

SciSys plc IFRS Re-Statement

Introduction

As a UK registered company quoted on the Alternative Investment Market (AIM), SciSys plc is required to present its financial statements under International Financial Reporting Standards as adopted by the EU (adopted IFRSs) for accounting periods commencing on or after 1 January 2007. Previously the Company has applied United Kingdom generally accepted accounting principles (UK GAAP). The first financial result under IFRS will be the 2007 interim report.

This document explains the impact of the adoption of IFRS on the consolidated results of the Company and its subsidiaries (together referred to as the Group), and quantifies the impact on 2006 financial information, including the 1 January 2006 balance sheet, previously prepared under UK GAAP.

Summary of IFRS impact

The impact on the profit for the year ended 31 December 2006 is detailed in the table below.

	Year ended 31 December 2006 £000
UK GAAP	2,107
IFRS adjustments:	
Amortisation of goodwill	2,287
Deferred tax on goodwill amortisation	(87)
Deferred tax on share-based payments	(57)
Gain on financial instruments	106
Employee benefits – holiday pay	(273)
Deferred tax on employee benefits – holiday pay	82
	2,058
IFRS	4,165

The impact on total equity (and net assets) at 31 December 2006 and 1 January 2006 is shown in the table below.

	31 December 2006 £000	1 January 2006 £000
UK GAAP	13,149	56,551
IFRS adjustments:		
Deferred tax on share-based payments	-	132
Financial instruments	7	(9)
Employee benefits – holiday pay	(132)	(207)
Deferred tax on employee benefits – holiday pay	40	62
	(85)	(22)
IFRS	13,064	56,529

Detailed reconciliation information for the relevant 2006 primary statements is provided later in this document. The introduction of IFRS has no impact on the underlying cash flows of the business.

Consolidated Income Statements, prepared under IFRS (unaudited)

	Year ended 31 December 2006 £000
Revenue	25,402
Operating costs	<u>(25,000)</u>
Operating profit	402
Finance costs	(1)
Finance income	<u>131</u>
Profit before tax	532
Income tax expense	<u>95</u>
Profit for the period for continuing operations	627
Profit from discontinued operations	<u>3,538</u>
Profit for the period	<u>4,165</u>

All profit for the period is attributable to equity holders of the parent

Consolidated Balance Sheets, prepared under IFRS (unaudited)

	31 December 2006 £000	1 January 2006 £000
ASSETS		
Non-current assets		
Property, plant and equipment	1,435	13,202
Goodwill	-	39,858
Investments	279	-
Deferred income tax assets	171	524
Total non-current assets	<u>1,885</u>	<u>53,584</u>
Current assets		
Trade and other receivables	8,231	20,741
Prepayments	879	3,442
Income tax	375	-
Cash and cash equivalents	5,934	10,097
Total current assets	<u>15,419</u>	<u>34,280</u>
TOTAL ASSETS	<u>17,304</u>	<u>87,864</u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Issued capital	6,414	6,352
Share premium	-	43,008
Retained earnings	6,569	7,086
Translation Reserve	(2)	-
Other Reserves	83	83
TOTAL EQUITY	<u>13,064</u>	<u>56,529</u>
Non-current liabilities		
Financial liabilities	-	1,206
Total non-current liabilities	<u>-</u>	<u>1,206</u>
Current liabilities		
Trade and other payables	3,936	9,967
Income tax payable	-	839
Deferred income	304	19,323
Total current liabilities	<u>4,240</u>	<u>30,129</u>
TOTAL LIABILITIES	<u>4,240</u>	<u>31,335</u>
TOTAL EQUITY AND LIABILITIES	<u>17,304</u>	<u>87,864</u>

Explanatory notes on the impact of IFRS

The notes below explain the impact that the adoption of IFRS has had on the Group's consolidated results, which is summarised above. These notes also support the detailed UK GAAP to IFRS reconciliations which follow. In addition to the adjustments below, details of the Group's IFRS 1 elections are summarised in the Principal Accounting Policies section of this document.

1) *IFRS 3 - Business combinations; IAS 36 - Impairment of assets; IAS 38 - Intangible assets*

The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place prior to 1 January 2006. As a result, in the opening balance sheet, positive goodwill arising from previous business combinations (£39,858,000) remains as stated under UK GAAP at 1 January 2006.

