

13 October 2006

# Thomson Intermedia plc

## Transition to International Financial Reporting Standards

Thomson Intermedia plc ('the Group', AIM: THN) will be reporting its financial results in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union from 1 February 2006. The Group will be publishing under IFRS its results for the six months to 31 July 2006 on 18 October 2006.

This statement presents and explains the conversion of the results of the Group as previously reported under UK Generally Accepted Accounting Principles (UK GAAP) onto an IFRS basis for the year ended 31 January 2006.

The key changes for the Group are:

- non-amortisation of goodwill
- recognition and amortisation of purchased intangible assets
- inclusion of a fair value charge in relation to employee share schemes
- balance sheet reclassification of internally developed computer software to intangible assets.

The net impact of these changes for the year ended 31 January 2006 was that Group Operating profit increased by £176,000 to £1.93m and basic earnings per share increased from 6.99p to 7.59p.

Full details are set out in this announcement.

### Enquiries:

**Thomson Intermedia plc**  
David Trendle, Finance Director

**0208 466 5555**

**College Hill**  
Adrian Duffield\Ben Way

**0207 457 2020**

## **Restatement of financial information for International Financial Reporting Standards**

### **1 Introduction**

Following a recent change to AIM rules, requiring AIM listed companies to comply with International Financial Reporting Standards for periods commencing on or after 1 January 2007, in accordance with best practice Thomson Intermedia plc (the "Group") has decided to prepare its financial statements under International Financial Reporting Standards ("IFRS") with effect from the year ended 31 January 2006.

The financial statements for the year ended 31 January 2006 have been restated under IFRS, adopting a 1 February 2005 transition date. This announcement presents and explains the Group's results for the year ended 31 January 2006 as converted from UK GAAP to IFRS.

The first results to be published under IFRS will be for the 6 months to 31 July 2006, which will be reported in an announcement to be issued on 18 October 2006.

### **2 Basis of preparation**

AIM rules require that financial statements be prepared in accordance with International Financial Reporting Standards (IFRS's) adopted for use in the EU ("adopted IFRS's") for periods commencing on or after 1 January 2007. Thomson Intermedia Plc has decided, in accordance with best practice, to adopt IFRS early.

This financial information will be prepared on the basis of the recognition and measurement requirements of IFRS's in issue that either are endorsed by the EU and effective (or available for early adoption) at 30 April 2007 (the Group's new period end) or are expected to be endorsed and effective (or available for early adoption) at 30 April 2007, the Group's first reporting date at which it has elected to use adopted IFRS's. Based on these adopted IFRS's, the directors have made assumptions about the accounting policies expected to be applied, which are as set out in note 6, when the first full IFRS financial statements are prepared for the period ending 30 April 2007.

In addition, the adopted IFRS's that will be effective (or available for early adoption) in the financial statements for the period ending 30 April 2007 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the financial statements are prepared for the period ending 30 April 2007.

### **3 Transition to IFRS - first time adoption**

IFRS 1 'First Time Adoption of International Financial Reporting Standards' sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its accounting policies as at its date of transition, 1 February 2005 and, apply these prospectively to determine the IFRS balance sheet for the year ended 31 January 2006. This standard permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS during the transition period. As permitted under the transitional provisions of IFRS1, the exemptions adopted by the Group are set out below.

- **Share based payments**

The Group has adopted the exemption to apply IFRS 2 Share based payments only to awards made after 7 November 2002 that had not vested by 1 January 2005.

- **Business combinations**

The Group has chosen not to restate business combinations completed prior to the transition date on an IFRS basis.

- **Financial Instruments**

The Group has adopted the exemption not to restate comparatives for IAS 32 and IAS 39 and therefore the comparative information in the 2007 financial statements will be presented on the existing UK GAAP basis and will not be restated in line with IAS32 and IAS 39.

- **Cumulative translation differences**

Cumulative translation differences in respect of foreign operations have been deemed to be nil at the date of transition.

#### **4 Significant accounting policy changes and adjustments**

The following sets out significant accounting policy changes and adjustments arising from the transition to IFRS.

