanding Currency C payables at the year end.

(iv) This is mainly as a result of the changes in fair value of derivative instruments designated as cash flow hedges.

The Group's sensitivity to foreign currency has decreased during the current period mainly due to the disposal of Currency B investments and the reduction in Currency B sales in the last quarter of the financial year which has resulted in lower Currency B denominated trade receivables.

IFRS 7.42

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. Currency B denominated sales are seasonal with lower sales volumes in the last quarter of the financial year, which results in a reduction in Currency B receivables at year end.

Forward foreign exchange contracts

IFRS 7.22, 33, 34 [IAS 32.56, 58, 60(a)]

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 70% to 80% of the exposure generated. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 6 months within 40% to 50% of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

The following table details the forward foreign currency contracts outstanding as at reporting date:

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2006	2005	2006	2005	2006	2005	2006	2005
			FC'000	FC'000	CU'000	CU'000	CU'000	CU'000
Buy Currency B								
Less than 3 months	0.770	0.768	2,493	2,010	3,238	2,617	152	110
3 to 6 months	0.768	0.750	1,974	1,958	2,570	2,611	92	34
Sell Currency B								
Less than 3 months	0.780	0.769	982	1,028	1,259	1,337	(70)	26
Buy Currency C								
Less than 3 months	86.29	85.53	12,850	20,000	149	234	(5)	50
							169	220

IFRS 7.34(a)

Note: The table above provides an example of summary quantitative data about exposure to foreign exchange risks at the reporting date that an entity may provide internally to key management personnel.

The Group has entered into contracts to supply widgets to customers in B Land. The Group has entered into forward foreign exchange contracts (for terms not exceeding 3 months) to hedge the exchange rate risk arising from these anticipated future transactions, which are designated as cash flow hedges.

IFRS 7.23(a) [IAS 32.58(d)]

As at 31 December 2006, the aggregate amount of unrealised losses under forward foreign exchange contracts deferred in the hedging reserve relating to the exposure on these anticipated future transactions is CU70,000 (2005: unrealised gains of CU26,000). It is anticipated that the sales will take place during the first 3 months of the next financial year at which stage the amount deferred in equity will be released into profit or loss.

The Group has entered into contracts to purchase raw materials from suppliers in B Land and C Land. The Group has entered into forward foreign exchange contracts (for terms not exceeding 6 months) to hedge the exchange rate risk arising from these anticipated future purchases, which are designated into cash flow hedges

IFRS 7.23(a) [IAS 32.58(d)]

As at 31 December 2006, the aggregate amount of unrealised gains under forward foreign exchange contracts deferred in the hedging reserve relating to these anticipated future transactions is CU239,000 (2005: unrealised gains of CU194,000). It is anticipated that the purchases will take place during the first 6 months of the next financial year at which stage the amount deferred in equity will be included in the carrying amount of the raw materials. It is anticipated that the raw materials will be converted into inventory and sold within 12 months after purchase at which stage the amount deferred in equity will impact profit or loss.

IFRS 7.23(a) [IAS 32.58(d)]

At the start of the third quarter, the Group reduced its forecasts on sales of widgets to B Land due to increased local competition and higher shipping costs. The Group had previously hedged CU1.079 million of future sales of which CU97,000 are no longer expected to occur, and CU982,000 remain highly probable. Accordingly, the Group has recycled CU3,000 of gains on foreign currency forward contracts relating to forecast transactions that are no longer expected to occur from the hedging reserve into profit or loss.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IFRS 7.33, 34 [IAS 32.56, 58, 60(a)]

(h) Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

IFRS 7.40(b) The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

IFRS 7.40(a) If interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2006 would increase/decrease by CU93,000 (2005: decrease/increase by CU43,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings; and
- other equity reserves would increase/decrease by CU19,000 (2005: decrease/increase by CU12,000) mainly as a result of the changes in the fair value of available-for-sale fixed rate instruments.

The Group's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate debt instruments and the increase in interest rate swaps.

