11 January 2012

DESIGNCAPITAL PLC (“designcapital” or the “Company”)
Final results for the year to 31 December 2010

designcapital plc, the AIM listed investment company dedicated to high end contemporary furniture design, announces its audited consolidated results for the year to 31 December 2010.

Highlights

- Turnover £4,636,440 (2009 – £8,136,307)
- Retained loss attributable to shareholders was £5,075,411 (2009 – £4,228,178).
- Basic net loss per share 8.12p (2009: 7.48p)
- Trading in the French Subsidiaries, Artelano and Forum Diffusion has ceased and applications have been made to have the Companies wound up reducing the Company’s exposure to continuing losses and historic liabilities of €6.1 million.
- New Distribution strategy adopted for UK, France, North America and Middle East and North Africa

Frédéric Bobo, Executive Chairman said:

“2010 and 2011 to date have been periods of significant change during which actions were taken to refocus designcapital’s business and to ensure the long term future and success for its shareholders. New distribution channels have been established through which the Groups products can be sold and on terms that reduce the risk and costs of distribution. Manufacturing and logistics have been outsourced further reducing the fixed costs of the Group. As a result of the restructuring and liquidation of the French subsidiaries, the Group’s obligation to pay trade liabilities frozen under the “Redressement Judiciaire” process totalling approximately €6.1 million have been terminated.

As a result of the actions taken, the Group now has a cost base considerably lower than in 2010 and with the significant proportion of cost being incurred on a variable basis, the level of sales required to achieve a profit and to generate cash is a fraction of that required in previous years.”

Contacts:-

designcapital plc
Frederic Bobo,
Executive Chairman
Mike Hosie, Chief
Financial Officer +44 20 7554 8555

I am pleased to present the Company’s Report and Financial Statements for the year to 31 December 2010.

designcapital plc (the Company) was incorporated in June 2007, and was admitted to AIM on 21 January 2008, with the strategic objective of becoming a major pan-European design-focused investment company.

We were admitted to the AIM market during one of the most difficult periods in living memory, with great uncertainty as to the impact of the “credit crunch”, the banking crisis, as well as energy prices and raw material costs, on economic activity.

There were also significant uncertainties as to whether these pressures could be managed by the world's monetary authorities without triggering a deeper recession or a sharp rise in inflation.

The most immediate consequences of the economic crisis that has dominated since 2008, and continues to the present day, has been a sharp contraction in credit, a downturn in economic activity and a worldwide slowdown in most of the industry sectors, including the high-end furniture design industry.

Amidst this very difficult economic background, which affects most of the major markets in which the Company’s investment targets operate, the Company has moved quickly to restructure its trading activities and to adopt a strategy appropriate for the adverse market conditions that it expects to continue for the foreseeable future.

In June 2010, after 24 months of restructuring within the intricate and cumbersome framework of French labour regulations, both our Paris based subsidiaries, Artelano, involved in the edition of high-end contemporary design furniture, and Forum Diffusion, a multi-brand retailer of high-end design furniture to the contract and office markets, were allowed to exit their restructuring status and to operate again within the normal commercial markets.

As highlighted in the interim results for the Group at June 2010, the obligation placed on our subsidiaries by the French courts to remain under the restructuring status for the maximum period of “redressement judiciaire” allowed by the French law, had seriously compromised the Company’s ability to bid for business in their strategic market segments such as banks, public institutions and large multinational companies.

In June 2010 the operating cost base of both companies was running significantly below 2009 levels, and like for like figures demonstrated the overall progress that we had made in the first half of the year as we continued to restructure the businesses, reduce costs and improve operational efficiencies within the logistics side of the business.

Forum Diffusion’s business has been refocused on the more profitable contracts market. The show-room of the company, structurally loss-making, was sold in June 2010 for €1.1m after costs. This strategy began to produce results as, in September 2010, the Company had identified and targeted more than €7.5m worth of projects; bids worth €3.2m were being assessed by clients, and €1.2m worth of orders had already been contracted for delivery before the end of the year.

In September 2010, we had also re-orientated our Artelano business around its show-room and contract activities and our strategy was to present new higher-end products to clients, and to work on the opening of the first international show-room of Artelano in Mayfair, London.

Notwithstanding the progress brought about through the restructuring, the opportunities that were being identified, most notably at Forum Diffusion, which supported a reasonable anticipation of growth in our French subsidiaries during 2011, subsequently suffered from delays and were ultimately contracted with very thin margins.

The worsening economic conditions that we had started to identify in the latter part of 2010, and the near term business focus that resulted from these extra-ordinary market conditions, prompted us to re-consider the business model and markets that we were active in.

Following the transfer of the Artelano brand and contracts with designers to designcapital plc in London, it had become increasingly apparent to us that maintaining the operations of Artelano s.a. in Paris, which had undergone an 18 month restructuring under the French "Redressement Judiciaire" process, had neither operational or strategic value to the Group.

Following careful consideration, it was decided to cease the trading activities of Artelano S.A. as soon as was practicable and on 17 May 2011 the liquidation commenced.

Responsibility for the international development of the Artelano brand had previously been re-located to London to be driven and managed through Artelano International Ltd ("Artelano International"), designcapital's UK subsidiary with its head office in London.

The winding up of the business on 17 May 2011 resulted in a termination of the restructuring plan agreed as part of the "Redressement Judiciaire" process, which included the obligation to repay historical "frozen" trade liabilities amounting to approximately £1.9 million. Given the losses reported during the year ended 31 December 2010, together with the expected level of future losses, this resulted in a non-cash provision being made against designcapital's investment in Artelano S.A. of £1.8 million plus intra group receivables of £0.9 million in the Company's financial statements for the year ended 31 December 2010. The goodwill impairment in the Group Financial Statements regarding Artelano S.A. was £1.2 million.