The adoption of IFRS 3 and IAS 36 has resulted in the Group ceasing annual goodwill amortisation from 1 January 2006. As a result, the UK GAAP amortisation charge of £2,287,000 has been reversed in arriving at the Group's 2006 IFRS profit for the year. All the goodwill and amortisation relates to the CODA business demerged from the Group in September 2006.

2) *IAS 19 - Employee benefits*

IAS 19 requires the Group to recognise in full liabilities in relation to employee benefits. As at 1 January 2006, the Group has recognised additional liabilities of £207,000 (continuing operations: £113,000, discontinued operations: £94,000) for holiday pay. The corresponding provision as at 31 December 2006 is £132,000 and consequently there is a reduction in the Group's profit for the year for continuing operations of £19,000. The charge to profit for discontinued operations is £254,000, which results in a total charge for the year to £273,000.

3) *IAS 21 - The effects of changes in foreign exchange rates*

From 1 January 2006, foreign exchange differences arising from the translation of foreign operations are recorded in a separate reserve. As stated at the beginning of this document, the Group has elected, under the provisions of IFRS 1, to set the historic translation differences on foreign subsidiaries to zero. A £2,000 foreign exchange loss has been recorded in the Translation Reserve at 31 December 2006.

4) *IAS 32 'Financial Instruments - Disclosure and Presentation' and IAS 39 'Financial Instruments Recognition and Measurement'*

The changes on adoption of these standards relate to accounting for derivative financial instruments.

The Group uses forward exchange deals, cylinder options and currency swaps to reduce or eliminate exposure to foreign exchange risk. Under UK GAAP the fair value of these derivatives has not been recognised, and the underlying receivables and loans have been recorded at the spot rate prevailing at the balance sheet rate.

Under IFRS, derivative financial instruments are recognised at their fair value. The underlying receivables and loans are recorded at the spot rate prevailing at the balance sheet date.

A fair value loss of £9,000 (continuing operations: £3,000, discontinued operations: £6,000) is recognised at 1 January 2006. At 31 December 2006 the fair value gain is £7,000, reflecting an increase in the Group's profit from continuing operations of £10,000. The gain on financial instruments from discontinued operations is £96,000, resulting in a total gain for the year of £106,000.

5) *IAS 12 'Income Taxes'*

A deferred tax asset of £62,000 (continuing operations: £34,000, discontinued operations: £28,000) is recognised at 1 January 2006 in relation to the accrual in respect of holiday pay. This reduced to £40,000 at the 31 December 2006. The impact on the income statement for 2006 is a deferred tax credit of £6k for continuing operations. For discontinued operations, the credit is £76,000, which results in a total credit for the year of £82,000.

A deferred tax liability is recognised for differences between the tax written down value of goodwill against which tax relief is allowed and the value of such goodwill recorded in the consolidated balance sheet. Of the goodwill written back under IFRS of £2,287,000, which all relates to discontinued operations, the element allowable for tax relief results in a deferred tax charge to the income statement for 2006 of £87,000.

Under IFRS a deferred tax asset may arise to reflect tax deductions which may become available as a result of the future exercise of share options outstanding at each balance sheet date. A deferred tax asset of £132,000 (continuing operations: £86,000, discontinued operations: £46,000) was recognised at 1 January 2006. During 2006, the majority of the share options were waived in exchange for ExSOPs. ExSOPs outstanding at 31 December 2006 will not attract a future tax deduction available to the company. As a result, no deferred tax asset can be recognised in respect of ExSOPs. The movement of the deferred tax asset during the year results in a £57,000 charge (continuing operations: £11,000, discontinued operations: £46,000) to the 2006 income statement. The balance of £75,000 in respect of continuing operations is charged to equity.

6) *Impact of IFRS adjustments on the net assets of the CODA business at the demerger date*

The balance sheet as at 1 January 2006 shows the position of the CODASciSys group prior to the demerger of the CODA business on 26 September 2006. Movements in opening balances relating to the demerged business are reflected in the Income Statement up to the date of the demerger. The net assets of the discontinued operations at the date of demerger are reflected in the dividend in specie distribution which is a component of the reserves movement in the period. The balance sheet as at 31 December 2006 comprises only the assets, liabilities and shareholders equity of the continuing SciSys Group operations.