Interest rate swap contracts

IFRS 7.22, 33, 34 [IAS 32.58, 60(a)] Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Outstanding floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2006	2005	2006	2005	2006	2005
	%	%	CU'000	CU'000	CU'000	CU'000
Less than 1 year	7.45	6.75	1,000	4,000	72	37
1 to 2 years	7.15	7.05	2,000	1,620	55	47
2 to 5 years	6.75	6.50	3,000	1,359	130	93
5 years +	7.05	7.15	1,000	-	27	-
			7,000	6,979	284	177

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

FRS 7.34(a)

Note: The table above provides an example of summary quantitative data about exposure to interest rate risks at the reporting date that an entity may provide internally to key management personnel.

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the local interbank rate of A Land. The Group will settle the difference between the fixed and floating interest rate on a net basis.

IFRS 7.22, 23(a)

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the loan period.

Outstanding fixed for floating contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2006	2005	2006	2005	2006	2005
	%	%	CU'000	CU'000	CU'000	CU'000
Less than 1 year	8.15	-	3,701	-	(5)	-
[describe]	-	-	-	-	-	-
			3,701	-	(5)	-

IFRS 7.34(a)

Note: The table above provides an example of summary quantitative data about exposure to interest rate risks at the reporting date that an entity may provide internally to key management personnel.

IFRS 7.39(a)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the local interbank rate of A Land. The Group will settle the difference between the fixed and floating interest rate on a net basis.

IFRS 7.24(a)

Interest rate swap contracts exchanging fixed rate interest for floating rate interest are designated and effective as fair value hedges in respect of interest rates. During the period, the hedge was 100% percent effective in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the loan was adjusted by CU5,000 which was included in profit or loss at the same time that the fair value of the interest rate swap was included in profit or loss.

(i) Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity

IFRS 7.40(b)

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

IFRS 7.40(a)

If the inputs to the valuation model had been 10% higher/lower while all other variables were held constant:

- net profit for the year ended 31 December 2006 would have been unaffected as the equity investments are classified as available-for-sale and no investments were disposed of or impaired; and
- other equity reserves would decrease/increase by CU7,000 (2005: decrease/increase by CU8,000) for the Group, principally as a result of the changes in fair value of available-for-sale shares.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IFRS 7.36, appB9 [IAS 32.56,57,76]

(j) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, grossed up for any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

Financial assets and other credit exposures	**Maximum credit risk**	
	2006	**2005**
	CU'000	**CU'000**
Guarantee provided by a subsidiary to secure financing for a sister company controlled by the Group's overseas parent	18,000	15,000
Guarantee provided to bank on a jointly controlled entity's loan	-	-
Other [describe]	-	-

(k) Liquidity risk management

IFRS 7.33, 39(b) [IAS 32.56]

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 46 is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

<u>Liquidity and interest risk tables</u>

IFRS 7.34, 35, 39(a) [IAS 32.67, 71, 74]

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the balance sheet.

IFRS 7.34(a)

Note: The tables below includes the weighted average effective interest rate and a reconciliation to the carrying amount in the balance sheet as an <u>example</u> of summary quantitative data about exposure to interest rates at the reporting date that an entity may provide internally to key management personnel.

Source | International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Adjust-ment	Total
	%	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
2006								
Non-interest bearing	-	12,081	9,209	3,917	-	-	-	25,207
Finance lease liability	7.00	1	2	7	6	-	(2)	14
Variable interest rate instruments	8.18	893	339	3,136	6,890	-	(445)	10,813
Fixed interest rate instruments	7.56	1,735	4,825	12,389	30,035	2,898	(6,738)	45,144
Financial guarantee contracts	-	18,000	-	-	-	-	(17,976)	24
		32,710	14,375	19,449	36,931	2,898	(25,161)	81,202
2005								
Non-interest bearing	-	11,181	11,622	4,560	-	-	-	27,363
Finance lease liability	7.00	5	10	43	44	-	(13)	89
Variable interest rate instruments	8.08	7,701	1,409	7,045	24,921	-	(5,679)	35,397
Fixed interest rate instruments	8.03	1,554	3,129	7,238	15,945	-	(5,384)	22,482
Financial guarantee contracts	-	15,000	-	-	-	-	(14,982)	18
		35,441	16,170	18,886	40,910	-	(26,058)	85,349

