



**IFRS Restatement Report  
January 2008**

This report covers the restatement of the opening consolidated balance sheet as at 1 May 2006 and the consolidated financial information for the year ended 30 April 2007 under International Accounting Standards and International Financial Reporting Standards (collectively referred to as 'IFRS') that have been endorsed by the EU.

The preliminary IFRS financial statements for the year ended 30 April 2007 which comprise the consolidated IFRS balance sheet as at 1 May 2006 and the 30 April 2007 and the consolidated IFRS income statement for the year ended 30 April 2007 together with the accounting policies note, have been audited by Ernst & Young LLP.

The audit report from Ernst & Young LLP is unqualified.

However, there is a possibility that the preliminary financial statements may require adjustment before being incorporated into final IFRS financial statements if certain accounting standards issued by the IASB are subject to further amendments before the publication of the final 2008 IFRS financial statements.

## Contents

|    |  |        |
|----|--|--------|
| 1. | Introduction                               | Page 2 |
| 2. | Financial highlights                       | Page 3 |
| 3. | Basis of preparation                       | Page 4 |
| 4. | Transitional arrangements                  | Page 5 |
| 5. | Significant changes in accounting policies | Page 6 |

## Appendices

1. Revised accounting policies under IFRS
2. Reconciliation of consolidated balance sheet from UK GAAP to IFRS at 1 May 2006
3. Reconciliation of consolidated income statement from UK GAAP to IFRS for year ended 30 April 2007
4. Reconciliation of consolidated balance sheet from UK GAAP to IFRS at 30 April 2007



## 1. Introduction

For all periods up to and including the year ended 30 April 2007, eXpansys plc and its subsidiaries (the Group) prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP).

The financial statements for the year ended 30 April 2008 will be the first the Group is required to prepare in accordance with IFRS as adopted by the European Union, in accordance with the regulations of the Alternative Investment Market. The Group publishes comparative information for one year in its Annual Report and Financial Statements, therefore the date of transition to IFRS is 1 May 2006, this being the start of the earliest period of comparative information.

The Group has started from an opening balance sheet as at 1 May 2006 and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRSs.

This report explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 May 2006 and its previously published UK GAAP financial statements for the year ended 30 April 2007.

The directors are responsible for the preparation of the restated financial information and the IFRS restatement report was approved by the board of directors on 28 December 2007.

The preliminary IFRS financial statements for the year ended 30 April 2007, which comprise the consolidated IFRS balance sheet as at 1 May 2006 and 30 April 2007 and the consolidated IFRS income statement for the year ended 30 April 2007, together with the accounting policies note, have been audited by Ernst & Young LLP. Their report is unqualified. However, there is a possibility that the preliminary financial statements may require adjustment before being incorporated into final IFRS financial statements if certain accounting standards issued by the IASB are subject to further amendment before the publication of the final 2008 IFRS financial statements.



2. Financial highlights

|  | Year ended 30 April 2007 |                 |                     | Net assets   |                 |
|--|--------------------------|-----------------|---------------------|--------------|-----------------|
|  | IFRS<br>£000             | UK GAAP<br>£000 |                     | IFRS<br>£000 | UK GAAP<br>£000 |
| EBITDA pre exceptionals for the year                         | 1,318                    | 1,385           |                     |              |                 |
| Profit / (loss) after taxation pre exceptionals for the year | 70                       | (76)            | As at 30 April 2007 | 9,340        | 9,416           |
| Loss after taxation for the year                             | (471)                    | (617)           |                     |              |                 |
| Basic earnings per share                                     | (2.2)p                   | (2.7)p          | As at 1 May 2006    | 1,123        | 1,141           |
| Diluted earnings per share                                   | (2.2)p                   | (2.7)p          |                     |              |                 |
| Adjusted earnings per share                                  | 0.1p                     | (0.3)p          |                     |              |                 |
| Diluted adjusted earnings per share                          | 0.1p                     | (0.3)p          |                     |              |                 |

The most significant restatements under IFRS are as follows:

- under IFRS 3, goodwill is no longer amortised;
- under IAS 21 goodwill relating to a subsidiary with a functional currency different from that of the group, is maintained in that functional currency and therefore retranslated at each balance sheet date; and
- under IAS 12, the recognition of deferred tax on share option schemes.



