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**IFRS ILLUSTRATIVE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

ILLUSTRATIVE IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008



IFRS ILLUSTRATIVE CONSOLIDATED FINANCIAL STATEMENTS

RSM International Limited has prepared a model set of consolidated financial statements for a fictitious company called IFRS Statements Limited which, for the purpose of the exercise, is described as a company listed in Big City Stock Exchange and incorporated and domiciled in a fictitious country, Newland. No such company or jurisdiction exists and any Member Firm must ensure that any advice provided to its client complies with its local laws as well as all relevant International Financial Reporting Standards (“IFRS”).

In addition, it should be noted that this company operates in a fictitious environment which does not replicate the economic environment that characterised the year 2008, let alone the financial crises that has severely affected the world economy during 2008. Hence, the preparation of IFRS financial statements in the 2008 peculiar economic environment might require specific considerations and disclosures that have not been contemplated while designing these illustrative financial statements.

The consolidated financial statements assume that IFRS Statements Limited is an existing IFRS preparer and is trading internationally as well as in its own country of incorporation and actively expanding.

The IFRS consolidated financial statements have been prepared according to all relevant IFRS and interpretations in force as at 31 December 2008.

Whilst the model financial statements illustrate many presentation and disclosure requirements for the consolidated financial statements of the fictitious group of companies that report under International Financial Reporting Standards, the financial statements do not purport to be all inclusive. No single set of example financial statements can illustrate all possible presentations or required disclosures. Common additional and alternative disclosures are illustrated in the appendices. In practice many entities will have followed special transitional rules that depended on when individual new standards were adopted or IFRSs were applied for the first time. The model financial statements represent one form of presentation. Alternative presentations of IFRS may be appropriate and acceptable.

The preparation of financial statements complying with IFRS is the responsibility of the management of the relevant entity and accordingly the model financial statements provided cannot be taken as a definitive reference and do not replace the need for professional judgment having regard to relevant standards and other requirements and all the relevant circumstances relating to the issue under review. For the avoidance of doubt they are not based on any actual legal framework in any one or more jurisdiction.

Although the model consolidated financial statements have been prepared by RSM International Limited the views expressed are the consolidated views of RSM IFRS Champions for illustrative purposes only and not those of any Member Firm of RSM International Limited itself.

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THE RSM IFRS CHAMPIONS GROUP

These model consolidated financial statements have been prepared by the RSM International central IFRS technical team and have been reviewed by RSM IFRS Champions from member firms all over the world.

In order to provide technical excellence to its member firms, RSM International has created a team of fully dedicated IFRS experts to support RSM member firms with regard to technical IFRS assistance.

Over the years, the International Centre of Excellence has developed and now includes many IFRS experts drawn from member firms around the globe. They meet regularly to discuss leading edge developments on IFRS and to share experiences arising from their IFRS work.

Meet your local RSM member firm to learn more about the RSM IFRS Champions Group. The brochure "Your partner in understanding the business implications of IFRS" highlights the expertise within the RSM network on International Financial Reporting Standards. Copies of this brochure and soft copies of the IFRS Illustrative Consolidated Account can be requested from the RSM International Executive Office in London.



IFRS TECHNICAL PUBLICATIONS ISSUED BY RSM INTERNATIONAL



Your partner in understanding the business implications of IFRS



Designing share-based payment schemes - accounting and business considerations



The new approach to business combination introduced by the revised IFRS 3 and the revised IAS 27



IFRS DVD - Use of an expert



Exposure Draft on IFRS for SMEs: Is this the right answer?



Accounting and Presentation Alternative Options Available Under IFRS



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IFRS ILLUSTRATIVE CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2008

IFRS STATEMENTS LIMITED

Registered Office

Tower Block

Main Street

Big City

Republic of Newland

Domiciled in Newland



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KEY TO DISCLOSURE REFERENCES

AMpX	Paragraph X of International Accounting Standard M
FNpY	Paragraph Y of International Financial Reporting Standard N
Appx	Appendix of the IFRS/IAS concerned
IGX	Implementation guidance number X of IFRS/IAS concerned
AGX	Application Guidance number X of IAS 39 - Financial Instruments: Recognition and Measurement
IEX	Illustrative example number X of IFRS/IAS concerned
IFRICX	International Financial Reporting Interpretations Committee number X
SICX	Standing Interpretations Committee number X

Italics are used in references where IASB merely encourages or recommends the disclosures

These consolidated financial statements are presented in CU, which represents the functional currency of the Group

Unless otherwise stated, all amounts are expressed in thousands of CU

Decimal symbol is dot (".") and digit-grouping symbol is comma (",")

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of IFRS Statements Limited, which comprise the balance sheet as at December 31, 2008, 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 Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of [or "present fairly, in all material respects,"] the financial position of IFRS Statements Limited as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTES	2008 CU'000	2007 CU'000	
CONTINUING OPERATIONS				
A1p81(a)	REVENUE	3	22,803	15,160
A1p92	Cost of sales	4	(18,697)	(11,720)
A1p92	GROSS PROFIT		4,106	3,440
A1p92	Distribution costs	4	(889)	(747)
A1p92	Administrative expenses	4	(1,222)	(1,015)
A1p92	Other operating expenses	4	(42)	(130)
A1p81(b)	Finance costs	5	(91)	(95)
A1p81(c)	Share of the profit or loss of associates	13	140	300
F7p20, A1p83	Gain on sale of financial assets	6	63	18
A1p83	PROFIT BEFORE TAX		2,065	1,771
A1p81(d), A12p77	Income tax expense	7	(682)	(562)
F5pE11	PROFIT FOR THE YEAR: CONTINUING OPERATIONS		1,383	1,209
DISCONTINUED OPERATIONS				
F5p33(a), E11	LOSS FOR THE YEAR: DISCONTINUED OPERATIONS	21	(110)	(226)
A1p81(f), (e)	PROFIT FOR THE YEAR		1,273	983
Attributable to:				
A1p82(b)	Equity holders of the parent		1,168	931
A1p82(a), A27p33	Minority interest		105	52
			1,273	983
EARNINGS PER SHARE				
			Cents	Cents
BASIC				
A33p66	Continuing operations	8	3.14	3.53
A33p68	Discontinued operations		(0.27)	(0.69)
A33p66	TOTAL		2.87	2.84
DILUTED				
A33p66	Continuing operations		3.08	3.30
A33p68	Discontinued operations		(0.26)	(0.65)
A33p66	TOTAL		2.82	2.65
A1p95	DIVIDENDS PAID PER EQUITY SHARE	9	1.29	1.45

IFRS STATEMENTS LIMITED

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 2008

			2008	2007
	NOTES		CU'000	CU'000
ASSETS				
NON-CURRENT ASSETS				
A1p68	Property, plant and equipment	10	5,800	5,520
A1p69	Goodwill	11	1,329	605
A1p68	Other intangible assets	12	2,414	803
A1p68	Investments in associates	13	281	249
A1p68	Available for sale financial assets	15	274	269
A1p68	Deferred tax assets	28	243	140
			10,341	7,586
CURRENT ASSETS				
A1p68	Inventories	18	2,623	1,995
A1p68	Trade and other receivables	19	2,586	1,517
A1p68	Cash and cash equivalents	20	622	360
			5,831	3,872
F5p38	Non-current assets classified as held for sale	21	1,016	-
			6,847	3,872
TOTAL ASSETS			17,188	11,458
EQUITY AND LIABILITIES				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
A1p75(e)	Capital	31	2,596	1,870
A1p75(e)	Other reserves	32	1,525	295
A1p75(e)	Retained earnings		5,819	5,151
			9,940	7,316
A1p68	MINORITY INTEREST		306	35
TOTAL EQUITY			10,246	7,351
LIABILITIES				
NON-CURRENT LIABILITIES				
A1p68	Long-term borrowings	22	2,182	823
A1p68	Derivative financial instruments	23	17	10
A1p68	Trade and other payables	24	195	161
A1p74(d)	Long-term retirement benefit obligations	26	466	250
A1p68	Deferred tax liabilities	28	780	297
A1p68	Long-term provisions	29	92	38
A1p68	Other non-current liabilities	30	60	156
			3,792	1,735
CURRENT LIABILITIES				
A1p68	Short-term borrowings	22	964	748
A1p68	Derivative financial instruments	23	186	103
A1p68	Trade and other payables	24	1,017	1,045
A1p74(d)	Short-term retirement benefit obligations	26	9	42
A1p68	Current tax payable	7	523	415
A1p68	Short-term provisions	29	151	19
			2,850	2,372
F5p38	Liabilities directly associated with non-current assets classified as held for sale	21	300	-
			3,150	2,372
TOTAL LIABILITIES			6,942	4,107
TOTAL LIABILITIES AND EQUITY			17,188	11,458

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

		CAPITAL	OTHER	RETAINED	PARENT	MINORITY	TOTAL	
		CU'000	RESERVES	EARNINGS	SUB-TOTAL	INTEREST	EQUITY	
		CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	
	AT 1 JANUARY 2007	1,810	64	4,690	6,564	41	6,605	
A1p96(a)	PROFIT OR LOSS FOR 2007	-	-	931	931	52	983	
	INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY							
A1p96(b)	Exchange translation differences	32	-	62	-	62	(8)	54
	Transfer on sale of investments	6	-	(12)	-	(12)	-	(12)
A1p96(b)	Gains on available for sale instruments	6	-	8	-	8	-	8
A1p96(b)	Cash flow hedges	23	-	40	-	40	-	40
A1p96(b)	Net investment hedge	23	-	53	-	53	-	53
A1p96(b)	Share-based payments: service provided	27	-	80	-	80	-	80
		-	231	-	231	(8)	223	
A1p96(c)	TOTAL RECOGNISED INCOME AND EXPENSE FOR 2007	-	231	931	1,162	44	1,206	
	TRANSACTIONS WITH EQUITY HOLDERS							
A1p97(a)	Share options exercised	31	60	-	-	60	-	60
A1p97(a)	Equity dividends paid	9	-	-	(470)	(470)	(50)	(520)
		60	-	(470)	(410)	(50)	(460)	
	AT 31 DECEMBER 2007	1,870	295	5,151	7,316	35	7,351	
A1p96(b)	PROFIT OR LOSS FOR 2008	-	-	1,168	1,168	105	1,273	
	INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY							
A1p96(b)	Exchange translation differences	32	-	77	-	77	(5)	72
A196(b)	Gains on available for sale instruments	6	-	7	-	7	-	7
	Transfer on sale of investments	6	-	(58)	-	(58)	-	(58)
A1p96(b)	Cash flow hedges	23	-	60	-	60	-	60
A1p96(b)	Net investment hedge	23	-	82	-	82	-	82
A1p96(b)	Share-based payments: service provided	27	-	24	-	24	-	24
		-	192	-	192	(5)	187	
	TOTAL RECOGNISED INCOME AND EXPENSE FOR 2008	-	192	1,168	1,360	100	1,460	
	TRANSACTIONS WITH EQUITY HOLDERS							
A1p97(a)	Share options exercised	31	774	-	-	774	-	774
A1p97(a)	Issue of convertible bonds	31	62	-	-	62	-	62
A1p97(a)	Equity dividends paid	22	-	548	-	548	-	548
A1p97(a)	Purchase of treasury shares	9	-	-	(500)	(500)	(389)	(889)
A1p97(a)	Ordinary shares issued on acquisition of subsidiary	31	(110)	-	-	(110)	-	(110)
A1p96(b)	Net fair value revaluation due to an associate becoming a subsidiary	17	-	490	-	490	-	490
A1p97(a)	Minority interest adjustment due to an associate becoming a subsidiary	17	-	-	-	-	560	560
		726	1,038	(500)	1,264	171	1,435	
	AT 31 DECEMBER 2008	2,596	1,525	5,819	9,940	306	10,246	

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CONSOLIDATED CASH FLOW STATEMENT

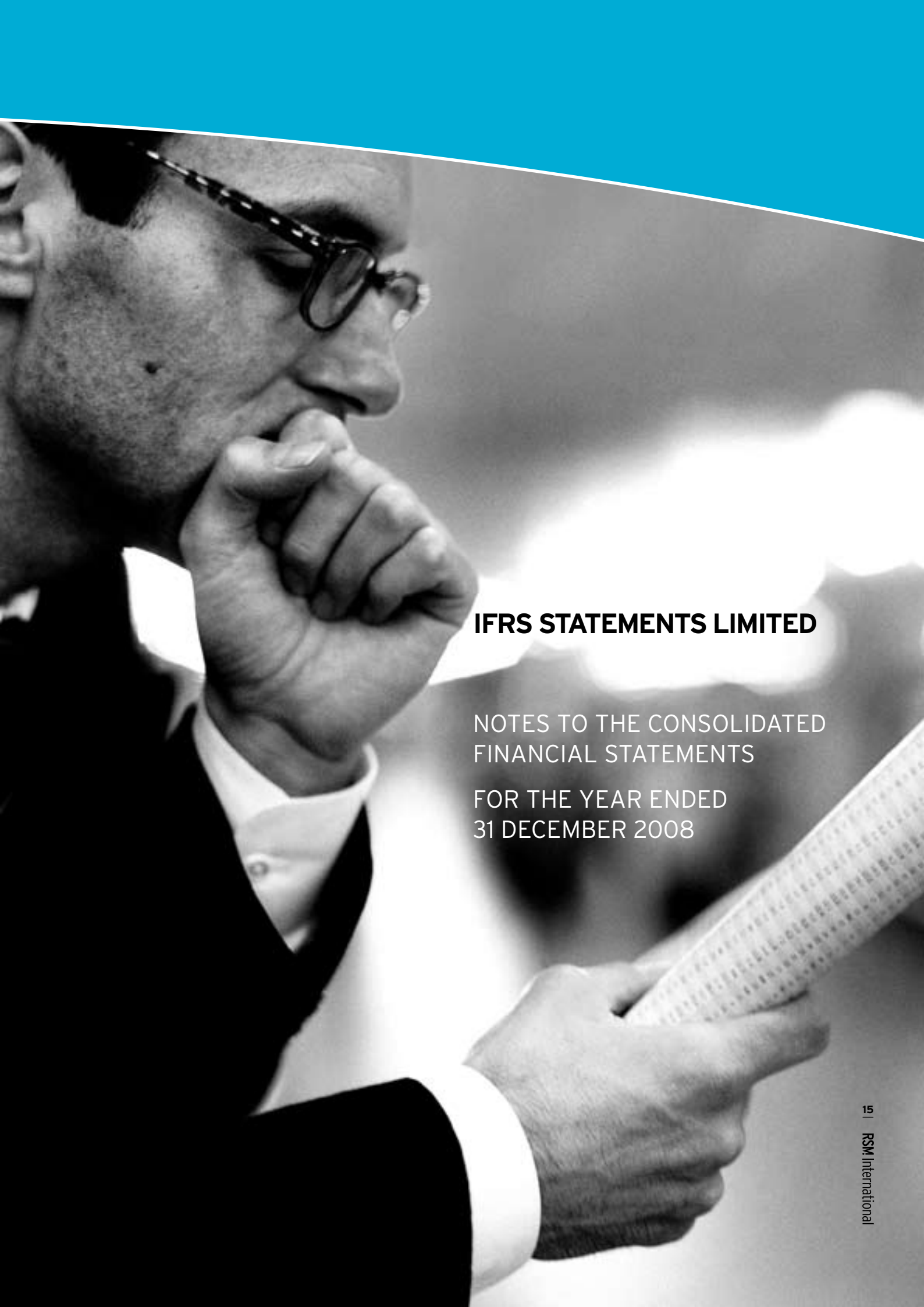
FOR THE YEAR ENDED 31 DECEMBER 2008

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		2008	2007
	NOTES	CU'000	CU'000
A7p10	CASH FLOWS FROM OPERATING ACTIVITIES		
	Net cash flow generated from operations	2,836	2,650
A7p31	Interest paid	(115)	(108)
A7p35	Income taxes paid	(447)	(250)
	Net cash from operating activities	2,274	2,292
	CASH FLOWS FROM INVESTING ACTIVITIES		
A7p39	Acquisition of subsidiary (net of cash acquired)	(303)	-
A7p39	Delayed payment for earlier acquisition	(100)	-
A7p39	Disposal of subsidiary (net of cash disposed)	306	-
A7p16(b)	Proceeds from sale of property, plant and equipment	18	286
A7p16(b)	Proceeds from sale of intangible assets	-	25
A7p16(a)	Purchase of property, plant and equipment	(1,732)	(902)
A7p16(a)	Purchase of intangible assets	(1,810)	(307)
A7p16(c)	Available for sale investments:		
	-bought	(75)	(200)
	-sold	80	30
A7p31	Interest received	7	5
A7p31	Dividends received	12	11
A7p10	Net cash used in investing activities	(3,597)	(1,052)
	CASH FLOWS FROM FINANCING ACTIVITIES		
A7p17(a)	Proceeds from issue of shares	62	60
A7p17(a)	Proceeds from issue of convertible bonds	1,572	-
A7p17(b)	Purchase of treasury shares	(110)	-
A7p17(c)	Proceeds of new bank loans and derivatives	813	-
A7p17(c)	Net fresh factor borrowings	123	92
A7p17(d)	Repayment of bank loans	-	(599)
A7p17(d)	Finance lease repayments	(51)	(44)
A7p31	Dividends paid to minorities	(389)	(50)
A7p31	Dividends paid to equity shareholders	(500)	(470)
A7p10	Net cash from (used in) financing activities	1,520	(1,011)
	CASH AND CASH EQUIVALENTS		
	20		
	AT 1 JANUARY	223	(4)
	Net increase in the year	197	229
	Effect of exchange rate changes on cash and cash equivalents held	-	(2)
	AT 31 DECEMBER	420	223
A7p45	COMPRISING:		
	Cash in hand and at bank	334	285
	Short-term investments	288	75
A7p45	CASH AND CASH EQUIVALENTS PER THE BALANCE SHEET	622	360
A7p8	Less bank overdrafts	(202)	(137)
	CASH AND CASH EQUIVALENTS FOR CASH FLOW STATEMENT PURPOSES	420	223



IFRS STATEMENTS LIMITED

NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2008

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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1. PRINCIPAL ACTIVITIES

A1p26(b)

IFRS Statements Limited is a corporation domiciled and organised under the laws of the Republic of Newland, where the head office is located. IFRS Statements Limited together with its subsidiaries ("the Group") is organised into three business segments, mechanical, electronic and chemicals and operates in 40 countries worldwide.

The Group operates essentially in Europe, America and Asia. It includes 5 manufacturing plants in Europe and Asia and 21 commercial subsidiaries across those three continents. Markets where the Group is not present with a subsidiary and are considered significant are served using local distributors.

IFRS Statements Limited is listed in the Big City stock exchange in the Republic of Newland.

A1p26(c)

The Group is controlled by Newmagic Corporation domiciled in Newland, which holds 51% of the ordinary shares of the Group.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

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These consolidated financial statements have been prepared on a going concern basis in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in force at 31 December 2008 as well as all interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in force at 31 December 2008.

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For the preparation of these consolidated financial statements the following new standards and interpretations became mandatorily applicable and were not early adopted last year:

- IAS 39: Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures "Reclassification of Financial Assets (as revised in 2008)
(This amendment is effective 1 July 2008. It permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. Moreover, this amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. An entity shall apply those amendments from 1 July 2008)
- IFRIC 11: IFRS 2 - Group and Treasury Share Transactions (issued in 2006)
(This interpretation is mandatory for annual periods beginning on or after 1 March 2007. The Group accounts for share-based payment transactions. The first-time application of this interpretation did not modify significantly how share-based payment transactions are reported)
- IFRIC 12: Service Concession Arrangements (issued in 2006)
(This interpretation is mandatory for annual periods beginning on or after 1 January 2008. Topics covered by this interpretation are not relevant for the preparation of this set of IFRS consolidated financial statements)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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- IFRIC 14: IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (issued in 2007)
(This interpretation is mandatory for annual periods beginning on or after 1 January 2008. This interpretation addresses (a) when refunds or reductions in future contributions should be regarded as available, (b) how a minimum funding requirement might affect the availability of reductions in future contributions and (c) when a minimum funding requirement might give rise to a liability. This interpretation does not affect the measurement of the pension schemes of the Group)

For the avoidance of doubt, the following standards and interpretations, which were issued by IASB and IFRIC before 31 December 2008 and are not yet in effect, have not been adopted early:

- IFRS 8: Operating Segments (issued in 2007)
(This standard is mandatory for annual periods beginning on or after 1 January 2009. This standard replaces IAS 14 - Segment Reporting and will affect how segment information will be presented and disclosed in annual and interim financial statements. According to IFRS 8, segmental information presented in the financial statements that will be issued during 2009 is consistent with information that is provided and utilised by the management of the Group. It will not affect the measurement attributes of assets and liabilities)
- IAS 1: Presentation of Financial Statements (as revised in 2007)
(This standard is mandatory for annual periods beginning on or after 1 January 2009. In substance these amendments to IAS 1 will modify how reporting income and changes in shareholder's equity will be presented. These amendments to IAS 1 will not affect the measurement attributes of assets and liabilities)
- IAS 23: Borrowing Costs (as revised in 2007)
(This standard is mandatory for annual periods beginning on or after 1 January 2009. In substance these amendments to IAS 23 remove the option of immediate recognition of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as an expense. The current version of IAS allows IFRS preparers to either expense or capitalise such borrowing costs. Currently, the accounting policy selected by the Group is to capitalise such borrowing costs. As a result, the Group does not foresee that the application of these amendments will result in a significant impact on figures and disclosures on the reporting period they will be adopted)
- IAS 27: Consolidated and separate financial statements, (as revised in 2008)
(This amendment is mandatory for annual periods beginning on or after 1 July 2009 and is part of the so-called Business Combinations Phase II. The modifications introduced relate primarily to the accounting for minority interests, which have been renamed "non-controlling interests")
- IAS 32: Financial instruments: Presentation and IAS 1: Presentation of financial statements (as revised in 2008)
(These amendments are mandatory for annual periods beginning on or after 1 January 2009 and they deal with puttable financial instruments and obligations arising on liquidation. The amendment addresses the classification of some puttable financial instruments, and other instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation)
- IAS 39 Financial Instruments: Recognition and Measurement (as revised in 2008)
(This amendment is mandatory for annual periods beginning on or after 1 July 2009. It relates to Eligible Hedged Items, and clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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- IFRS 1: First time adoption of IFRS and IAS 27: Consolidated and separate financial statements (as revised in 2008)

(This amendment is mandatory for annual periods beginning on or after 1 January 2009. This amendment permits first-time adopters of IFRS to resolve some practical difficulties on transition to IFRS and relates to the accounting for investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with IAS 39 in their separate financial statements)

- IFRS 2: Share-based payment (as revised in 2008)
(This standard is mandatory for annual periods beginning on or after 1 January 2009 and provides some clarifications with regard to vesting conditions and cancellations)

- IFRS 3: Business combinations (as revised in 2008)
(This amendment is mandatory for annual periods beginning on or after 1 July 2009 and is part of the so-called Business Combinations Phase II. This project has introduced significant modifications on how business combinations will be accounted for. Amongst others, a major change relates to the introduction of the "Full-Goodwill approach" which will allow entities to recognise the entire value of the goodwill regardless of the percentage of ownership)

- IASB's annual improvements project (revisions to various standards issued in 2008)
(The effective date varies depending on the amendment, but in any case is not before 1 January 2009. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRS and involves various IFRS. These amendments are divided in two macro categories: 1) amendments that result in accounting changes for presentation, recognition or measurement purposes and 2) amendments to terminology or editorial changes only, which should have no or minimal effect on accounting.

Standards affected included in category 1 are the following: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 19 Employee Benefits, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 23 Borrowing Costs, IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures, IAS 29 Financial Reporting in Hyperinflationary Economies, IAS 36 Impairment of Assets, IAS 38 Intangible Assets, IAS 39 Financial Instruments: Recognition and Measurement, IAS 40 Investment Property, IAS 41 Agriculture.