IFRS 7.34, 35 [IAS 32.67, 71, 74]

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial asset on the balance sheet.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Adjust-ment	Total
	%	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
2006								
Non-interest bearing	-	11,216	9,426	941	-	-	-	21,583
Variable interest rate instruments	5.75	20,979	1,367	3,944	2,448	-	(784)	27,954
Fixed interest rate instruments	7.38	42	85	2,815	2,681	-	(503)	5,120
		32,237	10,878	7,700	5,129	-	(1,287)	54,657
2005								
Non-interest bearing	-	8,493	8,516	248	-	-	-	17,257
Variable interest rate instruments	4.83	20,418	1,125	5,204	1,911	-	(530)	28,128
Fixed interest rate instruments	7.00	-	-	-	2,600	-	(478)	2,122
		28,911	9,641	5,452	4,511	-	(1,008)	47,507

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IFRS 7.34, 35 [IAS 32.67, 71, 74]

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	Less than 1 month CU'000	1-3 months CU'000	3 months to 1 year CU'000	1-5 years CU'000	5+ years CU'000
2006					
Net settled:					
Interest rate swaps	11	50	205	302	121
Foreign exchange forward contracts	(5)	(21)	13	-	-
Gross settled:					
Foreign exchange forward contracts	12	35	-	-	-
Currency swaps	20	72	40	-	-
	38	136	258	302	121
2005					
Net settled:					
Interest rate swaps	7	18	22	160	82
Foreign exchange forward contracts	10	15	9	-	-
Gross settled:					
Foreign exchange forward contracts	65	132	21	-	-
Currency swaps	12	20	6	-	-
	94	185	58	160	82

(l) Fair value of financial instruments

IFRS 7.27 [IAS 32.92(a), (b)]

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

IFRS 7.27 [IAS 32.92(c)]

The financial statements include holdings in unlisted shares which are measured at fair value (note 22). Fair value is estimated using a discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates. In determining the fair value, an earnings growth factor of 5.2% (2005: 4.9%) and a risk adjusted discount factor of 12.2% (2005: 11.9%) are used.

Included in (i) above is a sensitivity analysis of the valuation to changes in key inputs to the model. Changes in these assumptions do not significantly change the fair value recognised.

Source | International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IFRS 7.25, 29(a [IAS 32.86]

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
	CU'000	CU'000	CU'000	CU'000
Financial assets				
Loans and receivables:				
[Describe]	-	-	-	-
Held-to-maturity investments:				
Bills of exchange	6,363	6,370	5,262	5,263
Debentures	500	502	-	-
Financial liabilities				
Borrowings:				
Bills of exchange	358	360	916	920
Redeemable cumulative preference shares	15,000	14,950	-	-
Convertible notes	4,144	4,150	-	-
Perpetual notes	1,905	2,500	-	-

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IFRS 2.44

41. Share-based payments

Employee share option plan

IFRS 2.45(a)

The Group has an ownership-based compensation scheme for executives and senior employees of the Group. In accordance with the provisions of the plan, as approved by shareholders at a previous annual general meeting, executives and senior employees with more than five years service with the Group may be granted options to purchase ordinary shares at an exercise price of CU1.00 per ordinary share.

Each employee share option converts into one ordinary share of International GAAP Holdings Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is calculated in accordance with the performance based formula approved by shareholders at a previous annual general meeting and is subject to approval by the Remuneration Committee. The formula rewards executives and senior employees against the extent of the Group's and individual's achievement against both qualitative and quantitative criteria from the following financial and customer service measures:

- improvement in share price
- improvement in net profit
- improvement in return to shareholders
- reduction in warranty claims
- results of client satisfaction surveys
- reduction in rate of staff turnover

The options granted expire within twelve months of their issue, or one month of the resignation of the executive or senior employee, whichever is the earlier.