During the early part of 2011, and despite the fact that Forum Diffusion had gained a number of significant orders, the market started to deteriorate further and more quickly.

In the light of this deterioration the Forum Diffusion restructuring plan was reviewed. As part of the "Redressement Judiciaire" process, Forum Diffusion S.A. was obliged to repay historical "frozen" trade liabilities amounting to approximately €4.5 million over a ten year period, however the Company concluded that in the current global economic environment, the restructuring plan was not reasonably achievable.

Following careful consideration, it was decided to cease the trading activities of Forum Diffusion s.a.s. and of Forum Developpement s.a.s. as soon as practicable. The liquidation of Forum Diffusion commenced on 25 August 2011.

The winding up of the Forum Diffusion business resulted in a termination of the restructuring plan agreed as part of the "Redressement Judiciaire" process, including the obligation on Forum Diffusion s.a.s. to repay the residual historical "frozen" trade liabilities amounting to approximately €4.5 million.

This resulted in a non-cash provision being made against designcapital's investments in Forum Diffusion s.a.s and Forum Developpement s.a.s of £1.7 million plus intra group receivables of £0.2 million in the Company's Financial Statements for the year ended 31 December 2010. The goodwill impairment in the Group Financial Statements relating to Forum Diffusion s.a.s. and Forum Developpement s.a.s. was £1.4 million.

Financial Performance

Consolidated revenues for the year ended 31 December 2010 were £4,636,440 (2009 – £8,136,307) and cost of sales were £3,106,413 (2009 – £5,238,144), producing a gross profit of £1,530,027 (2009 – £2,898,163) at a combined margin of 33% (2009 – 36%).

Before adjustments for intragroup transactions, Artelano and Artelano International contributed revenues of £526,932 (2009 – £1,922,920), on which they made a loss before tax of £1,111,779 (2009 – loss of £728,469).

Before adjustments for intragroup transactions, Forum Diffusion and Forum Developpement contributed revenues of £4,721,139 (2009 – £7,230,480), on which they made a loss before tax of £592,949 (2009 – loss of £1,829,067).

The Group benefited from exceptional income of £794,995 (2009 – £Nil) and incurred total administrative and other operating expenses of £4,429,184 (2009 – £6,813,782). The goodwill impairment charge was £2,612,673.

After taking account of finance income, finance costs and taxation, the retained loss attributable to shareholders was £5,075,411 (2009 – £4,228,178).

Outlook

designcapital was established to act as a consolidator within the European design space.

The recession, lack of credit for smaller businesses and the fact that the entrepreneurs behind many businesses which started in the late 1960's and 1970's are now reaching retirement age without natural successors, together with the impact of e-commerce and of the internet on high-street furniture show-room businesses, means that in a fragmented and difficult market there are numerous opportunities.

Whilst 2009 and 2010 were years in which designcapital worked to establish the foundations for creating a profitable growth business and secure acquisition opportunities within a reasonably steady market environment, the economic crisis that continued to develop and expand throughout 2011 and that is likely to have negative implications for the foreseeable future has prompted us to reconsider our strategy and to adapt to the new and medium term market conditions.

That said, the Board of designcapital maintains its vision and despite the current market environment and overall economic outlook, believes that within the medium term, the Group can be generating an attractive margin on solid revenues, from a business model based upon a combination of the procurement of high-end design furniture for business to business (B2B) and contract clients; classic e-commerce distribution of high-end design furniture brands such as Artelano to consumers (B2C); and the provision of financial and other services serving clients and brands of the high-end design furniture industry.

We have a wealth of experience and an excellent practical understanding of the market aided in part through the restructuring of our French operations. As a result we have adapted our strategy as follows:-

Artelano:

The manufacture of Artelano products has stopped for six months in 2011 to allow for the implementation of the new business model. Taking account of the market conditions, we believe that this temporary suspension of the business has allowed us to reduce costs and preserve cash, without damaging the brand.

In the future the Group will continue to manage the overall strategy of the brand; the selection of designers and products; marketing and communication. All other non-core activities will be sub-contracted or licensed to strategic partners, through long-term contracts:

- The brand will not be distributed through wholesale networks, but rather through direct distribution channels, contract or B2B channels and a show-room located in London;
- The distribution strategy for the B2C segment is focussed on a new e-commerce enabled internet site that will go live in late January 2012, first in France and subsequently in the UK, to allow fast entry into the main European markets;
- The management of the internet site will be licensed to an existing internet venture that manages brand sites;
- This distribution strategy allows the Group to better position and manage the brand's pricing strategy and to decrease the retail price to clients by 25% on average, compared to retail prices of the same or similar Artelano product previously sold through classic show-rooms;
- The new distribution strategy also facilitates a strong affiliation programme internationally and in other markets where the brand will have market presence;
- Two distribution joint-venture and licence agreements have been established with local partners to cover the Middle East market, and also the US and Canada regions;
- The production of our products, instead of being spread between a variety of small artisan manufacturers located mostly in Italy will, in the future, be managed in partnership with another editor of high-end furniture. This partnership will allow the Group to generate immediate economies of scale and to mutualise transportation, warehousing and ancillary costs;
- The product range of Artelano, which was previously considered to be niche, too "designer" and unrealistically expensive, has gained breadth and depth by the addition of new designers and products which adds a more contemporary, classic style "twist" to the brand;
- A range of products exclusively aimed at the contract market is also being developed to better answer the needs of this market segment.

E-Procurement:

The Group has accelerated the development of of **DEEZPLAY.com**, something the Directors believe will be the first B2B e-procurement platform for the high-end design market. This B2B e-procurement platform is expected to go live in Spring 2012 and aims to:

- become the standard for presenting furniture products to the professional market. Such a market standard does not exist currently;
- offer initially 150 brands and 35,000 selected products that were previously distributed by Forum Diffusion, presented in 3D, with a wealth of technical information;
- offer functionality that brings together a mix of space-planning, drag and drop 3D planning, financing, asset and facilities management services, that has no equivalent on the market;
- offer products to professionals at a price 15% to 25% below the price at which they currently buy from their traditional retail suppliers;
- target a market of architects, interior designers or decorators, space-planners, and purchase directors for major corporations and central buyers.

