



Date: 2 March 2006

Manganese Bronze Holdings PLC – IFRS Restatement

Manganese Bronze Holdings releases IFRS accounts for 2004/05

Overview

Manganese Bronze Holdings PLC ('the Group') today releases restated consolidated financial statements for the year ended 31 July 2005, applying International Financial Reporting Standards (IFRS). The last financial statements under UK GAAP were for the year ended 31 July 2005 and the date of transition to IFRS was, therefore, 1 August 2004. The first set of results reported by the Group under IFRS will be the interim results for the six months to 31 January 2006, due for release on 5 April 2006.

The key headlines from the restated accounts are:

- Net Assets as at 31 July 2005 reduced by £3.5m to £20.3m
- 2004/05 profit after tax increases by £0.7m to £2.4m
- No impact on Group cash flow

Principal areas affected by IFRS

£m	Profit earned for ordinary shareholders	Net Assets as at 31 July 2005
Pension accounting	0.9	(6.2)
Depreciation/amortisation	(0.1)	0.2
Dividends	-	0.6
Deferred tax	(0.1)	1.9
Net impact	0.7	(3.5)

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1 Restated IFRS consolidated financial statements

a Reconciliation of equity at 1 August 2004 (date of transition to IFRS)

Note		UK GAAP	Effect of transition to IFRS	Reclassifications	IFRS
		£000	£000	£000	£000
	Non-current assets				
1	Property, plant and equipment	19,829		(4,073)	15,756
2/3	Intangible assets	1,137	322	(1,137)	322
	Total non-current assets	20,966	322	(5,210)	16,078
	Current assets				
	Inventories	15,987			15,987
	Trade and other receivables	5,696			5,696
4	Deferred tax asset	300	1,911		2,211
	Cash and cash equivalents	6,399			6,399
	Total current assets	28,382	1,911	-	30,293
1 & 3	Assets held for sale	-		5,210	5,210
	Total assets	49,348	2,233	-	51,581
	Liabilities				
3	Trade and other payables	11,702		(506)	11,196
4	Retirement benefit obligation		6,370		6,370
	Obligations under finance leases	701			701
	Stocking loan	7,432			7,432
5	Provisions	6,695	(343)		6,352
6	Derivative financial instruments		30		30
3	Liabilities directly associated with assets held for sale			506	506
	Total liabilities	26,530	6,057	-	32,587
	Net assets	22,818	(3,824)	-	18,994
	Equity				
	Share capital	5,371			5,371
	Share premium account	4,700			4,700
	Capital redemption reserve	916			916
7	Revaluation reserves	1,860		(320)	1,540
	Employee Share Ownership Plan (ESOP) reserve	(500)			(500)
7	Retained earnings	10,471	(3,824)	320	6,967
8	Total equity	22,818	(3,824)	-	18,994

Notes to the reconciliation of equity at 1 August 2004		£000	£000
	Total equity previous GAAP		22,818
2	Development costs written off under UK GAAP, capitalised under IAS38		
	Gross cost at Jan 2002	668	
	Amortisation to 31 Jul 2004	(346)	
	Total development costs net book value as at 1 August 2004	<u>322</u>	322
4	Deficit in defined benefit pension scheme		(6,370)
	Related deferred tax asset		1,911
5	Proposed ordinary share final dividend of 2p per share, not recognised as liability until declared		378
	Holiday pay accrual		(35)
6	Fair value of forward foreign exchange contracts		(30)
8	Total adjustment to equity		<u>(3,824)</u>
	Total equity IFRS		<u>18,994</u>
	Reclassifications		
1	Investment properties transferred to assets held for sale		4,073
3	Development costs of low emission inner-city utility vehicle, transferred to assets held for sale		1,137
	Grants received associated with above project		(506)
7	Transfer of opening revaluation reserve to retained earnings (In line with IFRS 1, First-time adoption)		320

b Reconciliation of equity at 31 July 2005 (date of last UK GAAP financial statements)

Note		UK GAAP	Effect of transition to IFRS	Reclassifications	IFRS
		£000	£000	£000	£000
	Non-current assets				
1	Property, plant and equipment	20,407		(3,700)	16,707
2/3	Goodwill	2,239	78		2,317
4	Intangible assets	412	188		600
	Total non-current assets	23,058	266	(3,700)	19,624
	Current assets				
	Inventories	15,286			15,286
	Trade and other receivables	6,549			6,549
5	Deferred tax asset	458	1,853		2,311
	Cash and cash equivalents	9,642			9,642
	Total current assets	31,935	1,853	-	33,788
1	Assets held for sale	-		3,700	3,700
	Total assets	54,993	2,119	-	57,112
	Liabilities				
	Trade and other payables	16,493			16,493
5	Retirement benefit obligation		6,175		6,175
	Obligations under finance leases	703			703
	Stocking loan	5,632			5,632
6	Provisions	8,384	(538)		7,846
7	Derivative financial instruments		12		12
	Total liabilities	31,212	5,649	-	36,861
	Net assets	23,781	(3,530)	-	20,251
	Equity				
	Share capital	5,401			5,401
	Share premium account	4,919			4,919
	Capital redemption reserve	916			916
8	Revaluation reserves	1,511		21	1,532
	Employee Share Ownership Plan (ESOP) reserve	(210)			(210)
3/9	Translation reserves		59	52	111
8/9	Retained earnings	11,218	(3,589)	(73)	7,556
	Minority interests	26			26
10	Total equity	23,781	(3,530)	-	20,251