The impact of the IFRS adjustments on the net assets of discontinued operations is analysed below:

	Note	Recognition in opening balance sheet as at 1 January 2006	Credit/(charge) to the income statement for the year to 31 December 2006	Net assets at demerger represented by dividend in specie
		£000	£000	£000
UK GAAP				42,770
IFRS adjustments:				
Amortisation of goodwill	1	-	2,287	2,287
Deferred tax on goodwill amortisation	5	-	(87)	(87)
Deferred tax on share-based payments	5	46	(46)	-
Gain on financial instruments	4	(6)	96	90
Employee benefits – holiday pay	2	(94)	(254)	(348)
Deferred tax on employee benefits – holiday pay	5	28	76	104
		(26)	2,072	2,046
IFRS				44,816

Reconciliation of consolidated income statement

	UK GAAP Profit & Loss Account	Goodwill amortisation	Deferred tax on goodwill amortisation	Deferred tax on share based payments	Derivative financial instruments	Deferred tax on employee benefits – holiday pay	Employee benefits – holiday pay	IFRS Income Statement
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
For the year ended 31 December 2006								
Revenue	25,402	-	-	-	-	-	-	25,402
Operating costs	(24,981)	-	-	-	-	-	(19)	(25,000)
Operating profit	421	-	-	-	-	-	(19)	402
Finance costs	(1)	-	-	-	-	-	-	(1)
Finance income	121	-	-	-	10	-	-	131
Profit before tax	541	-	-	-	10	-	(19)	532
Income tax expense	100	-	-	(11)	-	6	-	95
Profit for the period for continuing operations	641	-	-	(11)	10	6	(19)	627
Profit from discontinued operations	1,466	2,287	(87)	(46)	96	76	(254)	3,538
Profit for the period	2,107	2,287	(87)	(57)	106	82	(273)	4,165

All profit for the year is attributable to equity holders of the parent

Reconciliation of consolidated balance sheets

As at 31 December 2006

	UK GAAP Balance Sheet	Deferred tax on share based payments	Derivative financial instruments	Deferred tax on employee benefits – holiday pay	Employee benefits – holiday pay	IAS 21 Translation reserve	IFRS Balance Sheet
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS							
Non-current assets							
Property, plant and equipment	1,435	-	-	-	-	-	1,435
Investments	279	-	-	-	-	-	279
Deferred income tax assets	131	-	-	40	-	-	171
Total non-current assets	1,845			40			1,885
Current assets							
Trade and other receivables	8,203	-	28	-	-	-	8,231
Prepayments	879	-	-	-	-	-	879
Income tax	375	-	-	-	-	-	375
Cash and cash equivalents	5,934	-	-	-	-	-	5,934
Total current assets	15,391		28				15,419
TOTAL ASSETS	17,236		28	40			17,304
EQUITY AND LIABILITIES							
Equity attributable to equity holders of the parent							
Issued capital	6,414	-	-	-	-	-	6,414
Retained earnings	6,652	-	7	40	(132)	2	6,569
Translation Reserve	-	-	-	-	-	(2)	(2)
Other reserves	83	-	-	-	-	-	83
TOTAL EQUITY	13,149		7	40	(132)		13,064
Current liabilities							
Trade and other payables	3,783	-	21	-	132	-	3,936
Deferred income	304	-	-	-	-	-	304
Total current liabilities	4,087		21		132		4,240
TOTAL LIABILITIES	4,087		21		132		4,240
TOTAL EQUITY AND LIABILITIES	17,236		28	40			17,304

Reconciliation of consolidated balance sheets

As at 1 January 2006

	UK GAAP Balance Sheet	Deferred tax on share based payments	Derivative financial instruments	Deferred tax on employee benefits – holiday pay	Employee benefits – holiday pay	IFRS Balance Sheet
	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS						
Non-current assets						
Property, plant and equipment	13,202	-	-	-	-	13,202
Goodwill	39,858	-	-	-	-	39,858
Deferred income tax assets	330	132	-	62	-	524
Total non-current assets	53,390	132	-	62	-	53,584
Current assets						
Trade and other receivables	20,678	-	63	-	-	20,741
Prepayments	3,442	-	-	-	-	3,442
Cash and cash equivalents	10,097	-	-	-	-	10,097
Total current assets	34,217	-	63	-	-	34,280
TOTAL ASSETS	87,607	132	63	62	-	87,864
EQUITY AND LIABILITIES						
Equity attributable to equity holders of the parent						
Issued capital	6,352	-	-	-	-	6,352
Share premium	43,008	-	-	-	-	43,008
Retained earnings	7,108	132	(9)	62	(207)	7,086
Other reserves	83	-	-	-	-	83
TOTAL EQUITY	56,551	132	(9)	62	(207)	56,529
Non-current liabilities						
Financial liabilities	1,206	-	-	-	-	1,206
Total non-current liabilities	1,206	-	-	-	-	1,206
Current liabilities						
Trade and other payables	9,688	-	72	-	207	9,967
Income tax payable	839	-	-	-	-	839
Deferred income	19,323	-	-	-	-	19,323
Total current liabilities	29,850	-	72	-	207	30,129
TOTAL LIABILITIES	31,056	-	72	-	207	31,335
TOTAL EQUITY AND LIABILITIES	87,607	132	63	62	-	87,864