This platform will not be a mass market e-procurement tool; it is dedicated to a very specific, well identified population of users. On the basis that there are 27,000 active architects in France it is anticipated that 4,000 to 5,000 users could become clients of **DEEZPLAY.com** within 24 months from launch.

Thereafter, it will be rolled out in all European markets where the Group is able to partner with local internet distribution partners, on a subcontracted or licensed basis.

Whilst not contributing greatly to 2012 numbers, this platform should accelerate growth from 2013 onwards.

designcapital*Finance:

Recent experience at Forum Diffusion made us appreciate that the office and contract furniture industry lacks financial solutions to fund or re-finance sizeable furniture assets, which are in essence non-strategic assets.

We intend to create a new company, "designcapital*finance", which it is expected to adapt financing methods common in IT and automobile management to the procurement of furniture. Initial financial "sale and rent back" proposals have been developed for large and medium sized companies, hotels chains and related sector companies.

The relevant services are centred around the concept of sale and rent back (operational leasing) of non-strategic assets such as high-end furniture which, although necessary for the functioning of a company, add little to valuation and therefore should be "externalised" in order not to consume shareholder's equity or debt.

The financing proposition can be offered to our corporate clients as well as being made available to our industry partners where we can provide made to measure rental products in support of their sales efforts.

The market for high-end furniture for the office and contract segments is estimated to be around €2bn per year in Europe, of which €450m is found in each of France and the UK.

We estimate the installed asset base of high-end furniture in large corporations, not currently debt or lease financed, representing an inadequate allocation of cash for such companies, amounts to at least €2bn in France, and similar in the UK.

Board of Directors

As the business moves towards delivering its new strategy, a number of complimentary appointments will be made to strengthen the Board. In particular, expertise will be required in support of the development of the North American and Middle East markets as well as in the key area of brand and product development.

S Tikhomerof and F Michel-Verdier resigned on 29 June 2010 and 26 August 2011 respectively.

2010 and 2011 to date have been periods of significant change during which actions were taken to refocus designcapital's business and to ensure the long term future and success for its shareholders. New distribution channels have been established through which the Groups products can be sold and on terms that reduce the risk and costs of distribution. Manufacturing and logistics have been outsourced further reducing the fixed costs of the Group. As a result of the restructuring and liquidation of the French subsidiaries, the Group's obligation to pay trade liabilities frozen under the "Redressement Judiciaire" process totalling approximately €6.1 million have been terminated.

As a result of the actions taken, the Group now has a cost base considerably lower than in 2010 and with the significant proportion of cost being incurred on a variable basis, the level of sales required to achieve a profit and to generate cash is a fraction of that required in previous years.

Frederic Bobo
Executive Chairman

23 December 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

Continuing operations	Note	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Revenue	3	4,636,440	8,136,307
Cost of sales		(3,106,413)	(5,238,144)
Gross Profit		1,530,027	2,898,163
Other income		-	160,211
Administrative and other operating expenses	4	(4,389,184)	(6,813,782)
Impairment of goodwill	13	(2,612,673)	-
Exceptional costs	4	(150,724)	(351,363)
Exceptional income	4	794,995	-
Operating Loss		(4,827,559)	(4,106,771)
Finance income	7	1,085	2,319
Finance costs	7	(223,248)	(107,882)
Loss before Tax		(5,049,722)	(4,212,334)
Income tax expense	8	(25,689)	(15,844)
Loss for the Year		(5,075,411)	(4,228,178)
Other Comprehensive Income			
Currency translation differences		61,418	130,364
Other Comprehensive Income for the Year, Net of Tax		61,418	130,364
Total Comprehensive Income for the Year		(5,013,993)	(4,097,814)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Basic and Diluted Loss per Share (pence per share) attributable to the Equity Holders of the Company during the Year	9	(8.12)	(7.48)

The currency translation differences within other comprehensive income have no income tax effect.

	Note	As at 31 December 2010 £	As at 31 December 2009 £
ASSETS			
Non–Current Assets			
Property, plant and equipment	10	190,015	770,634
Intangible assets	11	1,969	91,033
Goodwill arising on acquisition of subsidiaries	13	-	2,695,846
Other receivables	15	162,973	286,360
Deferred income tax assets	23	47,273	75,328
Total Non-Current Assets		402,230	3,919,201
Current Assets			
Inventories	14	479,181	974,985
Trade and other receivables	15	1,118,225	2,000,248
Cash and cash equivalents	16	356,890	284,178
Total Current Assets		1,954,296	3,259,411
TOTAL ASSETS		2,356,526	7,178,612
EQUITY AND LIABILITIES			
Equity Attributable to Owners of the Parent			
Ordinary shares	18	6,530,085	5,822,533
Share premium	18	196,816	30,071
Shares to be issued	19	100,000	-
Translation reserve		6,211	(55,207)
Retained losses		(13,138,968)	(8,063,557)
Total Equity		(6,305,856)	(2,266,160)
Non-Current Liabilities			
Trade and other payables	22	3,407,160	-
Borrowings	21	278,940	-
Provisions for other liabilities and charges	23	477,243	329,909
Total Non-Current Liabilities		4,163,343	329,909

	Note		
Current Liabilities			
Trade and other payables	22	2,884,869	7,893,795
Borrowings	21	1,528,134	983,468
Provisions for other liabilities and charges	23	86,036	237,600
Total Current Liabilities		4,499,039	9,114,863
Total Liabilities		8,662,382	9,444,772
TOTAL EQUITY AND LIABILITIES		2,356,526	7,178,612

The Accounting Policies and Notes on pages 23 to 64 form an integral part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 23 December 2011.