IFRS 2.45(a)

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Options series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
				CU	CU
(1) Issued 31 March 2005 (*)	140,000	31/03/05	31/03/06	1.00	1.15
(2) Issued 30 September 2005 (*)	150,000	30/09/05	29/09/06	1.00	1.18
(3) Issued 31 March 2006 (*)	160,000	31/03/06	30/03/07	1.00	1.20
(4) Issued 29 September 2006 (**)	60,000	29/09/06	28/09/07	1.00	1.05

(*) In accordance with the terms of the share-based arrangement, options issued during the financial year ended 31 December 2005, and on 31 March 2006, vest at the date of their issue.

(**) In accordance with the terms of the share-based arrangement, options issued on 29 September 2006 will vest when the share price of International Group Holdings Limited, as quoted on the A Land Stock Exchange, exceeds CU4.

IFRS 2.46, 47(a)

The weighted average fair value of the share options granted during the financial year is CU1.16 (2005: CU1.17). Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past 5 years. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price was two and a half times the exercise price.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Inputs into the model	Option series			
	Series 1	Series 2	Series 3	Series 4
Grant date share price	2.64	2.67	2.69	2.53
Exercise price	1.00	1.00	1.00	1.00
Expected volatility	15.20%	15.40%	13.10%	13.50%
Option life	1 year	1 year	1 year	1 year
Dividend yield	13.27%	13.12%	13.00%	13.81%
Risk-free interest rate	5.13%	5.14%	5.50%	5.45%
Other [describe]	-	-	-	-

IFRS 2.45(b)

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the financial year:

	2006		2005	
	Number of options	Weighted average exercise price CU	Number of options	Weighted average exercise price CU
Balance at beginning of the financial year	290,000	1.00	-	-
Granted during the financial year	220,000	1.00	290,000	1.00
Forfeited during the financial year	-	-	-	-
Exercised during the financial year	(314,000)	1.00	-	-
Expired during the financial year	-	-	-	-
Balance at end of the financial year	196,000	1.00	290,000	1.00
Exercisable at end of the financial year	136,000	1.00	290,000	1.00

Exercised during the financial year

IFRS 2.45(c)

The following share options granted under the employee share option plan were exercised during the financial year:

2006 Options series	Number exercised	Exercise date	Share price at exercise date CU
(1) Issued 31 March 2005	30,000	05/01/06	2.50
(1) Issued 31 March 2005	45,000	31/01/06	2.25
(1) Issued 31 March 2005	65,000	15/03/06	2.75
(2) Issued 30 September 2005	65,000	03/07/06	2.95
(2) Issued 30 September 2005	85,000	28/08/06	3.15
(3) Issued 31 March 2006	24,000	20/12/06	3.50
	314,000		

2005 Options series	Number exercised	Exercise date	Share price at exercise date CU
[describe option series]	-	-	-

Balance at end of the financial year

IFRS 2.45(d)

The share options outstanding at the end of the financial year had an exercise price of CU1.00 (2005: CU1.00), and a weighted average remaining contractual life of 145 days (2005: 184 days).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

42. Related party transactions

IAS 24.12
AS 1.126(c)

The immediate parent and ultimate controlling party respectively of the Group are X Holdings Limited (incorporated in M Land) and Y Holdings Limited (incorporated in N Land).

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Trading transactions

IAS 24.17,18

During the year, group entities entered into the following trading transactions with related parties that are not members of the Group:

	Sales of goods		Purchases of goods		Amounts owed by related parties		Amounts owed to related parties	
	Year ended 31/12/06	Year ended 31/12/05	Year ended 31/12/06	Year ended 31/12/05	31/12/06	31/12/05	31/12/06	31/12/05
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
X Holdings Limited	693	582	439	427	209	197	231	139
Subsidiaries of Y Holdings Limited	1,289	981	897	883	398	293	149	78
Associates	398	291	-	-	29	142	-	-

IAS 24.21

Sales of goods to related parties were made at the Group's usual list prices, less average discounts of 5%. Purchases were made at market price discounted to reflect the quantity of goods purchased and the relationships between the parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Loans to related parties

	31/12/06	31/12/05
	CU'000	CU'000
Loans to key management personnel	656	107
Loans to a joint venture entity	2,981	2,981
	3,637	3,088

The Group has provided several of its key management personnel and a joint venture entity with short-term loans at rates comparable to the average commercial rate of interest.