### 3. Basis of preparation

The financial information presented in this report has been prepared using the accounting policies expected to be applied in the 2008 financial statements which will be prepared in accordance with IFRS, as adopted by the European Union. The accounting policies set out in Appendix 1 have been consistently applied.

The financial information has been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective at the time of preparing the statements. The IFRS standards and IFRIC interpretations that will be applicable at 30 April 2008, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this document.

eXpansys plc's consolidated financial statements were prepared in accordance with UK GAAP until 30 April 2007. UK GAAP differs in some areas from IFRS. In preparing eXpansys plc's consolidated financial information included in this report, management has amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements to comply with IFRS.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity at 1 May 2006 and 30 April 2007 as well as the Group's result for the year ended 30 April 2007 are provided in the Appendices to this report.

The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand (£000) except when otherwise stated.



#### 4. Transitional arrangements

The requirements for first time adoption of IFRS are set out in IFRS 1 First Time Adoption of IFRS. In general, a company is required to define its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet as at 1 May 2006. To assist companies in their transition to reporting under IFRS, IFRS 1 sets out various exceptions and exemptions from this principle of full retrospective adoption.

The only exemption that eXpansys plc has applied under IFRS is to apply IFRS 3 from the date of transition to IFRS rather than to restate previous business combinations.



## 5. Significant changes in accounting policies

Significant changes in accounting policies, which have arisen from eXpansys' transition to IFRS, are discussed below. The impact of the changes in policy is quantified by each standard in the attached appendices.

### ***Presentation of financial statements***

The primary financial statements are presented in accordance with *IAS 1 Presentation of Financial Statements*. Although similar, such a presentation differs from the UK GAAP equivalent.

Under UK GAAP, 'exceptional item' was a defined term. Under IAS 1, there is no definition of 'exceptional item'; however the standard provides examples of circumstances where, if such items of income and expense are material, the nature and amount should be disclosed separately. Included in these examples are many one off items which the Group has previously described as 'exceptional'. Accordingly the Group will continue to identify such items separately.

There are a number of reclassifications between balance sheet captions that arise from the application of various IFRS.

The most significant reclassifications are

- website development costs (£1,087,000 as at 30 April 2007), which under UK GAAP are classified as a tangible fixed asset whereas under *IAS 38 Intangible assets* are capitalised as an intangible asset, as only computer software that is integral to a related item of hardware is included in plant and equipment;
- goodwill is disclosed separately from intangible assets;
- deferred tax asset and current tax liabilities are disclosed as separate items on the face of the balance sheet; and
- minority interests were disclosed separately from equity in the UK GAAP balance sheet. Under *IAS 27* minority interests have been presented as part of equity and have therefore been reclassified.

In addition the change in net assets from remeasurement that is attributable to the minority interest is an increase of £25,000 at 1 May 2006 and decrease of £73,000 at 30 April 2007.



**IFRS 3 Business combinations**

Under UK GAAP, goodwill on acquisitions was capitalised and amortised, on a straight line basis, over its estimated useful economic life of between 5 and 20 years.

Under IFRS 3, positive goodwill arising on a business combination is considered to have an indefinite life and consequently is not amortised, but instead is subject to impairment testing both annually and when there are indications that the carrying value may not be recoverable in full.

Amortisation of goodwill arising on the purchase of businesses ceased at 1 May 2006 resulting in an increase in profit for the year ended 30 April 2007 of £209,000. As of both 1 May 2006 and 30 April 2007 an impairment review was carried out as required by IAS 38. The board believes that there has been no impairment of goodwill.

As permitted by IFRS 1, eXpansys has applied IFRS 3 prospectively from the transition date, rather than restating all previous business combinations.

**IAS 12 Income tax**

Under IAS 12 deferred tax must be recognised on the difference between the carrying value of the shares, being the charges to the income statement under IFRS2, and any future tax deductions under Schedule 23, in relation to each option grant.

This resulted in a deferred tax asset of £181,000 as at 30 April 2007, thus increasing net assets by the same amount. The deferred tax credit in the income statement was only increased by £2,000, since the estimated future tax deductions exceeded the IFRS2 expense charged to the income statement for the scheme, and the excess is therefore taken to equity.