	Note	As at 31 December 2010 £	As at 31 December 2009 £
ASSETS			
Non–Current Assets			
Property, plant and equipment	10	4,697	5,725
Investment in subsidiary undertakings	12	10	1,503,055
Receivables from related parties	15	-	2,194,095
Total Non-Current Assets		4,707	3,702,875
Current Assets			
Trade and other receivables	15	610,738	960,918
Cash and cash equivalents		18,405	19,981
Total Current Assets		629,143	980,899
TOTAL ASSETS		633,850	4,683,774
EQUITY AND LIABILITIES			
Equity attributable to Owners of the Parent			
Ordinary shares	18	6,530,085	5,822,533
Share premium		196,816	30,071
Shares to be issued		100,000	-
Retained losses		(8,142,919)	(2,066,012)
Total Equity		(1,316,018)	3,786,592
Current Liabilities			
Borrowings	21	1,434,599	644,534
Trade and other payables	22	512,269	252,648
Total Current Liabilities		1,949,868	897,182
TOTAL EQUITY AND LIABILITIES		633,850	4,683,774

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

	Share Capital	Share Premium	Shares to be Issued	Translation Reserve	Retained Losses	Total
	£	£	£	£	£	£
Balance as at 1 January 2009	5,570,405	-	-	(185,571)	(3,835,379)	1,549,455
Comprehensive Income						
Loss for the year	-	-	-	-	(4,228,178)	(4,228,178)
Other comprehensive income				-		
Currency translation differences	-	-	-	130,364	-	130,364
Total Comprehensive Income	-	-	-	130,364	(4,228,178)	(4,097,814)
Transactions with Owners						
Issue of ordinary share capital	252,128	30,071	-	-	-	282,199
Total Transactions with Owners	252,128	30,071	-	-	-	282,199
Balance as at 1 January 2010	5,822,533	30,071	-	(55,207)	(8,063,557)	(2,266,160)
Comprehensive Income						
Loss for the year	-	-	-	-	(5,075,411)	(5,075,411)
Other comprehensive income						
Currency translation differences	-	-	-	61,418	-	61,418
Total Comprehensive Income	-	-	-	61,418	(5,075,411)	(5,013,993)
Transactions with Owners						
Issue of ordinary share capital	707,552	166,745	-	-	-	874,297
Shares to be issued	-	-	100,000	-	-	100,000
Total Transactions with Owners	707,552	166,745	100,000	-	-	974,297
Balance as at 31 December 2010	6,530,085	196,816	100,000	6,211	(13,138,968)	(6,305,856)

All amounts are attributable to the owners of the Parent.

	Share Capital £	Share Premium £	Shares to be issued £	Retained Losses £	Total £
Balance as at 1 January 2009	5,570,405	-	-	(1,105,632)	4,464,773
Comprehensive Income					
Loss for the year	-	-	-	(960,380)	(960,380)
Total Comprehensive Income	-	-	-	(960,380)	(960,380)
Transactions with Owners					
Issue of ordinary share capital	252,128	30,071	-	-	282,199
Total Transactions with Owners	252,128	30,071	-	-	282,199
Balance as at 1 January 2010	5,822,533	30,071	-	(2,066,012)	3,786,592
Comprehensive Income					
Loss for the year	-	-	-	(6,076,907)	(6,076,907)
Total Comprehensive Income	-	-		(6,076,907)	(6,076,907)
Transactions with Owners					
Issue of ordinary share capital	707,552	166,745	-	-	874,297
Shares to be issued	-	-	100,000	-	100,000
Total Transactions with Owners	707,552	166,745	100,000	-	974,297
Balance as at 31 December 2010	6,530,085	196,816	100,000	(8,142,919)	(1,316,018)

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2010

	Note	Year ended 31 December 2010	Year ended 31 December 2009
		£	£
Operating Activities			
Loss before taxation		(5,049,722)	(4,212,335)
Adjustments for:			
Depreciation of property, plant and equipment		407,582	408,315
(Profit)/loss on disposal of property, plant and equipment		(770,539)	211,798
Amortisation of intangible assets		87,594	58,820
Impairment of goodwill		2,612,673	-
Exceptional income		(794,995)	-
Foreign exchange		84,667	-
Finance income		(1,085)	(2,319)
Finance expense		223,248	107,881
Share-based payments		75,440	130,308
Provisions		12,995	(286,552)
Operating Loss before Changes in Working Capital		(3,111,880)	(3,584,084)
Decrease in inventories		464,937	599,542
Decrease in trade and other receivables		902,645	2,805,273
Increase/(decrease) in trade and other payables		471,409	(1,249,976)
Net Cash Outflows from Operating Activities		(1,731,303)	(1,429,245)
Investing Activities			
Purchase of property, plant and equipment		(43,768)	(108,593)
Additions to intangible assets		(1,392)	(47,210)
Proceeds from sale of property, plant and equipment		945,317	-
Interest received		1,085	2,319
Net Cash Outflows from Investing Activities		901,242	(153,486)
Financing Activities			
Increase in bank and other loans		655,783	600,000
Proceeds from issue of share capital		190,000	2,500
Proceeds from shares to be issued		100,000	-
Interest paid		(43,421)	(70,172)
Net Cash Inflows from Financing Activities		902,362	532,328
Increase/(decrease) in Cash and Cash Equivalents		72,301	(1,050,403)
Cash and Cash Equivalents at Beginning of Year		(22,061)	1,056,514
Effect of Foreign Exchange Rate Changes		1,248	(28,172)
Cash and Cash Equivalents at End of Year	16	51,488	(22,061)