Standards affected included in category 2 are the following IFRS 7 Financial Instruments: Disclosures, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, IAS 10 Events after the Reporting Period, IAS 18 Revenue, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 29 Financial Reporting in Hyperinflationary Economies, IAS 34 Interim Financial Reporting, IAS 40 Investment Property, IAS 41 Agriculture)

- IFRIC 13: Customer Loyalty Programmes (issued in 2007)
(This interpretation is mandatory for annual periods beginning on or after 1 July 2008. Topics covered by this interpretation are not relevant for the preparation of this set of IFRS consolidated financial statements)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 31 DECEMBER 2008

- IFRIC 15: Agreements for construction of real estates (issued in 2008)
(This interpretation is mandatory for annual periods beginning on or after 1 January 2009 and applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors.)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (issued in 2008)
(This interpretation is mandatory for annual periods beginning on or after 1 October 2008 and applies to entities that hedge the foreign currency risk arising from its net investments in foreign operations and wish to qualify for hedge accounting in accordance with IAS 39. In particular, this Interpretation refers to such an entity as a parent entity and to the financial statements in which the net assets of foreign operations are included as consolidated financial statements)

A8p31

Regardless of when the application of the standards and interpretations above will be mandatory, the Group is planning to adopt all of them in the financial statements for the year ended 31 December 2009, if they are then relevant to the Group.

The Group has assessed the potential impact of all new standards, amendments and interpretations that will be effective in the next periods and expects that they will not have a significant impact on transactions that are in place at 31 December 2008.

The Group presents the income statement using the classification by function of expenses, known also as the "Cost of Sales" approach. The Group believes this method provides more useful information to the readers of the financial statements as it better reflects the way operations are run by from a business point of view. The balance sheet format is based on a current/non-current distinction.

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(B) REVENUE RECOGNITION

REVENUE FROM THE SALE OF GOODS

Revenue from the sale of goods is recognised in the income statement on the date that goods are delivered to the customer. Revenue is the fair value of the consideration receivable for goods and is net of estimated returns, trade discounts and sales based taxes, such as value added tax.

A18Appx10

INSTALLATION FEES

Installation fees are recognised by reference to the stage of completion of the installation activity at the balance sheet date, unless they are incidental to the sale of a product, in which case they are recognised when the goods are sold. In general, the stage of completion is based on man-hours or cost incurred. The appropriate method depends on the type of contract.

A18Appx11

SERVICING FEES

Servicing fees are recognised rateably over the term of the servicing contract.

A18p13

MULTIPLE ELEMENT ARRANGEMENTS

A18Appx11

In certain circumstances, the products are sold together with other additional items ("package"). The package might include one or more of the following items: servicing, installation, future technical upgrades or other case-by-case items. In such cases recognition criteria are applied to the separately identifiable components of the package in order to reflect the substance of the transaction.

A18p30(a)

INTEREST INCOME

Interest income is recognised on a time-proportion basis using the effective interest method.

A18p30(b)

ROYALTY INCOME

Fixed fee royalty income is recognised in the income statement on a straight-line basis over the period of the sub-licences and sales-linked royalty income is recognised in the income statement when the products are sold by the licensee.

A18p30(c)

DIVIDEND INCOME

Dividend income is recognised from when the right to receive the dividend is established.

A27p35

(C) BASIS OF CONSOLIDATION

The Group's financial statements incorporate the results, cash flows, assets and liabilities of IFRS Statements Limited and all of its directly and indirectly controlled subsidiaries. Subsidiaries are consolidated from the effective date of acquisition, which is the date on which the Group effectively obtains control of the acquired business until that control ceases. Control exists when the Group has the power to govern the financial and operating policies so as to gain benefits from its activities.

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A27p33 The minority interest in the net assets and net results of consolidated subsidiaries is shown separately in the consolidated balance sheet and consolidated income statement.

A27p35 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.

All intragroup transactions and balances are eliminated in full on consolidation.

JOINT VENTURES

A31p24 Joint ventures are entities where the Group has contractually agreed with the other venturers to share control over the joint venture. As a result, the strategic financial and operating decisions relating to the jointly controlled entity require the unanimous consent of the parties sharing control.

A31p3 Joint ventures are consolidated using the proportionate consolidation method of accounting whereby the Group's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is combined line by line with similar items in the Group's financial statements.

A31p57 Losses of joint ventures in excess of the Group's interest in the relevant entity are not recognised except to the extent that the Group has an obligation. Profits on Group transactions with joint ventures are eliminated on consolidation to the extent of the Group's interest in the relevant joint venture.

ASSOCIATES

A1p110 Associates are entities over which the Group is in a position to exercise significant influence in the financial and operating policy decisions but not control or joint control.

A28p13 Associates are accounted for using the equity method of accounting. Under the equity method the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with IFRS 3 Business Combinations. The goodwill relating to investment in associates is included within the carrying amount of the investment.

The income statement of the investor includes the investor's share of the income statement of the investee.

A28p30 Losses of associates in excess of the Group's interest in the relevant entity are not recognised except to the extent that the Group has an obligation. Profits on Group transactions with associates are eliminated to the extent of the Group's interest in the relevant associate.

A28p11 Distributions received from an investee reduce the carrying amount of the investment.

TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN ENTITIES

A1p110
A21p23
A21p47 The assets and liabilities of foreign operations are translated using exchange rates at the balance sheet date. The components of shareholders' equity are stated at historical value. Goodwill and other fair value adjustments resulting from the application of purchase accounting at the date of acquisition are recorded at the rates prevailing at the acquisition date and are subsequently translated at the period end exchange rate.

A7p27 An average exchange rate for the period is used to translate the results and cash flows of foreign operations.

A21p32 Exchange differences on translating the results and net assets of foreign operations are taken to the translation reserve in equity until the disposal of the investment. The gain or loss in the income statement on the disposal of foreign operations includes the release of the translation reserve relating to the operation that is being sold.

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BUSINESS COMBINATIONS

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The purchase method of accounting is used for all acquired businesses, as defined by IFRS 3 - Business Combinations.

F3p51

As a result of the application of the purchase method of accounting, goodwill is initially recognised as an asset being the excess at the date of acquisition of the fair value of the purchase consideration plus directly attributable costs of acquisition over the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary.

F3p40

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

F3p56

In the event that the fair value of the net assets on acquisition exceeds the fair value of the purchase consideration plus directly attributable costs of acquisition, the excess is credited directly to the income statement.

F3p62

Where fair values are estimated on a provisional basis they are finalised within 12 months of acquisition with consequent changes to the amount of goodwill.

A38p108

After initial recognition, the carrying value of goodwill is cost less accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. The Group assesses at each reporting date whether there is any indication that the goodwill may be impaired.

(D) PROPERTY, PLANT AND EQUIPMENT

A16p73

On initial recognition, property, plant and equipment are recognised at cost. Historical acquisition or production cost includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management as well as directly attributable costs.

After initial recognition, property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

DEPRECIATION

A16p73

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over its useful economic life as follows:

Buildings	2% straight line
Plant and equipment	10-33% straight line
Computer equipment	25% straight line
Motor vehicles	25% straight line
Land is not depreciated	

Useful lives, residual values and depreciation methods are reviewed annually. Accelerated depreciation is provided when the useful life of the asset becomes shorter than that initially expected.

LEASES ASSETS

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A17p8

Leases are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

A17p20

Assets and liabilities arising from finance lease contracts are initially recognised in the balance sheet at the lower of their fair value and the present value of the minimum future lease rentals.

A17p27

After initial recognition the depreciation policy applied is consistent with that for depreciable assets that are owned. As a result the depreciation recognised is calculated in accordance with the useful life stated for property,

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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plant and equipment (the company does not hold leased intangible assets). In cases where there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

A17p25 The interest element of rental obligations is charged to the income statement over the period of the lease at a constant rate on the balance of finance lease obligations outstanding.

A17p33 Rentals payable under non-onerous operating leases are expensed in the income statement on a straight-line basis over the lease term.

SIC15 Incentives to take out operating leases are credited to the income statement on a straight-line basis over the lease term.

A37AppxC Provision is made in the balance sheet for the present value of the onerous element of operating leases. This typically arises when the Group ceases to use premises and they are left vacant to the end of the lease or are sub-let at rentals, which fall short of the amount payable by the Group under the lease.

(E) INTANGIBLE ASSETS

A1p110

SEPARATELY ACQUIRED INTANGIBLE ASSETS

A38p25-32

On initial recognition intangible assets acquired separately are measured at cost. The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use.

A38p74 After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

A38p57

INTERNALLY GENERATED INTANGIBLE ASSETS

Development costs represent typical internally generated intangible assets of relevance for the Group. Costs incurred in relation to individual projects are capitalised only when the future economic benefit of the project is probable and the following main conditions are met: (i) the development costs can be measured reliably, (ii) the technical feasibility of the product has been ascertained and (iii) therefore it is the intention of management to complete the intangible asset and use or sell it.

Given the type of businesses managed by the Group and the cumulative experience gained by the Group, usually the fact that the intangible asset will generate probable future economic benefits is reasonably certain only shortly before a product is launched into the market. Costs incurred before that point in time are not reinstated.

Internally generated intangible assets primarily relate to internally developed software and internally developed patented technology as well as processes or recipes.

A38p54

Research costs are expensed as incurred.

After initial recognition internally generated intangible assets follow the accounting policies of separately acquired intangible assets as stated above.

F3p33

INTANGIBLE ASSETS ACQUIRED AS PART OF A BUSINESS COMBINATION

Identifiable intangible assets acquired as part of a business combination are initially recognised separately from goodwill if the asset's fair value can be measured reliably, irrespective of whether the asset had been recognised by the acquiree before the business combination. An intangible asset is considered identifiable only if it is separable or if it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A38p74

After initial recognition intangible asset acquired as part of a business combination follow the accounting policies of separately acquired intangible assets as stated above.

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AMORTISATION

A38p118

For intangible assets with finite useful lives, amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over its useful economic life as follows:

Licences	5% straight line
Customer lists	15 - 33% straight line
Brands (except Brand Supervalve)	5% straight line
Development costs	20% straight line

Intangible assets with an indefinite useful life are not amortised, but subject to review for impairment as described below. Brand Supervalve was acquired as part of a business combination and its useful life was determined to be indefinite.

(F) IMPAIRMENT OF ASSETS

A1p110

In accordance with IAS 36 - Impairment of Assets, property plant and equipment and intangible assets are subject to impairment testing.

A36p10

The carrying amount of such assets (other than (i) intangible assets not yet available for use, (ii) goodwill and (iii) other indefinite life intangible assets) is reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down through the income statement to its estimated recoverable amount. Recoverable amount is the higher of value in use and the fair value less costs to sell of the individual asset or the cash generating unit. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs.

A36p6

A36p6

Value in use is the net present value of the estimated future cash flows of that unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the unit whose impairment is being measured.

A36p104

Impairment losses for cash generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to the income statement to the extent that they reverse the impairment.

IMPAIRMENT OF GOODWILL

F3p51

Goodwill arising in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

F3p54-55

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

A36p80

Irrespective of whether there is any indication of impairment, goodwill (and also intangible assets not yet available for use and other indefinite life intangible assets) are tested for impairment, at least annually.

For the purpose of impairment testing goodwill is allocated to each cash-generating unit, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree were assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and is not larger than a segment.

A36p124

Goodwill impairment is not reversed in any circumstances.

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(G) INVENTORIES

A2p36

Inventories are carried in the balance sheet at the lower of cost and net realisable value. Cost is determined on a first-in first-out (FIFO) basis. The cost of work in progress and finished goods comprises materials, direct labour and attributable production overheads based on normal levels of activity.

A2p28-31

Provision is made for obsolete and slow-moving items based on their expected future use and net realisable value. Net realisable value is the estimated sales price in the ordinary course of business after allowing for all further costs of completion and disposal.

(H) FINANCIAL ASSETS

INITIAL RECOGNITION AND MEASUREMENT

A39p14

The Group recognise a financial asset on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. On initial recognition IAS 39 requires the Group to recognise all financial assets at fair value. The fair value of a financial asset on initial recognition is normally represented by the transaction price. The transaction price for financial assets other than those classified at fair value through profit and loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs incurred on the acquisition or issue of financial assets classified at fair value through profit are expensed immediately.

A39p43

A39p38

The Group recognises financial assets using settlement date accounting. The settlement date is the date that an asset is delivered to or by an entity. Settlement date accounting refers to the recognition of an asset on the day it is received by the entity, and the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

SUBSEQUENT MEASUREMENT

A39p45

Subsequent measurement of financial assets depends on their classification on initial recognition. IAS 39 prescribes the Group to classify financial assets in one of the following four categories:

A39p46

Financial assets at fair value through profit and loss: assets are classified in this category when they are held principally for the purpose of selling or repurchasing in the near term (trading assets) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or meet the conditions for designation in this category at initial recognition. All changes in fair value relating to assets at fair value through profit and loss are charged to the income statement as incurred.

For the year that ended on 31 December 2008 the Group did not classify any financial assets as held for trading or designated as at fair value through profit and loss.

A39p46

Loans and Receivables: loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that the Group intends to sell immediately or in the near term cannot be classified in this category. These assets are carried at amortised cost using the effective interest method minus any reduction for impairment or uncollectibility. Impairment charges are provided only when there is objective evidence that an impairment loss has been incurred. If that is the case, the carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the income statement.

Typically trade and other receivables are classified in this category.

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Held-to-maturity financial assets: these are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Financial assets that upon initial recognition the Group designates as at fair value through profit and loss or available for sale and those that meet the definition of loans and receivables cannot be classified in this category. Similar to Loans and Receivables, these assets are carried at amortised cost using the effective interest method minus any reduction for impairment or uncollectibility. Impairment procedures are those described above for Loans and Receivables.

For the year that ended on 31 December 2008 the Group did not carry any financial asset classified in this category.

A39p46

Available for sale financial assets: these are non-derivative financial assets that are designated as available for sale on initial recognition or are not classified in one of the previous categories. These assets are carried at fair value. Changes in fair value of available for sale financial assets are recognised directly in equity in other reserves. Such reserves are recycled to the income statement when realised through disposal. Impairments below cost are recognised in the income statement. When there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of an equity instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss, it is reversed against other reserves. For non-equity instruments classified as available for sale the reversal of impairment is recognised in the income statement.

DERECOGNITION OF FINANCIAL ASSETS

A39p15-37

A39AG34-52

Irrespective of the legal form of the transactions, financial assets are derecognised when they pass the "substance over form" based derecognition test prescribed by IAS 39. That test comprises two different types of evaluations which are applied strictly in sequence:

- Evaluation of the transfer of risks and rewards of ownership
- Evaluation of the transfer of control

Whether the assets is recognised/derecognised in full or recognised to the extent of Group's continuing involvement depends on accurate analysis which is performed on a specific transaction basis.

HEDGING

F7p22

The normal course of the Group's business exposes it to currency and interest rate risk. In order to hedge these risks in accordance with the board's written treasury policies the Group uses derivatives and other hedging instruments. IAS 39 allows 3 types of hedging relationships:

- Fair value hedge
- Cash flow hedge
- Hedge of a net investment in a foreign operation

A39p88

The Group uses hedge accounting only when the following conditions at the inception of the hedge are satisfied:

- The hedging instrument and the hedged item are clearly identified
- Formal designation and documentation of the hedging relationship, is in place. Such hedge documentation includes the hedge strategy and the method used to assess the hedge's effectiveness; and
- The hedge relationship is expected to be highly effective throughout the life of the hedge

The above documentation is subsequently updated at each reporting date in order to assess whether the hedge is still expected to be highly effective over the remaining life of the hedge.

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A39p89

Fair value hedge: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount (for a non-derivative hedging instrument) are recognised in the income statement. The gain or loss on the hedged item attributable to the hedged risk is also recognised in the income statement. If the hedge is terminated, no longer meets the criteria for hedge accounting or is revoked, the adjusted carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the income statement.

A39p95

Cash flow hedge: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised (net of tax) directly in equity in other reserves, and the ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement. No adjustment is made to the hedged item.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised directly in equity are recycled into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the Group removes the associated gains and losses that were recognised directly in equity and includes them in the initial cost or other carrying amount of the asset or liability (basis adjustment).

A39p102

Hedge of a net investment in a foreign operation: Hedges of a net investment in a foreign operation are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity whilst the ineffective portion is recognised immediately in the income statement.

The gain or loss on the hedging instrument that has been recognised directly in equity is released to the income statement on disposal of the foreign operation.

DERIVATIVES

All derivatives are initially recognised and subsequently carried at fair value. The Group policy is to use derivatives only for hedging purposes. Accounting for derivatives engaged in hedging relationships is described in the above section.

Sometimes the Group enters into certain derivatives in order to hedge some transactions and all the strict hedging criteria prescribed by IAS 39 are not met. In those cases, even though the transaction has its economic and business rationale, hedge accounting cannot be applied. As a result, changes in the fair value of those derivatives are recognised directly in the income statement and the hedged item follows normal accounting policies.

EMBEDDED DERIVATIVES

A39p11

Embedded derivatives are separated from the host contract and accounted for as a derivative if (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and (iii) the hybrid instrument is not measured at fair value with changes in fair value recognised in profit or loss.

FAIR VALUE DETERMINATION

A39p48-49

A39AG69-82

Whenever available, the fair value of a financial instrument is derived from an active market. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and, for an asset to be acquired or liability held, the asking price. If there is no market, or the markets available are not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value

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of similar instruments and incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. As far as unquoted equity instruments are concerned, in cases where it is not possible to reliably measure the fair value, such instruments are carried at cost.

CASH AND CASH EQUIVALENTS

A7p46

Cash and cash equivalents comprise cash in hand, on demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

For the purpose of the cash flow statement only, cash and cash equivalents include bank overdrafts repayable on demand. Since the characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn, they are considered an integral part of the Group's cash management.

(I) DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

DISCONTINUED OPERATIONS

A1p110

F5p38

These are either separate major lines of business or geographical operations that have been sold, or classified as held for sale or have been abandoned. When held for use, discontinued operations were a cash-generating unit or a group of cash-generating units. They comprise operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. They are shown separately in the income statement and comparative figures are restated to reclassify them from continuing to discontinued operations.

ASSETS HELD FOR SALE (DISPOSAL GROUPS)

A1p112

A non-current asset (or disposal group) held for sale represents assets whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Disposal groups and non-current assets held for sale are included in the balance sheet at fair value less costs to sell, if this is lower than the previous carrying amount. Once an asset is classified as held for sale or included in a group of assets held for sale no further depreciation or amortisation is recorded.

(J) GOVERNMENT GRANTS

A20p39

Government grants are recognised when the conditions for receipt are met and there is reasonable assurance that the grant will be received. Grants related to assets are initially taken to deferred income and then released to the income statement over the same period that the Group benefits from the expenditure to which they relate. The majority of grants are to assist with the purchase of plant. Grants related to income are deducted in reporting the related expense.

(K) BORROWING COSTS

A23p9, A23p29

Interest on borrowings to finance the purchase and development of self-constructed assets is included in the cost of the asset to the extent it accrues to the period of production and development. Such borrowing costs are capitalised net of any investment income arising from the temporary investment of funds that are surplus pending such expenditure.

All other borrowing costs are expensed to the income statement.

(L) FOREIGN CURRENCY TRANSACTIONS

A1p110

A21p23

Foreign currency monetary assets and liabilities are translated into the functional currency of the Group using the exchange rates at the balance sheet date. Gains and losses arising from changes in exchange rates after the date of the transaction are recognised in the income statement except when deferred in equity as qualifying cash flow hedges. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are

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translated at the exchange rate at the date of the transaction. Translation differences on non-monetary items that are measured at fair value in a foreign currency, such as available for sale equity instruments are translated using the exchange rates at the date when the fair value is determined and recognised in equity.

(M) RETIREMENT BENEFITS

The Group operates a defined benefit obligation scheme for many employees and various defined contribution schemes cover most other employees.

DEFINED CONTRIBUTION SCHEMES

A19p120

The annual contributions payable in respect of defined contribution schemes are charged to the income statement. Any cumulative difference between amounts payable and amounts paid are shown in the balance sheet as receivables or payables, but otherwise the assets and liabilities of those schemes are not included in the financial statements as the employer is not exposed to their risks and rewards, which instead lie with the members of those schemes.

DEFINED BENEFIT SCHEMES

A19p120

The defined benefit scheme offers retirement benefits that are linked to the service, age and remuneration of employees. The assets of the scheme are held in trust funds separately from those of the Group.

Operating expenses in the income statement include:

A19p120A

- The current service cost of the defined benefit plan
- The annual amortisation over the expected average remaining service lives of relevant employees of actuarial losses which exceed 10% of the greater of, (i) the present value of the plan assets and (ii) the present value of the defined benefit obligation (this method being known as the "corridor approach"); and
- The year's unwinding discount on scheme liabilities, net of the expected return for the year on scheme assets

A19p67

Enhancements to scheme benefits are expensed to the extent they have already vested, or where they have not vested they are spread on a straight-line basis over the average period to vesting.

A19p64

A19p78

The Group balance sheet includes the excess of the present value of the obligations in respect of service up to the balance sheet date, over the fair value of the defined benefit obligation scheme assets plus any unrecognised actuarial gains (or less any unrecognised actuarial losses) less any unrecognised past service costs. An independent qualified actuary annually advises the Group of the defined benefit obligations using the Projected Unit Credit Method. The discount rate on high quality corporate bonds of equivalent maturity to the defined benefit obligations is used to calculate the present value.

A1p110

(N) SHARE-BASED PAYMENTS

Other than for business combinations, the only share-based payments of the Group are equity settled share options. For share options granted after that date an option pricing model is used to estimate the fair value of each option at grant date. That fair value is charged on a straight-line basis as an expense in the income statement over the period that the employee becomes unconditionally entitled to the options (vesting period), with a corresponding increase in equity.

The number of such options is adjusted annually to reflect best estimates of those expected to vest (ignoring purely market-based conditions) with consequent changes to the expense. Equity is also increased by the proceeds receivable, as and when employees choose to exercise their options.

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F2p27 If the Group modifies the terms and conditions on which the equity instruments were granted, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, (unless those equity instruments do not vest because of failure to satisfy a vesting condition other than a market condition) are charged to the income statement.

F2p25 Cancellations of grants of equity instruments during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) are accounted for as an acceleration of vesting, therefore the unrecognised remaining amount is recognised immediately in the income statement.

(O) INCOME TAXES

A1p110 Tax currently payable is calculated using the tax rates in force or substantively enacted at the balance sheet date. Taxable profit differs from accounting profit either because some income and expenses are never taxable or deductible, or because the time pattern that they are taxable or deductible differs between tax law and their accounting treatment.

A12p5 Using the balance sheet liability method, deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities in the balance sheet and the corresponding tax base with the exception of goodwill not deductible for tax purposes and the initial recognition of assets and liabilities that do not affect taxable or accounting profit.

A12p46-52 Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

A12p24 Deferred tax assets are recognised only to the extent that the Group consider that it is probable (ie more likely than not) that there will be sufficient taxable profits available for the asset to be utilised within the same tax jurisdiction.

A12p71 Deferred tax assets and liabilities are only offset when they relate to the same tax authority and the Group's intention is to settle the amounts on a net basis.

A12p61 Current and deferred tax are recognised in the income statement except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

A12p38-45 Since the Group is able to control the timing of the reversal of the temporary difference associated with consolidated subsidiaries, deferred tax liability is recognised when it is probable that the temporary difference will reverse in the foreseeable future mainly because of dividend distribution.

At present, no provision is made for the additional tax that would be payable if the subsidiaries in certain countries remitted their profits because such remittances are not probable, as the Group intends to retain the funds to finance organic growth locally. As far as joint ventures and associates the Group is not in the position to determine their dividend policies. As a result, all significant deferred tax liabilities for all such taxable temporary differences are recognised.

(P) FINANCIAL LIABILITIES

INITIAL RECOGNITION AND MEASUREMENT

A12p38-45
A39p43 The Group recognise a financial liability on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. On initial recognition IAS 39 requires the Group to recognise all financial liabilities at fair value. The fair value of a financial liability on initial recognition is normally represented by the transaction price. The transaction price for financial liabilities other than those classified at fair value through

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profit and loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Transaction costs incurred on acquisition or issue of a financial liability classified at fair value through profit and loss are expensed immediately. As with financial assets, the Group recognises financial liabilities using settlement date accounting.

SUBSEQUENT MEASUREMENT

A39p47

Subsequent measurement of financial liabilities depends on how they have been categorised on initial recognition. IAS 39 requires the Group to classify financial liabilities in one of the following two categories:

A39p47

Liabilities at fair value through profit and loss: liabilities are classified in this category when they are held principally for the purpose of selling or repurchasing in the near term (trading liabilities) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or meet the conditions for designation in this category. All changes in fair value relating to liabilities at fair value through profit and loss are charged to the income statement as incurred.

For the year that ended on 31 December 2008 the Group did not classify any financial liabilities held for trading or designated as at fair value through profit and loss.