Principal Accounting Policies

Statement of compliance

In common with other companies listed on the Alternative Investment Market, SciSys plc is required to adopt International Financial Reporting Standards as adopted by the EU (adopted IFRSs) for its first consolidated financial statements for periods beginning on or after 1 January 2007. For SciSys plc, the interim report for the six month period ended 30 June 2007 will be the first report under IFRS.

The consolidated financial statements are drawn up in accordance with those International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations adopted by the International Accounting Standards Board (IASB) and the EU and therefore comply with Article 4 of the EU IAS Regulation applied in accordance with the provisions of the Companies Act 1985.

IFRS 1 'First-time Adoption of International Financial Reporting Standards'

The Group has adopted IFRS 1 'First-time Adoption of International Financial Reporting Standards' and has applied the following optional IFRS 1 exemptions:

IFRS 3 - Business combinations

Business combinations prior to 1 January 2006 have not been restated to comply with IFRS 3.

IAS 21 - The effects of changes in foreign exchange rates

Under IAS 21, exchange differences arising on the re-translation of foreign operations are taken directly to a separate component of equity. The Group has elected, under the provisions of IFRS 1, to set the historic translation differences on foreign subsidiaries to zero.

IFRS 2 - Share based payment

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 1 January 2005. This is in line with the treatment adopted in accordance with FRS 20 in the 2006 financial statements under UK GAAP.

More details are provided in the section of this document headed Explanatory notes on the impact of IFRS.

The following standards have been adopted by the EU but are not yet effective:

IFRIC 11, IFRS 2: Group and Treasury Share Transactions, is effective for annual periods beginning on or after 1 March 2007 and will be applied by the Group from 1 January 2008. The interpretation requires that a share-based payment involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation is accounted for as an equity-settled share based payment under IFRS 2.

The following standard is not yet effective and has not yet been adopted by the EU and therefore has not been adopted early by the Group:

IFRS 8, Operating Segments, is effective for annual periods beginning on or after 1 January 2009 and the Group plans to apply it from 1 January 2009. The standard requires the presentation of segmental information based on internal reports used by the Group's Board in order to allocate resources and make decisions about operating matters.

The Group does not believe the adoption of these standards or interpretations will have a significant effect on the consolidated results or financial position of the Group.

The Company has elected to prepare its parent Company financial statements in accordance with UK Accounting Standards.

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, subject to the items referred to in the derivative financial instruments and share-based payments notes below. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries made up to 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the Company, and adjustments are made where necessary to align accounting policies across the Group.

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The SciSys No1 Trust is consolidated into the results of the Group to the extent that the underlying assets are held on behalf of employees of the Group. Underlying assets held on behalf of employees of the CODA Group are consolidated into the results of that group.

Revenue

Policy relating to continuing SciSys operations:

Revenue from consultancy and other professional services rendered on a fixed price project is recognised, as the services are performed, by reference to the degree of completion of the project. The degree of completion is measured by reference to own labour costs incurred by the balance sheet date as a percentage of the total estimated own labour costs to completion for each project. Provision is made for all foreseeable losses as soon as they are identified.

Revenue from projects billed on a time and materials basis is recognised in line with performance of the services.

Revenue from the sale of third party products is recognised upon transfer to the customer of the significant risks and rewards of ownership and when:

- It is probable that the economic benefits associated with the transaction will flow;
- The amount of revenue can be measured reliably; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably..

In practice, this is typically on delivery of the third party product to the customer.

All revenues are stated net of discounts, VAT and other sales related taxes.