There is a further £5,000 deferred tax asset recognised as at 30 April 2007 relating to the IFRS adjustment for holiday pay.

**IAS 18 Revenue**

Under IAS 18, revenue is recognised on despatch when the significant risks and rewards are deemed to have passed to the customer and a returns provision is recognised in accordance with IAS 37 Provisions.

This resulted in a reduction in net assets at 1 May 2006 and 30 April 2007 of £10,000 and £15,000 respectively and an increase in loss for the year ended 30 April 2007 of £5,000.



**IAS 19 Employee benefits**

Under UK GAAP, no provision is made for annual leave accrued.

Under IAS 19, eXpansys's policy is now to recognise the expected cost of compensated short term absences at the time the related service is provided.

The impact of this change in policy is to reduce profit for the year ended 30 April 2007 by £6,000 and net assets as at 30 April 2007 by £19,000.

**IAS 20 Government grants**

Under IAS 20 eXpansys must now recognise government grant income received when it is reasonable to expect that the grants will be received and that all related conditions will be met. Since the current grants receivable relate to costs the revenue is deferred and recognised in the income statement in order to match to the employee expenditure that it is intended to compensate.

The impact of this change in policy is to reduce profit for the year ended 30 April 2007 and net assets as at 30 April 2007 by £56,000.

**IAS 21 The effects of changes in foreign exchange rates**

IAS 21 requires that any goodwill and fair value adjustments to the carrying amount of assets and liabilities arising on acquiring a foreign operation should be treated as the foreign operation's assets and liabilities and translated at the closing rate in accordance with the method noted above.

Under UK GAAP, goodwill was treated as denominated in Sterling, being the functional currency of eXpansys plc, and was therefore not retranslated at each balance sheet date.

The impact of retranslation of the goodwill relating to Mobile Planet Inc (based in USA with a functional currency of US Dollars) and eXpansys Nomatica SAS (based in France with a functional currency of Euros) on equity at 30 April 2007 are reductions of £298,000 and £10,000 respectively and a nil impact on the profit for the year ended 30 April 2007.



## Appendix 1. Revised accounting policies under IFRS

### *Basis of preparation*

The financial information presented in this report has been prepared using the accounting policies expected to be applied in the 2008 financial statements which will be prepared in accordance with IFRS, as adopted by the European Union. The accounting policies have been consistently applied.

The financial information has been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective at the time of preparing the statements. The IFRS standards and IFRIC interpretations that will be applicable at 30 April 2008, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this document.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

The nature of estimation means that actual outcomes could differ from those estimates. Estimates and assumptions used in the preparation of the financial statements are continually reviewed and revised as necessary. Whilst every effort is made to ensure that such estimates and assumptions are reasonable, by their nature they are uncertain, and as such changes in estimates and assumptions may have a material impact in the financial statements.



## Appendix 1. Revised accounting policies under IFRS

### *Key sources of estimation uncertainty*

The key sources of estimation uncertainty that have significant risk of causing material adjustment to carrying amounts of assets and liabilities within the next financial year are the measurement of:

- indefinite life intangible assets (including goodwill);
- warranty provisions;
- inventories;
- trade receivables; and
- the estimation of share-based payment costs.

The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines whether indefinite life intangible assets are impaired on an annual basis and this requires an estimation of the value in use of the cash generating units to which the intangible assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate. Any estimates of future economic benefits made in relation to these assets may differ from the benefits that ultimately arise, and materially affect the recoverable value of the asset.

The measurement of warranty provisions involves estimation of the level of repairs and returns expected on certain products sold within the last twelve months, based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include parts and labour costs.

Calculation of inventory provisions requires judgements to be made which include forecast consumer demand and inventory loss trends.

Provisions for irrecoverable receivables are based on extensive historical evidence, and the best available information in relation to specific issues, but are nevertheless inherently uncertain.

The estimation of share-based payment costs requires the selection of an appropriate valuation method, consideration as to the inputs necessary for the valuation model chosen and the estimation of the number of awards that will ultimately vest, inputs for which arise from judgements relating to the future volatility of the Company's share price, expected dividend yields, risk free interest rates and expected lives of the options. The directors draw upon a variety of external sources to aid in the determination of the appropriate data to use in such calculations.



