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EUCON HOLDING LIMITED AND SUBSIDIARIES

(Registration No. 200107762R)

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

EUCON HOLDING LIMITED
AND SUBSIDIARIES

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

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GRP1-MGR/7153RA#.0020/NPH/LHL/GWL/YGCY/BL/ZA

EUCON HOLDING LIMITED
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REPORT OF THE DIRECTORS

The directors present their report together with the audited consolidated financial statements of the group and statement of financial position and statement of changes in equity of the company for the financial year ended December 31, 2009.

1 DIRECTORS

The directors of the company in office at the date of this report are:

Wen Yao-Long
Wen Yao-Chou
Chen Ming-Hsing
Ong Sim Ho
Seow Han Chiang, Winston
Er Kwong Wah

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the company to acquire benefits by means of the acquisition of shares or debentures in the company or any other body corporate.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the company holding office at the end of the financial year had no interests in the share capital and debentures of the company and related corporations as recorded in the register of directors' shareholdings kept by the company under Section 164 of the Singapore Companies Act except as follows:

	Shareholdings registered in the name of the directors		Shareholdings in which the directors are deemed to have interests	
Name of directors and companies which interests are held	At January 1, 2009	At December 31, 2009	At January 1, 2009	At December 31, 2009
The company Ordinary shares				
Wen Yao-Long	24,224,747	24,224,747	108,362,000	108,362,000
Wen Yao-Chou	4,794,643	4,794,643	-	-
Chen Ming-Hsing	33,723,000	33,723,000	-	-
Ong Sim Ho	1,220,000	1,220,000	-	-

By virtue of Section 7 of the Singapore Companies Act, Wen Yao-Long is deemed to have an interest in all the related corporations of the company.

The directors' interests in the shares of the company as at January 21, 2010 were the same at December 31, 2009.

4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Singapore Companies Act, by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in the financial statements.

5 SHARE OPTIONS

a) At the Extraordinary Meeting held on July 14, 2004, the shareholders approved the adoption of the Eucon Employee Share Option Scheme (the "ESOS"). The ESOS is administered by the Remuneration Committee, comprising the following independent directors:

Seow Han Chiang, Winston (Chairman)
Ong Sim Ho
Er Kwong Wah

b) Under the ESOS, an option entitles the option holder to subscribe for a specific number of new ordinary shares of the company comprised in the option at a subscription price per share determined with reference to the market price of the share at the time of grant of the option. The Remuneration Committee may at its discretion, fix that subscription price at a discount up to 20% off market price but not lower than $0.05. The consideration for the grant of an option is $1.00.

Options granted with the subscription price set at the market price shall only be exercised after the first anniversary but before the tenth anniversary (fifth anniversary for non-executive directors) of the date of grant of that option, subject to the following:

i) up to 50% only of the shares in respect of which that option is granted may be exercised after the first anniversary of the date of grant of that option; and

ii) the remaining 50% of the shares in respect of which that option is granted may be exercised after the second anniversary of the date of grant of that option.

Options granted with the market price set at a discount to the market price shall only be exercised after the second anniversary but before the tenth anniversary (fifth anniversary for non-executive directors) of the date of grant of that option, subject to the following:

i) up to 50% only of the shares in respect of which that option is granted may be exercised after the second anniversary of the date of grant of that option; and

ii) the remaining 50% of the shares in respect of which that option is granted may be exercised after the third anniversary of the date of grant of that option.

The shares under option may be exercised in whole or in part on the payment of the relevant subscription price. Options granted will lapse when the option holder ceases to be a full-time employee of the company or any company of the group subject to certain exceptions at the discretion of the company.

As at the date of this report, no options have been granted under the Scheme.

c) During the financial year, no option to take up unissued shares of the company or any subsidiaries was granted and there were no shares of the company or any subsidiaries issued by virtue of the exercise of an option to take up unissued shares.

d) At the end of the financial year, there were no unissued shares of the company or any subsidiaries under option.