A39p47

Other financial liabilities: all liabilities, which have not been classified in the previous category fall into this residual category. These liabilities are carried at amortised cost using the effective interest method.

Typically, trade and other payables and borrowings are classified in this category.

Items classified within trade and other payables are not usually re-measured, as the obligation is usually known with a high degree of certainty and settlement is short-term.

A32p18

PREFERENCE SHARES

These are classified as liabilities in accordance with their substance rather than their legal form. Preference shares represent financial liabilities classified in the "other liabilities" category and are therefore carried at amortised cost. Dividends on preference shares are classified as an interest expense.

(Q) PROVISIONS

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A37p14

Where at the balance sheet date, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will settle the obligation a provision is made in the balance sheet. Provisions are made using best estimates of the amount required in settlement and are discounted to present values. Changes in estimates are reflected in the income statement in the period they occur. Warranty provisions are measured using probability models based on past experience. Restructuring provisions are only recognised once the formal plan has been communicated to affected parties.

(R) EQUITY

A1p10

Equity instruments are contracts that give a residual interest in the net assets of the Group. Ordinary shares are classified as equity. Equity instruments are recognised at the amount of proceeds received net of costs directly attributable to the transaction. To the extent those proceeds exceed the par value of the shares issued they are credited to a share premium account.

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DIVIDEND DISTRIBUTION

A10p12

Dividends are recognised as liabilities when they are declared (that is, the dividends are appropriately authorised and no longer at the discretion of the entity). Typically, dividends are recognised as liabilities in the period in which their distribution is approved at the Shareholders' Annual General Meeting. Interim dividends are recognised when paid.

TREASURY SHARES

A3p33

The cost of treasury shares purchased is shown as a deduction from equity in the consolidated balance sheet. When treasury shares are sold or reissued they are credited to equity. As a result, no gain or loss on treasury shares is included in the income statement for the period.

CONVERTIBLE BONDS

F7p27

When convertible bonds are issued the proceeds (net of issue costs) are split to separately identify a liability component (equal to the net present value of their scheduled future cash flows applying interest rates at the date of issue of similar bonds that do not have a conversion option). The remainder of the issue proceeds is deemed to relate to the conversion option and this equity component is credited to an equity reserve. The liability component is carried at amortised cost until extinguished on conversion of the option or maturity of the bond.

(5) MOST SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

A1p113

A1p116

In preparing its financial statements in conformity with International Financial Reporting Standards the Group has made significant judgements, estimates and assumptions that impact on the carrying value of certain assets and liabilities, income and expenses as well as other information reported in the notes. The Group periodically monitors such estimates and assumptions and make sure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

Key judgements, estimates and assumptions are subject to management approval.

At the balance sheet date management has made the following key judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements:

REVENUE RECOGNITION

The Group makes provisions for trade discounts, volume rebates and charge back for product returns allowed by the sale contracts when recognising the revenue derived from goods and services. Such deductions represent estimates, which are subject to judgements and assumptions based on past experience as well as the Group's knowledge available at the time the estimate is made.

In certain circumstances, the Group enters into multiple element arrangements ("packages"). As described in paragraph (B) above the package might include one or more items, which are subject to different recognition criteria. In this case, separate measurement of the fair value of each component is required. The estimate of the fair value of each component involves estimates and assumptions which affect the way revenues are recognised.

ALLOWANCE FOR DOUBTFUL RECEIVABLES

The determination of the recoverability of the amount due from customers involves the identification of whether there is any objective evidence of impairment. Bad debts are written off when identified. To the extent that it is feasible impairment and uncollectibility is determined individually for each item. In cases where that process is not feasible, a collective evaluation of impairment is performed. As a consequence, the way individual and collective evaluation is carried out and the timing relating to the identification of objective evidence of impairment require significant judgment and may materially affect the carrying amount of receivables at the balance sheet date.

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ASSET IMPAIRMENT TESTS

A financial asset or a group of financial assets are impaired only when the Group ascertains that a "loss event" affecting the estimated future cash flows of the financial asset has occurred. It may not be possible to identify a single, discrete event that caused the impairment and moreover to determine when a loss event has occurred might involve the exercise of significant judgement.

With regard to equity investments categorised as available for sale, in addition the Group treats those assets as impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of what is "significant" or "prolonged" requires significant judgement.

The impairment analysis of goodwill and other tangible and intangible assets requires an estimation of the value in use of the asset or the cash-generating unit to which the assets are allocated. Estimation of the value in use is primarily based on discounted cash flow models which require the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present value of the cash flows.

NET REALISABLE VALUE OF INVENTORIES

The determination of provisions for inventories involves an estimation process. The carrying cost of inventories is written down to their estimated realisable value when their cost may no longer be recoverable such as when inventories are damaged or become wholly or partly obsolete or their selling prices have declined. In any case the realisable value represents the best estimate of the recoverable amount and is based on the most reliable evidence available at the balance sheet date and inherently involves estimates regarding the future expected realisable value. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. In general, such an evaluation process requires significant judgment and may materially affect the carrying amount of inventories at the balance sheet date.

FAIR VALUE OF UNQUOTED INVESTMENTS

If the market for a financial asset is not active or not readily available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to select among a range of different valuation methodologies, make estimates about expected future cash flows and discount rates.

DEFERRED TAX ESTIMATION

Deferred tax assets and liabilities recognition involves making a series of assumptions. For instance the Group has to estimate the timing of the reversal of temporary differences or if it is probable that temporary differences will not reverse in the foreseeable future or the tax rates expected to apply to the period when the asset is realised or the liability is settled.

As far as deferred tax assets are concerned, their realisation ultimately depends on taxable profits being available in the future. Deferred tax assets should be recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised and it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the Group making assumptions within its overall tax-planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. Moreover, the measurement of a deferred tax asset or liability should reflect the manner in which the entity expects to recover the asset's carrying value or settle the liability.

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PROVISIONS

Provisions can be distinguished from other liabilities because there is uncertainty about the timing or amount required in settlement. The more common provisions recorded by the Group arise from obligations in relation to manufacturer's warranties, refunds, guarantees, onerous contracts, outstanding litigation and business restructuring.

The recognition and measurement of provisions requires the Group to make significant estimates with regard to the probability (if the event is more likely than not to occur) that an outflow of resources will be required to settle the obligation and assumptions whether a reliable estimate can be made of the amount of the obligation.

Moreover, IFRS requires recognition of the best estimate of the amount that would be required to settle an obligation and the estimate may be based on information that produces a range of amounts. The measurement is based on present value. This involves making estimates around the appropriate discount rate in order to reflect the risks specific to the liability.

In particular, as far as restructuring provisions are concerned, considerable judgment is required to determine whether an obligating event has occurred. All the available evidence must be assessed to determine whether a plan is detailed enough to create a valid expectation of management's commitment to the restructure in external parties.

As a result, due to their inherent nature, it is likely that any provisions relate to complex fact patterns for which assessments of likelihood are judgmental and not susceptible to precise determination.

CONTINGENCIES

Contingent liabilities incurred by the Group are not recognised but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity and are not recognised because it is not probable that an outflow of resources will be required to settle the obligation. Moreover, the amount of the obligation cannot be measured with sufficient reliability.

Inevitably, the determination that the possibility that an outflow of resources embodying economic benefits is remote and that the occurrence or non-occurrence of one or more uncertain future events is not wholly within the control of the Group requires significant judgment.

ACTUARIAL ASSUMPTIONS ON DEFINED BENEFIT RETIREMENT PLANS

Accounting for defined benefit plans may be complex because actuarial assumptions are required to measure the obligation and the expense, with the possibility that actual results differ from the assumed results. These differences are known as actuarial gains and losses. Defined benefit obligations are measured using the Projected Unit Credit Method. According to this method the Group has to make a reliable estimate of the amount of benefits earned in return for services rendered in current and prior periods, using actuarial techniques. In addition, in cases where defined benefit plans are funded the Group has to estimate the fair value of plan assets based on the expected return on plan assets which is computed using the estimated long-term rate of return. As a result, the use of the Projected Unit Credit Method involves a number of actuarial assumptions. These assumptions include demographic assumptions such as mortality, turnover and retirement age, and financial assumptions such as discount rates, salary and benefit levels. Such assumptions are subject to judgements and may develop materially differently than expected and therefore resulting in significant impacts on defined benefit obligations.

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SHARE-BASED PAYMENTS

Share-based payments are measured at grant date fair value. For share options granted to employees, in many cases market prices are not available and therefore the fair value of the options granted shall be estimated by applying an option pricing model. Option pricing models need input data such as expected volatility of the share price, expected dividends or the risk-free interest rate for the life of the option. The overall objective is to approximate the expectations that would be reflected in a current market or negotiated exchange price for the option. Such assumptions are subject to judgements and may turn out to be significantly different to expected.

3. SEGMENTAL ANALYSIS

The primary reporting format is by business segment and the second reporting format is by geographical area.

PRIMARY ANALYSIS BY BUSINESS SEGMENT

For management purposes the company is organised into three major operating divisions: mechanical, electronic and chemical. Such structural organisation is determined by the nature of risks and returns associated with each business segment and defines the management structure as well as the internal reporting system. It represents the basis on which the company reports its primary segment information.

The mechanical segment is a manufacturer of spring-loaded instruments, bicycles and clockwork equipment.

The electronic segment is a manufacturer of sophisticated electronic equipment used in the automotive, aerospace and shipbuilding industries.

The chemical segment is a manufacturer of plastic containers, which are sold in bulk to food packagers.

The following tables presents details of revenue and operating profit by business segment as well as a reconciliation between the information disclosed for reportable segments and the aggregated information in the consolidated financial statements.

Internal transfer pricing policies of the Group are based on arms length prices.

The discontinued operations relate to the disposal of the clockwork component of the mechanical segment (Note 21).

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	MECHANICAL	ELECTRONIC	CHEMICAL	UNALLOCATED	GROUP
	CU'000	CU'000	CU'000	CU'000	CU'000
CONTINUING OPERATIONS 2008					
REVENUE BY SEGMENT					
- Sale of Goods	4,121	9,180	9,127	-	22,428
- Servicing and installation fees	443	-	-	-	443
- Royalty income	-	182	-	-	182
- Other	35	-	-	-	35
A14p51 TOTAL SALES BY SEGMENT	4,599	9,362	9,127	-	23,088
A14p51 INTER-SEGMENT SALES	(127)	(158)	-	-	(285)
A14p51 EXTERNAL SALES REVENUE	4,472	9,204	9,127	-	22,803
A14p67 OPERATING PROFIT	234	1,104	615	-	1,953
Finance costs	-	-	-	(91)	(91)
A14p64 Share of profit or loss of associates	-	140	-	-	140
Gain on sale of investments	-	-	-	63	63
Profit before tax	-	-	-	-	2,065
Tax	-	-	-	-	(682)
A14p67 PROFIT FOR THE YEAR	-	-	-	-	1,383
DISCONTINUED OPERATIONS 2008 (CLOCKWORK UNIT)					
A14p52 REVENUE	1,110	-	-	-	1,110
Operating profit	(45)	-	-	-	(45)
Finance costs	(79)	-	-	-	(79)
Loss on disposal	(23)	-	-	-	(23)
Loss before tax	(147)	-	-	-	(147)
Tax	37	-	-	-	37
A14p67 LOSS FOR THE YEAR	(110)	-	-	-	(110)
2008 TOTAL PROFIT	-	-	-	-	1,273
Minority interests	-	-	-	-	(105)
2008 EQUITY PROFIT	-	-	-	-	1,168
A14p55 2008 TOTAL ASSETS	4,027	8,053	4,039	1,069	17,188
A14p56 2008 TOTAL LIABILITIES	859	1,293	341	4,449	6,942

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	MECHANICAL	ELECTRONIC	CHEMICAL	UNALLOCATED	GROUP
	CU'000	CU'000	CU'000	CU'000	CU'000
CONTINUING OPERATIONS 2007					
REVENUE BY SEGMENT					
- Sale of Goods	4,270	5,085	5,361	-	14,716
- Servicing and installation fees	452	-	-	-	452
- Royalty income	-	160	-	-	160
- Other	76	-	-	-	76
A14p51 TOTAL SALES BY SEGMENT	4,798	5,245	5,361	-	15,404
A14p51 INTER-SEGMENT SALES	(101)	(143)	-	-	(244)
A14p51 EXTERNAL SALES REVENUE	4,697	5,102	5,361	-	15,160
OPERATING PROFIT					
A14p67 Finance costs	-	-	-	(95)	(95)
A14p64 Share of profit or loss of associates	-	300	-	-	300
Gain on sale of investments	-	-	-	18	18
Profit before tax	-	-	-	-	1,771
Tax	-	-	-	-	(562)
A14p67 PROFIT FOR THE YEAR	-	-	-	-	1,209
DISCONTINUED OPERATIONS 2006 (CLOCKWORK UNIT)					
REVENUE	2,108	-	-	-	2,108
Operating loss	(195)	-	-	-	(195)
Finance costs	(81)	-	-	-	(81)
Loss before tax	(276)	-	-	-	(276)
Tax	50	-	-	-	50
LOSS FOR THE YEAR	(226)	-	-	-	(226)
2007 TOTAL PROFIT					
Minority interests	-	-	-	-	(52)
2007 EQUITY PROFIT	-	-	-	-	931
A14p55 2007 TOTAL ASSETS	3,949	3,211	3,612	686	11,458
A14p56 2007 TOTAL LIABILITIES	308	1,214	302	2,283	4,107

The caption "Other" in the analysis of revenue by segment includes primarily technical upgrades subsequently and separately requested by clients or included in the initial product package.

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The following table analyses assets and liabilities not allocated to business segments:

	2008	2007
	CU'000	CU'000
ASSETS		
Property, plant and equipment	204	186
Deferred taxation	243	140
Cash and equivalents	622	360
	1,069	686
LIABILITIES		
Borrowings	3,146	1,571
Tax liabilities: current and deferred	1,303	712
	4,449	2,283
NET BALANCE AT 31 DECEMBER	(3,380)	(1,597)

	MECHANICAL	ELECTRONIC	CHEMICAL	UNALLOCATED	GROUP
	CU'000	CU'000	CU'000	CU'000	CU'000

SUNDRY SEGMENT DISCLOSURES

DEPRECIATION:

2008	257	559	302	47	1,165
2007	284	552	249	41	1,126

AMORTISATION:

2008	23	198	50	-	271
2007	39	166	51	-	256

IMPAIRMENT LOSSES:

2008	244	-	-	-	244
2007	120	-	-	-	120

OTHER NON-CASH EXPENSES OTHER THAN DEPRECIATION/AMORTISATION:

2008	51	82	26	-	159
2007	78	154	80	-	312

RESTRUCTURING COSTS:

2008	109	-	-	-	109
2007	-	-	-	-	-

CAPITAL EXPENDITURE:

2008	412	3,498	721	25	4,656
2007	360	453	366	30	1,209

INVESTMENT IN ASSOCIATES:

2008	-	150	131	-	281
2007	-	220	29	-	249

CASH FLOWS ANALYSIS

OPERATING:

2008	357	1,204	713	-	2,274
2007	338	1,278	676	-	2,292

INVESTING:

2008	(400)	(2,845)	(327)	(25)	(3,597)
2007	(364)	(288)	(370)	(30)	(1,052)

FINANCING:

2008	-	-	-	1,520	1,520
2007	-	-	-	(1,011)	(1,011)

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SECONDARY ANALYSIS BY GEOGRAPHICAL AREA

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The segmental information below is based on the segment revenue from external customers by geographical location of customers. The global scale operations of the Group are divided into four principal geographical areas. In each geographical area the Group has all the three business segments described above.

A14p69(a)

REVENUE

	2008	2007
	CU'000	CU'000
Asia Pacific	3,702	3,852
Europe	5,579	4,137
North America	7,543	3,420
South America	5,979	3,751
Continuing operations	22,803	15,160
Discontinued operations	1,110	2,108
	23,913	17,268

A14p69(b)

SEGMENT ASSETS

	2008	2007
	CU'000	CU'000
Asia Pacific	3,786	3,480
Europe and Africa	3,649	2,856
North America	6,097	2,038
South America	2,587	2,398
Unallocated	1,069	686
	17,188	11,458

A14p69(c)

CAPITAL EXPENDITURE

	2008	2007
	CU'000	CU'000
Asia Pacific	259	220
Europe and Africa	642	378
North America	2,754	468
South America	1,001	143
	4,656	1,209

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4. ANALYSIS OF OPERATING INCOME AND EXPENSES BY NATURE

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The following table illustrates the breakdown by nature of cost of sales, distribution costs, administrative expenses and other operating expenses.

	2008	2007
	CU'000	CU'000
EMPLOYEE BENEFITS EXPENSE		
A1p93 Wages and salaries	7,424	6,143
Social security costs	778	650
Defined contribution costs	40	36
Defined benefit obligation costs	780	665
Share-based payments: equity settled	24	80
	9,046	7,574
INTANGIBLE ASSETS		
Impairment of goodwill	100	120
Impairment of other intangible assets	24	-
A1p93 Amortisation of other intangible assets	271	256
Research and development	550	501
	945	877
PROPERTY, PLANT AND EQUIPMENT		
A1p93 Depreciation of property, plant and equipment	1,165	1,126
Impairment of property, plant and equipment	120	-
Loss on disposal of property, plant and equipment	12	13
	1,297	1,139
OTHER COSTS INCLUDED IN COST OF SALES		
Operating leases (all minimum lease payments) (Note 35)	108	95
A21p52 Foreign exchange differences	21	12
Consumables and raw materials used	7,177	1,986
Write-down of inventories (net of reversal)	16	11
Freight costs expense	87	26
	18,697	11,720
COST OF SALES		
DISTRIBUTION COSTS		
Transportation costs	567	643
Advertising costs	322	104
ADMINISTRATIVE EXPENSES		
Other overheads	1,094	1,001
Write off and provision of doubtful receivables, net	19	14
Exceptional restructuring costs (Note 29)	109	-
Other operating expenses	42	130
	20,850	13,612
TOTAL COST OF SALES, DISTRIBUTION COSTS, ADMINISTRATIVE EXPENSE AND OTHER OPERATING EXPENSES		

A20p30(b)

Employee benefits costs are stated net of government grant obtained as a result of the delivery of a training programme on new safety and security laws that will be in force in Newland starting from the beginning of 2009. The Group decided to implement such resolutions earlier and therefore was granted by the government a special contribution amounting to CU 20,000. All conditions attached to the government programme have been fulfilled.

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5. FINANCE COSTS

The following table analyses the total amount of finance costs classified by underlying IAS 39 category of financial assets and liabilities:

	2008	2007
	CU'000	CU'000
F7p20(a) Interest expense on financial liabilities measured at amortised cost	110	111
F7p20(a) Interest income on financial liabilities measured at amortised cost	(7)	(5)
F7p20(a) Dividend income from available for sale investments (NOTE 6)	(12)	(11)
FINANCE COSTS	91	95

F7p20(a)

During the year the company has not classified financial assets classified as held-to-maturity and financial assets or liabilities at fair value through the income statement. The following table analyses the amount of total interest income and total interest expense for financial assets and liabilities measured at amortised cost:

	2008	2007
	CU'000	CU'000
F7p20(a.v) INTEREST EXPENSE ON FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
Finance leases	26	22
Factored debts	42	37
Bank borrowings	10	24
Preference share dividends	25	25
Convertible bonds	12	-
Provisions: discount unwinding	4	3
A23p29 Borrowing costs capitalised at 6%	(9)	-
F7p20 (a.v) TOTAL INTEREST EXPENSE ON FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	110	111
F7p20(a.iv) Interest income from assets measured at amortised cost	(7)	(5)
NET INTEREST EXPENSE	103	106

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6. GAIN (LOSS) ON SALE OF FINANCIAL ASSETS

The following table analyses the amount of total gain or loss generated by available for sale investments:

	2008	2007
	CU'000	CU'000
NET INCOME (LOSS) RECOGNISED IN THE INCOME STATEMENT (NOTE 5)		
Income recognised directly in the income statement	12	11
Loss recognised directly in the income statement	-	-
	12	11
NET INCOME (LOSS) RECOGNISED DIRECTLY IN EQUITY (NOTE 32)		
Income recognised directly in equity	10	12
Loss recognised directly in equity	-	-
	10	12
NET INCOME (LOSS) RECOGNISED IN EQUITY (NOTE 32)		
Gain released to the income statement from equity	63	18
Loss transferred to the income statement from equity	-	-
	63	18
TOTAL GAIN/(LOSS) ON AVAILABLE FOR SALE INVESTMENTS	85	41

F7p20(a.ii)

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7. INCOME TAXES

	2008	2007
	CU'000	CU'000
Current taxes	619	452
Deferred taxes	63	110
TOTAL INCOME TAXES	682	562

The following table illustrates the detail of the tax charged to the income statement:

	2008	2007
	CU'000	CU'000
TAX CHARGE ON CONTINUING OPERATIONS		
CURRENT:		
Current tax for the year	542	472
Adjustments recognised in the year for current tax of prior periods	(20)	(20)
	522	452
DEFERRED:		
Change in tax rates	5	-
Temporary differences	155	110
	160	110
TOTAL INCOME TAXES ON CONTINUING OPERATIONS	682	562

	2008	2007
	CU'000	CU'000
TAX CHARGE ON DISCONTINUED OPERATIONS		
Current	(37)	(29)
Deferred	-	(21)
TOTAL INCOME TAXES ON DISCONTINUED OPERATIONS	(37)	(50)

On 30 November 2008, in the Republic of Dryland local tax authorities have approved a tax reform that will result in the increase of the corporate tax rate from the year 2010. This change has resulted in additional deferred tax liabilities of CU 5,000.

The effective tax rate for 2008 was 33.0% (31.7% in 2007). The theoretical income taxes are determined by applying the domestic corporate tax rate Republic of Newland, where the parent is domiciled. The effective tax rate is calculated including the share of post-tax results of associates. This calculation is consistent with that used in prior years.

A12p80(a)

A12p80(b)

A12p80(d)

A12p79

A12p81(h)

A12p81(h)

A12p81(d)

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A12p81(c)

	2008	2007
	CU'000	CU'000
TAX EXPENSE RECONCILIATION		
Profit for the year	2,065	1,771
Less: Share of post-tax results of associates (Note 13)	(140)	(300)
	1,925	1,471
Corporation tax charge thereon at 30% (2007 at 30%)	620	531
ADJUSTED FOR THE EFFECTS OF:		
- Expenses not deductible for tax purposes	62	57
- Income not liable to tax	(54)	(71)
- Not deductible Goodwill	75	75
- Adjustments to tax in respect of previous periods	(20)	(20)
- Other minor items	(1)	(10)
INCOME TAX EXPENSE FOR THE YEAR	682	562
EFFECTIVE TAX RATE	33.0%	31.7%

The amount of income taxes outstanding as of 31 December 2008 was CU 523,000. Such an amount is net of tax advances, which, according to the tax rules of certain jurisdictions, were paid before the year-end.

A12p81(h)

Note 21 provides additional details with regard to current and deferred tax on discontinued operations and Note 28 provides additional details with regard to deferred tax at the balance sheet date.

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8. EARNINGS PER SHARE

The following table illustrates the numerators and denominators used to calculate basic and diluted earnings per share of continued and discontinued operations:

	2008	2007
	CU'000	CU'000
NUMERATORS: EARNINGS ATTRIBUTABLE TO EQUITY		
Continuing operations: profit for the year	1,383	1,209
Minority interests	(105)	(52)
Continuing operations: attributable to equity holders	1,278	1,157
Discontinued operations: loss for the year	(110)	(226)
TOTAL BASIC EARNINGS	1,168	931
Interest on convertible bonds	12	-
Current and deferred tax on convertible bond interest	(3)	-
DILUTED EARNINGS	1,177	931
DENOMINATORS: WEIGHTED AVERAGE NUMBER OF EQUITY SHARES		
	CU'000	CU'000
BASIC	40,700	32,750
Dilutive share options effect	708	2,347
Conversion of convertible Bonds to equity	370	-
DILUTED	41,778	35,097

The weighted average number of equity shares refers to shares in circulation during the period, that is after the neutralisation of treasury shares.

The dilutive effect derives from two categories of transaction: share options (Note 27) and convertible bonds (Note 22).

9. DIVIDENDS ON EQUITY SHARES

A1p95

	2008	2007
	CU'000	CU'000
DIVIDENDS PAID ON EQUITY SHARES		
Final [0.7878 cents (2007: 0.9531 cents) per share]	260	305
Interim [0.5 cents (2007: 0.5 cents) per share]	240	165
TOTAL DIVIDENDS PAID IN THE YEAR	500	470

A1p125(a)

Since the year end the directors have proposed a final dividend in respect of 2008 of 0.8 cents per share which it is estimated will total CU 384,000.