## Appendix 1. Revised accounting policies under IFRS

### ***Basis of consolidation***

The Group financial statements consolidate the financial statements of eXpansys plc and the entities it controls drawn up to 30 April each year.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All inter company balances and transactions, including unrealised profits arising from them are eliminated.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholders' equity.

### ***Transactions with minority shareholders***

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.



## Appendix 1. Revised accounting policies under IFRS

### ***Foreign currency translation***

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). The Group financial statements are presented in Sterling, which is the parent's functional currency.

Transactions in foreign currencies are recorded in the functional currency by applying the spot rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement, except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. Material transactions in foreign currencies are hedged using forward purchases or sales of the relevant currencies and are recognised in the financial statements at the exchange rates thus obtained.

The assets and liabilities of foreign operations are translated into sterling at the rates of exchange ruling at the balance sheet date. Goodwill is held in the currency of the operations to which it relates.

Income and expenses are translated at average exchange rates for each month. The resulting exchange differences are taken directly to the translation reserve, a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The principal exchange rates against Sterling used in these financial statements are as follows:

|                      | <i>Average<br/>year ended<br/>30 April<br/>2007</i> | <i>Closing<br/>30 April<br/>2007</i> |
|----------------------|---|--------------------------------------|
| Euro                 | 1.478   | 1.464                                |
| United States Dollar | 1.917   | 1.998                                |
| Hong Kong Dollar     | 14.926  | 15.629                               |
|                      | =====   | =====                                |



## Appendix 1. Revised accounting policies under IFRS

### **Goodwill**

Business combinations on or after 1 May 2006 (being the date of transition) are accounted for under IFRS 3 using the purchase method.

Any 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 is recognised in the balance sheet as goodwill and is not amortised. Adjustments are made where necessary to bring the accounting policies of acquired businesses into alignment with those of the Group.

Any goodwill asset arising on the acquisition of subsidiaries with functional currency different from that of the Group's is included within the assets and liabilities of those entities and translated at the closing rate.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level or statutory company level as the case may be. Where the recoverable amount of the cash generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.



## Appendix 1. Revised accounting policies under IFRS

### *Intangible assets*

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Expenditure relating to clearly defined and identifiable development projects is recognised as an intangible asset only after all the following criteria are met:

- the project's technical feasibility and commercial viability can be demonstrated;
- the availability of adequate technical and financial resources and an intention to complete the project have been confirmed; and
- the correlation between development costs and future revenues has been established.

Expenditure on internally generated intangible assets unable to meet these criteria is taken to the income statement in the year in which it is incurred.

Following initial recognition, the historic cost model is applied, with intangible assets being carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with finite life have no residual value and are amortised on a straight line basis over their expected useful lives with charges included in administrative expenses, as follows:

- trademarks - 20 years;
- website development costs - 5 years

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. In addition, the carrying value of capitalised development expenditure is reviewed for impairment annually before being brought into use.



## Appendix 1. Revised accounting policies under IFRS

### ***Website development costs***

The Group's websites and other revenue generating software are developed internally. Costs incurred in the development stage up to the date that the asset is brought into use are capitalised as intangible assets only where they lead to the creation of an enduring asset delivering benefits at least as great as the expenditure incurred. Once the websites and software reach the operating stage, subsequent expenditure meeting the definition of an intangible asset and the relevant recognition criteria are also capitalised.

In other circumstances costs are charged to the profit and loss account as incurred.

Amounts capitalised are written down over their expected useful economic life of 5 years on a straight line basis.

### ***Acquisition intangibles***

Acquired intangible assets such as customer bases and other intangible assets acquired through a business combination are capitalised separately from goodwill and amortised over their expected useful lives of up to 5 years on a straight line basis. The value attributed to such assets is based on the future economic benefit that is expected to be derived from them, calculated as the present value of future cash flows.

### ***Plant and equipment***

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes cost directly attributable to making the asset capable of operating as intended. Borrowing costs attributable to assets under construction are recognised as an expense as incurred.

Depreciation has been provided on all plant and equipment on a straight line basis over its expected useful lives, at annual rates between 20% and 33%.

The carrying values of plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.



## Appendix 1. Revised accounting policies under IFRS

### **Leases**

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the lease asset and the present value of the minimum lease payments.

Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term. Rent free periods are amortised through the income statement over the period of the lease.

### ***Impairment of assets***

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or many have decreased. If such indication exists, the recoverable amount is estimated.



## Appendix 1. Revised accounting policies under IFRS

### ***Impairment of assets (continued)***

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### ***Provisions***

A provision is recognised when

- the Group has a legal or constructive obligation as a result of a past event;
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- the amount can be reliably estimated.

If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Increases in the provision due to passage of time is recognised as interest expense.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.



## Appendix 1. Revised accounting policies under IFRS

### ***Financial assets***

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified as financial assets at fair value through the income statement; loans and receivables; held-to-maturity investments; or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year end. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through the income statement, directly attributable transaction costs.

### ***Impairment of financial assets***

The Group assesses at each balance sheet date whether a financial asset is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised costs at the reversal date.



**Appendix 1.****Revised accounting policies under IFRS*****Derecognition of financial assets and liabilities***

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

***Inventories***

Inventories are stated at the lower of cost and net realisable value.

Cost includes all costs incurred in bringing each product to its present location and condition.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal. Provision is made for obsolete or defective items where appropriate.



## Appendix 1.

### Revised accounting policies under IFRS

#### ***Trade and other receivables***

Trade receivables, which generally have 30 to 60 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. The time value of money is not material.

Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Significant financial difficulties in the customer, probability that the customer will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying value of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'Selling and distribution costs'.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'Selling and distribution costs' in the income statement.

#### ***Cash and cash equivalents***

Cash and short term deposits in the balance sheet comprise cash at banks and short term deposits with an original maturity of three months or less.

#### ***Interest bearing loans and borrowings***

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

#### ***Shares***

Proceeds on issue of shares are included in shareholder's equity, net of transaction costs. The carrying amount is not remeasured in subsequent years.



## Appendix 1. Revised accounting policies under IFRS

### ***Income taxes***

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantially enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.



## Appendix 1. Revised accounting policies under IFRS

### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services, excluding discounts, rebates, VAT and other sales taxes or duty.

The following criteria must also be met before revenue is recognised:

#### *Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of the goods.

It is the Group's policy to comply with sales legislation in the countries into which it sells, as a minimum, and therefore retail customers have a right to return within up to 28 days (dependent on country of sale). A provision for estimated returns is made, representing the profit on goods sold during the year which will be returned and refunded after the year end based on past experience. Revenue is reduced by the value of sales returns provided for during the year.

Retail sales are usually made in cash or by credit card. No element of financing is deemed present as credit sales are made with terms of up to 60 days, which is consistent with the market practice.

#### *Rendering of services*

Revenue from provision of marketing services is recognised when the services are provided, generally no longer than a three month period, and from other support services on an accruals basis in accordance with the substance of the relevant agreements with customers

#### *Interest income*

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.



## Appendix 1. Revised accounting policies under IFRS

### ***Government grants***

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the expenditure that they are intended to compensate.

### ***Borrowing costs***

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised as an expense when incurred.

### ***Exceptional items***

The Group presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.



## Appendix 1. Revised accounting policies under IFRS

### *Share based payments*

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by the directors using an appropriate pricing model. In valuing equity settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of the cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

There are no cash settled share based payment transactions.