6 AUDIT COMMITTEE

The Audit Committee of the company comprises three members, all of whom are non-executive independent directors. The members of the Audit Committee at the date of this report are:

Ong Sim Ho (Chairman)
Seow Han Chiang, Winston
Er Kwong Wah

The Audit Committee has met seven times since the last Annual General Meeting ("AGM") and has reviewed the following, where relevant, with the executive directors and external and internal auditors of the company:

i. the external audit plans and evaluation of the group's system of internal accounting controls;

ii. the group's financial and operating results and accounting policies;

iii. the statement of financial position and statement of changes in equity of the company and the consolidated financial statements of the group before their submission to the directors of the company and the external auditors' report on those financial statements;

iv. the quarterly, half-yearly and annual announcements as well as the related press releases on the results and financial position of the company and the group; and

v. the re-appointment of the external auditors of the company.

The Audit Committee has full access to and has the co-operation of the management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the Board of Directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors of the group and the company at the forthcoming Annual General Meeting of the company.

7 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

....
Wen Yao-Long

....
Wen Yao-Chou

April 1, 2010

EUCON HOLDING LIMITED
AND SUBSIDIARIES

STATEMENT OF DIRECTORS

In the opinion of the directors, the consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company as set out on pages 8 to 58 are drawn up so as to give a true and fair view of the state of affairs of the group and of the company as at December 31, 2009, and of the results, changes in equity and cash flows of the group and changes in equity of the company for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the company will be able to pay its debts when they fall due.

ON BEHALF OF THE DIRECTORS

Wen Yao-Long

Wen Yao-Chou

April 1, 2010

Deloitte.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

EUCON HOLDING LIMITED

We have audited the accompanying financial statements of Eucon Holding Limited (the "company") and its subsidiaries (the "group") which comprise the statements of financial position of the group and the company as at December 31, 2009, and the profit and loss statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the group and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 8 to 58.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes: devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheet and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts, and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion:

a) the consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the group and of the company as at December 31, 2009 and of the results, changes in equity and cash flows of the group, and changes in equity of the company for the year ended on that date; and

b) the accounting and other records required by the Act to be kept by the company have been properly kept in accordance with the provisions of the Act.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the group incurred a net loss of $12,794,000 for the year ended December 31, 2009 and, as of that date, the group's and the company's current liabilities exceeded its current assets by $31,376,000 and $9,041,000 respectively. In addition, the group and the company have breached certain financial covenants on bank loans totalling $2,552,000. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties which may cast significant doubt about the group's and company's ability to continue as going concerns.

Deloitte & Touche LLP

Public Accountants and
Certified Public Accountants

Ng Peck Hoon
Partner

Singapore
April 1, 2010

EUCON HOLDING LIMITED
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STATEMENTS OF FINANCIAL POSITION
December 31, 2009

	Note	Group 2009 $'000	Group 2008 $'000	Company 2009 $'000	Company 2008 $'000
ASSETS					
Current assets					
Cash and bank balances	6	8,748	23,152	165	1,463
Pledged bank deposits	7	460	1,007	-	-
Trade receivables	8	34,415	35,356	-	-
Other receivables and prepayments	9	1,558	824	19,499	4,464
Inventories	10	7,743	6,839	-	-
Land use rights	11	94	97	-	-
Total current assets		53,018	67,275	19,664	5,927
Non-current assets					
Other receivables	9	961	1,346	-	-
Land use rights	11	4,337	4,543	-	-
Investment in subsidiaries	12	-	-	73,873	63,257
Property, plant and equipment	13	103,886	125,861	781	835
Goodwill	14	2,226	2,226	-	-
Deferred tax assets	15	1,488	1,097	-	-
Total non-current assets		112,898	135,073	74,654	64,092
Total assets		165,916	202,348	94,318	70,019
LIABILITIES AND EQUITY					
Current liabilities					
Derivative financial instruments	16	527	595	349	-
Trade and other payables	17	49,502	44,386	20,784	16,862
Current portion of borrowings	18	31,705	43,942	6,958	9,770
Current portion of finance leases	19	2,660	5,047	614	1,231
Income tax payable		-	103	-	-
Total current liabilities		84,394	94,073	28,705	27,863
Non-current liabilities					
Derivative financial instruments	16	-	444	-	444
Borrowings	18	4,367	13,597	2,290	4,846
Finance leases	19	398	3,104	-	631
Total non-current liabilities		4,765	17,145	2,290	5,921