Notes to the reconciliation of equity at 31 July 2005		£000	£000
	Total equity previous GAAP		23,781
2	Goodwill not amortised		19
3	Exchange gain on retranslation of goodwill		59
4	Development costs written off under UK GAAP, capitalised under IAS38		
	Gross cost at Jan 2002	668	
	Amortisation to 31 Jul 2005	(480)	
	Total development costs net book value as at 31 July 2005	<u>188</u>	188
5	Deficit in defined benefit pension scheme as at 31 July 2004	(6,370)	
	Less contributions paid in the year	1,222	
	Actuarial loss	(746)	
	Finance costs	(281)	
	Deficit in defined benefit pension scheme as at 31 July 2005	<u>(6,175)</u>	(6,175)
	Related deferred tax asset		1,853
6	Proposed ordinary share final dividend of 3p per share, not recognised as liability until declared		568
	Holiday pay accrual		(30)
7	Fair value of forward foreign exchange contracts		(12)
10	Total adjustment to equity		<u>(3,530)</u>
	Total equity IFRS		<u>20,251</u>
	Reclassifications		
1	Investment properties transferred to assets held for sale		3,700
8	Transfer of opening revaluation reserve to retained earnings (In line with IFRS 1, First-time adoption)		320
	Impairment on above properties as at 31 July 2005		(341)
	Net transfer to retained earnings		<u>(21)</u>
9	Transfer exchange differences to reserves		<u>(52)</u>

c Reconciliation of reserves as at 1 August 2004 and 31 July 2005

	Share premium account £000	Other reserves £000	Revaluation reserve £000	ESOP reserve £000	Translation reserve £000	Retained earnings £000	Total £000
As reported under UK GAAP at 1 August 2004	4,700	916	1,860	(500)	-	10,471	17,447
Transfer opening revaluation reserve			(320)			320	-
IFRS retained earnings adjustments						(3,824)	(3,824)
IFRS at 1 August 2004	4,700	916	1,540	(500)	-	6,967	13,623
Net profit for the year:							
UK GAAP						1,736	1,736
IFRS						675	675
UK GAAP reserve movements:							
Dividends paid						(567)	(567)
Shares issued	219						219
Share options exercised				91			91
Net exchange differences						12	12
Transfer to retained earnings			(8)	199		(191)	-
IFRS reserve movements:							
Actuarial loss on defined benefit pension scheme						(746)	(746)
Credit to equity for share based payments						32	32
Impairment of properties						(341)	(341)
Exchange differences on translation of foreign subsidiaries					111	(21)	90
IFRS at 31 July 2005	4,919	916	1,532	(210)	111	7,556	14,824

d Reconciliation of profit for the year ended 31 July 2005

Note	UK GAAP	Effect of transition to IFRS	Reclassifications	IFRS
	£000	£000	£000	£000
	Revenue	87,598		87,598
1/2/3	Cost of sales	(75,230)	(97)	(75,327)
	Gross profit	<u>12,368</u>	<u>(97)</u>	<u>12,271</u>
	Distribution costs	(3,271)		(3,271)
4/5/6/7	Administrative expenses	(6,069)	(58)	(6,232)
8	Pension contribution to closed scheme	(1,222)	1,222	-
	Operating profit	<u>1,806</u>	<u>1,067</u>	<u>2,768</u>
7	Costs of a fundamental restructuring	(213)		213
7	Loss on sale of fixed assets	(45)		45
7	Profit on disposal of discontinued operations	153		(153)
	Profit on ordinary activities before finance charges	<u>1,701</u>	<u>1,067</u>	<u>2,768</u>
9/10	Finance charges	(139)	(334)	(473)
	Profit on ordinary activities before taxation	<u>1,562</u>	<u>733</u>	<u>2,295</u>
11	Tax (charge)/credit	152	(58)	94
	Profit on ordinary activities after taxation	<u>1,714</u>	<u>675</u>	<u>2,389</u>
	Minority interests	22		22
12	Profit for the financial year	<u>1,736</u>	<u>675</u>	<u>2,411</u>
	Basic earnings per share in pence	8.92		12.78

Notes to the reconciliation of profit for the year ended 31 July 2005		£000	£000
	Profit previous GAAP		1,736
1	Amortisation of development costs capitalised		(134)
2	Goodwill not amortised		19
3	Movement in fair value of foreign exchange contracts		18
4	Share options expensed		(32)
5	Movement in holiday pay accrual		5
6	Exchange differences		(31)
8	Contribution to defined benefit pension scheme. Deficit on balance sheet under IRFS.		1,222
9	Pension scheme finance costs		(281)
10	Preference share dividends reclassified as interest under IFRS		(53)
11	Deferred tax charge re reduction in defined benefit pension scheme deficit		(58)
12	Total adjustment to profit		<u>675</u>
	Profit IFRS		<u>2,411</u>
	Reclassifications		
7	Exceptional items reclassified as administrative expenses		(105)

e Reconciliation of cash flow for the year ended 31 July 2005

There is no impact on Group cash flow for the year ending 31 July 2005 as a result of applying IFRS. The net increase in cash for the year remains as reported under UK GAAP at £3,310k.