A12p82

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10. PROPERTY, PLANT AND EQUIPMENT

	PROPERTY	PLANT	VEHICLES	COMPUTER EQUIPMENT	TOTAL
	CU'000	CU'000	CU'000	CU'000	CU'000
COST					
AT 1 JANUARY 2007	2,966	2,391	1,757	364	7,478
Exchange adjustments	(36)	(20)	(2)	(2)	(60)
External additions	-	363	327	212	902
Disposals	(120)	(298)	(335)	(74)	(827)
AT 1 JANUARY 2008	2,810	2,436	1,747	500	7,493
Exchange adjustments	50	32	8	20	110
Acquisitions (Note 17)	121	214	158	107	600
External additions	1,058	402	270	111	1,841
Transfer to held for sale (Note 21)	(800)	(51)	-	(10)	(861)
Disposals	-	(20)	(183)	(40)	(243)
AT 31 DECEMBER 2008	3,239	3,013	2,000	688	8,940
DEPRECIATION AND IMPAIRMENT					
AT 1 JANUARY 2007	241	420	548	203	1,412
Exchange adjustments	(12)	(8)	(2)	(2)	(24)
Depreciation for the year	60	592	393	81	1,126
Impairment for the year	-	-	-	-	-
Disposals	-	(168)	(320)	(53)	(541)
AT 1 JANUARY 2008	289	836	619	229	1,973
Exchange adjustments	27	17	4	4	52
Depreciation for the year	69	495	444	157	1,165
Impairment for the year (Note 11)	-	120	-	-	120
Transfer to held for sale (Note 21)	-	(10)	-	(5)	(15)
Disposals	-	(15)	(110)	(30)	(155)
AT 31 DECEMBER 2008	385	1,443	957	355	3,140
NET BOOK VALUE					
At 1 January 2007	2,725	1,971	1,209	161	6,066
At 31 December 2007	2,521	1,600	1,128	271	5,520
AT 31 DECEMBER 2008	2,854	1,570	1,043	333	5,800
INCLUDES FINANCE LEASES WITH:					
NET BOOK VALUE					
At 31 December 2007	-	285	-	-	285
AT 31 DECEMBER 2008	-	330	-	-	330

The impairment relates to the clockwork cash-generating unit which is part of the mechanical segment. As described in Note 11, such impairment test was carried out while preparing the interim financial statements as at 30 June 2008.

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A16p74(b) Property includes buildings in the course of construction that have cost CU 258,000 (2007: Nil).

A16p74(a) All of the Group's property is pledged as security for its bank loans.

A38p118(d) Impairment charges and amortisation have been charged entirely to cost of sales.

A17p31(c)(e) The Group leases some plants located in The Republic of Newland under non-cancellable lease agreements. Interest rates applied to such agreements are variable. All such lease arrangements include a purchase option that can be exercised at the end of the lease term. Contingent rents recognised as an expense in the period amounted to CU 21,000 (2007: CU 18,000).

A16p79(b) *Fully depreciated plant still in use had a cost of CU 250,000 (2007: CU 262,000).*

A16p79(d) *The fair value of property is estimated by the directors to be CU 4,000,000 (2007: CU 3,700,000).*

11. GOODWILL

The Group carried out the impairment test of goodwill for the period that ended on 30 June 2008. In particular, the decreasing performance of the clockwork division was considered sufficient evidence to trigger the impairment test. As detailed below the impairment test resulted in the recognition of a loss.

A36p130 The impairment loss relates to the entire goodwill of the clockwork cash-generating unit, which is part of the mechanical segment. It has suffered from a fall in demand. Accordingly it has been written down to value in use.

A36p126 The impairment charge has been accounted for in cost of sales.

The test has been repeated as of 31 December 2008, however, in this case no impairment charges were recognised; in fact, the carrying amount of all cash-generating units was lower than their recoverable amount.

	2008	2007
	CU'000	CU'000
GROSS AMOUNT AT 1 JANUARY	723	738
F3p75(f) Exchange adjustments	20	(15)
F3p75(b) Acquisitions (Note 17)	809	-
BALANCE AT 31 DECEMBER	1,552	723
ACCUMULATED IMPAIRMENT AT 1 JANUARY	118	-
F3p75(f) Exchange adjustments	5	(2)
F3p75(e) Recognised in the year	100	120
F3p75(h) BALANCE AT 31 DECEMBER	223	118
NET BOOK VALUE	1,329	605

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For the purpose of impairment testing, the carrying amount of goodwill and other assets has been allocated to cash generating units as follows:

	2008			2007		
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
	At 31 December			At 31 December		
	Mechanical	Electronic	Chemical	Mechanical	Electronic	Chemical
ASSETS ALLOCATIONS (PRIOR TO IMPAIRMENT CHARGE FOR THE PERIOD)						
A36p134(a) Goodwill	100	1,234	95	220	410	95
A36p134(b) Intangible assets with Indefinite useful life	-	1,125	-	-	122	-
Intangible assets	256	801	256	129	274	278
Property, plant and equipment	869	2,960	1,670	1,939	1,680	1,420
TOTAL	1,225	6,120	2,021	2,288	2,486	1,793
IMPAIRMENT CHARGE FOR THE YEAR						
A36p134(a) Goodwill	(100)	-	-	(120)	-	-
A36p134(b) Intangible assets with indefinite useful life	-	-	-	-	-	-
Intangible assets	(24)	-	-	-	-	-
Property, plant and equipment	(120)	-	-	-	-	-
TOTAL	(244)	-	-	(120)	-	-

Impairment charges for the year 2008 resulted from the impairment test carried out in relation to the preparation of the interim financial statements as at 30 June 2008.

A36p134(c)

In each case a recoverable amount has been determined based on a value in use calculation.

A36p134(d)

The principal assumptions made in determining value in use of each cash generating unit are consistent with those used for the calculation performed as at 30 June 2008 and are analysed as follows:

Mechanical: the impairment test has been carried out using a Discounted Cash Flow unlevered model covering a 10-year period. Cash flow projections are based on the next three years budgets and plans approved by management; cash flow projections beyond that three-year period have been extrapolated on the basis of a 2% growth rate. Such a growth rate does not exceed the long-term average growth rate of the sector. The discount rate applied (pre-tax Weighted Average Cost of Capital "WACC") is 8% (8% in 2007).

Electronic: the impairment test has been carried out using a Discounted Cash Flow unlevered model covering an 8-year period. Cash flow projections are based on the next three years budgets and plans approved by management; cash flow projections beyond that three-year period have been extrapolated on the basis of a zero growth rate. The discount rate applied (pre-tax WACC) is 10% (10% in 2007). Management believes that any reasonably possible change in the key assumptions on which mechanical division's recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Chemical: the impairment test has been carried out using a Discounted Cash Flow unlevered model covering a 10-year period. Cash flow projections are based on the next three years budgets and plans approved by management; cash flow projections beyond that three-year period have been extrapolated on the basis of a 5% growth rate. Such a growth rate does not exceed the long-term average growth rate of the sector. The discount rate applied (pre-tax WACC) is 8% (8% in 2007). Management believes that any reasonably possible change in the key assumptions on which mechanical division's recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

A36p134(f)

If the revised estimated pre-tax discount rate applied to the discounted cash flows had been 10% less favourable than management's estimates, the group would need to reduce pro-rata the carrying value of property, plant and equipment and intangible assets by CU 16,000. If the actual gross margin and the pre-tax discount rate had been more favourable than management's estimates, the group would be able to reverse any impairment losses that arose on impairment assets other than goodwill. IAS 36 does not permit reversing an impairment loss for goodwill.

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12. OTHER INTANGIBLE ASSETS

	LICENCES	CUSTOMER LISTS	BRANDS	DEVELOPMENT COSTS	TOTAL
COST	CU'000	CU'000	CU'000	CU'000	CU'000
AT 1 JANUARY 2007	203	158	331	651	1,343
Exchange adjustments	(9)	(5)	-	(2)	(16)
External additions	10	52	108	-	170
Internally developed additions	-	-	-	137	137
Disposals	(21)	-	(15)	-	(36)
AT 1 JANUARY 2008	183	205	424	786	1,598
Exchange adjustments	25	6	3	3	37
Acquisitions (Note 17)	126	115	59	202	502
External additions	180	22	1,421	-	1,623
Internally developed additions	-	-	-	90	90
Transfer as held for sale (Note 21)	(112)	(123)	-	(145)	(380)
Disposals	(187)	-	-	-	(187)
AT 31 DECEMBER 2008	215	225	1,907	936	3,283
AMORTISATION AND IMPAIRMENT					
AT 1 JANUARY 2007	147	88	100	222	557
Exchange adjustments	(4)	(2)	-	(1)	(7)
Amortisation for the year	20	49	87	100	256
Impairment for the year	-	-	-	-	-
Disposals	(11)	-	-	-	(11)
AT 1 JANUARY 2008	152	135	187	321	795
Exchange adjustments	5	3	-	1	9
Amortisation for the year	12	51	106	102	271
Impairment for the year (Note 11)	17	7	-	-	24
Transfer as held for sale (Note 21)	(51)	(75)	-	(84)	(210)
Disposals	(20)	-	-	-	(20)
AT 31 DECEMBER 2008	115	121	293	340	869
NET BOOK VALUE					
At 1 January 2007	56	70	231	429	786
At 31 December 2007	31	70	237	465	803
AT 31 DECEMBER 2008	100	104	1,614	596	2,414

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A38p118(d)

Impairment charges and amortisation have been charged entirely to Cost of sales.

A38p126

Research and development costs not recognised as assets amounted to CU 550,000 (2007: CU 501,000).

A38p122(a)

Brands include the brand Supervalve which was separately acquired during 2008 and whose carrying value is CU 1,125,000. It has an indefinite useful life and it is not amortised and has passed its annual impairment test together with the goodwill in the Electronic cash-generating unit, which it forms part of. Its recoverable amount was determined as shown in Note 11. The Group earns royalty income from allowing the local manufacture of Brand Supervalve under licence in countries where the Group is not represented. The brand is a leader in its markets, where it has been established for over 50 years and as sales continue to rise even when competitor products are launched, there is no sign of its life being limited.

A38p128

International Financial Reporting Standards do not permit the recognition of internally generated brands on the balance sheet. The Group's portfolio of globally recognised brands includes Brand Superpaste and Brand Superscrew.

A38p128

Software still in use includes fully depreciated software that cost CU 21,000 (2007: CU 21,000).

13. INVESTMENTS IN ASSOCIATES

A28p38

	2008	2007
	CU'000	CU'000
GROUP INTEREST		
AT 1 JANUARY	249	79
Exchange adjustments	2	(5)
Share of the profit or loss for the year	140	300
Dividends	(40)	(125)
Other equity movements	-	-
Transfer to subsidiary (Note 17)	(70)	-
BALANCE AT 31 DECEMBER	281	249

As a result of a step acquisition completed in 2008, Fine Products Inc. became a subsidiary and has been therefore fully consolidated (Note 17).

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A28p37

The remaining associates are Paste Inc. (incorporate in Newland) and SuperDrill Ltd. (incorporated in Wonderland). The Group's share of results and its share of net assets are summarised below:

	2008	2007
	CU'000	CU'000
PASTE INC.		
Group interest	28%	28%
Assets	528	422
Liabilities	292	273
Net assets	236	149
Revenues	712	689
Profit for the year	90	240
Investment at fair value (based on the Big City Stock Exchange quoted price)	384	356
SUPERDRILL LTD.		
Group interest	22%	22%
Assets	89	86
Liabilities	44	56
Net assets	45	30
Revenues	133	131
Profit for the year	15	20

A28p37(a)

A28p37(a)

SuperDrill Ltd. is not a listed entity.

A28p37(f)

There are no significant restrictions on the ability of Paste Inc. and SuperDrill Ltd. to transfer funds to the Group in the form of cash dividends.

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14. JOINT VENTURES

A31p56

The only significant joint venture is a 25% interest in JointCPU Inc., which is active in the production of special purpose built CPUs for the aerospace sector. JointCPU Inc. is jointly controlled with three other venturers as a result of a contractual agreement involving sharing of control over strategic, financial and operating decisions relating to JointCPU Inc. It is consolidated into the Group financial statements by using the proportional consolidation method including the amounts below:

	2008	2007
	CU'000	CU'000
Current assets	417	401
Non-current assets	802	765
Current liabilities	321	293
Non-current liabilities	603	527
Income	121	111
Expenses	107	99
<i>Operating cash flows</i>	45	38
<i>Investing cash flows</i>	70	21
<i>Financing cash flows</i>	55	42

A7p50(b)

15. AVAILABLE FOR SALE FINANCIAL ASSETS

F7p33

Balances as of 31 December 2008 include a portfolio of equity securities listed on the New York Stock Exchange that is spread across various industrial and geographical sectors to reduce exposure to price risk. These equity instruments have been bought to invest temporary excess funds.

	2008	2007
	CU'000	CU'000
BALANCE AT 1 JANUARY	269	257
Additions	75	-
Disposals	(80)	-
Changes in fair value recognised in equity	10	12
BALANCE AT 31 DECEMBER	274	269

F7p33

All securities listed above are denominated in USD.

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16. SUBSIDIARIES

A27p40(c)

Included in the Group is FarEast Co., 40% owned since its inception in 2006. Even though only 40% of the shares are still currently owned by Group companies, FarEast Co. is consolidated due to the fact that control is obtained through potential voting rights. The Group has an agreement with another shareholder, an investment bank, which owns a further 11% of the voting shares. According to this agreement the Investment Bank has agreed always to vote in the same way as the Group. The nature of this agreement results in the Group having the power to govern the financial and operating policies of FarEast Co. so as to obtain benefits from its activities.

A27p40(f)

There are no particular significant restrictions on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances, except for restrictions regarding subsidiaries located in the Republic of Dryland as explained in Note 20.

17. ACQUISITIONS

F3p67(a)(b)

On 30 June 2008 the Group acquired a further 20% of the share capital Fine Products Inc. (incorporated in Oceanland) taking its holding to 60% and from that date the Group gained control, holding shares that carry 60% of its votes, so it ceased to be an associate and became a subsidiary in the electronic segment specialising in aerospace products. It had been a 40% associate since its inception.

F3p67(i)

For the 6 month period as a subsidiary it contributed CU 170,000 to Group profit.

F3p70

For the 12 months to 31 December 2008 it had revenue of CU 3,460,000 and profits of CU 350,000.

F3p67(h)

The assembled workforce, high existing profitability and the synergies that the Group will obtain all contributed to the amount paid for goodwill. Those assets do not meet the recognition criteria prescribed by IFRS 3 - **Business Combinations** and therefore have not been recognised as separate intangible assets, but subsumed in goodwill.

F3p69

The fair values shown below for Fine Products Inc. are provisional as the hindsight period allowed by financial reporting standards has not yet expired. A detailed expert report on the fair value of provisions is expected to be available in time for the next set of interim financial statements.

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PRE-ACQUISITION BOOK VALUE UNDER IFRS	PROVISIONAL FAIR VALUE
CU'000	CU'000

F3p67(f)

ASSETS

Licences	-	126
Customer lists	-	115
Brands	-	59
Development costs	100	202
Property	95	121
Plant	195	214
Vehicles	150	158
Computer equipment	95	107
Inventories	315	340
Receivables	367	367
Cash and cash equivalents	10	12
	1,327	1,821

F3p67(f)

LIABILITIES

Borrowings	15	15
Trade payables	172	172
Defined benefit obligations	40	57
Deferred tax	18	115
Provisions	62	62
	307	421
NET ASSETS	1,020	1,400

F3p67

Net assets acquired by the group in the year (20%)	280
Goodwill recognised on that 20%	809
Cost of the additional 20%	1,089
Satisfied by:	
14,000,000 shares issued at market price (less issue costs of CU 26,000)	774
Cash paid	300
Expenses of acquisition	15
Total cost of the combination in the year	1,089

F3p67(d)

F3p67

Carrying value of net assets of 40% when an associate	70
Revaluation to fair values at the date of becoming a subsidiary	490
FAIR VALUE OF THE 40% OF NET ASSETS ON BECOMING A SUBSIDIARY	560

GOODWILL RECONCILIATION

F3p67(d)

F3p67(d)

F3p67(d)

Goodwill on acquisition of 40%	0
- Cash paid	38
- Expenses of acquisition	2
- Total cost of 40% investment	40
- Fair value of 40% net assets at the time they were acquired by the Group	40
Goodwill on acquisition of further 20% in the year as calculated above	809
TOTAL GOODWILL RECOGNISED IN CONNECTION WITH THE ACQUISITION OF FINE PRODUCTS INC.	809

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18. INVENTORIES

	2008	2007
	CU'000	CU'000
A2p36(b) Raw materials	821	792
A2p36(b) Work in progress	1,042	624
A2p36(b) Finished goods	760	579
BALANCE AT 31 DECEMBER	2,623	1,995

A2p36(d) The amount of inventories recognised as an expense during the period amounted to CU 18,697,000 (2007: CU 11,720,000).

A2p36(e) Write down of inventories to their net realisable value amounted to CU 14,000 (2007: CU 16,000) and mostly relate to finished products.

A2p36(f) The amount of reversals of any write-down recognised as a reduction in the amount of inventories recognised as an expense was nil in 2008 (2007: CU 5,000).

A2p36(h) There are no inventories pledged as security for liabilities.

19. TRADE AND OTHER RECEIVABLES

	2008	2007
	CU'000	CU'000
A1p75(b) Gross trade receivables	2,363	1,413
Allowance for doubtful debts	(46)	(27)
Net trade receivables	2,317	1,386
Other receivables	106	49
Prepayments and accrued income	163	82
BALANCE AT 31 DECEMBER	2,586	1,517

F7p25 There is no material difference between the fair value of receivables and their book value.

F7p13 Included within trade receivables are factored receivables of CU 946,000 (2007: CU 801,000). The related advance from the factoring company of CU 683,000 (2007: CU 560,000) is included in borrowings. Since those receivables did not meet the IAS 39 derecognition requirements, they were recognised as receivables even though they were legally sold without recourse. Amongst other clauses there was a deferred purchase price clause, under which a portion of transferred receivables were paid to the Group only upon full collection of the receivables. This resulted in substantial risks and rewards not being transferred to the transferee and therefore the IAS 39 derecognition criteria were not met.

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F7p16

The table below analyses changes in the allowance for doubtful receivables in the period.

F7p20(e)

	2008	2007
	CU'000	CU'000
ALLOWANCE FOR DOUBTFUL RECEIVABLES		
BALANCE AT 1 JANUARY	27	13
Provision for the year	43	28
Utilised in the year	(19)	(9)
Reversed in the year on collection of receivables	(5)	(5)
BALANCE AT 31 DECEMBER	46	27

Provisions, write-off of uncollectible receivables and utilisation of the allowance for doubtful receivables are presented in the income statement within administrative expenses.

20. CASH AND CASH EQUIVALENTS

A7p45

A7p8

	2008	2007
	CU'000	CU'000
Cash in hand	51	47
Bank balances	283	240
Short term deposits (under 30 days maturity)	288	75
As previously reported	-	362
Exchange rate changes	-	(2)
BALANCE AS STATED IN THE BALANCE SHEET AT 31 DECEMBER	622	360
Less bank overdrafts shown as liabilities in the balance sheet	(202)	(137)
BALANCE FOR CASH FLOW STATEMENT PURPOSES AT 31 DECEMBER	420	223

A7p8

As described in the accounting policies bank overdrafts repayable on demand fluctuate from being positive to overdrawn and are considered an integral part of the Group's cash management for cash flow statement purposes.

F7p48

Foreign exchange restrictions in the Republic of Dryland prevent the remittance to the parent of cash balances of CU 27,000 (2007: CU 18,000). However, such cash balances can be used in order to meet short-term cash commitments within in relation to transaction undertaken within the Republic of Dryland.

F7p25

There is no material difference between the fair value and the book value of cash and equivalents.

Short term deposits represent temporary excess of liquidity invested in low-risk short-term bank deposits with a maturity not exceeding 30 days.

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21. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

F5p41(a)

On 15 July 2008 the Board decided to sell the clockwork component of the mechanical division. On 15 September 2008 the Group closed the sale with a private investor. As a result the entire clockwork component was sold except for the African clockwork component.

The table below analyses key amounts relating to the entire discontinued clockwork component:

	2008	2007
	CU'000	CU'000
F5p33(b) Revenue	1,110	2,108
F5p33(b) Expenses	(1,234)	(2,384)
F5p33(b) Loss before tax	(124)	(276)
F5p33(b) Income taxes	30	50
LOSS AFTER TAX BEFORE DISPOSAL LOSS	(94)	(226)
F5p33(b) Loss on disposal of subsidiary	(23)	-
F5p33(b) Tax on disposal loss	7	-
LOSS AFTER TAX ON DISPOSAL	(16)	-
TOTAL LOSS ON DISCONTINUED OPERATIONS	(110)	(226)

F5p33(c)

F5p34

Before disposal the discontinued operations contributed CU 255,000 to (2007: CU 8,000 outflow from) operating cash inflows, CU 32,000 (2007: CU 12,000) to investing cash outflows and CU 103,000 (2007: CU 205,000) to financing cash outflows.

A7p40

The following table summarises the carrying value assets and liabilities of the clockwork component that were sold on 15 September 2008:

ASSETS	CU'000
Licences	167
Plant	5
Vehicles	43
Computer equipment	10
Inventories	102
Receivables	107
Cash and equivalents	5
	439
LIABILITIES	
Borrowings	(85)
Trade payables	(15)
Deferred tax	(5)
	(105)
Net assets disposed of	334
Cash proceeds	(311)
LOSS ON DISPOSAL	23

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F5p41(b)

The loss on disposal was included in loss on discontinued operations in the income statement.

The sale of the remaining African clockwork unit of the mechanical segment is expected to take place before the next interim financial statements are published. It is currently estimated that the unit will realise its book value (net of disposal costs).

The following table summarises the carrying amount of the African clockwork component after classification as held for sale:

F5p38

ASSETS	2008	
INTANGIBLES	CU'000	
- Licences		61
- Customer lists		48
- Development costs		61
		170
PROPERTY, PLANT AND EQUIPMENT		846
TOTAL ASSETS AT 31 DECEMBER 2008		1,016
LIABILITIES		
Trade and other payables		191
Long term provisions		109
TOTAL LIABILITIES AT 31 DECEMBER 2008		300
NET CARRYING AMOUNT OF DISPOSAL GROUP AT 31 DECEMBER 2008		716

F5p38

22. BORROWINGS

	2008	2007
CURRENT PORTION	CU'000	CU'000
Bank loans and overdrafts	202	137
Finance leases	55	51
Advance from factoring company	683	560
Debt element of convertibles	24	-
BALANCE AT 31 DECEMBER	964	748

The bank overdrafts are unsecured and repayable on demand.

There is no material difference between the book value and the fair value of the Group's current financial assets and liabilities.

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	2008	2007
	CU'000	CU'000
NON-CURRENT PORTION		
Bank loans (secured on Group property)	680	32
Finance leases	236	291
Debt element of convertible bonds	766	-
Preference shares	500	500
BALANCE AT 31 DECEMBER	2,182	823

The following table illustrates the estimated fair value of liabilities classified within borrowings:

F7p25

	2008	2007
	CU'000	CU'000
FAIR VALUE OF NON-CURRENT BORROWINGS		
Bank loans	678	32
Finance leases	239	288
Debt element of convertible bonds	758	-
Preference shares	495	505
BALANCE AT 31 DECEMBER	2,170	825

F7p27

FAIR VALUES

The Group uses the following valuation techniques to determine the fair value of financial instruments that are not traded in an active market:

- The fair value of non-current bank loans was estimated by discounting the future cash flows payable under the terms of the loan using the year-end market interest rate applicable to loans of similar terms and conditions.
- The fair value of finance leases was estimated by discounting the future cash flows payable under the terms of the leases using the year-end interest rate applicable to similar finance leases.
- The fair value of the debt element of convertible bonds was estimated by discounting the future cash flows payable under the terms of the loan using the year-end market interest rate applicable to similar loans without a conversion option.
- The preference shares are unquoted, so their fair value is computed by discounting the future scheduled cash flows on the assumption that dividends and redemption payments will continue to be made in accordance with the terms of issue.

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BANK LOANS

The bank loans are all nominally at floating rates linked to interest rates in the countries concerned. However, as described below, an interest rate swap has been entered into that effectively converts some of them to fixed rates.