## Appendix 2.

## Reconciliation of consolidated balance sheet from UK GAAP to IFRS at 1 May 2006

|                               | Under UK<br>GAAP<br>£000 | IAS 18<br>Returns<br>provision | IAS 19<br>Holiday<br>pay<br>provision | IAS 20<br>Government<br>grants | IAS 21<br>Goodwill<br>in foreign<br>currency | IFRS3<br>Goodwill<br>amortisation | IAS 12<br>Income<br>taxes | Restatement<br>of minority<br>interests | Restated<br>under<br>IFRS<br>£000 |
|-------------------------------|--------------------------|--------------------------------|---------------------------------------|--------------------------------|--|-----------------------------------|---------------------------|---|-----------------------------------|
| Property, plant and equipment | 886                      |                                |                                       |                                |  |                                   |                           |   | 886                               |
| Trade marks                   | 317                      |                                |                                       |                                |  |                                   |                           |   | 317                               |
| Goodwill                      | 3,677                    |                                |                                       |                                |  |                                   |                           |   | 3,677                             |
| Website development costs     | 1,087                    |                                |                                       |                                |  |                                   |                           |   | 1,087                             |
| Deferred taxation             | -                        |                                |                                       |                                |  |                                   | 4                         |   | 4                                 |
| <b>NON CURRENT ASSETS</b>     | <b>5,967</b>             |                                |                                       |                                |  |                                   | <b>4</b>                  |   | <b>5,971</b>                      |
| Inventories                   | 6,674                    |                                |                                       |                                |  |                                   |                           |   | 6,674                             |
| Trade and other receivables   | 3,820                    |                                |                                       |                                |  |                                   |                           |   | 3,820                             |
| Cash                          | 896                      |                                |                                       |                                |  |                                   |                           |   | 896                               |
| Bank loans and overdrafts     | (1,617)                  |                                |                                       |                                |  |                                   |                           |   | (1,617)                           |
| Trade and other payables      | (12,347)                 |                                |                                       |                                |  |                                   |                           |   | (12,347)                          |
| Provisions                    | -                        | (10)                           | (12)                                  |                                |  |                                   |                           |   | (22)                              |
| Obligations under leases      | (259)                    |                                |                                       |                                |  |                                   |                           |   | (259)                             |
| Current tax payable           | (39)                     |                                |                                       |                                |  |                                   |                           |   | (39)                              |
| <b>NET CURRENT ASSETS</b>     | <b>(2,872)</b>           | <b>(10)</b>                    | <b>(12)</b>                           |                                |  |                                   |                           |   | <b>(2,894)</b>                    |
| Bank loans                    | (1,726)                  |                                |                                       |                                |  |                                   |                           |   | (1,726)                           |
| Obligations under leases      | (200)                    |                                |                                       |                                |  |                                   |                           |   | (200)                             |
| Deferred tax provision        | (28)                     |                                |                                       |                                |  |                                   |                           |   | (28)                              |
| Other provisions              | -                        |                                |                                       |                                |  |                                   |                           |   | -                                 |
| <b>NET ASSETS</b>             | <b>1,141</b>             | <b>(10)</b>                    | <b>(12)</b>                           |                                |  |                                   | <b>4</b>                  |   | <b>1,123</b>                      |



## Appendix 2.

## Reconciliation of consolidated balance sheet from UK GAAP to IFRS at 1 May 2006

|   | Under UK<br>GAAP<br>£000 | IAS 18<br>Returns<br>provision | IAS 19<br>Holiday<br>pay<br>provision | IAS 20<br>Government<br>grants | IAS 21<br>Goodwill<br>in foreign<br>currency | IFRS3<br>Goodwill<br>amortisation | IAS 12<br>Income<br>taxes | Restatement<br>of minority<br>interests | Restated<br>under<br>IFRS<br>£000 |
|---|--------------------------|--------------------------------|---------------------------------------|--------------------------------|--|-----------------------------------|---------------------------|---|-----------------------------------|
| Share capital and premium                   | 948                      |                                |                                       |                                |  |                                   |                           |   | 948                               |
| Translation reserve                         | (18)                     |                                |                                       |                                |  |                                   |                           |   | (18)                              |
| Retained earnings                           | 216                      | (10)                           | (12)                                  |                                |  |                                   | 4                         | (25)                                    | 173                               |
| <b>EXPANSYS<br/>SHAREHOLDERS<br/>EQUITY</b> | <b>1,146</b>             | <b>(10)</b>                    | <b>(12)</b>                           |                                |  |                                   | <b>4</b>                  | <b>(25)</b>                             | <b>1,103</b>                      |
| Equity minority interests                   | (5)                      |                                |                                       |                                |  |                                   |                           | 25                                      | 20                                |
| <b>TOTAL EQUITY AND<br/>RESERVES</b>        | <b>1,141</b>             | <b>(10)</b>                    | <b>(12)</b>                           |                                |  |                                   | <b>4</b>                  | <b>-</b>                                | <b>1,123</b>                      |