	Note	Year ended 31 December 2010 £	Year ended 31 December 2009 £
Operating Activities			
Loss before taxation		(6,076,907)	(960,380)
Adjustments for:			
Depreciation of property, plant and equipment		2,184	2,032
Foreign exchange		77,056	-
Impairment of investment		3,429,663	-
Bad debt provision		1,590,007	-
Share-based payments		75,440	130,308
Finance income		(16,282)	(5,895)
Finance expense		118,170	40,126
Operating Loss before Changes in Working Capital		(800,669)	(793,809)
Increase in trade and other receivables		(1,015,417)	(718,758)
Increase in trade and other payables		871,481	262,159
Net Cash Outflow from Operating Activities		(944,605)	(1,250,408)
Investing Activities			
Purchase of property, plant and equipment		(1,156)	-
Interest received		16,282	5,895
Net Cash Inflow from Investing Activities		15,126	5,895
Financing Activities			
Proceeds from issue of share capital		190,000	2,500
Shares to be issued		100,000	-
Interest paid		(5,629)	(2,417)
Increase in borrowings		641,697	600,000
Net Cash Inflow from Financing Activities		926,068	600,083
Decrease in Cash and Cash Equivalents		(3,411)	(644,430)
Cash and Cash Equivalents at Beginning of Year		13,156	657,586
Cash and Cash Equivalents at End of Year	16	9,745	13,156

1. General Information

designcapital plc (“the Company”) is a public limited company which is listed on the Alternative Investment Market (AIM) and incorporated and domiciled in the UK.

The Company is an investment holding company and does not trade.

The Consolidated Financial Statements of the Company include the following companies: Artelano S.A., Forum Diffusion s.a.s., Forum Developpement s.a.s. and Artelano International Limited (“the Group”).

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of Preparation

The Financial Statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (“IFRSs”) and IFRIC interpretations as adopted by the European Union, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of certain of the subsidiaries’ land and buildings to fair value for consolidation purposes.

The preparation of Financial Statements in conformity with IFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information, including the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in note 2(u).

Going Concern Basis

As described in the 2008 and 2009 Executive Chairman’s Statements, the French registered subsidiary undertakings Artelano S.A. and Forum Diffusion s.a.s. entered into a “Redressement Judiciaire” arrangement on 30 December 2008. “Redressement Judiciaire” is a court based procedure which is applied for where a company is in a state of “cessation des payments” (cessation of payments) but has not ceased its trading activities and is considered capable of being rehabilitated. The first stage of the process is an observation period during which management remain charged with managing the business and creditors are barred from taking action to obtain payment for liabilities that arose before the court initiated the “Redressement Judiciaire”.

During the observation period, which typically lasts for three to six months, although it can be extended to a maximum of 18 months, where the court is confident that the business can be rehabilitated, the business can be restructured under the protection of the court and the procedure. Once the observation period ends a company will continue to manage its old liabilities in accordance with the “Continuation” plan established with the court whereby pre-“Redressement Judiciaire” liabilities are settled over a period that extends to a maximum of ten years.

During 2010 and early 2011 worsening economic conditions prompted the Group’s management to re-consider the business model and the markets that the Group was active in.

Maintaining the operations of Artelano S.A. in Paris, which had undergone an 18 month restructuring under the French “Redressement Judiciaire” process, had neither operational nor strategic value to the Group. As a consequence it was decided to allow the company to be liquidated on 17 May 2011 resulting in the termination of the restructuring plan agreed as part of the “Redressement Judiciaire” process.

Similarly, the Forum Diffusion s.a.s. restructuring plan was reviewed. As part of the “Redressement Judiciaire” process, Forum Diffusion s.a. was obliged to repay historical "frozen" trade liabilities amounting to approximately €4.5 million over a ten year period. However, the Company concluded that in the current global economic environment, the restructuring plan was not reasonably achievable.

Following careful consideration, it was also decided to cease the trading activities of Forum Diffusion s.a.s. on 25 August 2011.

2. Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

Going Concern Basis (continued)

The ceasing of trading activities and subsequent liquidation of both businesses resulted in an immediate termination of the restructuring plans agreed as part of the “Redressement Judiciaire” process, including the obligation on Artelano S.A. and Forum Diffusion s.a.s. to repay historical "frozen" trade liabilities of approximately €1.5 million and €4.5 million respectively.

Court decisions were taken on 17 May 2011 for Artelano S.A., and on 25 August 2011 for Forum Diffusion s.a.s. A decision to wind-up Forum Développement s.a.s as soon as practicable has also has been taken by the Board with the winding-up process expecting to be initiated before the end of 2011.

An alternative business model has subsequently been adopted based on the subcontracting of manufacturing and logistics and the establishment of joint venture distribution agreements which will reduce the cash requirements of the Group.

Distribution contracts have been established with Mak Design for the exploitation of the Middle East and North African market and with Fuaris Consulting Inc. for the United States and Canadian markets. Additional arrangements are planned for the French and other European markets. The Group’s future is partly dependant on the success of these distributors.

The Directors’ plans and strategy for the short and medium term assume a growth in income and profitability in the Group’s remaining trading subsidiary undertakings. Due to the time needed to establish the new business model, further finance will be required by the Company to implement or acquire the currently planned growth opportunities. The need to raise additional funds will depend upon the timing of the development of the trading subsidiaries and joint ventures and the availability of funds to secure planned growth opportunities.

The ability of the Company to arrange and secure such financing in the future will depend on capital market conditions and the business performance of the Group. There can be no assurance that the Company will successfully arrange additional finance, if required, nor that it will be on terms which are satisfactory to the Company.

The Directors have had discussions with Luxadvor S.A., a significant shareholder, and have renegotiated the terms of the two loans made available to the Company on 26 June 2009 and 11 June 2010 respectively whereby the repayment of the loans will not be required before 31 December 2012. Further discussions are ongoing and the Directors have a reasonable expectation that they will reach an agreement with Luxadvor S.A. whereby both parties agree to ensure that the working capital requirements of the Group are not threatened.