A7p50(a)

The Group had undrawn floating rate borrowing facilities available of CU 3,098,000 (2007: CU 3,831,000). These facilities expire in 3 years (2007: 4 years time).

FINANCE LEASES

A17p31

	2008	2007
	CU'000	CU'000
FINANCE LEASES: MINIMUM LEASE PAYMENTS		
Within one year	77	77
Over one year but within 5 years	279	279
After 5 years	65	142
Total payable	421	498
Future finance charges	(130)	(156)
BALANCE AT 31 DECEMBER	291	342
Presented as current borrowings	55	51
Presented as non-current borrowings	236	291
- due later than one year and not later than five years	181	253
- due later than five years	55	38

Additional information about leased assets is shown in Note 10.

DEBT ELEMENT OF CONVERTIBLE BONDS

F7p17

The 3% convertible bonds issued in the year have a face value of CU 740,000 and are repayable in full in 10 years time to the extent that the holders have not exercised their annual right to convert to equity at a rate of 1 ordinary share per CU of loan.

A1p76

	2008	2007
	CU'000	CU'000
PREFERENCE SHARES		
AUTHORISED, ISSUED AND FULLY PAID: 5,000,000 ORDINARY SHARES OF 1 CU EACH	500	500

A1p76

The preference shares have a right to a fixed cumulative dividend of 5% per annum and are redeemable at their issue price of CU 1 each in 2010. They rank ahead of ordinary shares in the event of liquidation, both for their entitlement to a return of capital and for any arrears of dividend. The preference shares are non-voting unless dividends become in arrears.

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23. DERIVATIVES FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

At 31 December 2008 the Group has in place derivatives held for cash flow hedging purposes only.

The table below summarises the fair value of derivatives engaged in cash flow hedge relationships at 31 December.

F7p25

CASH FLOW HEDGES	2008	2007
	CU'000	CU'000
CONTRACTS WITH NEGATIVE FAIR VALUE		
Forward foreign currency contracts	(122)	(101)
Interest rate swaps	(81)	(12)
	(203)	(113)
CONTRACTS WITH POSITIVE FAIR VALUE	-	-
NET BALANCE AT 31 DECEMBER	(203)	(113)

FORWARD CURRENCY CONTRACTS

At 31 December 2008 the Group had in place the following forward currency contracts:

CONTRACT	PRINCIPAL	REFERENCE CURRENCY	MATURITY	FAIR VALUE
				CU'000
Forward currency contract	100,000	USD	15 Jan 2009	5
Forward currency contract	150,000	USD	15 Feb 2009	2
Forward currency contract	100,000	USD	15 Mar 2009	7
Forward currency contract	200,000	USD	15 Apr 2009	21
Forward currency contract	100,000	USD	15 June 2009	24
Forward currency contract	50,000	USD	15 Sept 2009	17
Forward currency contract	50,000	USD	15 Oct 2009	16
Forward currency contract	100,000	USD	15 Nov 2009	30
	850,000			122

F7p22(a)(b)(c)

The purpose of these contracts is to mitigate the fluctuations of expected sales and purchases (forecast transactions) denominated in USD and primarily relating to the US market. The forward exchange contracts are put in place in order to hedge the excess of anticipated sales over purchases that will be made in USD over the next year. The Group prepares sales and purchase forecasts in USD for the following year on a monthly basis and designates as the hedged item the part of monthly sales exceeding the purchases of the month.

F7p23(a)

Cash flows are expected to occur and affect the income statement in the month concerned.

INTEREST RATE SWAPS

F7p22(a)(b)(c)

The notional amount of the interest rate swaps was CU 754,000 (2007: CU 123,000). They are designed to convert floating rate borrowings to fixed rate exposure for the next two years at 7.5 % (2007: 7.6 %).

F7p22

HEDGE OF FOREIGN NET INVESTMENTS

There are Euro borrowings with a fair value of CU 1,078,000 (2007: CU 410,000) which have been designated to hedge a portion of the Group's currency exposure arising from its investment in the net assets of its US Dollar area subsidiaries. The effective portion of the foreign exchange gain of CU 82,000 (2007: CU 53,000) has been taken directly to equity.

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F7p23(c)(d)

The movements to the hedge reserve that occurred during the year are illustrated in the Note 32.

F7p23(b)

All the hedges were deemed to be effective during 2007 and 2008 and hedge ineffectiveness recognised in the income statement was not material.

F7p27

FAIR VALUE MEASUREMENT

Both forward currency contracts and the interest rate swap are not traded in an active market. As a result, their fair value is based on valuation techniques currently consistent with generally accepted valuation methodologies for pricing financial instruments, and incorporate all factors and assumptions that knowledgeable, willing market participants would consider in setting the price.

The fair value of forward currency contracts is based on the current value of the difference between the contractual exchange rate and the market rate at the balance sheet date.

The fair value of interest rate swaps is determined on the basis of the current value of the difference between the contractual interest rate and the market rate at the balance sheet date.

24. TRADE AND OTHER PAYABLES

A1p74

	2008	2007
	CU'000	CU'000
Trade payables	818	802
Other payables	218	234
Accrued liabilities	96	110
Deferred income	80	60
BALANCE AT 31 DECEMBER	1,212	1,206

OTHER PAYABLES COMPRISE:

Social security	102	82
Tax	98	84
Miscellaneous minor items	18	68
BALANCE AT 31 DECEMBER	218	234

Presented as:

- Current	1,017	1,045
- Non-current	195	161

Accrued liabilities and deferred income represents miscellaneous contractual liabilities that relate to expenses that were incurred, but not paid for at the year-end and income received during the period, for which the Group had not supplied the goods or services at the end of the year.

F7p25

The book value of trade payables, accrued liabilities and deferred income is considered to be in line with their fair value at the balance sheet date.

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25. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

F7p31-33

In performing its operating, investing and financing activities, the Group is exposed to the following financial risks: credit risk, liquidity risk and market risk and define those risks as follows:

- Credit risk: the possibility that a debtor will not repay all or a portion of a loan or will not repay in a timely manner and therefore will cause a loss the Group.
- Liquidity risk: the Group define this risk as the risk that it may not have, or may not be able to raise, cash funds when needed and therefore encounter difficulty in meeting obligations associated with financial liabilities.
- Market risk: the risk that the value of a financial instrument will fluctuate in terms of fair value or future cash flows as a result of a fluctuation in market prices. Basically the Group is exposed to three market price risks.
 - Interest rate risk
 - Equity price risk
 - Currency risk

In order to effectively manage those risks, the Board of Directors has approved some strategies for the management of financial risks, which are in line with corporate objectives. These guidelines set up the short and long term objectives and action to be taken in order to manage the financial risks that the Group faces.

The major guidelines of this policy are the following:

- Minimise interest rate, currency and market risk for all kind of transactions
- Maximise the use of "natural hedge": favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency and therefore put in place hedging strategies only for the excess balance. The same strategy is pursued with regard to interest rate risk
- Enter into derivatives or any other similar instrument solely for hedging purposes
- All financial risk management activities are carried out and monitored at central level
- All financial risk management activities are carried out on a prudent and consistent basis and following the best market practices
- The Group can invest in shares or similar instruments only in the case of temporary excess of liquidity and such transactions have to be authorised by the Board of Directors.

The Group employs a corporate treasurer who reports to the treasury sub-committee of the Board of Directors. Internal audits are conducted to ensure that the Group's policies and procedures are followed in practice.

In particular, with regard to derivatives, the Group follows the following risk management policies:

- The Group documents carefully all derivatives including the relationship between them and the hedged items at inception and throughout their life
- Ineffectiveness is recognised in the income statement as soon as it arises
- Effectiveness is assessed at the inception of the hedge and at each reporting date ensuring that IAS 39 criteria are met
- Only high quality financial institutions are used as counterparties for derivatives.

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The Following table summarises the carrying amount of financial assets and liabilities recorded at 31 December by IAS 39 category:

	2008	2007
	CU'000	CU'000
FINANCIAL ASSETS		
Cash and cash equivalents	622	360
Financial assets at fair value through the income statement	-	-
Available for sale investments	896	629
Loans and Receivables: Trade and other receivables	2,586	1,517
Held-to-maturity investments	-	-
BALANCE AT 31 DECEMBER	4,104	2,506
FINANCIAL LIABILITIES		
At fair value through the income statement	-	-
Measured at amortised cost:		
- Borrowings	3,146	1,571
- Derivative financial instruments	203	113
- Trade and other payables ¹	994	972
BALANCE AT 31 DECEMBER	4,343	2,656

F7p8

CREDIT RISK

F7p36(a)

The Group controls its exposure to credit risk by setting limits on its exposure to individual customers and these are disseminated to operating companies and compliance is monitored by the Central Treasury Department. As part of the process of setting customer credit limits, different external credit reference agencies are used, according to the country of the customer. There are no significant concentrations of credit risk.

The maximum exposure to the credit risk to which the Group is exposed is summarised in the following table:

	2008	2007
	CU'000	CU'000
Cash and cash equivalents	288	75
Trade and other receivables	2,586	1,517
BALANCE AT 31 DECEMBER	2,874	1,592

As explained in Note 20, above Cash and cash equivalents balances represent short term deposits with a less than 30-day maturity.

¹Excludes other payables (non-contractual liabilities). See note 24.

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The table below illustrates the financial assets ageing analysis:

	2008	2007
	CU'000	CU'000
FINANCIAL ASSETS		
F7p33-34 Less than 30 days	2,638	1,451
31-60 days	143	100
61-90 days	57	31
F7p37 91- 180 days	36	10
Over 180 days	-	-
BALANCE AT 31 DECEMBER	2,874	1,592

Note 15 illustrates the analysis of the allowance for doubtful receivables.

Available for sale investments: all of these are in the form of investments in equity securities and therefore there is no maturity.

The line "Less than 30 days" includes short term deposits with a less than 30-day maturity that are classified as Cash and cash equivalents (Note 20)

LIQUIDITY RISK

FINANCIAL LIABILITIES MATURITY ANALYSIS

F7p39(a)

The Group manages liquidity risk on the basis of expected maturity dates.

F7pB11-16

The following table analyses financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

	BORROWINGS	DERIVATIVES	TRADE AND OTHER PAYABLES	TOTAL
	CU'000	CU'000	CU'000	CU'000
Less than 1 year	964	132	799	1,895
1 - 3 years	1,488	85	201	1,774
3 - 5 years	139	-	-	139
Over 5 years	805	-	-	805
BALANCE AT 31 DECEMBER 2008	3,396	217	1,000	4,613

F7p39(b)

IG30-31

At present the Group does expect to pay all liabilities at their contractual maturity. In order to meet such cash commitments the Group expects the operating activity to generate sufficient cash inflows. In addition, the Group holds financial assets for which there is a liquid market and that are readily available to meet liquidity needs.

A7p50

At the balance sheet date there were undrawn borrowing facilities of CU 3,098,000 (2007 CU 3,831,000) available for operating activities and to settle capital commitments. The Group maintains substantial borrowing facilities to ensure that it can manage to fund its budgeted operations and take advantage of expansion opportunities as they arise. The finance director provides the board with a monthly schedule showing the maturity of financial liabilities and unused borrowing facilities to assist the board in monitoring liquidity risk.

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INTEREST RATE RISK

The Group's exposure to interest rate risk mainly concerns financial liabilities. Liabilities are both fixed rate and floating rate. At presents the Group does not hold loans and receivables that are long-term in nature. The following table analyses the breakdown of liabilities (excluding derivatives) by type of interest rate:

	2008	2007
FINANCIAL LIABILITIES	CU'000	CU'000
Fixed rate	2,653	1,092
Floating rate	493	479
Non-interest bearing	994	972
BALANCE AT 31 DECEMBER	4,140	2,543

F7p22

In order to manage the interest rate risk the Group enters into interest rate swaps to mitigate the fair value risk relating to fixed-interest assets or liabilities and the cash flow risk related to variable-interest rate assets and liabilities. Note 23 illustrates the interest rate hedging activities in place at 31 December 2008.

SENSITIVITY ANALYSIS

F7p40

The analysis has been performed separately for fixed interest rate financial liabilities and floating interest rate financial liabilities. The impact of a change in interest rates on floating interest rate financial liabilities has been assessed in terms of changing of their cash flows and therefore in terms of the impact on net expenses and has been quantified as follows:

A hypothetical increase in interest rates by 100 basis points on a parallel yield curve would cut profits after tax by CU 28,000 (2007: CU 13,000).

A hypothetical increase in interest rates by 200 basis points on a parallel yield curve would cut profits after tax by CU 55,000 (2007: CU 25,000).

The impact of a change in interest rates on fixed interest rate financial liabilities has been assessed in terms of changing of their fair value. The potential loss in fair value of fixed rate financial liabilities held at 31 December 2008 has been quantified as follows:

A hypothetical increase in interest rates by 100 basis points on a parallel yield curve would cut profits after tax by CU 97,000 (2007: CU 47,000).

A hypothetical increase in interest rates by 200 basis points on a parallel yield curve would cut profits after tax by CU 178,000 (2007: CU 83,000).

FOREIGN CURRENCY RISK

Since the Group operates internationally, it is exposed to foreign currency risk as part of its normal industrial and commercial business. In particular, the Group is significantly exposed to USD currency risk due to the large value of sales made in the United States. In this respect, the Group enters into foreign currency contracts on a rollover basis for the purpose of hedging the excess of anticipated sales in USD over purchases in USD. Note 23 illustrates the foreign currency hedging activities in place at 31 December 2008.

The Group's overseas operations are partly financed by local currency loans and the equity element is largely hedged by long-term foreign currency borrowings. In addition forward currency contracts are used as cash flow hedges of exposures on certain foreign net foreign currency sales exposures as described below.

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F7p34

FINANCIAL ASSETS BY CURRENCY	AVAILABLE FOR SALE	TRADE AND OTHER RECEIVABLES	CASH AND CASH EQUIVILENTS	TOTAL
Financial assets as at 31 December 2008 are analysed as follows:	CU'000	CU'000	CU'000	CU'000
CU	-	756	123	879
Japanese Yen	-	405	46	451
Euro	-	326	145	471
Sterling	-	688	79	767
US dollars	274	213	120	607
Other	-	198	109	307
BALANCE AT 31 DECEMBER 2008	274	2,586	662	3,482

F7p34

	AVAILABLE FOR SALE	TRADE AND OTHER RECEIVABLES	CASH AND CASH EQUIVILENTS	TOTAL
Financial assets as at 31 December 2007 are analysed as follows:				
CU	-	509	123	632
Japanese Yen	-	296	4	300
Euro	-	330	80	410
Sterling	-	105	33	138
US dollars	269	102	95	466
Other	-	175	25	200
BALANCE AT 31 DECEMBER 2007	269	1,517	360	2,146

F7p34

FINANCIAL LIABILITIES BY CURRENCY

	BORROWINGS	DERIVATIVES	TRADE AND OTHER PAYABLES	TOTAL
Financial assets as at 31 December 2008 are analysed by currency as follows:				
CU	1,410	81	192	1,687
Japanese Yen	-	-	210	210
Euro	1,078	-	156	1,234
Sterling	-	-	180	180
US dollars	658	122	132	912
Other	-	-	120	120
BALANCE AT 31 DECEMBER 2008	3,146	203	994	4,343

F7p34

	BORROWINGS	DERIVATIVES	TRADE AND OTHER PAYABLES	TOTAL
Financial assets as at 31 December 2007 are analysed by currency as follows:				
CU	701	12	192	1,687
Japanese Yen	-	-	185	210
Euro	410	-	123	1,234
Sterling	-	-	155	180
US dollars	460	101	227	912
Other	-	-	90	120
BALANCE AT 31 DECEMBER 2007	1,571	113	972	2,656

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SENSITIVITY ANALYSIS

A hypothetical 10% increase in the exchange rate of the CU against all other currencies would cut profits after tax by CU 195,000 (2007: CU 58,000).

A hypothetical 10% increase in the exchange rate of the CU against the Euro would cut profits after tax by CU 82,000 (2007: CU 21,000).

A hypothetical 10% increase in the exchange rate of the CU against the USD would cut profits after tax by CU 76,000 (2007: CU 25,000).

A hypothetical 10% increase in the exchange rate of the CU against the Japanese Yen would cut profits after tax by CU 12,000 (2007: CU 6,000).

The analysis above has been carried out on the following basis:

- Without taking into consideration hedged transactions. In fact, with regard to hedged transactions it is reasonable to expect that fluctuations on the value of hedged items are almost fully offset by hedging items
- Taking into consideration the currency risk relating to available for sale investments in companies listed on the New York Stock Exchange (see below).

EQUITY PRICE RISK

As stated in the Group risk financial policies approved by the Board of Directors, the Group can invest temporary excess liquidity in shares or similar instruments. Investments in derivatives for speculative purposes are banned. As at 31 December 2008 the company held some shares available for sale investment in companies listed on the New York Stock Exchange (Note 15). As a result, such investments are exposed to both currency risk and changes in fair value risk.

F7p40

SENSITIVITY ANALYSIS

Listed entities on the New York Stock Exchange are subject to fair value risk. The fair value of those assets as at 31 December 2008 amounted to CU 274,000. A hypothetical 10% decrease in the fair value of those assets would result in a loss of CU 27,400 (such loss would be recognised directly on equity). This figure does not reflect the currency risk, which has been considered in the foreign currency risks analysis section only.

A19p120A(b)

26. RETIREMENT BENEFIT OBLIGATIONS

These pay retirement benefits of 1/80th of final salary for each year of service by the employee with the Group and a half pension to surviving spouses. Final salary is the average of the last three year's remuneration before retirement for the employee concerned. The scheme is constituted as a trust and the assets are kept separate from those of the Group.

The principal actuarial assumptions used for the purpose of the actuarial valuation at 31 December were as follows:	2008	2007
	%	%
Discount rate	5.00	5.25
Weighted average expected return on assets	5.50	5.75
Expected rate of salary increases	5.00	5.25
Expected rate of defined benefit obligation increases	3.00	3.50

The assumptions relating to longevity used to compute the defined benefit obligation liabilities are based on published mortality tables commonly used by the actuarial profession in each territory concerned.

A19p120A
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A19p120

The amount recognised in the income statement is as follows:

	2008	2007
	CU'000	CU'000
Current service cost	636	562
Interest cost	600	563
Expected return on plan assets	(550)	(510)
Net recognised actuarial losses	42	50
Past service cost	30	-
Loss on curtailment	22	-
PROFIT AND LOSS EXPENSE (CHARGED TO COST OF SALES)	780	665

A19p120(q)

The best estimate of contributions expected to be paid to the plan during 2009 is CU 700,000.

A19p120(p)

The following table analyses the amounts for the current annual period and previous four annual periods of the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan, the experience adjustments arising on the plan liabilities and the plan assets at 31 December:

	2008	2007	2006	2005	2004
	CU'000	CU'000	CU'000	CU'000	CU'000
Present value of the defined benefit obligation	(13,643)	(12,000)	(11,020)	(10,980)	(10,420)
Fair value of the plan assets	11,702	10,000	9,870	10,850	10,510
SURPLUS OR (DEFICIT) AT 31 DECEMBER	(1,941)	(2,000)	(1,150)	(130)	90
Experience adjustments gains/(losses) arising on:					
- Liabilities	(412)	(358)	(242)	(195)	(167)
- Assets	612	274	(465)	(978)	518

A19p120A(f)

The following table analyses the amounts recognised in the balance sheet:

	2008	2007
	CU'000	CU'000
Present value of defined benefit obligations	13,643	12,000
Fair value of plan assets	(11,702)	(10,000)
Net actuarial deficit	1,941	2,000
Unrecognised actuarial losses	(1,466)	(1,708)
BALANCE SHEET LIABILITY AT 31 DECEMBER	475	292
Presented as:		
- Current liability	9	42
- Non-current liability	466	250

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FOR THE YEAR ENDED 31 DECEMBER 2008

The following table analyses the movements in plan liabilities:

A19p120A(c)

	2008	2007
	CU'000	CU'000
PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS (WHOLLY OR PARTLY FUNDED)		
Current service cost	636	462
Interest on obligations	600	463
Past service cost	30	-
Actuarial losses	412	268
Losses on curtailments	22	-
Obligations assumed with business combinations (Note 17)	169	-
Exchange differences on foreign plans	(2)	(6)
Benefits paid	(224)	(207)
Increase during the year	1,643	980
At 1 January	12,000	11,020
BALANCE AT 31 DECEMBER	13,643	12,000

A19p120A(e)

	2008	2007
	CU'000	CU'000
FAIR VALUE OF PLAN ASSETS		
Expected return on plan assets	550	510
Excess of actual over expected return	612	274
Actual return on plan assets	1,162	784
Employer contributions	650	550
Assets acquired with business combinations	112	-
Exchange differences on foreign plans	2	3
Benefits paid	(224)	(207)
Increase during the year	1,702	1,130
At 1 January	10,000	8,870
BALANCE AT 31 DECEMBER	11,702	10,000

The following table analyses the composition of the fair value of the plan assets at 31 December:

A19p120A(j)

	2008	2007
	%	%
ANALYSIS OF THE FAIR VALUE OF PLAN ASSETS		
Equity investments	66	63
Property	10	9
Debt instruments	24	28
BALANCE AT 31 DECEMBER	100	100

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A14p120(i)

The weighted average expected return on assets has been determined as follows:

- Equity investments: All equity investments included in the plan assets are listed in primary stock exchanges. Their expected return has been computed by reference to indices published by relevant exchanges
- Property: by reference to long-term real estate rates of return experienced in the markets where the estates are located
- Debt instruments: All debt instruments included in the plan assets are government bond. Their expected return has been computed by reference to the current level of expected returns on risk-free investments (government bonds).

A14p120(m)

The actual return on plan assets for the year that ended on 31 December 2008 was CU 1,162,000 (2007: CU 784,000).

A14p120

Employees of the Group are not entitled to any other significant long-term benefits.

27. SHARE-BASED PAYMENTS

During December 2004 the Board of Directors approved an equity-settled stock option plan, which provides certain managers across the Group with the option to purchase ordinary shares of IFRS Statements Limited at a fixed price.

F5p33

Management are eligible after 1 year's service to join a share option scheme under which they are granted options which, provided they remain within the Group's employment for an additional 3 years, are exercisable over a fixed period of time of 5 years from the vesting date at the market price of the shares. No performance conditions were attached to the plan.

The table below summarises the number of options that were outstanding, their weighted average exercise price as at 31 December as well as the movements during 2008.

			Weighted average exercise price	
	2008	2007	2008	2007
	NO. '000	No.'000	cents	cents
F2p45 At 1 January	1,920	2,870	32.5	22.1
F2p45 Granted	200	200	130.0	125.0
F2p45 Exercised	(1,000)	(1,000)	6.2	6.0
F2p45 Forfeited	(120)	(150)	135.0	135.0
F2p45 Expired	-	-	-	-
BALANCE AT 31 DECEMBER	1,000	1,920	66.1	32.5

During the period the Board of Directors cancelled 120,000 share-options granted to top management that had not yet vested. The grant date fair value of the options as originally priced and not yet charged to the income statement has been taken immediately to the income statement.

F2p51(a)

During 2008 the total charge to income statement amounted to CU 24,000 (2007: CU 80,000). Such amounts include CU 5,000 (2007: CU Nil) recorded in the income statement immediately because of the abovementioned cancellation.

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F2p45

The estimate of the grant date fair value of each option issued is based on a binomial lattice model. In order to approximate the expectations that would be reflected in a current market or negotiated exchange price for these options, the calculation takes into consideration factors like behavioural considerations and non-transferability of the options granted.

Inputs to the model included:

	2008	2007
Grant date share price and exercise price	shown below	shown below
Historical and expected volatility	40%	40%
Dividend yield	2.5%	2.0%
Risk-free interest rate	4.0%	4.0%
Forfeiture probability: leaving pre-vesting	28%	25%

F2p47(a)(ii)

Expected volatility was determined taking into consideration the company's volatility over a five-year period prior to each award date. Dividends used are those last known at the date the plan was approved.