## Appendix 3.

## Reconciliation of consolidated income statement from UK GAAP to IFRS for year ended 30 April 2007

|                                     | Under UK<br>GAAP<br>£000 | IAS 18<br>Returns<br>provision | IAS 19<br>Holiday<br>pay<br>provision | IAS 20<br>Government<br>grants | IAS 21<br>Goodwill<br>in foreign<br>currency | IFRS3<br>Goodwill<br>amortisation | IAS 12<br>Income<br>taxes | Restatement<br>of minority<br>interests | Restated<br>under<br>IFRS<br>£000 |
|-------------------------------------|--------------------------|--------------------------------|---------------------------------------|--------------------------------|--|-----------------------------------|---------------------------|---|-----------------------------------|
| Revenue                             | 54,192                   | (128)                          |                                       |                                |  |                                   |                           |   | 54,064                            |
| Cost of sales                       | (41,815)                 | 123                            |                                       |                                |  |                                   |                           |   | (41,692)                          |
| <b>GROSS MARGIN</b>                 | <b>12,377</b>            | <b>(5)</b>                     |                                       |                                |  |                                   |                           |   | <b>12,372</b>                     |
| Selling and distribution costs      | (2,928)                  |                                |                                       |                                |  |                                   |                           |   | (2,928)                           |
| Administration expenses             | (8,064)                  |                                | (6)                                   | (56)                           |  |                                   |                           |   | (8,126)                           |
| Depreciation                        | (825)                    |                                |                                       |                                |  |                                   |                           |   | (825)                             |
| Amortisation                        | (244)                    |                                |                                       |                                |  | 209                               |                           |   | (35)                              |
| Exceptional expenses                | (541)                    |                                |                                       |                                |  |                                   |                           |   | (541)                             |
| <b>LOSS BEFORE INTEREST AND TAX</b> | <b>(225)</b>             | <b>(5)</b>                     | <b>(6)</b>                            | <b>(56)</b>                    |  | <b>209</b>                        |                           |   | <b>(83)</b>                       |
| Interest payable                    | (793)                    |                                |                                       |                                |  |                                   |                           |   | (793)                             |
| Interest receivable                 | 91                       |                                |                                       |                                |  |                                   |                           |   | 91                                |
| <b>LOSS BEFORE TAX</b>              | <b>(927)</b>             | <b>(5)</b>                     | <b>(6)</b>                            | <b>(56)</b>                    |  | <b>209</b>                        |                           |   | <b>(785)</b>                      |
| Taxation                            | 310                      |                                |                                       |                                |  |                                   | 4                         |   | 314                               |
| <b>LOSS AFTER TAX</b>               | <b>(617)</b>             | <b>(5)</b>                     | <b>(6)</b>                            | <b>(56)</b>                    |  | <b>209</b>                        | <b>4</b>                  |   | <b>(471)</b>                      |
| Minority interests                  | 12                       |                                |                                       |                                |  |                                   |                           | (48)                                    | (36)                              |
| <b>RETAINED PROFIT</b>              | <b>(605)</b>             | <b>(5)</b>                     | <b>(6)</b>                            | <b>(56)</b>                    |  | <b>209</b>                        | <b>4</b>                  | <b>(48)</b>                             | <b>(507)</b>                      |