##### **I. Goodwill and impairments (IFRS 3)**

UK GAAP requires that amortisation of goodwill is charged to the profit and loss account on a straight line basis over the useful economic life of the intangible asset. Under UK GAAP, the goodwill arising on the acquisitions of BCMG Limited was being amortised over 20 years. The charge in the year ended 31 January 2006 under UK GAAP was £234,000.

IFRS 3 requires that goodwill arising from business combinations should not be amortised but tested annually for impairment.

As permitted by IFRS 1 the Group has decided to apply IFRS 3 prospectively from the date of transition (1 February 2005) and has elected not to restate previous business combinations.

Amortisation charged in the year ended 31 January 2006, under UK GAAP, relating to goodwill on the balance sheet at the date of transition has been reversed, resulting in a credit to income of £234,000.

##### **II. Acquired Intangible Assets (IAS 38)**

IAS38 'Intangible Assets', establishes general principles for the recognition and measurement of intangible assets. In addition, IFRS 3 'Business Combinations' stipulates that, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of the assets will reflect market expectations as to the economic benefits that will flow from it.

IFRS requires that where the fair value of an intangible asset can be measured reliably, the acquirer should recognise an intangible asset acquired in a business combination separately from goodwill, irrespective of whether the asset was previously recognised by the acquiree. This will include, for example, customer relationships, trade names and non-compete agreements where these meet the definition of an intangible asset, and can be measured reliably.

On 23 August 2005 the Company acquired the entire share capital of BCMG Limited (billets) for a maximum total consideration of £13.1m. In line with IAS 38 intangible assets owned by billets have been independently valued by an external consultant and shown within 'other intangible assets' on the balance sheet.

Amortisation is charged so as to write off the cost of the purchased intangible assets over their estimated useful lives, the assets and periods used are as follows:

Asset	Asset value £'000s	Useful economic life Years
billetts media consulting customer relationships	2,859	10
billetts marketing sciences customer relationships	271	5
MPMA customer relationships	43	2
Trade name	215	10
Non-compete	7	1.5
	3,395	

An amortisation charge of £162,000 has been debited through the income statement representing the write down of these intangible assets from the acquisition date to 31 January 2006.

### III. Share based payments (IFRS 2)

With respect to share-based payments, under UK GAAP only the intrinsic value is expensed over the performance period e.g. where the options are granted over shares with an exercise price below market price at the date of the grant.

IFRS 2 requires that an expense for all equity-settled share based payments is recognised. For share based payments under IFRS, the expense is calculated with reference to the fair value of the award on the date of grant and is spread over the vesting period of the scheme, adjusted to reflect actual and expected levels of vesting. The Black-Scholes model has been used to calculate the fair values of options on their grant date for all options issued after 7 November 2002 which had not vested by 1 January 2005.

A charge of £229,000 was incurred under UK GAAP for the year ended 31 January 2006 due to share options issued below market value. The charge to the income statement under IFRS is the same as UK GAAP, based on the fair value of the share options. However, a cumulative amount of £414,000 was previously credited to accruals under UITF17, this has been transferred to the profit & loss reserve, as required by IFRS2.

The charge in the 2006 income statement for all other options is £20,000.

### IV. Reclassification of research and development costs (IAS 38)

Under IFRS an intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

- a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) its intention to complete the intangible asset and use or sell it.
- (c) its ability to use or sell the intangible asset.
- (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Group has applied IAS 38 fully retrospectively and under IFRS £3.3m of development expenditure over the last 5 years has been capitalised. This is prudently based on the expenditure incurred in the development of the methodologies and systems to create the innovative products and services provided by Thomson. The estimated useful life of these developments has been set at 5 years. This is a prudent estimate of the developments which form part of our Intellectual Property and where we continue to gain economic benefit from the development carried out over the last five years. This policy results in an adjustment of £2.66m of development expenditure capitalised as at the transition date with a cumulative amortisation charge of £909,000. The capitalisation and amortisation prior to the transition date is taken through reserves. In 2005/06 development expenditure of £644,000 has been capitalised and £532,000 amortisation has been charged relating to development expenditure capitalised previously, creating a net credit to income of £112,000.