On 23 December 2011 T1ps Investment Management, a shareholder in the Company, provided a guarantee to the Company to make available funds of up to £250,000 on an interest free and unsecured basis should the Company be unable to meet its financial obligations from its own resources. The guarantee is effective for the period to 31 December 2012, or as otherwise agreed with the Company. The Directors are confident that T1ps Investment Management has the financial capability to meet the terms of this facility but have not seen financial information or confirmations from T1ps Investment Management to verify this.

On 22 December 2011, Frederic Bobo, a Director of the Company, provided the Company with an eighteen month working capital facility of up to £150,000, to be drawn down by the Company should the Company need additional funds.

The Directors have concluded that, notwithstanding the future financial support described immediately above, the circumstances set out beforehand represent a material uncertainty that casts doubt upon the Company’s and Group’s ability to continue as a going concern, and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. After considering the uncertainties mentioned above, the extension of the loans from Luxadvor S.A., the guaranteed facilities from T1ps Investment Management and Frederic Bobo and based upon the Board-approved forecasts and projections, the Directors have a reasonable expectation that the Company will continue in operational existence for the foreseeable future and at least until the end of December 2012.

2. Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

New and Amended Standards Adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

IFRS 3 (revised), ‘Business Combinations’, and consequential amendments to IAS 27, ‘Consolidated and separate financial statements’, IAS 28 ‘Investments in associates’, and IAS 31 ‘Interests in joint ventures’, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared to IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. All acquisition costs are expensed.

The adoption of these standards has no impact on the current period, as no further business combinations occurred during the year.

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2010, but are not relevant to the Group.

Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements” addressed concerns that retrospectively determining the cost of an investment in separate financial statements and applying the cost method in accordance with IAS 27 on first-time adoption of IFRSs cannot, in some circumstances, be achieved without undue cost or effort. These amendments were effective for periods beginning on or after 1 July 2009.

Further amendments to IFRS 1 addressed the retrospective application of IFRSs to particular situations (oil and gas assets and leasing contracts), and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. These amendments were effective for periods beginning on or after 1 January 2010.

Amendments to IFRS 2 “Share-based Payment” clarified the accounting for group cash-settled share-based payment transactions. These amendments were effective for periods beginning on or after 1 January 2010.

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” provided additional guidance on what can be designated as a hedged item. These amendments were effective for periods beginning on or after 1 July 2009.

IFRIC 17 “Distributions of Non-cash Assets to Owners” standardised practice in the measurement of distributions of non-cash assets to owners. This interpretation was effective for periods beginning on or after 1 July 2009.

IFRIC 18 “Transfers of Assets from Customers” clarified the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). This interpretation was effective for periods beginning on or after 1 July 2009.

2. Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

The Group and Parent Entity's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9 "Financial Instruments" specifies how an entity should classify and measure financial instruments, including some hybrid contracts, with the aim of improving and simplifying the approach to classification and measurement compared with IAS 39. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement. The Directors are assessing the possible impact of this standard on the Group's Financial Statements.

A revised version of IAS 24 "Related Party Disclosures" simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This revision is effective for periods beginning on or after 1 January 2011 and is not expected to have an impact on the Group's financial statements.

An amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" relieves first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by "Improving Disclosures about Financial Instruments" (Amendments to IFRS 7). This amendment is effective for periods beginning on or after 1 July 2010 and is not expected to have an impact on the Group's Financial Statements.

Further amendments to IFRS 1 replace references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs, and provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. This amendment is effective for periods beginning on or after 1 July 2011, subject to EU endorsement, and is not expected to have an impact on the Group's Financial Statements.

Amendments to IFRS 7 "Financial Instruments: Disclosures" are designed to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. These amendments are effective for periods beginning on or after 1 January 2011, subject to EU endorsement. The Directors are assessing the possible impact of these amendments on the Group's Financial Statements.

Amendments to IAS 12 "Income Taxes" introduce a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 "Investment Property" will normally be through sale. These amendments are effective for periods beginning on or after 1 January 2012, subject to EU endorsement, and are not expected to have an impact on the Group's Financial Statements.

Amendments to IAS 32 "Financial Instruments: Presentation" address the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. These amendments are effective for periods beginning on or after 1 February 2010, and are not expected to have an impact on the Group's Financial Statements.

"Improvements to IFRSs" are collections of amendments to IFRSs resulting from the annual improvements project, a method of making necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project. These improvements have various implementation dates; for May 2010 improvements, the earliest is effective for periods beginning on or after 1 July 2010. The Directors are assessing the possible impact of these improvements on the Group's Financial Statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" clarifies the treatment required when an entity renegotiates the terms of a financial liability with its creditor, and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. This interpretation is effective for periods beginning on or after 1 July 2010. The Directors are assessing the possible impact of this interpretation on the Group's Financial Statements.

2. Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted (continued)

An amendment to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", on prepayments of a minimum funding requirement, applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment is effective for periods beginning on or after 1 January 2011, and is not expected to have an impact on the Group's Financial Statements.

IFRS 10 "Consolidated Financial Statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement. The Directors are assessing the possible impact of this standard on the Group's Financial Statements.

IFRS 11 "Joint Arrangements" provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement. The Directors are assessing the possible impact of this standard on the Group's Financial Statements.

IFRS 12 "Disclosure of Interests in Other Entities" is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement. The Directors are assessing the possible impact of this standard on the Group's Financial Statements.

IFRS 13 "Fair Value Measurement" improves consistency and reduces complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. It does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards. This standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement. The Directors are assessing the possible impact of this standard on the Group's Financial Statements.