F2p45

The outstanding number of options at 31 December was:

			Number of shares outstanding on 31 December	
			2008	2007
EXERCISE PRICE	GRANT DATE	EXERCISE PERIOD	No '000	No '000
6.2 Cents	31 March 2004	From 31 March 2006 to 31 March 2012	500	1,500
120 Cents	31 March 2005	From 31 March 2007 to 31 March 2013	100	100
125 Cents	31 March 2006	From 31 March 2008 to 31 March 2014	200	200
130 Cents	31 March 2007	From 31 March 2009 to 31 March 2015	200	-
135 Cents	31 March 2008	From 31 March 2010 to 31 March 2016	-	120
BALANCE AT 31 DECEMBER			1,000	1,920

28. DEFERRED TAXATION

The following table illustrates the deferred tax balances recognised in the balance sheet:

	2008	2007
	CU'000	CU'000
DEFERRED TAX ON CONTINUING OPERATIONS		
Deferred tax assets	243	140
Deferred tax liabilities	(780)	(297)
NET BALANCE AT 31 DECEMBER	(537)	(157)
DEFERRED TAX ON DISCONTINUED OPERATIONS		
Deferred tax assets	-	-
Deferred tax liabilities	-	(5)
NET BALANCE AT 31 DECEMBER	-	(5)

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A12p81(g,ii)

The tables below illustrate in respect of each type of temporary difference the movements of deferred tax assets and liabilities on continuing operations recognised in the period:

DEFERRED TAX ASSETS	Recognised in		
	EQUITY	INCOME STATEMENT	TOTAL
AS AT 1 JANUARY 2007	7	50	57
Tax losses	-	15	15
Provisions	-	19	19
Cash flow hedges	19	-	19
Other	-	30	30
AS AT 31 DECEMBER 2007	26	114	140
Tax losses	-	-	-
Provisions	-	62	62
Cash flow hedges	30	-	30
Other	-	11	11
AS AT 31 DECEMBER 2008	56	187	243

A12p82

The tax losses are recognised as assets because insofar as they exceed taxable profits from the reversal of existing temporary differences, sufficient taxable profits are expected in the tax jurisdictions concerned and a significant amount of those tax losses have unlimited expiry. As a result, there are no unused tax losses for which deferred tax assets have not been recognised.

A12p81(e)

DEFERRED TAX LIABILITIES	Recognised in			
	EQUITY	INCOME STATEMENT	ACQUISITIONS	TOTAL
AS AT 1 JANUARY 2007	30	95	-	125
Defined benefit obligations	-	13	-	13
Accelerated depreciation on PPE	-	132	-	132
Available for sale investments	(2)	6	-	4
Other	-	23	-	23
AS AT 31 DECEMBER 2007	28	269	-	297
Defined benefit obligations	-	28	-	28
Accelerated depreciation on PPE	-	45	-	45
Deferred tax liabilities deriving from				
Acquisitions (Note 17)	-	-	115	115
Available for sale investments	(2)	5	-	3
Convertible debt	234	1	-	235
Other	-	57	-	57
AS AT 31 DECEMBER 2008	260	405	115	780

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A12p81(f)

As explained in the accounting policies, presently with regard to joint ventures and associates the Group is not in a position to determine their dividend policy. However, deferred tax liability for all their taxable temporary differences is not recognised because they are not significant.

With regard to subsidiaries, deferred tax on the undistributed earnings have not been provided since the Group is able to control the timing of the distribution and it is probable that they will not be distributed in the foreseeable future

29. PROVISIONS

A37p84

	RESTRUCTURING	LITIGATION	WARRANTIES	ONEROUS	
				LEASES	TOTAL
				CU'000	CU'000
BALANCE AT 1 JANUARY 2007	2	-	-	-	2
Discount unwinding	-	-	-	-	-
Profit and loss account	-	-	-	55	55
Utilised	-	-	-	-	-
BALANCE AT 31 DECEMBER 2007	2	-	-	55	57
Acquisitions (Note 17)	-	-	62	-	62
Discount unwinding	-	-	-	4	4
Profit and loss account	109	50	-	-	159
Utilised	(2)	(15)	(5)	(17)	(39)
BALANCE AT 31 DECEMBER 2008	109	35	57	42	243
				2008	2007
Presented as:				CU'000	CU'000
- Current liability				151	19
- Non-current liability				92	38
BALANCE AT 31 DECEMBER				243	57

A37p85

RESTRUCTURING

The restructuring of the Group's clockwork operations is expected to be completed within a year. The restructuring provision includes the estimated amounts of benefit payable to employees on termination of CU 67,000, costs relating to exiting activities of CU 32,000 and other administration costs for CU 10,000.

A37p85

LITIGATION

All litigation in which the Group is involved is analysed at each reporting date. When necessary, legal advice is sought and provisions are recorded. As at 31 December 2008, the provision booked referred to a legal action against a former director that is expected to come to court within 2 years. The provision includes expected costs up to and including a first hearing, but not for any appeal.

A34p26

On legal advice the estimated provision of CU 60,000 that was reported in the interims to 30 June 2008 has been revised downwards to CU 50,000 following the discovery of further documents relating to the case and subsequently utilised for CU 15,000.

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WARRANTIES

Certain products made by Fine Products Inc. before it entered the Group have on occasions failed within the 5 year warranty period. The expected cost of supplying replacements to the customers that bought that discontinued product line has been provided for on a statistical basis. The warranty period expires within 3 years and replacements are expected to be supplied evenly over that period as the product failure is random, not related to particular batches.

A37p85

ONEROUS LEASES

Expansion by organic growth and acquisition led the Group to construct a new centralised manufacturing facility. One of the old disused sites has so far proved difficult to sub-let at an appropriate rent. Whilst the head lease has 10 years to run, the provision only covers the present value of the next 3 years rent at CU 17,000 per annum. This reflects the advice of our new real estate agents on the expected time before a tenant can be found willing to pay the full rent. The directors have been advised that a short term let at less than the head lease rental is unlikely to generate as large a net present value. The provision has been determined by discounting risk adjusted and pre-tax cash flows using an interest rate of 8.5%.

30. OTHER NON-CURRENT LIABILITIES

	2008	2007
	CU'000	CU'000
Deferred consideration	-	100
Other liabilities	60	56
BALANCE AT 31 DECEMBER	60	156

Other liabilities comprise miscellaneous amounts owed to various authorities that will be settled in 2-5 years. In most of the cases such liabilities bear interests according to the local jurisdiction practices. As a result, the unwinding would be substantially offset by interest expense and therefore not considered.

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31. EQUITY CAPITAL

	ORDINARY 5C SHARES	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	TOTAL
	No.'000	CU'000	CU'000	CU'000	CU'000
AT 1 JANUARY 2007	32,000	1,600	210	-	1,810
Exercise of share options	1,000	50	10	-	60
AT 31 DECEMBER 2007	33,000	1,650	220	-	1,870
Acquisition (Note 17)	14,000	700	74	-	774
Exercise of share options	1,000	50	12	-	62
Treasury shares purchased	-	-	-	(110)	(110)
AT 31 DECEMBER 2008	48,000	2,400	306	(110)	2,596

A1p76(a)

	2008	2007
	CU'000	CU'000
Authorised:		
60,000,000 ordinary shares of 5 cents each	3,000	3,000
Allotted, issued and fully paid:		
48,000,000 ordinary shares of 5 cents each	2,700	1,950

A1p76(a)

As approved by the General Shareholder's Meeting, 100,000 treasury shares were acquired in the period on the Newland Stock Exchange in order to serve the current stock option plan awarded to Group managers (Note 27) for a consideration of CU 110,000. As at 31 December 2008 they have a market value of CU 115,000.

A1p124B

The Group's long-term policy is that net debt should be in the range of 15-25% of balance sheet equity. This policy aims to ensure that the Group both maintains its BB credit rating and lowers its net of tax weighted average cost of capital.

A1p124B

The table below illustrates the gearing ratio at 31 December 2008 and 2007.

CAPITAL RESOURCES	2008	2007
	CU'000	CU'000
Borrowings (Note 22)	3,146	1,571
Less Cash and cash equivalent (Note 20)	(622)	(360)
Net debt	2,524	1,211
Total equity	10,246	7,351
Total capital resources	12,770	8,562
Gearing ratio	19.8%	16.5%

A1p124B

The only externally imposed capital requirement is that for the Group to maintain its Listing on the Newland Stock Exchange it has to have share capital of at least CU 1 million and a free float of at least 25% of the shares. The Group met the capital requirement on its initial listing and the rules limiting treasury share purchases mean it will automatically continue to satisfy that requirement, as it did throughout the year. Management receive a report from the registrars weekly on substantial share interests showing the non-free float and it demonstrated continuing compliance with the 25% limit throughout the year. At the year-end 32% of the shares were in public hands.

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32. OTHER RESERVES

	CURRENCY TRANSLATION	HEDGING RESERVE	REVALUATION RESERVE	CONVERTIBLE BOND	SHARE-BASED PAYMENTS	TOTAL
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
AT 1 JANUARY 2007	(67)	47	70	-	14	64
Exchange difference	62	-	-	-	-	54
Net investment hedge	-	53	-	-	-	53
Gains on cash flow hedges	-	30	-	-	-	30
- deferred tax thereon	-	(10)	-	-	-	(10)
Hedge transfer to inventory	-	17	-	-	-	17
- deferred tax thereon	-	(5)	-	-	-	(5)
Hedge transfer to profit	-	12	-	-	-	12
- deferred tax thereon	-	(4)	-	-	-	(4)
Revaluation of investments	-	-	12	-	-	12
- deferred tax thereon	-	-	(4)	-	-	(4)
Realised on disposal	-	-	(18)	-	-	(18)
- deferred tax thereon	-	-	6	-	-	6
Share-based payments:						
Service provided	-	-	-	-	80	80
AT 31 DECEMBER 2007	(5)	140	66	-	94	295
Exchange difference	77	-	-	-	-	77
Net investment hedge	-	82	-	-	-	82
Gains on cash flow hedges	-	75	-	-	-	75
- deferred tax thereon	-	(25)	-	-	-	(25)
Hedge transfer to inventory	-	9	-	-	-	9
- deferred tax thereon	-	(3)	-	-	-	(3)
Hedge transfer to profit	-	6	-	-	-	6
- deferred tax thereon	-	(2)	-	-	-	(2)
Revaluation of associate's net assets on becoming a subsidiary	-	-	490	-	-	490
Revaluation of investments	-	-	10	-	-	10
- deferred tax thereon	-	-	(3)	-	-	(3)
Realised on disposal	-	-	(63)	-	-	(63)
- deferred tax thereon	-	-	5	-	-	5
Equity element of the issue	-	-	-	782	-	782
- deferred tax thereon	-	-	-	(234)	-	(234)
Share-based payments:						
Service provided	-	-	-	-	24	24
AT 31 DECEMBER 2008	72	282	505	548	118	1,525

A1p76(b)

The currency translation reserve accumulates all foreign exchange differences on translating the results and net assets of foreign operations during the period that the Group controls them.

A1p76(b)

The hedging reserve (net of deferred tax) accumulates after tax gains and losses on cash flow hedges.

A1p76(b)

The revaluation reserve (net of deferred tax) arises from the annual revaluation of available for sale financial assets and the revaluation of 40% of the assets of Fine Inc. on its transition during the year from associate to subsidiary status. It is not distributable until it is released to the income statement on the disposal of the investments.

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A1p76(b)

The convertible bond reserve represents the equity component of the instrument (net of tax) and is non-distributable. If and when the option to convert to equity is exercised a transfer will be made from this reserve and from debt to share capital and share premium account.

All reserves classified on the face of the balance sheet as retained earnings represent past accumulated earnings and are distributable.

33. RELATED PARTY TRANSACTIONS

A24p12

The Group is controlled by Newmagic Corporation domiciled in The Republic of Newland, which holds 51% of the ordinary shares of the Group.

Newmagic Corporation is controlled by Mr Mechanic who is the ultimate controlling party of the Group.

A24p17

WITH OTHER ENTITIES

	2008	2007
	CU'000	CU'000

AMOUNT OF TRANSACTIONS:

Sales to joint ventures	21	20
Sales to associates	102	83
Sales to close members of Newmagic Corporation	15	10
Sales to entities controlled by key management	21	13
Purchases from associates	25	7
Purchases from entities controlled by Group's parent	17	18

OUTSTANDING BALANCES AT 31 DECEMBER:

RECEIVABLES

Joint ventures	11	8
Associates	33	19
Close members of Newmagic corporation	3	2
Entities controlled by key management	4	3
Entities controlled by Group's parent	3	3

PAYABLES:

A24p21

Joint venture	-	-
Associate	25	-
Entities controlled by key management	1	1
Entities controlled by Group's parent	2	3

The above transactions were made on the same terms as equivalent transactions with unrelated parties.

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A24p17

The following table illustrates the transactions with key management that occurred during the period concerned:

	2008	2007
	CU'000	CU'000
WITH KEY MANAGEMENT		
Sales of goods to key management	5	6
OUTSTANDING LIABILITY ON SUCH SALES (UNSECURED)		
Gross	5	2
Doubtful debt allowance	-	-
NET LIABILITY AT 31 DECEMBER	5	2

34. KEY MANAGEMENT COMPENSATION

A24p16

	2008	2007
	CU'000	CU'000
COMPENSATION		
Wages, salaries and short-term benefits	740	614
Post-employment benefits	75	66
Share-based payments (Note 27)	24	80
TOTAL AT 31 DECEMBER	839	760

35. COMMITMENTS

A17p35(d)

The Group entered into various non-cancellable operating leases relating to offices, industrial buildings and warehouses as well as motor vehicles used by the sales force. The lease agreements have an average life of 7 - 15 years and include various terms such as renewable rights and inflation features.

The following table shows the total of future minimum operating lease payments:

A17p35(a)

	Property		Motor vehicles	
	2008	2007	2008	2007
	CU'000	CU'000	CU'000	CU'000
ON LEASES EXPIRING:				
Within one year	124	96	233	228
More than 1 year but within 5 years	289	340	716	704
After 5 years	441	475	87	102

A17p35(c)

Operating lease payments recognised as an expense in 2008 amounted to CU 108,000 (2007 CU 95,000).

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The following table illustrates the amount of capital expenditure contracted for but not provided for in the financial statements:

	2008	2007
	CU'000	CU'000
A16p74(c) Group property, plant and equipment	307	248
A38p122(e) Group intangible assets	21	7
A31p55(a) Share of joint venture	16	13

36. CONTINGENT LIABILITIES

A20p39(c)

The Group could have to repay government grants of CU 20,000 (2007 CU 20,000 to the Republic of Dryland unless its factory in Dryland remains open until the end of 2009.

A37p86

The Groups' share of the contingent liabilities relating to other entities incurred jointly with other investors is:

	2008	2007
	CU'000	CU'000
A28p40(a) Associates	17	15
A31p54(a) Joint ventures	14	12

A37p86

Other contingent liabilities are not disclosed because the possibility of an outflow of resources embodying economic benefits is considered by the directors to be remote.

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37. RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH FLOW GENERATED FROM OPERATIONS

CASH FLOWS GENERATED FROM CONTINUING OPERATIONS BEFORE INTEREST AND TAX	2008	2007
	CU'000	CU'000
Profit before tax	2,065	1,771
Share of the profit of associates	(140)	(300)
Gain on sale of investments	(63)	(18)
Finance costs, net	91	95
Amortisation of other intangible assets	269	231
Depreciation of property, plant and equipment	1,153	1,009
Loss on disposal of property, plant and equipment	12	13
Share-based payment	24	80
Defined benefit obligations	130	115
Decrease in inventories	(363)	(340)
Decrease in receivables	(777)	(267)
Increase in payables	57	50
Increase in provisions	11	10
Exchange	112	209
	2,581	2,658
CASH FLOWS FROM DISCONTINUED OPERATING ACTIVITIES BEFORE INTEREST AND TAX	2008	2007
	CU'000	CU'000
Loss: discontinued operations	(45)	(195)
Impairment of goodwill	100	120
Impairment of other intangible assets	24	-
Amortisation of other intangible assets	2	25
Depreciation of property, plant and equipment	12	117
Impairment of property, plant and equipment	120	-
Decrease in inventories	(27)	(30)
Decrease in receivables	(32)	(35)
Decrease in payables	(8)	(10)
Increase in provisions	109	-
	255	(8)
NET CASH FLOWS FROM OPERATIONS BEFORE INTEREST AND TAX	2,836	2,650

A7p50

An estimated cash inflow of CU 1,400,000 (2007: CU 1,300,000 is needed to maintain operating capacity and the balance of the Group's cash flow can be used to expand operating capacity).

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38. EVENTS AFTER THE BALANCE SHEET DATE

A10p17

These consolidated financial statements were authorised for issue on 15 February 2009 and will be submitted for the approval of the Board of Directors' meeting of 26 February 2009 and by the Shareholder's general meeting to be held on 17 April 2009.

A10p21

F3.66(b)

In order to expand its activities in Eastern Europe, on 31 January 2009 the Group provisionally acquired 100% voting shares (all shares have voting power) of WaterPump, a manufacturer of electric water pumps used in dishwashers and washing machines industry. WaterPump headquarter and all industrial premises are based in the Republic of Eastland. WaterPump was bought in cash for an amount of CU 420,000. The authorization from the Eastland antitrust authority is still pending, however it is expected to be received by the end of the first quarter 2009. By that date, it is also expected the transaction will be finalised.

At the date of issuance of these financial statements, the accounting purchase price allocation process is not yet completed. However, it is expected that at the end of the process the Group will recognise a goodwill as a result of cost synergies that the Group will obtain combining WaterPump activities with those of the Group. The Group foresees that this acquisition will also give the opportunity to expand in new sectors and therefore existing operations of the Group will not be disposed of or reduced in terms of production capacity as a result of the combination.

F3p67(i)

For the year that ended in 2007 WaterPump posted a net profit of CU 13,000 and revenue for CU 512,000. Profit and revenue for the year that ended as at 31 December 2008 are expected to be substantially in line with those of the year 2007.

A10p21

In January 2009 a fire destroyed a manufacturing site used by the Group in Oldland. There should be no major loss to the Group as spare capacity on another site enabled the Group to resume normal production within two weeks. The loss of the facility should be covered by insurance and so should the loss of profits caused by the short interruption to business, although it is too early to quantify the exact financial effect.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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SHAREHOLDER INFORMATION

FINANCIAL CALENDAR 2009

Annual Report Posted to Shareholders	26 February
Annual General Meeting	17 April
Final dividend record date	22 April
Final dividend payment	12 May
Interim Results	1 September

IFRS STATEMENTS LIMITED

APPENDICES

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APPENDIX 1

CONSOLIDATED INCOME STATEMENT PRESENTED USING THE “BY NATURE OF EXPENSE” METHOD

IAS 1 paragraph 88 states that “an entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.”

Under the “nature of expenses” approach, the IFRS preparer should aggregate income statement items according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and not reallocate them among various functions within the entity.

Based on the “by function of expense” approach (otherwise known also as the “cost of sales” method) cost of sales is shown separately on the face of the income statement and other income and expense are categorised in accordance with their function (for example, costs of distribution, cost of selling activities and administrative activities).

In both cases, IAS 1 does not provide a crystal clear definition to make reference to when categorising income and expense items. As a result, a certain degree of judgement must be exercised.

It is worthwhile mentioning that the guidelines illustrated in IAS 1 paragraph 88 must be combined with the requirements of IAS 1 paragraph 8, which states that as a minimum, the face of the income statement shall include line items such as “(i) revenue, (ii) finance costs, (iii) share of the profit or loss of associates and joint ventures accounted for using the equity method, (iv) tax expense, (v) a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and (vi) profit or loss.”

IFRS preparers that choose to present income and expense using the by function approach shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense, in the notes to the financial statements..

IAS 1 paragraph 94 provides some guidelines in order to assist IFRS preparers in choosing between the function of expense method and the nature of expense method. IFRS preparers should consider historical and industry factors as well as the nature of the entity; however, since both methods of presentation have merit for different types of entities, ultimately the choice should be driven by the aim to present information in a way that best complies with the principles of relevance and reliability illustrated in the Framework.

Opposite we provide an example of the income statement by function of expenses.

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CONSOLIDATED INCOME STATEMENT

A1p46

FOR THE YEAR ENDED 31 DECEMBER 2008

		2008	2007	
	NOTES	CU'000	CU'000	
CONTINUING OPERATIONS				
A1p81	REVENUE	X ²	22,803	15,160
A1p91	Changes in inventories of finished goods and work in progress	X	599	569
A1p91	Raw materials and consumables used	X	(8,574)	(3,229)
A1p91	Employee benefit expense	X	(9,046)	(7,574)
A1p91	Depreciation and amortisation	X	(1,436)	(1,259)
A1p91,83	Impairment of property plant and equipment	X	(120)	(103)
A1p91,83	Impairment of goodwill and other intangibles	X	(120)	(124)
A1p91	Other expenses	X	(2,153)	(1,892)
A1p81	Finance costs	X	(91)	(95)
A1p81	Share of the profit or loss of associates	X	140	300
A1p91	Gain on sale of financial assets	X	63	18
	PROFIT BEFORE TAX	X	2,065	1,771
A1p81	Income tax expense	X	(682)	(562)
	PROFIT FOR THE YEAR: CONTINUING OPERATIONS		1,383	1,209
DISCONTINUED OPERATIONS				
A1p81	LOSS FOR THE YEAR: DISCONTINUED OPERATIONS	X	(110)	(226)
A1p81(f)	PROFIT FOR THE YEAR		1,273	983
	Attributable to:			
A1p82(b)	Equity holders of the parent		1,168	931
A1p82(a)	Minority interest		105	52
			1,273	983
EARNINGS PER SHARE				
			Cents	Cents
	BASIC	X		
A33p66	Continuing operations		3.14	3.53
A33p68	Discontinued operations		(0.27)	(0.69)
A33p66	TOTAL		2.87	2.84
	DILUTED	X		
A33p66	Continuing operations		3.08	3.30
A33p68	Discontinued operations		(0.26)	(0.65)
A33p66	TOTAL		2.82	2.65
A1p95	DIVIDENDS PAID PER EQUITY SHARE	X	1.29	1.45

² Notes will have to be re-arranged in order to reflect the new income statement format

APPENDIX 2

CONSOLIDATED INCOME STATEMENT PRESENTED USING THE “BY FUNCTION OF EXPENSES” METHOD AND THE COLUMNAR APPROACH TO DISCONTINUED OPERATIONS

IFRS 5 paragraph 33 allows the presentation of discontinued operations in the income statement as a single amount on the face of the income statement or a more detailed analysis directly on the face of the income statement. In any case, discontinued operations shall be presented on the face of the income statement in a separately identified section labelled as “discontinued operations” in order to clearly distinguish them from continuing operations.

Moreover, IFRS 5 paragraph 34 states that comparatives for the prior period(s) shall be re-presented so that the disclosures relate to all operations that have been discontinued by the balance sheet date for the latest period presented.

IFRS 5 provides an illustrative example of how to present discontinued operations on the face of the income statement as a single amount, but does not provide an example with regard to how that single amount should be further analysed on the face of the income statement.

Opposite we provide an example using a columnar format regarding how such an analysis could be provided.

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CONSOLIDATED INCOME STATEMENT

A1p6 FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTES	FOR THE YEAR ENDED 31 December 2008			FOR THE YEAR ENDED 31 DECEMBER 2007		
		CONTINUING	DISCONTINUED	TOTAL	CONTINUING	DISCONTINUED	TOTAL
		CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
CONTINUING OPERATIONS							
A1p81 REVENUE	3	22,803	1,110	23,913	15,160	2,108	17,268
A2p36 Cost of sales	4	(18,697)	(984)	(19,681)	(11,720)	(2,000)	13,720
A1p89 GROSS PROFIT		4,106	126	4,232	3,440	108	3,548
A1p89 Distribution costs	4	(889)	(45)	(934)	(747)	(101)	(848)
A1p89 Administrative expenses	4	(1,222)	(64)	(1,286)	(1,015)	(142)	(1,157)
A1p89 Other operating expenses	4	(42)	(3)	(45)	(130)	(20)	(150)
A1p81 Finance costs	5	(91)	(138)	(229)	(95)	(121)	(216)
A28p38 Share of the profit or loss of associates	13	140	-	140	300	-	300
F7p20 Gain on sale of financial assets	6	63	-	63	18	-	18
Loss on disposal of subsidiary	21	-	(23)	(23)	-	-	-
PROFIT (LOSS) BEFORE TAX		2,065	(147)	1,918	1,771	(276)	1,495
A1p81 Income tax expense	7	(682)	37	(645)	(562)	50	(512)
A1p81 PROFIT FOR THE YEAR		1,383	(110)	1,273	1,209	(226)	983
Attributable to:							
A1p82(b) Equity holders of the parent		1,278	(110)	1,168	1,157	(226)	931
A1p82(a) Minority interest		105	-	105	(52)	-	(52)
		1,383	(110)	1,273	1,209	(226)	983
EARNINGS PER SHARE	8	CENTS	CENTS	CENTS	CENTS	CENTS	CENTS
A33p66 BASIC		3.14	(0.27)	2.87	3.53	(0.69)	2.84
A33p66 DILUTED		3.08	(0.26)	2.82	3.30	(0.65)	2.65
A1p95 DIVIDENDS PAID PER EQUITY SHARE	9			1.29			1.45

APPENDIX 3

CONSOLIDATED BALANCE SHEET WITH ASSETS AND LIABILITIES PRESENTED IN ORDER OF LIQUIDITY

IAS 1 paragraph 51 states that an IFRS preparer shall present assets and liabilities on the face of the balance sheet using the current/non-current distinction approach or present assets and liabilities broadly in order of liquidity. However, the choice between those two approaches is not entirely elective. In fact, the current/non-current distinction is preferable and the liquidity presentation can be chosen only when it provides information that is reliable and is more relevant than a current/non-current presentation. IAS 1 paragraph 51 clarifies that “when that exception applies, all assets and liabilities shall be presented broadly in order of liquidity”.