**V. Classification of cash and cash equivalents**

Under UKGAAP liquid resources were excluded from the cashflow statement. Under IFRS the cashflow statement includes cash equivalents, defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Accordingly, short term deposits of £850,000 have been included within the balance of cash and cash equivalents held at the date of transition and the transfer of £515,000 from cash to liquid resources under UKGAAP has been reversed in the IFRS cashflow statement for the year ended 31 January 2006.

**5 Restatement of financial information under IFRS**

The financial information set out below has been prepared on the basis of the accounting policies set out in note 6. An explanation of the effects of transition to IFRS is provided above in note 4.

**Consolidated Income Statement - Effect of transition to IFRS**  
**31 January 2006**

	UKGAAP £'000s	Preliminary IFRS Adjustments £'000s	Preliminary IFRS £'000s
Revenue	11,136		11,136
Cost of Sales	(4,129)		(4,129)
<b>Gross Profit</b>	<b>7,007</b>		<b>7,007</b>
Administrative expenses	(4,775)	644	(4,131)
Shared based expenses	(229)	(20)	(249)
Amortisation of intangible assets	(246)	(448)	(694)
<b>Total administrative expenses</b>	<b>(5,250)</b>	<b>176</b>	<b>(5,074)</b>
<b>Operating Profit</b>	<b>1,757</b>	<b>176</b>	<b>1,933</b>
Financial Income	49		49
Financial expenses	(55)		(55)
<b>Net financing income</b>	<b>(6)</b>		<b>(6)</b>
<b>Profit before taxation</b>	<b>1,751</b>	<b>176</b>	<b>1,927</b>
Tax	(126)		(126)
Deferred tax	430		430
<b>Profit for the year</b>	<b>2,055</b>	<b>176</b>	<b>2,231</b>
Attributable to:			
Equity holders of the parent	2,065		2,241
Minority interests	(10)		(10)
	<b>2,055</b>		<b>2,231</b>
<b>Earnings per share (pence)</b>			
Basic	6.99p		7.59p
Diluted	6.67p		7.24p

**Consolidated Balance Sheet - As at 31 January 2006**  
**Effect of transition to IFRS**

	UK GAAP £'000s	Preliminary IFRS Adjustments £'000s	Preliminary IFRS £'000s
<b>Non Current assets</b>			
Goodwill	11,054	(3,149)	7,905
Other intangible assets		5,096	5,096
Property plant and equipment	706		706
Investments	122		122
Deferred tax asset	910		910
	<b>12,792</b>	<b>1,947</b>	<b>14,739</b>
<b>Current assets</b>			
Trade & other receivables: Due within one year	5,926		5,926
Trade & other receivables: Due after more than one year	1,235		1,235
Cash & Cash Equivalents	2,774		2,774
	<b>9,935</b>		<b>9,935</b>
<b>Current liabilities</b>			
Trade & other payables	(2,041)		(2,041)
Current tax liabilities	(126)		(126)
Bank overdrafts & loans	(312)		(312)
Provisions	(3,850)		(3,850)
Accruals & deferred income	(4,393)	414	(3,979)
	<b>(10,722)</b>		<b>(10,308)</b>
<b>Net current liabilities</b>	<b>(787)</b>		<b>(373)</b>
<b>Non current liabilities</b>			
Bank Loans	(2,687)		(2,687)
Provisions	(269)		(269)
Accruals & deferred income	(1,374)		(1,374)
	<b>(4,330)</b>		<b>(4,330)</b>
<b>Total liabilities</b>	<b>(15,052)</b>	<b>414</b>	<b>(14,638)</b>
<b>Net assets</b>	<b>7,675</b>	<b>2,361</b>	<b>10,036</b>
<b>Capital &amp; reserves</b>			
Share capital	7,823		7,823
Share premium	8,869		8,869
Merger reserve	(4,504)		(4,504)
Retained earnings	(4,405)	2,361	(2,044)
Minority interest	(108)		(108)
<b>Total Equity</b>	<b>7,675</b>	<b>2,361</b>	<b>10,036</b>