	Note	Group 2009 $'000	Group 2008 $'000	Company 2009 $'000	Company 2008 $'000
Capital, reserves and minority interests					
Share capital	20	56,127	56,127	56,127	56,127
Reserves		14,869	28,749	7,196	(19,892)
Equity attributable to the owners of the company		70,996	84,876	63,323	36,235
Minority interests		5,761	6,254	-	-
Total equity		76,757	91,130	63,323	36,235
Total liabilities and equity		165,916	202,348	94,318	70,019

See accompanying notes to financial statements.

EUCON HOLDING LIMITED
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CONSOLIDATED PROFIT AND LOSS STATEMENT
Year ended December 31, 2009

	Note	Group 2009 $'000	Group 2008 $'000
Revenue	22	77,956	119,591
Cost of service and sales		(74,572)	(107,664)
Gross profit		3,384	11,927
Other income	23	1,035	2,637
Distribution costs		(2,669)	(4,368)
Administrative expenses		(9,866)	(15,946)
Other expenses		(1,529)	(695)
Finance costs	24	(3,414)	(4,670)
Loss before income tax		(13,059)	(11,115)
Income tax credit (expense)	25	265	(555)
Loss for the year	26	(12,794)	(11,670)
Attributable to:			
Owners of the company		(12,539)	(10,693)
Minority interests		(255)	(977)
Loss for the year		(12,794)	(11,670)
Loss per share (cents):			
- Basic	27	(2.20)	(1.88)
- Diluted	27	(2.20)	(1.88)

See accompanying notes to financial statements.

EUCON HOLDING LIMITED
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended December 31, 2009

	Note	Group 2009 $'000	Group 2008 $'000
Loss for the year		(12,794)	(11,670)
Other comprehensive income:			
Foreign currency translation		(1,503)	2,869
(Loss) Gain on cash flow hedge	16	(76)	622
Other comprehensive (loss) income for the year		(1,579)	3,491
Total comprehensive loss for the year		(14,373)	(8,179)
Total comprehensive loss attributable to:			
Owners of the parent		(13,880)	(7,995)
Minority interest		(493)	(184)
		(14,373)	(8,179)

See accompanying notes to financial statements.

EUCON HOLDING LIMITED
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STATEMENTS OF CHANGES IN EQUITY
Year ended December 31, 2009

	Share capital $'000	Currency translation reserves $'000	Hedging reserves $'000	Statutory reserves $'000	Accumulated profits (losses) $'000	Attributable to equity holders of the company $'000	Minority interests $'000	Total $'000
Group								
Balance at January 1, 2008	56,127	(6,338)	(1,002)	4,855	39,229	92,871	6,438	99,309
Total comprehensive income (loss) for the year	-	2,076	622	-	(10,693)	(7,995)	(184)	(8,179)
Transfer to statutory reserves (Note 21)	-	-	-	880	(880)	-	-	-
Balance at December 31, 2008	56,127	(4,262)	(380)	5,735	27,656	84,876	6,254	91,130
Total comprehensive loss for the year	-	(1,340)	(76)	-	(12,464)	(13,880)	(493)	(14,373)
Balance at December 31, 2009	56,127	(5,602)	(456)	5,735	15,192	70,996	5,761	76,757

Company	Share capital $'000	Currency translation reserve $'000	Hedging reserves $'000	Accumulated profits (losses) $'000	Total $'000
Balance at January 1, 2008	56,127	-	(1,002)	18,328	73,453
Total comprehensive income (loss) for the year	-	3,262	622	(41,102)	(37,218)
Balance at December 31, 2008	56,127	3,262	(380)	(22,774)	36,235
Total comprehensive (loss) income for the year	-	(1,713)	(76)	28,877	27,088
Balance at December 31, 2009	56,127	1,549	(456)	6,103	63,323

See accompanying notes to financial statements.