The order of liquidity can be either increasing or decreasing.

Most interestingly, IAS 1 paragraph 55 allows entities to use also a “mixed format”. In fact, IFRS preparers are “permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations”.

In any case IFRS preparers should bear in mind that the ultimate goal is to choose the format that better allows readers to obtain information about expected dates of realisation of assets and liabilities and therefore to adequately assess the liquidity and solvency of the entity. As explained by IAS 1 paragraph 56, such a goal should be achieved in conjunction with disclosures requirements requested by IFRS 7 Financial instruments: Disclosures.

Opposite we provide an example balance sheet prepared in increasing order of liquidity.

A1p46 IFRS STATEMENTS LIMITED

A1p8

CONSOLIDATED BALANCE SHEET

A1p46 AS AT 31 DECEMBER 2008

		2008	2007
	NOTES ⁴	CU'000	CU'000
ASSETS			
A1p68	Property, plant and equipment	5,800	5,520
A1p69	Goodwill	1,329	605
A1p68	Other intangible assets	2,414	803
A1p68	Investments in associates	281	249
A1p68	Available for sale financial assets	274	269
A1p68	Deferred tax assets	243	140
A1p68	Inventories	2,623	1,995
A1p68	Trade and other receivables	2,586	1,517
A1p68	Cash and cash equivalents	622	360
		16,172	11,458
F5p38	Non-current assets classified as held for sale	1,016	-
	TOTAL ASSETS	17,188	11,458
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
A1p68	Capital	2,700	1,950
	Other reserves	1,525	295
	Retained earnings	5,819	5,151
		9,940	7,316
A1p68	MINORITY INTEREST	306	35
	TOTAL EQUITY	10,246	7,351
LIABILITIES			
A1p69	Retirement benefit obligations	475	292
A1p68	Borrowings	3,146	1,571
A1p68	Provisions	243	57
A1p68	Derivative financial instruments	208	113
A1p68	Deferred tax liabilities	780	297
A1p68	Trade and other payables	1,212	1,206
A1p69	Other liabilities	55	156
A1p68	Current tax payables	523	415
		6,642	4,107
F5p38	Liabilities directly associated with non-current assets classified as held for sale	300	-
	TOTAL LIABILITIES	6,942	4,107
	TOTAL LIABILITIES AND EQUITY	17,188	11,458

³ This financial statement is presented in decreasing order of liquidity

⁴ Notes will have to be re-arranged in order to reflect the new income statement format

APPENDIX 4

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

IAS 1 paragraph 96 and 97 states how an IFRS preparer shall present a statement of changes in equity.

Basically, such paragraphs provide the IFRS preparers with two alternatives:

- 1) Statement of recognised income and expense (otherwise known as SORIE): it includes all changes in equity generated by the entity's activities, whether those items of income and expenses are recognised in profit or loss directly or as changes in equity. In other words, the SORIE presents an entity's total income and expenses, including those that are recognised directly in equity.
- 2) Statement of changes in equity: it includes the movements reported in the SORIE plus all changes resulting from transactions with equity holders acting in their capacity as equity holders. In addition, this statement shows the reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period. Typically this statement results in a columnar format that reconciles the opening and closing balances of each element within equity.

If the SORIE is chosen the statement of changes in equity details of all changes resulting from transactions with equity holders and the reconciliation shown in the "full" statement has to be presented in the notes.

In December 2004, the IASB issued an amendment to IAS 19 *Employee Benefits* regarding *Actuarial Gains and Losses, Group Plans and Disclosures*. The amendment allows an IFRS preparer to recognise actuarial gains and losses relating to defined benefit plans outside profit or loss. As a result, basically, IAS 19 allows an IFRS preparer to recognise actuarial gains and losses following one of the three following alternative methods: 1) "corridor approach", 2) any systematic and consistent method that results in faster - than the corridor approach - recognition of actuarial gains and losses and 3) recognised actuarial gains and losses directly in equity.

If an IFRS preparer selects as their accounting policy the third alternative, actuarial gains and losses shall be presented in the SORIE. The IFRS preparer is then prohibited from using a statement of changes in equity in the columnar format referred above.

As illustrated in Appendix 6, on September 2007 the IASB issued a revised version of IAS 1 which significantly modifies how entities present their financial statements and consequently what we have illustrated above. Refer to Appendix 6 for further details.

Opposite we provide we provide an example of Statement of recognised income and expense.

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IFRS STATEMENTS LIMITED

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CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

A1ph6

FOR THE YEAR ENDED 31 DECEMBER 2008

		2008	2007
	Notes	CU'000	CU'000
Exchange differences on translation of foreign operations	32	72	54
Available for sale financial assets	32	(53)	(6)
Gains on cash flow hedges	23	90	59
Net investment hedge	32	82	53
Share-based payments: service cost	27	24	80
Net income before tax recognised directly in equity		215	240
Tax on items recognised directly in equity	32	(28)	(17)
Net income recognised directly in equity		187	223
Profit for the year		1,273	983
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR		1,460	1,206
Attributable to:			
- Minority interest		100	44
- Equity holders		1,360	1,162

A1p96, IG

APPENDIX 5

IFRS 8 OPERATING SEGMENTS: AN OVERVIEW

IFRS 8 is one of the outcomes of the IASB and FASB joint short-term project with the objective of reducing differences between IFRS and US GAAP. Both Boards conducted a thorough analysis of their respective standards on segment information - IAS 14 and SFAS 131 - and held consultation with a variety of constituents: prepares, users, auditors, regulators, etc.

It is worth pointing out that, in deciding on the core principles of IFRS 8, greater prominence was given to information gathered during the several meetings held with the users of financial statements, than with other constituents.

The consultation process outlined the following major points:

- Users prefer the management approach of SFAS 131
- Users preference is to see segment information through the eyes of the management
- It was concluded that benefits of using the management approach outweighs its disadvantages in terms of loss of comparability, consistency in presentation and use of non-IFRS measurement
- Notably, such "disadvantages" were considered the cornerstones over which IAS 14 was built on
- The management approach enables entities to prepare segment information on a sufficiently timely basis for inclusion in interim financial reports

On this basis, the IASB decided that the simplest and most complete way to achieve convergence was to use the text of SFAS 131 for IFRS 8.

Nevertheless, some minor differences between IFRS 8 and SFAS 131 still remain and are analysed in the Basis for Conclusions of IFRS 8 at paragraph 60.

Before briefly illustrating the main features of IFRS 8, it is worth noting that IFRS 8 paragraph 1 states that the core principle of this standard is to require an entity to "disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates".

Main features of IFRS 8 are:

- Segment information is reported in both annual and interim financial statements
- Requires disclosures about products and services, geographical areas and major customers
- The identification of segments and related reportable information as well as their measurement attributes are based on internal reports that are regularly reviewed by the entity's chief operating decision maker
- Total reportable segment revenues, total profit or loss, total assets, liabilities and other information, if presented, have to be reconciled to corresponding amounts in the entity's financial statements
- Revenues have to be analysed by category of products or services and by geographical area in which they are earned
- Non-current assets have to be analysed by geographical area
- Information about major customers' concentration risk has to be disclosed
- Requires descriptive information about the way the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period

IFRS 8 is applicable for annual periods beginning on or after 1 January 2009. Earlier application is permitted. For the purpose of this appendix, we have assumed that IFRS Statements Limited early applied this standard for the year ended 31 December 2008.

ACCOUNTING POLICY

There is no requirement to include information in section "2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES". All required information can be presented in section "3. INFORMATION ABOUT REPORTABLE SEGMENT PROFIT OR LOSS, ASSETS AND LIABILITIES".

NOTES TO THE FINANCIAL STATEMENTS

3. INFORMATION ABOUT REPORTABLE SEGMENT PROFIT OR LOSS, ASSETS AND LIABILITIES

F8p22(a) For management purposes the Group is organised into three major strategic units which operate in different industries and are managed separately: mechanical, electronic and chemical.

Such structural organisation is determined by the nature of risks and returns associated with each business segment and defines the management structure as well as the internal reporting system. It represents the basis on which the company reports its primary segment information.

Business information regarding the three units is also analysed by the management on a country basis and sub-aggregated in 5 macro-regions: The Republic of Newland, the rest of Europe, North America, South America and Asia Pacific.

Information provided by internal financial reporting includes two major reports which include the same type of quantitative information analysed by business unit and by country.

The operating segment analysis presented in these financial statements reflects operations analysis by business. It best describes the way the Group is managed and provides a meaningful insight into the business activities of the group.

F8p22(b) The mechanical segment is a manufacturer of spring-loaded instruments, bicycles and clockwork equipment.

The electronic segment is a manufacturer of sophisticated electronic equipment used in the automotive, aerospace and shipbuilding industries.

The chemical segment is a manufacturer of plastic containers, which are sold in bulk to food packagers.

The following tables present details of revenue and operating profit by business segment as well as a reconciliation between the information disclosed for reportable segments and the aggregated information in the consolidated financial statements.

F8p27(a) Inter-segment sales are measured on the basis that the entity actually uses to price the transfers. Internal transfer pricing policies of the Group are based on arms length prices.

The discontinued operations relate to the disposal of the clockwork component of the mechanical segment (Note 21).

F8p27(b) The information disclosed in the tables below is derived directly from the internal financial reporting system used by corporate management to monitor and evaluate the performance of our operating segments separately.

The Group's management reporting system evaluates performances based on a number of factors; however our primary profitability measurement to evaluate segment's operating results comprises two major financial indicators: i) earnings from operations before depreciation, amortisation, non-recurring items, interests and income taxes (called "Recurring EBITDA") and ii) operating result before interests and income taxes (called "ORBIT").

Non-recurring items typically include restructuring costs and or other costs originated by unexpected events which occur rarely and that cannot be controlled by the management.

As described below (see considerations about cash discounts), some items are considered to be finance components when included in the internal reporting system, but are included within operating items when reported under IFRS.

The following table illustrates the information about the reportable segment profit or loss, assets and liabilities at 31 December 2008 and 2007:

	MECHANICAL	ELECTRONIC	CHEMICAL	TOTAL
	CU'000	CU'000	CU'000	CU'000
2008				
PROFIT OR LOSS FROM CONTINUING OPERATIONS				
REVENUE BY SEGMENT				
F8p32 - Sale of Goods	4,236	9,392	9,225	22,853
F8p32 - Servicing and installation fees	443	-	-	443
F8p32 - Royalty income	-	182	-	182
F8p32 - Other	35	-	-	35
Total Sales by Segment	4,714	9,574	9,225	22,513
F8p23(b) Inter-segment sales	-127	-158	-	-285
F8p23(a) External sales revenue	4,587	9,416	9,225	23,228
Recurring EBTDA	922	2,013	1,005	3,940
F8p23(e) Depreciation	-257	-559	-302	-1,118
F8p23(e) Amortisation	-23	-198	-50	-271
F8p23(f) Impairment	-244	-	-	-244
F8p23(f) Other non-recurring items	-109	-	-	-109
ORBIT	289	1,256	653	2,198
REPORTABLE SEGMENT ASSETS				
F8p23(g) Share of profit from associates	-	140	-	-
F8p24(a) Investment in associates	-	281	-	-
F8p23 Reportable segment assets	3,011	8,053	4,039	15,103
F8p24(b) Expenditures for reportable non-current assets	412	3,498	721	4,656
REPORTABLE SEGMENT LIABILITIES				
F8p23(e) Reportable segment liabilities	529	1,263	312	2,104

	MECHANICAL	ELECTRONIC	CHEMICAL	TOTAL
	CU'000	CU'000	CU'000	CU'000
2007				
PROFIT OR LOSS FROM CONTINUING OPERATIONS				
REVENUE BY SEGMENT				
F8p32 - Sale of Goods	4,368	5,262	5,462	15,092
F8p32 - Servicing and installation fees	452	-	-	452
F8p32 - Royalty income	-	160	-	160
F8p32 - Other	76	-	-	76
Total Sales by Segment	4,896	5,422	5,462	15,780
F8p23(a) Inter-segment sales	(101)	(143)	-	(244)
F8p23(b) External sales revenue	4,795	5,279	5,462	15,536
Recurring EBTDA	1,078	1,486	760	3,324
F8p23(e) Depreciation	(257)	(559)	(249)	(1,065)
F8p23(e) Amortisation	(23)	(198)	(50)	(271)
F8p23(f) Impairment	(244)	-	-	(244)
F8p23(f) Other non-recurring items	-	-	-	-
ORBIT	554	729	461	1,744
REPORTABLE SEGMENT ASSETS				
F8p23(g) Share of profit from associates	-	300	-	-
F8p24(a) Investment in associates	-	249	-	-
F8p23 Reportable segment assets	3,949	3,211	3,612	10,772
F8p24(b) Expenditures for reportable non-current assets	360	453	366	1,209
REPORTABLE SEGMENT LIABILITIES				
F8p23(e) Reportable segment liabilities	283	1,189	277	1,749

The following table illustrates the reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the Group's corresponding amounts reported in the financial statements:

	2008	2007
	CU'000	CU'000
RECONCILIATION OF REPORTABLE SEGMENTS' REVENUES		
Total revenues for reportable segments	23,513	15,780
Cash discounts	(425)	(376)
Elimination of intersegment revenues	(285)	(244)
Groups' revenues from continuing operations	22,803	15,160
Revenues from discontinued operations	1,110	2,108
Groups' revenues from continuing operations	22,803	15,160

Receivables collection policies vary depending on the type of industry, type of client and the country where customers are domiciled. In the vast majority of cases, receivables are due for collection between 30 days and 90 days after the invoice has been issued. However, in order to speed up the cash collection, it is Group policy to provide cash discounts to clients that agree to pay receivables within 15 days from the date of issuance of the invoice.

For internal reporting purposes these discounts are presented as an operating component but are considered a finance component for the preparation of the IFRS financial statements.

		2008	2007
		CU'000	CU'000
F8p28(b)	RECONCILIATION OF REPORTABLE SEGMENTS' PROFIT		
	Operating result for reportable segments (ORBIT)	2,378	1,924
	Cash discounts	-425	-376
	Finance costs	-91	-95
	Share of profit or loss of associates	140	300
	Gain on sale of investments	63	18
	Groups' profit before tax from continuing operations	2,065	1,771

See above information with regard to cash discounts and OIBIT. See note 13 for Share of profit or loss of associates and note 6 for Gain on sale of investments.

		2008	2007
		CU'000	CU'000
F8p28(c)	RECONCILIATION OF REPORTABLE SEGMENTS' ASSETS		
	Total assets for reportable segments	15,103	10,772
	Corporate assets (Headquarters)	478	455
	Unallocated	591	231
	Total assets for the balance sheet (net of non-current assets classified as held for sale)	16,172	11,458

F8p27(c) Corporate assets are mainly represented by the Property, Plant and Equipment of the Headquarters in Newland. Unallocated assets are represented by deferred tax assets, Available for sale investments and Cash and Cash equivalents which are typically managed by central treasury and tax departments at corporate level.

		2008	2007
		CU'000	CU'000
F8p24(d)	RECONCILIATION OF REPORTABLE SEGMENTS' LIABILITIES		
	Total liabilities for reportable segments	2,104	1,749
	Corporate liabilities (Headquarters)	89	75
	Unallocated	4,449	2,283
	Total assets for the balance sheet (net of liabilities directly associated with non-current assets classified as held for sale)	6,642	4,107

F8p27(d) Corporate liabilities are mainly represented by pension schemes and other miscellaneous employee payables relating to corporate personnel.

Unallocated liabilities are represented by borrowings and current and deferred tax liabilities which are typically managed by central treasury and tax departments at corporate level.

GEOGRAPHICAL INFORMATION

F8p33(a) The segmental information below is based on the segment revenue from external customers by country of domicile of customers. The global scale operations of the Group are divided into four principal geographical areas. In each geographical area the Group has all the three business segments described above. Additionally, for Europe, information for Newland is reported separately.

	2008	2007
REVENUE FROM EXTERNAL CUSTOMERS	CU'000	CU'000
Newland	3,420	2,890
Europe	5,579	4,137
Asia Pacific	3,702	3,852
North America	7,543	3,420
South America	5,979	3,751
Groups' revenues from continuing operations	22,803	15,160

F8p33(b)

	2008	2007
NON-CURRENT ASSETS	CU'000	CU'000
Newland	3,103	1,278
Europe	1,230	959
Africa	-	1,124
Asia Pacific	879	831
North America	2,848	1,650
South America	1,560	1,149
Total non-current assets	9,620	6,991

F8p34

Revenues totalling approximately CU 3,400 thousand and relating to the electronic segment are originated by sale transactions carried out across the globe with one multinational group.

APPENDIX 6

OTHER COMPREHENSIVE INCOME: AMENDMENTS TO IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

On September 2007 the IASB issued a revised version of IAS 1 (IAS 1 Revised 2007) Presentation of Financial Statements. Amongst others, one of the main objectives of the IASB in revising IAS 1 was to clearly distinguish between changes in equity of an entity during a period arising from transactions with owners in their capacity as owners from other changes in equity. As a result, the new version of IAS 1 requires all owner changes in equity to be presented in the statement of changes in equity separately from non-owner changes in equity.

In this respect, the IASB considered FASB Statement No. 130 Reporting Comprehensive Income (SFAS 130) issued in 1997. The amendments to IAS 1 bring IAS 1 presentation of financial statements requirements closer to SFAS 130; however, some differences still remain.

For the purpose of these illustrative consolidated financial statements, the main changes from previous requirements are:

- The previous version of IAS 1 used the titles "balance sheet" and "cash flow statement" to describe two of the statements within a complete set of financial statements. IAS 1 Revised 2007 uses "statement of financial position" and "statement of cash flows" for those statements.
- The previous version of IAS 1 required items of income and expense not recognised in profit or loss to be presented in the statement of changes in equity, together with owner changes in equity, or using a separate "statement of recognised income and expense" (SORIE). IAS 1 Revised 2007 now requires that (a) all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity and that (b) income and expenses are presented in one statement (a "statement of comprehensive income") or in two statements (a separate "income statement" and a "statement of comprehensive income")
- The previous version of IAS 1 permitted disclosure of the amount of dividends recognised as distributions to equity holders and the related amount per share in the income statement, in the statement of changes in equity or in the notes. IAS 1 Revised 2007 now requires dividends recognised as distributions to owners and related amounts per share to be presented in the statement of changes in equity or in the notes.
- IAS 1 Revised 2007 requires an entity to disclose income tax relating to each component of other comprehensive income. The previous version of IAS 1 did not include such a requirement

Opposite we provide an example of presentation of comprehensive income in one statement and example of presentation of comprehensive income in two statements (in both cases expenses are classified "by function").

PRESENTATION OF COMPREHENSIVE INCOME IN ONE STATEMENT:

A1Rp51(a)

IFRS STATEMENTS LIMITED

**CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2008

A1Rp51(b), A1Rp10

A1Rp51

A1Rp51 (e)

F5pE11

CONTINUING OPERATIONS

Notes

2008

2007

CU'007

CU'000

A1Rp82(a)

REVENUE

3

22,803

15,160

A1Rp103

Cost of sales

4

(18,697)

(11,720)

A1Rp103

Gross profit

4,106

3,440

A1Rp103

Distribution costs

4

(889)

(747)

A1Rp103

Administrative expenses

4

(1,222)

(1,015)

A1Rp103

Other operating expenses

4

(42)

(130)

A1Rp82(b)

Finance costs

5

(91)

(95)

A1Rp82(c)

Share of the profit or loss of associates

13

140

300

F7p20, A1p83

Gain on sale of financial assets

6

63

18

A1Rp103

Profit before tax

2,065

1,771

A1Rp82(d), A12p77

Income tax expense

7

(682)

(562)

F5pE11

Profit for the year: continuing operations

1,383

1,209

F5pE11

DISCONTINUED OPERATIONS

F5p33(a), E11

Loss for the year: discontinued operations

21

(110)

(226)

A1Rp82(f)

PROFIT FOR THE YEAR

1,273

983

OTHER COMPREHENSIVE INCOME

F5pE11

CONTINUING OPERATIONS

A1Rp82(g)

Exchange translation difference

32

65

50

A1Rp82(g)

Transfer on sale of investments

6

(63)

(18)

A1Rp82(g)

Gains on available for sale instruments

6

10

12

A1Rp82(g)

Cash flow hedges

23

90

59

A1Rp82(g)

Net investment hedge

23

82

53

A1Rp82(g)

Share-based payments: service provided

27

24

80

A1Rp90, 91

Income tax relating to components of other continuing operations⁵

(28)

(17)

F5pE11

Other comprehensive income from continuing operations for the year

180

219

F5pE11

DISCONTINUED OPERATIONS

A1Rp82(g)

Exchange translation difference

32

7

4

A1Rp90, 91

Income tax relating to components of other discontinued operations

-

-

F5pE11

OTHER COMPREHENSIVE INCOME FROM DISCONTINUED OPERATIONS FOR THE YEAR

7

4

A1Rp1E1

OTHER COMPREHENSIVE INCOME FOR THE YEAR

187

223

A1Rp82(i)

TOTAL COMPREHENSIVE INCOME FOR THE YEAR:

1,460

1,206

- FROM CONTINUING OPERATIONS

1,563

1,432

- FROM DISCONTINUED OPERATIONS

(103)

(226)

⁵ Alternatively each component of other comprehensive income can be presented net of tax effect. When such option is selected, income tax relating to each component must be disclosed in the notes.