**Consolidated Balance Sheet - As at 31 January 2005**  
**Effect of transition to IFRS**

	UK GAAP £'000s	Preliminary IFRS Adjustments £'000s	Preliminary IFRS £'000s
<b>Non current assets</b>			
Goodwill	31		31
Other intangible assets	-	1,751	1,751
Property plant and equipment	518		518
Deferred tax assets	480		480
	<b>1,029</b>	<b>1,751</b>	<b>2,780</b>
<b>Current assets</b>			
Trade & other receivables: Due within one year	2,290		2,290
Trade & other receivables: Due after more than one year	2		2
Cash & Cash Equivalents	1,598		1,598
	<b>3,890</b>		<b>3,890</b>
<b>Current liabilities</b>			
Trade & other payables	(848)		(848)
Accruals & deferred income	(3,007)		(3,007)
	<b>(3,855)</b>		<b>(3,855)</b>
<b>Net current assets</b>	<b>35</b>		<b>35</b>
<b>Non current liabilities</b>			
Accruals & deferred income	(528)		(528)
	<b>(528)</b>		<b>(528)</b>
<b>Total liabilities</b>	<b>(4,383)</b>		<b>(4,383)</b>
<b>Net assets</b>	<b>536</b>	<b>1,751</b>	<b>2,287</b>
<b>Capital &amp; reserves</b>			
Share capital	7,186		7,186
Share premium	5,064		5,064
Merger reserve	(5,250)		(5,250)
Retained earnings	(6,464)	1,751	(4,713)
<b>Total Equity</b>	<b>536</b>	<b>1,751</b>	<b>2,287</b>

**Consolidated Cash Flow Statement - As at 31 January 2006**  
**Effect of transition to IFRS**

	UK GAAP £'000s	Preliminary IFRS Adjustments £'000s	Preliminary IFRS £'000s
<b>Cashflows from operating activities</b>	<b>1,751</b>	<b>176</b>	<b>1,927</b>
Profit before taxation			
Adjustments for:			
Depreciation	276		276
Amortisation	246	448	694
Share based expenses	229	20	249
Investment income	-	(49)	(49)
Interest expense	-	55	55
	<b>2,502</b>	<b>650</b>	<b>3,152</b>
Increase in trade & other receivables	(2,648)	(6)	(2,654)
Increase in trade payables	1,385		1,385
<b>Cash generated from operations</b>	<b>1,239</b>	<b>644</b>	<b>1,883</b>
Interest expense	(71)		(71)
Income taxes paid	(6)		(6)
<b>Net cash from operating activities</b>	<b>1,162</b>		<b>1,806</b>
<b>Cash from investing activities</b>			
Purchase of subsidiary, net of cash acquired	(7,012)		(7,012)
Purchase of property, plant & equipment	(264)		(264)
Purchase of intangible assets	-	(644)	(644)
Investment in short term deposits	(515)	515	-
Purchase of investments	(87)		(87)
Investment income	43		43
<b>Net cash used in investing activities</b>	<b>(7,835)</b>		<b>(7,964)</b>
<b>Cashflows from financing activities</b>			
Proceeds from issue of share capital	4,343		4,343
Proceeds from long term borrowings	3,000		3,000
Repayment of bank loans	(63)		(63)
<b>Net cashflow used in financing activities</b>	<b>7,280</b>		<b>7,280</b>
<b>Net decrease in cash and cash equivalents</b>	<b>607</b>	<b>515</b>	<b>1,122</b>
Effect of foreign exchange rate changes	(8)	-	(8)
<b>Cash &amp; cash equivalents at beginning of period</b>	<b>748</b>	<b>850</b>	<b>1,598</b>
<b>Cash &amp; Cash equivalents at end of period</b>	<b>1,347</b>	<b>1,365</b>	<b>2,712</b>

## **6 Significant Accounting Policies**

### **Basis of accounting**

The financial statements have been prepared in accordance with all adopted International Financial Reporting Standards (IFRS's) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS's are given above. The financial statements have also been prepared in accordance with IFRS's adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The principal accounting policies adopted are set out below.

### **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 January 2006. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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**

- Acquisition method of accounting

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 that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

- Merger method of accounting

Although IFRS 3 outlawed merger accounting, under IFRS 1, the Group is not required to re-state acquisitions or business combinations prior to the date of transition. Therefore the Group is permitted to retain their historical merger accounting position in the consolidated accounts.