2 Notes to the announcement

General information

The financial information included in this announcement has been produced using extracts from the statutory accounts under UK GAAP for the year ended 31 July 2005 amended by adjustments arising from the implementation of International Financial Reporting Standards (IFRS). The statutory accounts for this period have been filed with the Registrar of Companies. The auditors' report on these accounts was unqualified and did not contain statements under Sections 237 (2) or (3) of the Companies Act 1985 which deal respectively with the maintaining of proper accounting books and records and the availability of information to the auditors. The financial information presented has been prepared on the adoption of IFRS, including International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Board (IASB) and its committees, as interpreted by any regulatory bodies relevant to the Group.

IFRS are subject to continuing review and amendment by the International Accounting Standards Board ("IASB") and subsequent endorsement by the European Commission and therefore are subject to change. Therefore, in determining the group's IFRS accounting policies, the Board of Directors has used its best endeavours in making assumptions about those IFRS expected to be effective or available for adoption when the first IFRS annual financial statements are prepared for the year ending 31 July 2006. As the accounting policies used to prepare the Interim Financial Statements may need to be updated for any subsequent amendments to IFRS required for first time adoption, or any new IFRS the group may elect to adopt, it is possible that the preliminary opening balance sheet and IFRS comparatives may require adjustment before being finalised.

IFRS 1

Exemptions

IFRS 1 sets out procedures which the Group must follow when it adopts IFRS for the first time as the basis of preparation of its consolidated financial statements. The Group is required to determine appropriate accounting policies in compliance with IFRS and, in general, to apply them retrospectively in determining the opening IFRS balance sheet at its date of transition, 1 August 2004.

IFRS 1 provides a number of optional exemptions to this general principle. Those being adopted by the Group are described below.

Business Combinations

The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before the date of transition. Therefore no recalculation of the goodwill arising on any of the Group's acquisitions, which occurred before 1 August 2004 has taken place.

Share based payments

The Group has elected to apply IFRS 2 – 'Share-based Payment' only to share-based payment transactions granted after 7 November 2002 and not vested at 1 January 2005.

Presentation

The presentation of financial information under IFRS is governed by IFRS 1. In some cases this will require the presentation of an item in a different position, or the use of a different description in the IFRS income statement or balance sheet to that adopted in the UK GAAP profit and loss account or balance sheet. These reclassifications have been described in the explanatory notes.

Accounting policies

The Group's accounting policies have been revised to comply with IFRS and are shown below.

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 July each year. Control is achieved where the Company has the power to govern the strategic direction, the assets, and the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

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

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

Business combinations

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

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

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

Non-current assets held for sale

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

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

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

Leasing

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

The Group as Lessor

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

The Group as Lessee

Assets held under finance leases are recognised as assets of the Group in accordance with the Group's accounting policy for the appropriate asset category, or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statement of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

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

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

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.

Government grants towards staff re-training costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Operating profit

Operating profit is stated after charging restructuring costs and after the share of results of associates but before investment income and finance costs.

Retirement benefit costs

For defined contribution retirement benefit schemes the amount charged as an expense in respect of pension costs and other post-retirement benefits is the contributions payable in the year. They are included as part of staff costs. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the Projected Unit Credit Method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

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

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

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

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For land and buildings acquired prior to 31 July 2003, the Group has elected to use the revaluation at that date as deemed cost on transition to IFRSs.

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

Depreciation is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method. The estimated useful lives, which are periodically reviewed by the Directors, are:

- 1) Freehold buildings - 20 to 50 years as advised by members of the Royal Institution of Chartered Surveyors;
- 2) Long leasehold buildings – the lower of 50 years as advised by members of the Royal Institution of Chartered Surveyors or the period of the lease;
- 3) Short leasehold buildings – the lower of the period of the lease, or five to ten years;
- 4) Plant and equipment, including motor vehicles – three to fifteen years.

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date, or at cost if purchased during the year. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Internally-generated intangible assets – research and development expenditure

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

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value on a first-in-first-out basis. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Included within inventories, are finished vehicles held by Group and also non-Group dealers, which are financed through a stocking loan facility.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

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

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments

Investments are measured at cost, including transaction costs, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

Interest bearing bank loans, stocking loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts to hedge its foreign currency exposure. The Group does not use derivative financial instruments for speculative purposes. For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign exchange movements on the Group's operations.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of the non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a

straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by the use of stochastic modelling techniques. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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