Compensation of key management personnel

IAS 24.16

The remuneration of directors and other members of key management during the year was as follows:

	Year ended 31/12/06	Year ended 31/12/05
	CU'000	CU'000
Short-term benefits	13,681	10,270
Post-employment benefits	1,602	1,391
Other long-term benefits	1,153	1,769
Share-based payments	949	863
	17,385	14,293

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Other related party transactions

IAS 24.17,18

In addition to the above, X Holdings Limited performed certain administrative services for the Company, for which a management fee of CU0.18 million (2004: CU0.16 million) was charged and paid, being an appropriate allocation of costs incurred by relevant administrative departments.

43. Acquisition of subsidiaries

IFRS 3.67(a) to (d)

Subsidiaries acquired	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition
			(%)	CU'000
2006				
Subsix Limited	Financial	15/06/06	100	430
Subseven Limited	Distribution	30/11/06	100	792
				1,222
2005				
[describe]				-
				-

IFRS 3.67(f)
IAS 7.40(a),(c),(d)

Net assets acquired	Subsix Limited Book value	Subsix Limited Fair value adjust-ment	Subsix Limited Fair value on acquisi-tion	Subseven Limited Book value	Subseven Limited Fair value adjust-ment	Subseven Limited Fair value on acquisi-tion	Total fair value on acquisition
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
Current assets:							
Cash & cash equivalents	200	-	200	-	-	-	200
Trade & other receivables	87	-	87	105	-	105	192
Inventories	-	-	-	62	(5)	57	57
Non-current assets:							
In-process R&D	-	-	-	-	-	-	-
Plant & equipment	50	35	85	312	57	369	454
Current liabilities:							
Trade & other payables	(23)	-	(23)	(35)	-	(35)	(58)
Non-current liabilities:							
Deferred tax liabilities	(2)	(11)	(13)	-	-	-	(13)
Contingent liabilities	-	(45)	(45)	-	-	-	(45)
	312	(21)	291	444	52	496	787
Goodwill on acquisition							435
							1,222

IFRS 3.69

The initial accounting for the acquisition of Subsix Limited has only been provisionally determined at the balance sheet date. Subsix Limited became wholly owned on acquisition. For tax purposes, the tax values of Subsix's assets are required to be reset based on market values and other factors. At the date of finalisation of these financial statements, the necessary market valuations and other calculations had not been finalised and the adjustment to deferred tax liabilities and goodwill noted above has therefore only been provisionally determined based on the directors' best estimate of the likely tax values. The market valuations obtained for tax purposes may also impact the recognised fair values of the other assets acquired as part of the business combination.

IFRS 3.67(d),(h), IAS 7.40(b)

The cost of acquisition of Subsix Limited was paid in cash. The costs of acquisition of Subseven Limited comprised cash of CU392,000 and land and buildings with an aggregate fair value of CU400,000. In each acquisition, the Group has paid a premium for the acquiree as it believes the acquisitions will create synergistic benefits to its existing operations.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

Net cash inflow on acquisition

Source		Year ended 31/12/06	Year ended 31/12/05
IAS 7.40(a)	Total purchase consideration	1,222	-
	Less: non-cash consideration for Subseven Limited	(400)	-
IAS 7.40(b)	Consideration paid in cash	822	-
IAS 7.40(c)	Less: cash and cash equivalent balances acquired	(200)	-
		622	-

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire Subsix Limited. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Subsix Limited. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

The Group also acquired the customer lists and customer relationships of Subseven Limited as part of the acquisition. These assets could not be reliably measured and separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

IFRS 3.67(i)

Included in the net profit for the period is CU35,000 attributable to the additional business generated by Subsix Limited, and CU13,000 attributable to the purchase of Subseven Limited.

FRS 3.70

Had these business combinations been effected at 1 January 2006, the revenue of the Group would be CU163.5 million, and net profit CU32.436 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

In determining the ‘pro-forma’ revenue and profit of the Group had Subsix Limited and Subseven Limited been acquired at the beginning of the current reporting period, the directors have:

- calculated depreciation and amortisation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements
- based borrowing costs on the funding levels, credit ratings and debt/equity position of the Group after the business combination
- excluded takeover defence costs of the acquiree as a one-off pre-acquisition transaction.