EUCON HOLDING LIMITED
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CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31, 2009

	Group	
	2009	2008
	$'000	$'000
Operating activities		
Loss before income tax	(13,059)	(11,115)
Adjustments for:		
Depreciation expense	19,990	20,328
Allowance for doubtful receivables	1,468	2,241
Allowance for inventories	561	631
Amortisation of land use rights	98	93
Impairment of property, plant and equipment	-	2,278
Impairment of goodwill	-	1,730
Fair value (gain) loss on derivative financial instrument	(512)	824
Interest income	(86)	(312)
Interest expense	3,414	4,670
Net foreign exchange losses (gains)	644	(2,382)
Plant and equipment written off	184	17
Loss on disposal of property, plant and equipment	1,145	410
Operating profit before working capital changes	13,847	19,413
Trade receivables	(527)	15,618
Other receivables and prepayments	(349)	2,263
Inventories	(1,465)	2,976
Trade payables	(1,207)	(2,609)
Other payables	3,701	(1,271)
Cash generated from operations	14,000	36,390
Interest received	86	312
Interest paid	(3,414)	(4,670)
Income tax paid	(229)	(507)
Net cash from operating activities	10,443	31,525
Investing activities		
Purchase of property, plant and equipment (Note A)	(6,756)	(20,815)
Proceeds on disposal of property, plant and equipment	51	-
Net cash used in investing activities	(6,705)	(20,815)

	Group	
	2009	2008
	$'000	$'000
Financing activities		
Decrease in pledged bank deposits	547	5,101
Decrease in bank loans	(16,969)	(9,971)
Repayment of finance lease obligations	(5,093)	(6,420)
Due to shareholders	3,619	2,879
Net cash used in financing activities	(17,896)	(8,411)
Net (decrease) increase in cash and bank balances	(14,158)	2,299
Cash and bank balances at beginning of year	23,152	20,983
Effect of exchange rate changes on the balances of cash held in foreign currencies	(246)	(130)
Cash and bank balances at end of year	8,748	23,152

Note to the consolidated statement of cash flows:

A. Property, plant and equipment:

During the financial year, the group acquired property, plant and equipment with aggregate cost of $1,261,000 (2008 : $13,798,000) of which $Nil (2008 : $2,068,000) was acquired by means of finance leases, of which $Nil (2008 : $997,000) remained unpaid as at year end (Note 17). Cash payment of $6,756,000 (2008 : $20,815,000) were made in respect of property, plant and equipment purchased.

See accompanying notes to financial statements.

1 GENERAL

The company (Registration No. 200107762R) is incorporated in Republic of Singapore with its principal place of business and registered office at 80 Marine Parade Road, #11-02 Parkway Parade, Singapore 449269. The company is listed on the Singapore Exchange Securities Trading Limited. The financial statements are expressed in Singapore dollars and all values are rounded to the nearest thousand ($'000) except when otherwise indicated.

The principal activity of the company is that of investment holding.

The principal activities of the subsidiaries are disclosed in Note 12 to the financial statements.

The group incurred a net loss of $12,794,000 (2008 : $11,670,000) for the financial year ended December 31, 2009 and the group's and company's current liabilities exceed its current assets by $31,376,000 (2008 : $26,798,000) and $9,041,000 (2008 : $21,936,000) respectively as at December 31, 2009. In addition, as disclosed in Note 18 to the financial statements, the company and group have been in breach of certain financial covenants as stipulated in the credit facility agreement since 2008 and consequently, the bank has the right to demand immediate repayment of the outstanding loan balances totalling $2,552,000 (2008 : $8,261,000). The group has been making timely monthly repayments in accordance with the repayment terms of the loan and the last monthly instalment is in November 2010. The bank has been accepting these monthly payments and has not required immediate repayment of the loan. The loan balance has already been classified as current liabilities at reporting date.