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.

### **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. 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 at least annually. Any impairment is recognised immediately in profit and loss and is not subsequently reversed.

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

In respect of the billets transaction in August 2005, goodwill previously carried on the balance sheet at cost and amortised in accordance with UK GAAP has been restated at cost and reviewed for impairment.

Goodwill arising on other acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Income is recognised evenly over the period of the contract for subscription to systems and in accordance with the stage of completion of the contract activity for consultancy income.

If the outcome of a contract could not be estimated reliably, the contract revenue would be recognised to the extent of contract costs incurred that it is probable would be recoverable. Costs are recognised as an expense in the period in which they are incurred.

### **Foreign currencies**

For the purposes 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 statements 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 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.

The exchange differences arising from the retranslation of the opening balance sheet amounts of subsidiaries and the difference on translation of the results of subsidiaries are dealt with through equity. All other exchange differences are dealt with through the income statement.

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, approximating to rates applicable at the dates of the transactions.

### **Operating profit**

Operating profit is stated after charging restructuring costs, but before financial income and financial expenses.

### **Taxation**

The tax expense included in the Consolidated Income Statement comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date.

Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 Consolidated Income Statement, except when it relates to items charged or credited directly to equity, in which case deferred tax is also dealt with in equity.

Deferred tax liabilities are 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.

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 assets and liabilities are offset against each other when they relate to income taxes levied by the same tax jurisdiction and when the group intends to settle its current tax assets and liabilities on a net basis.

### **Internally-generated intangible assets – research and development expenditure**

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

- An asset is created that can be identified (such as software);
- 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 internally-generated intangible asset can not be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### **Purchased intangible assets**

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within the administrative expenses line in the income statement. Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques. In-process research and development programmes acquired in such combinations are recognised as an asset even if subsequent expenditure is written off because the criteria specified in the policy for research and development costs above are not met. The significant intangibles recognised by the group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

billetts media consulting – customer relationships	Straight line over 10 years	Estimated discounted cash flow
billetts marketing sciences – customer relationships	Straight line over 5 years	Estimated discounted cash flow
MPMA customer relationships	Straight line over 2 years	Estimated discounted cash flow
Trade name	Straight line over 10 years	Estimated royalty stream if rights were to be licensed
Non-compete agreement	Straight line over 1.5 years	Estimated discounted cash flow of potentially lost revenue

### **Plant and equipment**

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

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, the rates generally applicable are:

Motor vehicles	25% per annum reducing balance
Furniture & fittings	25% per annum reducing balance
Computer equipment & software	25% per annum on costs
Plant & equipment	Straight line over 3-10 years
Operating leases	Over remaining useful life

## Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, estimates are made of the cashflows of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value, less costs to sell, and value in use. In assessing value in use, estimated future cashflows are discounted to their present value using a discount rate appropriate to the specific asset or cash generating unit.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying value of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation; if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

## Financial instruments

### Financial assets

The group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The group's accounting policy for each category is as follows:

**Loans and receivables:** These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

**Held-to-maturity investments:** These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. These assets are measured at amortised cost, with changes through the income statement.

### Financial liabilities

The group classifies its financial liabilities as 'Other financial liabilities', which includes the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Bank borrowings, and loan notes issued by the group are initially recognised at the amount advanced net of

any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs as well as any interest or coupon payable while the liability is outstanding.

### **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 options after 7 November 2002 that were unvested at 1 January 2005.

The Group issues equity-settled share-based payments only. These are measured at fair value (excluding the effect of 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, with a corresponding credit to equity, 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 use the Black-Scholes method. The expected life used in the model has been adjusted, based on management's best estimated, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