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

44. Disposal of business

During the financial year, the Group disposed of its bicycle business. Details of the disposal are as follows:

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
IAS 7.40(d)	***Book value of net assets sold***		
	Current assets		
	Cash and cash equivalents	288	-
	Trade receivables	1,034	-
	Inventories	2,716	-
	Non-current assets		
	Property, plant and equipment	5,662	-
	Goodwill on consolidation	3,080	-
	Current liabilities		
	Payables	(918)	-
	Non-current liabilities		
	Borrowings	(4,342)	-
	Deferred tax liabilities	(526)	-
	Net assets disposed of	6,994	-
	Minority interest	-	-
	Gain on disposal	1,820	-
		8,814	-
IAS 7.40(a)	***Consideration***		
IAS 7.40(b)	Consideration paid in cash and cash equivalents	7,854	-
	Deferred sales proceeds (note 25)	960	-
		8,814	-
	Net cash inflow on disposal		
	Consideration paid in cash and cash equivalents	7,854	-
IAS 7.40(c)	Less cash and cash equivalent balances disposed of	(288)	-
		7,566	-

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

45. Cash and cash equivalents

IAS 7.45

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement can be reconciled to the related items in the balance sheet as follows:

	31/12/2006 CU'000	31/12/2005 CU'000
Cash and bank balances	20,199	19,778
Bank overdraft	(538)	(378)
	19,661	19,400
Cash and cash equivalents included in a disposal group held for sale (note 12)	175	-
	19,836	19,400

IAS 7.43

46. Non cash transactions and financing facilities

Non cash investing and financing transactions

During the 2006 financial year, the Group disposed of property, plant and equipment with an aggregate fair value of CU0.4 million to acquire the business indicated in note 44. This disposal is not reflected in the cash flow statement.

In addition, share issue proceeds of CU8,000 were received in the form of consulting services.

During the 2005 financial year, the Group acquired CU40,000 of equipment under a finance lease. This acquisition will be reflected in the cash flow statement over the term of the finance lease via lease repayments.

Financing facilities

IAS 7.50

	31/12/2006 CU'000	31/12/2005 CU'000
Unsecured bank overdraft facility, reviewed annually and payable at call:		
• amount used	520	314
• amount unused	1,540	2,686
	2,060	3,000
Unsecured bill acceptance facility, reviewed annually:		
• amount used	358	916
• amount unused	1,142	1,184
	1,500	2,100
Secured bank overdraft facility		
• amount used	18	64
• amount unused	982	936
	1,000	1,000
Secured bank loan facilities with various maturity dates through to 2009 and which may be extended by mutual agreement:		
• amount used	15,905	17,404
• amount unused	5,604	7,811
	21,509	25,215

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

47. Operating lease arrangements

The Group as lessee

Leasing arrangements

IAS 17.35(d)
IFRS 7.7
[IAS 32.60(a)]

Operating leases relate to warehouse facilities with lease terms of between 3 to 7 years, with an option to extend for a further 3 years. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

Payments recognised as an expense

Source		Year ended 31/12/06 CU'000	Year ended 31/12/05 CU'000
IAS 17.35(c)	Minimum lease payments	2,008	2,092
IAS 17.35(c)	Contingent rentals	-	-
IAS 17.35(c)	Sub-lease payments received	-	-
		2,008	2,092

IAS 17.35(a) Non-cancellable operating lease commitments

	31/12/06 CU'000	31/12/05 CU'000
Not longer than 1 year	1,734	1,908
Longer than 1 year and not longer than 5 years	3,568	4,336
Longer than 5 years	1,618	2,526
	6,920	8,770

In respect of non-cancellable operating leases the following liabilities have been recognised:

	2006 CU'000	2005 CU'000
Onerous lease contracts (note 35)		
Current	410	460
Non-current	504	430
Lease incentives (note 36)		
Current	90	90
Non-current	180	270
	1,184	1,250

The Group as lessor

Leasing arrangements

IAS 17.56(c)

Operating leases relate to the investment property owned by the Group with lease terms of between 5 to 10 years, with an option to extend for a further 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

IAS 40.75(f)

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounts to CU18,000 (2005: CU14,000). Direct operating expenses arising on the investment property in the period amounted to CU4,000 (2005: CU3,000).