## Appendix 4.

## Reconciliation of consolidated balance sheet from UK GAAP to IFRS at 30 April 2007

|                               | Under UK<br>GAAP<br>£000 | IAS 18<br>Returns<br>provision | IAS 19<br>Holiday<br>pay<br>provision | IAS 20<br>Government<br>grants | IAS 21<br>Goodwill<br>in foreign<br>currency | IFRS3<br>Goodwill<br>amortisation | IAS 12<br>Income<br>taxes | Restatement<br>of minority<br>interests | Restated<br>under<br>IFRS<br>£000 |
|-------------------------------|--------------------------|--------------------------------|---------------------------------------|--------------------------------|--|-----------------------------------|---------------------------|---|-----------------------------------|
| Property, plant and equipment | 876                      |                                |                                       |                                |  |                                   |                           |   | 876                               |
| Trade marks                   | 137                      |                                |                                       |                                |  |                                   |                           |   | 137                               |
| Goodwill                      | 3,544                    |                                |                                       |                                | (308)  | 209                               |                           | (73)                                    | 3,372                             |
| Website development costs     | 1,337                    |                                |                                       |                                |  |                                   |                           |   | 1,337                             |
| Deferred taxation             | 366                      |                                |                                       |                                |  |                                   | 186                       |   | 552                               |
| <b>NON CURRENT ASSETS</b>     | <b>6,260</b>             |                                |                                       |                                | <b>(308)</b>                                 | <b>209</b>                        | <b>186</b>                | <b>(73)</b>                             | <b>6,274</b>                      |
| Inventories                   | 5,736                    |                                |                                       |                                |  |                                   |                           |   | 5,736                             |
| Trade and other receivables   | 4,739                    |                                |                                       | (19)                           |  |                                   |                           |   | 4,720                             |
| Cash                          | 739                      |                                |                                       |                                |  |                                   |                           |   | 739                               |
| Bank loans and overdrafts     | (68)                     |                                |                                       |                                |  |                                   |                           |   | (68)                              |
| Trade and other payables      | (7,244)                  |                                |                                       |                                |  |                                   |                           |   | (7,244)                           |
| Provisions                    | -                        | (15)                           | (19)                                  |                                |  |                                   |                           |   | (34)                              |
| Government grants             | -                        |                                |                                       | (37)                           |  |                                   |                           |   | (37)                              |
| Obligations under leases      | (278)                    |                                |                                       |                                |  |                                   |                           |   | (278)                             |
| Current tax payable           | (33)                     |                                |                                       |                                |  |                                   |                           |   | (33)                              |
| <b>NET CURRENT ASSETS</b>     | <b>3,591</b>             | <b>(15)</b>                    | <b>(19)</b>                           | <b>(56)</b>                    |  |                                   |                           |   | <b>3,501</b>                      |
| Bank loans                    | (182)                    |                                |                                       |                                |  |                                   |                           |   | (182)                             |
| Obligations under leases      | (214)                    |                                |                                       |                                |  |                                   |                           |   | (214)                             |
| Deferred tax provision        | (39)                     |                                |                                       |                                |  |                                   |                           |   | (39)                              |
| Other provisions              | -                        |                                |                                       |                                |  |                                   |                           |   | -                                 |
| <b>NET ASSETS</b>             | <b>9,416</b>             | <b>(15)</b>                    | <b>(19)</b>                           | <b>(56)</b>                    | <b>(308)</b>                                 | <b>209</b>                        | <b>186</b>                | <b>(73)</b>                             | <b>9,340</b>                      |



**Appendix 4.**

**Reconciliation of consolidated balance sheet from UK GAAP to IFRS at 30 April 2007**

|   | Under UK<br>GAAP<br>£000 | IAS 18<br>Returns<br>provision | IAS 19<br>Holiday<br>pay<br>provision | IAS 20<br>Government<br>grants | IAS 21<br>Goodwill<br>in foreign<br>currency | IFRS3<br>Goodwill<br>amortisation | IAS 12<br>Income<br>taxes | Restatement<br>of minority<br>interests | Restated<br>under<br>IFRS<br>£000 |
|---|--------------------------|--------------------------------|---------------------------------------|--------------------------------|--|-----------------------------------|---------------------------|---|-----------------------------------|
| Share capital and premium                   | 9,515                    |                                |                                       |                                |  |                                   |                           |   | 9,515                             |
| Translation reserve                         | 284                      |                                |                                       |                                | (308)  |                                   |                           |   | (24)                              |
| Retained earnings                           | (383)                    | (15)                           | (19)                                  | (56)                           |  | 209                               | 186                       | (73)                                    | (151)                             |
| <b>EXPANSYS<br/>SHAREHOLDERS<br/>EQUITY</b> | <b>9,416</b>             | <b>(15)</b>                    | <b>(19)</b>                           | <b>(56)</b>                    | <b>(308)</b>                                 | <b>209</b>                        | <b>186</b>                | <b>(73)</b>                             | <b>9,340</b>                      |
| Equity minority interests                   | -                        |                                |                                       |                                |  |                                   |                           |   | -                                 |
| <b>TOTAL EQUITY AND<br/>RESERVES</b>        | <b>9,416</b>             | <b>(15)</b>                    | <b>(19)</b>                           | <b>(56)</b>                    | <b>(308)</b>                                 | <b>209</b>                        | <b>186</b>                | <b>(73)</b>                             | <b>9,340</b>                      |