## Income Statement Year ended 31 January 2006 - Effect of transition to IFRS

	UK GAAP £'000s	Amortisation of goodwill reversal		R&D expenditure	
		billets £'000s	Radio monitoring £'000s	Capitalisation £'000s	Amortisation £'000s
Revenue	11,136				
Cost of sales	(4,129)				
<b>Gross Profit</b>	<b>7,007</b>				
Administration expenses	(4,775)			644	
Share based expenses	(229)				
Amortisation of intangible assets	(246)	234	12	-	(532)
<b>Total administrative expenses</b>	<b>(5,250)</b>	<b>234</b>	<b>12</b>	<b>644</b>	<b>(532)</b>
<b>Operating profit</b>	<b>1,757</b>	<b>234</b>	<b>12</b>	<b>644</b>	<b>(532)</b>
Finance income	49				
Finance expense	(55)				
<b>Net financing income</b>	<b>(6)</b>				
<b>Profit before taxation</b>	<b>1,751</b>	<b>234</b>	<b>12</b>	<b>644</b>	<b>(532)</b>
Tax	(126)				
Deferred tax	430				
<b>Profit for the year</b>	<b>2,055</b>	<b>234</b>	<b>12</b>	<b>644</b>	<b>(532)</b>

## Income Statement Year ended 31 January 2006 - Effect of transition to IFRS - Cont'd

	Share based expenses £'000s	Amortisation of acquired intangible assets £'000s	Preliminary IFRS adjustments £'000s	Preliminary IFRS £'000s
Revenue				11,136
Cost of sales				(4,129)
<b>Gross Profit</b>				<b>7,007</b>
Administration expenses			644	(4,131)
Share based expenses	(20)		(20)	(249)
Amortisation of intangible assets		(162)	(448)	(694)
<b>Total administrative expenses</b>	<b>(20)</b>	<b>(162)</b>	<b>176</b>	<b>(5,074)</b>
<b>Operating profit</b>	<b>(20)</b>	<b>(162)</b>	<b>176</b>	<b>1,933</b>
Finance income				49
Finance expense				(55)
<b>Net financing income</b>				<b>(6)</b>
<b>Profit before taxation</b>	<b>(20)</b>	<b>(162)</b>	<b>176</b>	<b>1,927</b>
Tax				(126)
Deferred tax				430
<b>Profit for the year</b>	<b>(20)</b>	<b>(162)</b>	<b>176</b>	<b>2,231</b>

## Balance Sheet As at 31 January 2006 - Effect of transition to IFRS

UK GAAP £'000s	Amortisation of goodwill reversal		R&D expenditure		Share based expenses	
	Billets £'000s	Radio monitoring £'000s	Capitalisation £'000s	Amortisation £'000s	£'000s	£'000s
<b>Non current assets</b>						
Goodwill	11,054	234	12			
Other Intangible assets	-			3,304	(1,441)	
Property plant & equipment	706					
Investments	122					
Deferred tax asset	910					
	<b>12,792</b>	<b>234</b>	<b>12</b>	<b>3,304</b>	<b>(1,441)</b>	
<b>Current assets</b>						
Trade & other receivables:	5,926					
Due within one year						
Trade & other receivables:	1,235					
Due after more than one year						
Cash & cash equivalents	2,774					
	<b>9,935</b>					
<b>Current liabilities</b>						
Trade & other payables	(2,041)					
Current tax liabilities	(126)					
Bank overdrafts & loans	(312)					
Provisions	(3,850)					
Accruals & deferred income	(4,393)					
	<b>(10,722)</b>					
<b>Net current liabilities</b>	<b>(787)</b>					
<b>Non current liabilities</b>						
Bank loans	(2,687)					
Provisions for liabilities & charges	(269)					
Accruals & deferred income	(1,374)					
	<b>(4,330)</b>					
<b>Total liabilities</b>	<b>(15,052)</b>					
<b>Net Assets</b>	<b>7,675</b>	<b>234</b>	<b>12</b>	<b>3,304</b>	<b>(1,441)</b>	
<b>Capital Reserves</b>						
Share Capital	7,823					
Share premium	8,869					
Merger reserve	(4,504)					
Retained earnings	(4,405)	234	12	3,304	(1,441)	(205)
Minority Interest	(108)					205
<b>Total equity</b>	<b>7,675</b>	<b>234</b>	<b>12</b>	<b>3,304</b>	<b>(1,441)</b>	<b>(205)</b>
						<b>205</b>