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

IAS 17.56(a) Non-cancellable operating lease receivables

	31/12/06 CU'000	31/12/05 CU'000
Not longer than 1 year	18	18
Longer than 1 year and not longer than 5 years	54	72
Longer than 5 years	-	-
	72	90

48. Commitments for expenditure

Source		31/12/06 CU'000	31/12/05 CU'000
IAS 16.74(c)	Commitments for the acquisition of property, plant and equipment	4,856	6,010

IAS 40.75(h) In addition, the Group has entered into a contract for the management and maintenance of its investment property for the next 5 years, which will give rise to an annual charge of CU3,500.

IAS 31.55 The Group's share of the capital commitments of its jointly controlled entity, JV Electronics Limited, is as follows:

	31/12/06 CU'000	31/12/05 CU'000
Commitments for the acquisition of property, plant and equipment	983	192

Source	International GAAP Holdings Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 – continued

49. Contingent liabilities and contingent assets

Source		31/12/06 CU'000	31/12/05 CU'000
	Contingent liabilities		
IAS 37.86(a)	Court proceedings (i)	-	-
IAS 31.54(a)	Contingent liabilities incurred by the Group arising from interests in joint ventures (ii)	110	116
IAS 28.40(a)	Consolidated entity's share of associates' contingent liabilities (iii)	150	14
	Contingent assets		
IAS 37.89	Faulty goods claim (iv)	140	-

IAS 37.86(b)

(i) An entity in the Group is a defendant in a legal action involving the alleged failure of the entity to supply goods in accordance with the terms of contract. The directors believe, based on legal advice, that the action can be successfully defended and therefore no losses (including for costs) will be incurred. The legal claim is expected to be settled in the course of the next eighteen months.

(ii) A number of contingent liabilities have arisen as a result of the Group's interest in joint ventures. The amount disclosed represents the aggregate amount of such contingent liabilities for which the Group as an investor is liable. The extent to which an outflow of funds will be required is dependent on the future operations of the joint ventures being more or less favourable than currently expected. The Group is not contingently liable for the liabilities of other venturers in its joint ventures.

(iii) The Group's share of contingent liabilities of associates. The extent to which an outflow of funds will be required is dependent on the future operations of the associates being more or less favourable than currently expected.

(iv) A company in the Group has a claim outstanding against a supplier for the supply of faulty products. Based on negotiations to date the directors believe that it is probable that their claim will be successful and that compensation of CU0.14 million will be recovered.

50. Events after the balance sheet date

IAS 10.21

On 18 January 2007, the premises of Subfive Limited were seriously damaged by fire. Insurance claims are in process, but the cost of refurbishment is currently expected to exceed the amount that will be reimbursed by CU8.3 million.

51. Approval of financial statements

IAS 10.17

The financial statements were approved by the board of directors and authorised for issue on 15 March 2007.

ISA 700 (Revised) – Global Version
INDEPENDENT AUDITOR'S REPORT

(APPROPRIATE ADDRESSEE)

Report on the financial statements

We have audited the accompanying financial statements of International GAAP Holdings Limited, which comprise of the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and 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 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 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of International GAAP Holdings Limited 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.

Deloitte Touche Tohmatsu
15 March 2007

Note: *The audit of the financial statements may be conducted in accordance with International Standards on Auditing (ISA) and/or applicable local auditing standards, making reference to local laws, auditing standards or regulations. The format of the report above is as specified by ISA 700 (Revised), The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements (effective for auditor's reports dated on or after 31 December 2006).*

When local auditing standards or regulations apply, the report format will be impacted by those local rules. For example, for the European Union (EU), there is a special requirement under the current 4th Directive to refer to the applicable financial reporting framework in the introduction paragraph. Further, EU listed entities are required to prepare their consolidated financial statements from 2005 onwards on the basis of " International Financial Reporting Standards as adopted by the EU". This affects both the accounting policies and the auditor's report as regards their reference to the applicable financial reporting framework.