A1Rp51(a)

IFRS STATEMENTS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2008

A1Rp51(b), A1Rp10

A1Rp51

		2008	2007
	Notes	CU'000	CU'000
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
A1Rp83(a)	Owners of the parent	1,168	931
A1Rp83(a), A27p33	Minority interest	105	52
		1,273	983

TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:

A1Rp83(b)	Owners of the parent	1,360	1,162
A1Rp83(b), A27p33	Minority interest	100	44
		1,460	1,206

EARNING PER SHARE

		Cents	Cents
BASIC			
	8		
A33p66	Continuing operations	3.14	3.53
A33p68	Discontinued operations	(0.27)	(0.69)
A33p66	Total	2.87	2.84
DILUTED			
	8		
A33p66	Continuing operations	3.08	3.3
A33p68	Discontinued operations	(0.26)	(0.65)
A33p66	Total	2.82	2.65

PRESENTATION OF COMPREHENSIVE INCOME IN TWO STATEMENTS

IFRS STATEMENTS LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

		2008	2007
	Notes	CU'000	CU'000
A1Rp51 (e)			
F5pE11	CONTINUING OPERATIONS		
A1Rp82(a)	REVENUE	22,803	15,160
A1Rp103	Cost of sales	(18,697)	(11,720)
A1Rp103	Gross profit	4,106	3,440
A1Rp103	Distribution costs	(889)	(747)
A1Rp103	Administrative expenses	(1,222)	(1,015)
A1Rp103	Other operating expenses	(42)	(130)
A1Rp82(b)	Finance costs	(91)	(95)
A1Rp82(c)	Share of the profit or loss of associates	140	300
F7p20, A1p83	Gain on sale of financial assets	63	18
A1Rp103	Profit before tax	2,065	1,771
A1Rp82(d), A12p77	Income tax expense	(682)	(562)
F5pE11	Profit for the year: continuing operations	1,383	1,209
F5pE11	DISCONTINUED OPERATIONS		
F5p33(a), E11	Loss for the year: discontinued operations	(110)	(226)
A1Rp82(f)	PROFIT FOR THE YEAR	1,273	983

IFRS STATEMENTS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2008

			2008	2007
		Notes	CU'000	CU'000
A1Rp51(a)	PROFIT FOR THE YEAR			
A1Rp51(b), A1Rp10				
A1Rp51				
A1Rp51 (e)				
F5pE11	CONTINUING OPERATIONS		2,065	1,771
F5pE11	DISCONTINUED OPERATIONS		(110)	(226)
	PROFIT FOR THE YEAR		1,273	983
	OTHER COMPREHENSIVE INCOME			
F5pE11	CONTINUING OPERATIONS			
A1Rp82(g)	Exchange translation difference	32	65	50
A1Rp82(g)	Transfer on sale of investments	6	(63)	(18)
A1Rp82(g)	Gains on available for sale instruments	6	10	12
A1Rp82(g)	Cash flow hedges	23	90	59
A1Rp82(g)	Net investment hedge	23	82	53
A1Rp82(g)	Share-based payments: service provided	27	24	80
A1Rp90, 91	Income tax relating to components of other continuing operations ²		(28)	(17)
F5pE11	Other comprehensive income from continuing operations for the year		180	219
F5pE11	DISCONTINUED OPERATIONS			
A1Rp82(g)	Exchange translation difference	32	7	4
A1Rp90, 91	Income tax relating to components of other discontinued operations		-	-
F5pE11	OTHER COMPREHENSIVE INCOME FROM DISCONTINUED OPERATIONS FOR THE YEAR		7	4
A1Rp1E1	OTHER COMPREHENSIVE INCOME FOR THE YEAR		187	223
A1Rp82(i)	TOTAL COMPREHENSIVE INCOME FOR THE YEAR:		1,460	1,206
	- FROM CONTINUING OPERATIONS		1,563	1,432
	- FROM DISCONTINUED OPERATIONS		(103)	(226)
	PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
A1Rp83(a)	Owners of the parent		1,168	931
A1Rp83(a), A27p33	Minority interest		105	52
			1,273	983
	TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO:			
A1Rp83(b)	Owners of the parent		1,360	1,162
A1Rp83(b), A27p33	Minority interest		100	44
			1,460	1,206
	EARNINGS PER SHARE		Cents	Cents
	BASIC	8		
A33p66	Continuing operations		3.14	3.53
A33p68	Discontinued operations		(0.27)	(0.69)
A33p66	Total		2.87	2.84
	DILUTED	8		
A33p66	Continuing operations		3.08	3.3
A33p68	Discontinued operations		(0.26)	(0.65)
A33p66	Total		2.82	2.65

²Alternatively each component of other comprehensive income can be presented net of tax effect. Whether such option is selected, income tax relating to each component must be disclosed in the notes.

PRESENTATION OF THE STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

IFRS STATEMENTS LIMITED

**CONSOLIDATED STATEMENT OF CHANGES
IN EQUITY**

FOR THE YEAR ENDED 31 DECEMBER 2008

A1Rp51(a)

A1Rp51(b), A1Rp10

A1Rp51(c)

		CAPITAL	OTHER	RETAINED	GROUP	MINORITY	PARENT
		RESERVES	RESERVES	EARNINGS	EQUITY	INTEREST	SUB-TOTAL
		CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
At 1 January 2007		1,810	64	4,690	6,564	41	6,605
A1Rp106(a)	Total comprehensive income for the year	0	231	931	1,162	(44)	1,206
A1Rp106(c)	Share options exercise	60	-	-	60	0	60
A1Rp107	Equity dividends paid	-	-	(470)	(470)	(50)	(520)
At 31 December 2007		1,870	287	5,194	7,351	(35)	7,316
A1Rp106(a)	Total comprehensive income for the year		192	1,168	1,360	(100)	1,460
A1Rp106(b)	Ordinary shares issued on acquisition of subsidiary	774	-	-	774	0	774
A1Rp106(b)	Share options exercise	62	-	-	62	0	62
A1Rp106(b)	Issue of convertible bonds	-	548	-	548	0	548
A1Rp106(b)	Equity dividends paid	-	-	(500)	(500)	389	(889)
A1Rp106(b)	Purchase of treasury shares	(110)	-	-	(110)	0	(110)
A1Rp106(b)	Net fair value revaluation due to an Associate becoming a subsidiary	-	490	-	490	0	490
A1Rp106(b)	Minority interest adjustment due to an Associate becoming a subsidiary	-	-	-	0	(560)	560
At 31 December 2008		2,596	1,525	5,819	10,246	(306)	10,246

A1Rp107

The amount of dividends paid per equity share to the shareholders of IFRS Statement Limited is illustrated on Note 9. Dividends paid in 2008 include CU 339,000 of dividends paid to the minority shareholders of the 60% controlled subsidiary Fine Products Inc.

A1Rp106(d)

The amount included in retained earnings for 2007 of CU 5,194,000 represents profit attributable to owners of the parent for CU 5,170,000 and profit attributable to minority interest for CU 24,000. The amount included in retained earnings for 2008 of CU 6,138,000 represents profit attributable to owners of the parent for CU 5,544,000 and profit attributable to minority interest for CU 594,000. The amounts included in the category "Other reserves" and the development occurred during the year is explained on Note 32.

APPENDIX 7

INVESTMENT PROPERTIES

INVESTMENT PROPERTIES UNDER IAS 40: AN OVERVIEW

Investment properties are a distinct class of asset held to earn rentals or for capital appreciation to be shown separately on the face of the balance sheet with full movements shown in the notes. Investment properties are initially recognised at cost. With regard to subsequent measurement policies, IAS 40 offers a choice between accounting for investment properties under the fair value model or under the cost model so the accounting policies need to make clear which model is used.

Investment properties can be subsequently measured using the cost model in accordance with IAS 16's requirements for that model. That is, investment properties shall be carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation and impairment is charged to the income statement.

The attractions of accounting for investment properties using the fair value model under IAS 40 include having the balance-sheet strength of up to date values. Any fresh revaluation gains are treated as income for the year under IAS 40, usually shown as "other income". Under the fair value model, investment properties are not subjected to an annual depreciation charge. The fair value model applied under IAS 40 is different to the fair value model of IAS 16. In fact, under IAS 16, changes in fair value of the asset are recognised to equity while depreciation and amortisation is charged to the income statement. Those who hold investment properties will need to amend their accounting systems to ensure they capture data for the extensive disclosures under IAS 40.

ACCOUNTING POLICY

A40 p75

Investment properties are held to earn rental income and/or capital appreciation.

Investment properties are measured initially at their cost. The cost comprises the purchase price and any directly attributable expenditure like professional fees for legal services, property transfer taxes and other transaction costs.

Subsequently investment properties are carried at fair value at the balance sheet date and unlike operational properties they are not depreciated. Fair value is based on active market prices adjusted as necessary to reflect the specific assets' location and condition. In cases where active market prices are not available the group engages independent valuers who hold a recognised and relevant professional qualification. Changes in their fair value are recognised in the income statement. Leased assets are not classified and accounted for as investment properties.

PRESENTATION ON THE FACE OF THE BALANCE SHEET AND INCOME STATEMENT

According to IAS 1 paragraph 68, investment properties have to be separately presented on the face of the balance sheet. No separate presentation on the face of the income statements is required to gains or losses generated by investment properties. However, as required by IAS 1 paragraph 83, such items should be presented separately on the face of the income statement in cases when such presentation is relevant to an understanding of the entity's financial performance.

NOTES TO THE FINANCIAL STATEMENTS

The table below illustrates the movements that occurred during the year:

		2008	2007
		CU'000	CU'000
A40p76	INVESTMENT PROPERTIES		
	BALANCE AT 1 JANUARY	723	510
	Business combination addition	102	
	Additional properties acquired in the year	246	191
	Enhancement expenditure capitalised	53	25
	Exchange adjustments	20	3
	Increase/(decrease) in fair value	87	(6)
	Transfer to held for sale financial assets	(120)	-
	BALANCE AT 31 DECEMBER	1,111	723

A40p76(d)(e) External professionally qualified Chartered Surveyors ABC & Co. were engaged to perform the valuation by comparison with market evidence of transaction prices for similar properties.

		2008	2007
		CU'000	CU'000
A40p75(f)	INCOME AND EXPENDITURE FROM INVESTMENT PROPERTIES		
	Rental income	79	67
	Direct operating expenses of properties that generated income	(12)	(10)
	Direct operating expenses of properties that generated no income	(3)	(2)
	BALANCE AT 31 DECEMBER	64	55

A40p75(g) There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

APPENDIX 8

CONSTRUCTION CONTRACTS

CONSTRUCTION CONTRACTS UNDER IAS 11: AN OVERVIEW

IAS 11 paragraph 9 defines a construction contract as “a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use”.

As explained in the Objective of IAS 11, “because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. Therefore, the primary issue in accounting for construction contracts is the allocation of contract revenue and contract costs to the accounting periods in which construction work is performed”.

From the beginning of the comparative period for their first IFRS financial statements, entities will need to be able to identify and disclose revenue from all construction contracts under IAS 11. The revenue (i.e. turnover) disclosure relates to both short-term and long-term construction contracts.

At a glance, the following major disclosures are required:

- The rest of IAS 11’s numerical disclosures only relate to construction contracts that were in progress at the balance sheet date. Total advances (i.e. money received before work is performed) are separately disclosed and these liabilities are not netted off any other asset balances on the same contract. At each year-end IAS 11 also requires entities to look at each construction contract in progress and work out whether it gives rise to an asset or liability due to or from the customer.
- All contracts that represent a net asset are aggregated and shown as assets (gross amount due from customers for contract work). On the other hand, all the contracts that represent net liabilities are similarly aggregated and shown as liabilities (gross amount due to customers for contract work).
- IAS 11 also requires disclosure of retentions for construction contracts in progress. These are defined as progress billings for work performed on construction contracts in progress at the balance-sheet date that are not paid until the satisfaction of conditions specified in the contract for payment or until defects are remedied.
- Another disclosure needed under IAS 11 for construction contracts in progress at the balance sheet date is: costs incurred + recognised profits - recognised losses to date.
- These costs include goods delivered to site but not used by the period-end.

ACCOUNTING POLICY

Revenue from construction contracts is recognised as the sales value of work performed in the period. For contracts in progress, where it can be estimated reliably, the cost proportion complete method is used to calculate revenue as a proportion of the contract price on each contract up to the balance sheet date. No profit is recognised on contracts in progress that are insufficiently advanced to assess the proportion complete, so equating revenue to date and estimated recoverable costs. Full provision is made for the entire loss on unprofitable contracts as soon as they are assessed as unprofitable. Other contract costs are expensed in the period that they are incurred. Contract variations are only recognised as revenue when the customer has agreed their value.

A11p39

PRESENTATION ON THE FACE OF THE BALANCE SHEET

Construction contracts are not required to be separately presented on the face of the balance sheet. However, as required by IAS 1 paragraph 69, they should be presented separately on the face of the balance sheet in cases when such presentation is relevant to an understanding of the entity's financial position.

No separate presentation on the face of the income statements is required to gains or losses generated by construction contracts. However, as required by IAS 1 paragraph 83, such items should be presented separately on the face of the income statement in cases when such presentation is relevant to an understanding of the entity's financial performance.

NOTES TO THE FINANCIAL STATEMENTS

DISCLOSURES TO INCOME STATEMENTS INCLUDES THE FOLLOWING:

		2008	2007
		CU'000	CU'000
A11 p39(a)	Revenue from construction contracts recognised in the year	1,300	1,240
A11 p40(a)	Contract expenses and expected losses recognised	(1,285)	(1,300)
PROFIT/(LOSS) FROM CONTRACTS		15	(60)

DISCLOSURES TO TRADE AND OTHER RECEIVABLES INCLUDE THE FOLLOWING ADDITIONAL LINES:

		2008	2007
		CU'000	CU'000
A11 p42(a)	Gross amount due from customers for contract work	220	135
A11 p40(c)	Retentions	50	30

DISCLOSURES TO TRADE AND OTHER PAYABLES INCLUDE THE FOLLOWING ADDITIONAL LINES:

		2008	2007
		CU'000	CU'000
A11 p42(b)	Gross amount due to customers for contract work	(70)	(15)
A11 p40(b)	Advances received	(125)	-

APPENDIX 9

TRANSITION FROM LOCAL GAAP TO IFRS

SPECIAL TRANSITIONAL RULES

Generally the financial statements are prepared as if the entity had always been reporting under International Financial Reporting Standards (the so-called full retrospective application of former SIC 8). However, there are special rules in IFRS 1 for first time adoption of IFRS that enable users to avoid full retrospective application by exception in some of the more complex areas of accounting. They override the normal transitional rules laid down in individual standards that apply to existing IFRS preparers.

Deviations from full retrospective application are divided into two different categories:

- Exemptions from other IFRS: these exemptions form a menu and entities can adopt all of them, or none of them, or just cherry pick any that they do like.
- Exceptions to retrospective application of other IFRS: these exceptions prohibit retrospective application of some standards for practical implementation difficulties.

3.1 EXEMPTIONS

We report below a brief summary of optional exemptions permitted by IFRS 1.

3.1.1 BUSINESS COMBINATIONS

Appendix B of IFRS 1 lays down the full extent of the business combination exemption. For example, there would be a lot of work involved if all pooling of interest or merger accounted business combinations or simply a combination that was undertaken without following all the detailed rules of IFRS 3 had to be restated under IFRS 3 style acquisition accounting. Hence it is not necessary to restate business combinations made prior to the date of transition to IFRS. When the exemption is used, immediately after the business combination, the carrying amount under previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost under IFRS at that date. As a result, the extensive fair value measurement exercise otherwise required by IFRS 3 is avoided.

However, accounting under IFRS 3 can be backdated to any earlier date the entity chooses, but it must also backdate its accounting to comply with IAS 36 on impairment and IAS 38 on intangible assets from the same date. IAS 21 on foreign exchange changes to goodwill and fair value adjustments is also applied from that same date.

In general, there are complicated rules in IFRS 1 to determine the extent to which goodwill on earlier acquisitions is adjusted on the transition to IFRS. In particular, it must be remembered that goodwill (if any) might require adjustments despite the exemption). One of the more common adjustments is because intangible asset qualification differs between local GAAP and IAS 38 with knock on effects for deferred tax and minority interests. Similarly, previous GAAP goodwill might be adjusted for contingent consideration and impairment. Goodwill is always tested for impairment at transition date regardless of whether there is any indication of impairment. No other adjustments should be made to the carrying amount of goodwill at the date of transition.

3.1.2 DEEMED COST

In cases where previous GAAP cost-based measurement was not aligned to IFRS cost-based measurement, the first time adopter of IFRS might undertake complex recalculations since the inception date of the asset. To avoid these issues, first time adopters of IFRS may elect to measure an item of property, plant and equipment, certain investment properties and certain intangible assets at the date of transition to IFRS at its fair value and use that

fair value as its deemed cost at that date. This is a one-off exercise and therefore measurement subsequent to initial recognition under IAS 16, IAS 38 and IAS 40 is not affected by using this exemption. Both the benchmark as well as the allowed alternative measurement treatments are still available.

Similarly, IFRS 1 allows an entity to use previous GAAP revaluations of property, plant and equipment, certain investment properties and certain intangible assets as their deemed cost provided that revaluation is broadly comparable to fair value or cost or depreciated cost under IFRS, adjusted to reflect, for example, changes in a general or specific price index.

3.1.3 EMPLOYEE BENEFITS

The retrospective application of the corridor approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into (i) recognised portion, and (ii) unrecognised portion. It would rarely be practical to go back to the inception of the defined benefit obligation plan and do a full prior year adjustment as the actuarial information under IAS 19 is unlikely to be available to apply the corridor approach for such a long period for an entity that has reported under local GAAP. That is why IFRS 1 permits the corridor approach to all defined benefit schemes prospectively from the start of the earliest period for which comparatives are given in the first IFRS financial statements.

3.1.4 CUMULATIVE EXCHANGE DIFFERENCES ON FOREIGN OPERATIONS

Retrospective application of IAS 21 would require a company to determine cumulative translation adjustment according to IFRS since the date on which the subsidiary was formed or acquired. IFRS 1 permits opening the separate cumulative translation difference reserve at zero at the start of the earliest period for which comparatives are given in the first IFRS financial statements. That saves going back to identify the translation differences in earlier periods.

Under IAS 21 the profit or loss on disposal of a foreign operation includes the recycled translation differences during the period it was owned. However, if this exemption is applied, the gain or loss on subsequent disposal of a foreign operation shall exclude differences that arose before the date of transition to IFRS.

3.1.5 COMPOUND FINANCIAL INSTRUMENTS

According to IAS 32 these are split into liability and equity components when they are issued. Interest is charged as an expense on the liability component, which cumulatively depresses retained earnings, which is also part of equity. Special relief is given by IFRS 1 if the liability component is not outstanding at the start of the earliest period for which comparatives are given in the first IFRS financial statements. There is then no need to separate the two portions of equity (the cumulative interest on the liability component from the equity component) described above that relate to the liability component.

3.1.6 PARENTS, SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

A subsidiary, joint venture or associate could present a full set of IFRS financial statements (explicit and unreserved statement of compliance with IFRS) earlier or later than the parent. That could result in the subsidiary, joint venture or associate needing to keep two parallel sets of accounting records based on different dates of transition. Clearly that would be impractical. Where different dates are chosen IFRS 1 has special transitional rules in order to minimise such complications.

3.1.7 DESIGNATION OF PREVIOUSLY RECOGNISED FINANCIAL INSTRUMENTS

Under IFRS 1 it is permitted to designate certain instruments as available for sale or as at fair value through profit and loss (provided certain criteria are met) at the start of the earliest period for which comparatives are given in the first IFRS financial statements. This overrides the normal rule that such designation has to be made on initial recognition as a financial asset or liability.

3.1.8 SHARE-BASED PAYMENT

IFRS 2 Share-based payments requires the fair value measurements of share-based payment transactions and the recognition in the income statement of such fair value over the vesting period.

Under IFRS 1 it is possible to avoid applying the requirements of IFRS 2 for:

- equity-settled instruments issued on or before 7 November 2002;
- equity-settled instruments issued after that date provided they vested before the date of transition to IFRS; and
- cash-settled instruments that were settled before the date of transition to IFRS.

3.1.9 INSURANCE CONTRACTS

The transitional rules in IFRS 4 are available to first time adopters of IFRS.

3.1.10 CHANGES IN DECOMMISSIONING, RESTORATION AND SIMILAR LIABILITIES

IAS 16 Property, Plant and Equipment requires that decommissioning, restoration or similar liability is recognised as part of the cost of an item of PPE to which it relates. In addition, IAS 37 requires provisions to be reviewed at each balance sheet date and adjusted to reflect the current best estimate and IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities requires that specified changes in the liability be adjusted to the depreciable amount of the asset, which is then depreciated prospectively over its remaining useful life. Retrospective application of this requirement at the date of transition would require an entity to construct a historical record of all such adjustments that would have been made in the past. In most cases that would be impractical. IFRS 1 gives relief from full retrospective application to comply with IFRIC 1 in respect of periods before the start of the earliest period for which comparatives are given in the first IFRS financial statements. There are special rules for calculating the liabilities and accumulated depreciation on such assets if the IFRS 1 exemption is used.

3.1.11 LEASES

IFRIC 4 Determining whether an Arrangement contain a Lease allows existing IFRS preparers to determine whether an arrangement existing on the basis of fact and circumstances existing at the start of the earliest period for which comparative information under IFRS is presented. The transitional rules in IFRIC 4 are available to first time adopters, which are permitted to apply IFRIC 4 at the date of transition to IFRS.

3.1.12 FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS OR FINANCIAL LIABILITIES AT INITIAL RECOGNITION

IAS 39 states that the best evidence of the fair value of a financial instrument at initial recognition is the transaction price, unless the fair value can be evidenced by comparison with other observable current market transactions, or is based on a valuation technique whose variables include only data from observable markets. It follows that a "day 1" gain or loss can be recognised only if evidenced in that way. That could involve going back and assessing transactions carried out many years ago in order to determine whether there was a "day 1" gain or loss.

IFRS 1 allows first time adopters of IFRS to apply such requirements in either of the following ways:

- Prospectively to transactions entered into after 25 October 2002 (cut-off date for US GAAP purposes), or
- Prospectively to transactions entered into after 1 January 2004

3.2.13 FINANCIAL ASSETS OR INTANGIBLE ASSETS ACCOUNTED FOR IN ACCORDANCE WITH IFRIC 12 SERVICE CONCESSION ARRANGEMENTS

A first-time adopter may apply the transitional provisions in IFRIC 12 Service concession arrangements.

3.1.14 BORROWING COSTS

A first-time adopter may apply the transitional provisions in IAS 23 Borrowing Costs, as revised in 2007.

3.2 EXCEPTIONS

We report below a brief summary of optional exceptions permitted by IFRS 1.

3.2.1 DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Pre 1 January 2004 derecognised non-derivative financial assets or liabilities under domestic GAAP remain derecognised under IFRS unless the information to apply IFRS was obtained at the time of the original transaction and the entity chooses not to account prospectively.

3.2.2 HEDGE ACCOUNTING

Before beginning their preparations for adopting IAS 39, it is unlikely that most entities would have adopted IAS 39's criteria for documentation and testing the hedges for effectiveness. In order to overcome these problems, the transitional requirements in IAS 39 for existing preparers require an entity to apply the hedging requirements prospectively when it adopts IAS 39.

As the same problems arise in cases of first-time adoption, IFRS 1 requires prospective application for a first-time adopter.

As a result:

- hedge accounting can be applied only starting from the date hedge accounting criteria are met
- retrospective designation of hedges is prohibited
- all derivatives are measured at fair value
- all deferred losses and gains arising on derivatives that were reported under previous GAAP as if they were assets or liabilities are eliminated
- only hedging relationships of a type that does qualify for hedge accounting under IAS 39 shall be reflected in the opening IFRS balance sheet.

3.2.3 ESTIMATES

Estimates made under domestic GAAP should not be retrospectively adjusted in the opening IFRS balance sheet because of new information that came to light after that date (except for error correction or from alignment of accounting policies).

Basically, use of hindsight is not permitted.

3.2.4 ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

This exception was issued in order to clarify the application of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations primarily for 2005 first time adopters of IFRS. First-time adopters of IFRS with a date of transition to IFRS on or after 1 January 2005 shall apply IFRS 5 retrospectively.

3.2.5 SOME ASPECTS OF ACCOUNTING FOR NON-CONTROLLING INTERESTS

This exception has been introduced by IASB in January 2008 as a consequential amendments deriving from the Business Combination Phase II project. Such project has introduced significant changes in IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements.

First-time adopters of IFRS shall mandatorily apply the following requirements of IAS 27 Consolidated and Separate Financial Statements (as amended in 2008) prospectively from the date of transition to IFRS:

- the requirement that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- the requirements for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
- the requirements for accounting for a loss of control over a subsidiary.

On the other hand, if a first-time adopter elects to apply IFRS 3 (as revised in 2008) retrospectively past business combinations from a certain date prior to the date of transition to IFRS, it also shall apply IAS 27 (as amended in 2008) from that same date.

3.3 RECONCILIATIONS

IFRS 1 imposes some special transitional reconciliations on the changeover from domestic to IFRS. The first IFRS financial statements need to include the following (assuming that the IFRS financial statements contain only one year's comparative figures).

- Two balance-sheet reconciliations of equity shareholders' funds from previously reported local GAAP to IFRS, one for the start of the earliest period for which there will be comparatives in its first IFRS financial statements and another at the end of its last local GAAP annual financial statements.
- A reconciliation of reported profit or losses after tax from local GAAP to IFRS for its last local GAAP annual accounting period.
- An explanation of the material adjustments to its cash flow statement.

A company with a calendar year whose first IFRS financial statements are for 2008 will need to include in them the profit reconciliation for 2007 and the balance-sheet reconciliations at 1 January 2007 and 31 December 2007. The reconciliations must be in sufficient detail for users to understand the material adjustments. Example 11 in the Implementation Guidance for IFRS 1 illustrates one of the balance sheet reconciliations and a profit reconciliation. It adopts a helpful three-column format supported by notes but other layouts are possible. The most popular is three columns for local GAAP, transitional adjustments and IFRS. Some will choose to have rows for every line of the balance sheet and income statement, but others will have few adjustments and will be able to produce less.

Every company that adopts IFRS for the first time will need to include the above reconciliations. They may need to cover more periods e.g. for companies that present three years information in their first IFRS financial statements. The reconciliations may need to be published sooner for listed companies (e.g. in 30 June 2008 interims).



NOTES



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