IAS 27 "Separate Financial Statements" replaces the current version of IAS 27 "Consolidated and Separate Financial Statements" as a result of the issue of IFRS 10 (see above). This revised standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement. The Directors are assessing the possible impact of this standard on the Group's Financial Statements.

IAS 28 "Investments in Associates and Joint Ventures" replaces the current version of IAS 28 "Investments in Associates" as a result of the issue of IFRS 11 (see above). This revised standard is effective for periods beginning on or after 1 January 2013, subject to EU endorsement, and is not expected to have an impact on the Group's Financial Statements.

Amendments to IAS 1 "Presentation of Financial Statements" require items that may be reclassified to the profit or loss section of the Income Statement to be grouped together within other comprehensive income (OCI). The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. These amendments are effective for periods beginning on or after 1 July 2012, subject to EU endorsement. The Directors are assessing the possible impact of these amendments on the Group's Financial Statements.

2. Summary of Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted (continued)

Amendments to IAS 19 “Employment Benefits” eliminate the option to defer the recognition of gains and losses, known as the “corridor method”; streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. These amendments are effective for periods beginning on or after 1 January 2013, subject to EU endorsement, and are not expected to have an impact on the Group’s Financial Statements.

IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” clarifies when stripping costs incurred in the production phase of a mine’s life should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. This interpretation is effective for periods beginning on or after 1 January 2013, subject to EU endorsement, and are not expected to have an impact on the Group’s Financial Statements.

(b) Basis of Consolidation

The Consolidated Financial Statements include the results of the Company and entities controlled by the Company (its subsidiaries), forming the Group. All entities prepare financial statements made up to 31 December.

Subsidiaries are all entities where the Company has the power to govern their financial and operating policies, generally accompanied by a shareholding equal to more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The acquisition of subsidiaries (all of which occurred in previous accounting periods) is accounted for using the purchase method. The cost of acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus certain costs directly attributable to the acquisition. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

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

(c) Foreign Currency Translation

Functional and Presentation Currency

Items included in the Financial Statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (its “functional currency”).

The Financial Statements are presented in Pounds Sterling (£) rounded to the nearest pound, which is the Company’s functional and the Group’s presentation currency.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are retranslated at the rates of exchange ruling at the Balance Sheet date. Foreign exchange differences on retranslation and settlement are recognised in profit or loss within “administrative and other operating expenses”.

2. Summary of Significant Accounting Policies (continued)

(c) Foreign Currency Translation

Group Companies

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;

ii) income and expenses in profit or loss for each Statement of Comprehensive Income presented are translated at average exchange rates for the period; and

iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity.

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

(d) Property, Plant and Equipment

Property, plant and equipment is recorded at historical cost (including expenditure that is directly attributable to the acquisition of the items) less depreciation and impairment losses.

Property, plant and equipment is depreciated using the straight line method over the expected useful life of the assets, as follows:

Asset	***Useful life***
Leasehold improvements	Over the remaining term of the lease
Plant and machinery	5 - 10 years
Office and computer equipment	1 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposal, determined by comparing proceeds with the carrying amount of the respective assets, are included in operating profit or loss.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the estimated recoverable amount.

(e) Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

2. Summary of Significant Accounting Policies (continued)

(f) Other Intangible Assets

Intangible assets that are acquired or developed by the Group are carried at historical cost less accumulated amortisation and impairment losses.

Product Development

The cost of product development is charged to profit or loss on a straight line basis over its estimated useful life of 3 years. Both the period and method of amortisation are reviewed annually.

Trademarks and Licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of trademarks and licences over their estimated useful economic lives which extends to a maximum of 5 years.

Computer Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful economic lives of 3 to 5 years.

(g) Impairment of Non-Current Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- other receivables;
- investments in subsidiaries; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of Recoverable Amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (ie a cash-generating unit).

2. Summary of Significant Accounting Policies (continued)

(g) Impairment of Non-Current Assets (continued)

Recognition of Impairment Losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units), and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of Impairment Losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated re-sale value of the inventories in the ordinary course of business, reduced by the cost of disposal. The cost of inventories is quantified on a first in, first out basis and is inclusive of the costs associated with their acquisition or production (in the case of internally produced goods) and the costs incurred in bringing them to their present location and condition.

(i) Leases

An operating lease is one in which a significant portion of the risks and rewards of ownership are retained by the lessor. Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the lease.

(j) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value, being the original invoice amount, and subsequently carried at this amount less impairment losses, based on a review of all outstanding amounts at the year-end. An impairment loss is recognised in respect of doubtful trade receivables when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The criteria that the Group uses to determine that there is such objective evidence include:

- significant financial difficulty of the customer or other counterparty;
- a breach of contract, such as a default or delinquency in repayment;
- it becomes probable that the customer or other counterparty will enter bankruptcy or other financial reorganisation.

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 (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced, and the loss is 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 was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2. Summary of Significant Accounting Policies (continued)

(k) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash in hand, call deposits held with banks and bank overdrafts included in Borrowings on the Balance Sheet.

(l) Share Capital

Ordinary Shares and shares to be issued are classified as equity. Shares to be issued are recognised when there is a contractual obligation for the Company to issue shares.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds provided there is sufficient premium available. Should sufficient premium not be available placing costs are recognised through profit or loss.

(m) Share-based payments

The Company has issued equity-settled, share-based payments as consideration for equity instruments (warrants) of the Company. Where material, the fair value of the share based payments issued to ordinary share subscribers is recognised as a cost of the shares issued. The cost is charged to equity to the extent that there is premium available to offset the cost, any additional expense is recognised in profit or loss. The total amount to be expensed or charged is determined by reference to the fair value of the warrants granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability or sales growth targets, or remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of warrants that are expected to vest. The total expense or charge is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

When the warrants are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the warrants are exercised.