Policies relating to discontinued CODA operations:

Revenue represents amounts receivable for goods supplied and services provided to third-parties net of VAT and other sales related taxes. Revenue for consultancy and other professional services is recognised as the services are performed. Revenue for maintenance contracts is recognised equally over the period to which the maintenance relates. Revenue for software licences is recognised when the product to which the revenue relates is used by the client to process live data in any location, typically at the end of an implementation project. Revenues are not recognised unless their receipt can be predicted with a high level of certainty.

Deferred income comprises:

- The element of maintenance revenues invoiced for which the period of maintenance extends beyond the year end (typically maintenance is invoiced annually up front);
- Amounts received for software licences for which the recognition criterion has not been met;
- Amounts billed for consultancy work ahead of the work being carried out (pre-billed consultancy).

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease rentals are recognised as an expense in the income statement on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currency translation

The functional and presentation currency of the Group is pounds sterling (£). Transactions in foreign currencies are initially recorded at the foreign exchange rate prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the rate of exchange ruling at that date. All differences are recognised in the consolidated income statement.

Assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at the rate of exchange ruling at the balance sheet date. Revenues and expenses are translated at the weighted average exchange rate for the year. The exchange differences arising on the retranslation of the opening net investment in subsidiaries, and from the translation of the results of those subsidiaries at average rate, are taken directly to a separate component of equity.

The Group has taken advantage of the exemption available under IFRS 1 to deem the cumulative translation differences for all investments in foreign operations to be zero at 1 January 2006, the date of transition to adopted IFRS. Exchange differences arising after 1 January 2006 from the translation of the net investment in foreign operations, and of related hedges, are taken to a translation reserve. They are released into the income statement upon disposal.

Pensions

The Group operates a defined contribution group personal pension plan, the assets of which are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Taxation

Tax on profits or losses for the year comprises current and deferred tax and is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

The tax currently payable is based upon the taxable profit for the year and calculated using tax rates which have been enacted or substantially enacted by the balance sheet date. Deferred tax is calculated at the tax rates which are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax is provided, using the balance sheet liability method, providing for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or the initial recognition (other than in a business combination) of an asset or liability in a transaction which affects neither the accounting nor taxable profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries unless the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold land	Not depreciated
Leasehold improvements	Lower of the lease term or 50 years
Short leasehold buildings	Over the lease term
Plant & machinery	10 - 20 years
Office equipment	6 years
Motor vehicles	5 years
Computer equipment	2 – 3 years

Product development expenditure

Research and development costs associated with the development of software products or enhancements and their related intellectual property rights are expensed as incurred until all of the following criteria can be demonstrated, in which case it is capitalised as an intangible asset:

- The technical feasibility of completing the tangible asset so that it will be available for use or sale;
- An intention to complete the intangible asset and use or sell it;
- Ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- An ability to measure reliably the expenditure attributable to the intangible asset during its development.

No development expenditure has been capitalised to date.

Goodwill

Goodwill on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill already carried in the balance sheet at the date of transition to IFRS, 1 January 2006, has not been amortised after this date and is stated at deemed cost, being the UK GAAP carrying value at transition. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment charges are deducted from the carrying value and recognised immediately in the Income Statement. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If such an indication exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's fair value less disposal costs and its value in use. It 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.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the amount of goodwill allocated to the applicable cash-generating units and then to reduce the carry amount of the other assets on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

Financial instruments

Trade and other receivables

Trade and other receivables are stated at their fair value on initial recognition and subsequently at amortised cost i.e. less any impairment losses.

Trade and other payables

Trade and other payables are stated at fair value at initial recognition and subsequently at amortised cost.

Investments

Investments represent shares in CODA plc which are held by the consolidated SciSys No. 1 Employees' Share Trust. These resulted from previous holdings in CODASciSys plc prior to the demerger in respect of the Executive Share Ownership Plan.

Cash and cash equivalents

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

Derivative financial instruments

Derivatives are used by the Group to reduce or eliminate exposure to foreign exchange risk. Instruments used include forward exchange deals, cylinder options and currency swaps. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

Provisions

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

Employee benefits

The Group makes provision for employees' holiday pay. The expected cost and associated liability is measured as the additional amount the Group expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

Share-based payment transactions

Employees (including executive directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The fair values of the share option schemes in operation have been assessed using Black-Scholes and similar models, as are appropriate to each scheme at the date of grant. The fair values of the schemes are expensed evenly over the period between grant and vesting. Charges for share-based payments have been recognised only for issues that were made after 7 November 2002 which had not vested by 1 January 2005, as permitted under the transitional provisions of IFRS 2.