The financial statements have been prepared on a going concern basis which contemplates the realisation of assets and satisfaction of liabilities in the normal course of business. The ability of the group and company to continue as a going concern is much dependent on:

- continued revolving credit facilities from the group's lenders to be available over the next twelve months;
- ability of the group to continue to generate sufficient cash flow from its future operations to meet its day-to-day expenditure.

In lieu of the above, management has reviewed the business plans and outlook for the next twelve months and are of the opinion that the basis upon which the financial statements are prepared is appropriate in the circumstance. Management believes that the revolving credit facilities will continue to be available to the group from its lenders and the group will be able to generate cash flows from future operations to meet its liabilities as and when they fall due. Should the group be unable to continue in operational existence in the foreseeable future, the group may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts other than in the amounts which they are currently recorded in the statements of financial position. In addition, the group and company may have to provide for further liabilities that may arise and to reclassify non-current assets and liabilities to current. No adjustments have been made in the financial statements in respect of this.

The consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company for the year ended December 31, 2009 were authorised for issue by the Board of Directors on April 1, 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS").

ADOPTION OF NEW AND REVISED FINANCIAL REPORTING STANDARDS - In the current financial year, the group has adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for annual periods beginning on or after January 1, 2009. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the group's and company's accounting policies and has no material effect on the amounts reported for the current or prior years except as disclosed below:

FRS 1 – *Presentation of Financial Statements (Revised)*

FRS 1 (2008) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. In addition, the revised Standard requires the presentation of a third statement of financial position at the beginning of the earliest comparative period presented if the entity applies new accounting policies retrospectively or makes retrospective restatements or reclassifies items in the financial statements.

Amendments to FRS 107 Financial Instruments : *Disclosures - Improving Disclosures about Financial Instruments*

The amendments to FRS 107 expand the disclosures required in respect of fair value measurements and liquidity risk. The group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

FRS 108 – *Operating Segments*

The group adopted FRS 108 with effect from January 1, 2009. FRS 108 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (FRS 14 *Segment Reporting*) required an entity to identify two sets of segments (Business and Geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of FRS 108, the identification of the group's reportable segments has changed (Note 30).

The comparatives have been restated to conform to the requirements of FRS 108.

At the date of authorisation of these financial statements, the following FRSs that are relevant to the group and company were issued but not effective:

FRS 27	-	Consolidated and Separate Financial Statements (Revised)
FRS 39	-	Financial Instruments: Recognition and Measurement (Amendments relating to Embedded Derivatives)
FRS 103	-	Business Combinations (Revised)

Amendments arising from Improvements to FRSs (issued in June 2009)

Management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial application.

BASIS OF CONSOLIDATION - The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries). Control is achieved when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

In the company's financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

BUSINESS COMBINATIONS - The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *FRS 103 Business Combinations* are recognised at their fair values at the acquisition date.

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

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

FINANCIAL INSTRUMENTS - Financial assets and financial liabilities are recognised on the group's and company's statements of financial position when the group and the company become a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expense is recognised on an effective interest rate basis for debt instruments other than those financial instruments "at fair value through profit and loss".

Financial assets

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

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

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, if the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the assets and an associated liability for amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Financial liabilities

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method, with interest expense recognised on an effective yield basis.

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy.

Derecognition of financial liabilities

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or expired.

Derivative financial instruments

The group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 16 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the profit and loss statement immediately, except for those designated as hedging instruments (see below).

Hedge accounting

The group designates certain hedging instruments as either fair value hedges or cash flow hedges.

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

Note 16 to the financial statements contain details of the fair values of the derivative instruments used for hedging purposes and details of the movements in the hedging reserve.