## Balance Sheet As at 31 January 2005 - Effect of transition to IFRS – Cont'd

	NI for phantom shares	UITF17 reclass	Reclassification of goodwill to other intangible assets	Amortisation of acquired intangible assets	Prelim IFRS adjust's	Prelim IFRS
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
<b>Non current assets</b>						
Goodwill			(3,395)		(3,149)	7,905
Other Intangible assets			3,395	(162)	5,096	5,096
Property plant & equipment						706
Investments						122
Deferred tax asset						910
				(162)	1,947	14,739
<b>Current assets</b>						
Trade & other receivables:						
Due within one year						5,926
Trade & other receivables:						
Due after more than one year						1,235
Cash & cash equivalents						2,774
						9,935
<b>Current liabilities</b>						
Trade & other payables						(2,041)
Current tax liabilities						(126)
Bank overdrafts & loans						(312)
Provisions						(3,850)
Accruals & deferred income	(44)	458			414	(3,979)
	(44)	458			414	(10,308)
<b>Net current liabilities</b>						
						(373)
<b>Non current liabilities</b>						
Bank loans						(2,687)
Provisions						(269)
Accruals & deferred income						(1,374)
						(4,330)
<b>Total liabilities</b>	(44)	458			414	(14,638)
<b>Net Assets</b>	(44)	458		(162)	2,361	10,036
<b>Capital Reserves</b>						
Share Capital						7,823
Share premium						8,869
Merger reserve						(4,504)
Retained earnings	(44)	458		(162)	2,361	(2,044)
Minority Interest						(108)
	(44)	458		(162)	2,361	10,036

## Balance sheet as at 31 January 2005 - Effect of transition to IFRS

	UK GAAP £000's	R&D expenditure	
		Capitalisation £'000s	Amortisation £000's
<b>Non current assets</b>			
Goodwill	31		
Other Intangible assets	-	2,660	(909)
Property plant & equipment	518		
Deferred tax asset	480		
	<b>1,029</b>	<b>2,660</b>	<b>(909)</b>
<b>Current assets</b>			
Trade & other receivables:			
Due within one year	2,290		
Trade & other receivables:			
Due after more than one year	2		
Cash & cash equivalents	1,598		
	<b>3,890</b>		
<b>Current liabilities</b>			
Trade & other payables	(848)		
Accruals & deferred income	(3,007)		
	<b>(3,855)</b>		
<b>Net current assets</b>	<b>35</b>		
<b>Non current liabilities</b>			
Provisions for liabilities & charges	-		
Accruals & deferred income	(528)		
	<b>(528)</b>		
<b>Total liabilities</b>	<b>(4,383)</b>		
<b>Net Assets</b>	<b>536</b>	<b>2,660</b>	<b>(909)</b>
<b>Capital &amp; reserves</b>			
Share Capital	7,186		
Share premium	5,064		
Merger reserve	(5,250)		
Retained earnings	(6,464)	2,660	(909)
<b>Total equity</b>	<b>536</b>	<b>2,660</b>	<b>(909)</b>

## Balance sheet as at 31 January 2005 - Effect of transition to IFRS – Cont'd

	Share based expenses		Preliminary IFRS adjustments	Preliminary IFRS
	£'000s	£'000s	£'000s	£'000s
<b>Non current assets</b>				
Goodwill				31
Other Intangible assets			1,751	1,751
Property plant & equipment				518
Deferred tax asset				480
			<b>1,751</b>	<b>2,780</b>
<b>Current assets</b>				
Trade & other receivables:				
Due within one year				2,290
Trade & other receivables:				
Due after more than one year				2
Cash & cash equivalents				1,598
				<b>3,890</b>
<b>Current liabilities</b>				
Trade & other payables				(848)
Accruals & deferred income				(3,007)
				<b>(3,855)</b>
<b>Net current assets</b>				<b>35</b>
<b>Non current liabilities</b>				
Provisions for liabilities & charges				-
Accruals & deferred income				(528)
				<b>(528)</b>
<b>Total liabilities</b>				<b>(4,383)</b>
<b>Net Assets</b>			<b>1,751</b>	<b>2,287</b>
<b>Capital &amp; reserves</b>				
Share Capital				7,186
Share premium				5,064
Merger reserve				(5,250)
Retained earnings	13	(13)	1,751	(4,713)
	<b>13</b>	<b>(13)</b>	<b>1,751</b>	<b>2,287</b>