Shares issued for services to settle liabilities are valued using the direct method with reference to the fair value of the service provided or liability extinguished where determinable. Where the fair value of the service or liability is not determinable the services are valued with reference to the fair value of the equity instruments issued. The fair value of goods or services received in exchange for shares is recognised as an expense.

(n) Trade and Other Payables

Trade and other payables are initially recognised at fair value, being the original invoice amount, and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they continue to be held at their original invoice amount. As explained in note 2(a), certain liabilities under the “Redressement Judiciaire” procedure are, following agreement of the payment plans with individual creditors prior to the completion of the observation period, repayable over a period that extends to a maximum of ten years as from 24 June 2010. On the basis that the repayment periods had not been agreed and were not known by the Directors as at 31 December 2009, all pre-”Redressement Judiciaire” creditors were categorised as current liabilities and stated at cost. The effect of discounting has been calculated and adjusted now the repayment plans have been agreed following the French court formally granting “Continuation” on 24 June 2010.

2. Summary of Significant Accounting Policies (continued)

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services, and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(p) Post Retirement Benefits

The Group's obligation in respect of retirement benefits is calculated by estimating the value of benefits that employees have earned in return for their service in the current and prior periods, based on the level of employee earnings and length of service in accordance with French law.

The Group has established a provision for staff retirement benefits based on an actuarial study which is performed every year by an independently qualified firm.

(q) Current and Deferred Income Taxes

The income tax expense for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss, except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

The current income tax charge is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. Summary of Significant Accounting Policies (continued)

(r) Provisions

Provisions for restructuring costs are only recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Restructuring provisions principally comprise employee termination payments.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost where material.

(s) Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and incidental services in the ordinary course of the Group's activities. Revenue is shown net of Value-Added Tax, returns, rebates and discounts, and after eliminating sales within the Group.

Provided it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- revenue from sales of goods is recognised when goods are delivered and title has passed;
- interest income is recognised as it accrues using the effective interest method.

(t) Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to assist in a full understanding of the Group's financial performance.

(u) Financial Instruments and Financial Risk Management

The Group's major financial instruments include cash and cash equivalents, borrowings, trade receivables and trade payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk and interest rate risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The Directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Foreign Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

Currently, as a result of its business operations in France, the Group's revenue and expenses are mainly denominated in Euros, and the majority of the financial assets and liabilities are denominated in Euros. The effect of the fluctuation in the exchange rate of the Euro against other currencies on the Group's results of operations gives rise to exchange differences. The Group has not entered into any hedging transactions in order to reduce the Group's exposure to foreign currency risk in this regard.

If the UK Pound had weakened/strengthened by 5% against the Euro, with all other variables held constant, the effect on post-tax loss for the year would have been immaterial at 31 December 2010 and 2009.

2. Summary of Significant Accounting Policies (continued)

(u) Financial Instruments and Financial Risk Management (continued)

Cash Flow and Fair Value Interest Rate Risk

The Group is exposed to cash flow interest rate risk in relation to variable rate bank borrowings. It is the Group's policy to keep its borrowings at floating rates of interest so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of EURIBOR arising from the Group's Euro borrowings.

The impact on post-tax loss of a 0.1% shift in rates would have been immaterial at 31 December 2010 and 2009.

Credit Risk

As at 31 December 2010, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance.

In respect of cash and cash equivalents, balances are maintained with reputable financial institutions.

In respect of trade and other receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of the financial position and condition of the customers of the Group are performed on all customers requiring credit over a certain amount. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers but does require deposits to be paid on order.

Liquidity Risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the Board of Directors. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes principal cash flows.

	Within 90 days £	91-360 days £	Over 360 days £	Less future interest £	Carrying amount £
At 31 December 2009					
Trade and other payables	5,500,507	-	-	-	5,500,507
Borrowings	1,019,468	-	-	(36,000)	983,468
Provisions	237,600	-	329,909	-	567,509
	6,757,575	-	329,909	(36,000)	7,051,484
At 31 December 2010					
Trade and other payables	1,260,241	-	3,400,464	-	4,660,705
Borrowings	1,676,675	-	278,940	(148,541)	1,807,074
Provisions	86,036	-	477,243	-	563,279
	3,022,952	-	4,156,647	(148,541)	7,031,058

2. Summary of Significant Accounting Policies (continued)

(u) Financial Instruments and Financial Risk Management (continued)

Capital Management

The Group's objectives when managing capital, which are unchanged from the previous year, are to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit.

Fair Value Estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010.

Carrying amount of financial assets and financial liabilities by category

Group		
Financial assets – loans and receivables	**As at 31 December 2010 £**	**As at 31 December 2009 £**
Non-current		
Deposits	162,973	258,828
Other receivables	-	27,532
	162,973	286,360
Current		
Trade receivables net of provision for impairment	176,804	579,535
Other receivables	808,590	799,437
Cash and cash equivalents	356,890	284,178
	1,342,284	1,663,150
Total financial assets – loans and receivables	1,505,257	1,949,510

Financial liabilities – held at amortised cost	**As at 31 December 2010 £**	**As at 31 December 2009 £**
Non-current liabilities		
Borrowings	278,940	-
Trade payables	2,782,812	-
Other payables	15,394	-
	3,077,146	-
Current liabilities		
Borrowings	1,528,134	983,468
Trade payables	1,259,238	5,470,641
Other payables	1,003	29,866
	2,788,375	6,483,975
Non-current provisions		
Pension obligations	111,527	123,015
Other provisions	365,716	206,894
	477,243	329,909
Current provisions		
Other provisions	86,036	237,600
Total financial liabilities – held at amortised cost	6,428,800	7,051,484

2. Summary of Significant Accounting Policies (continued)

(u) Financial Instruments and Financial Risk Management (continued)

Carrying amount of financial assets and financial liabilities by category (continued)

Company **Financial assets - Loans and receivables**	**As at 31 December 2010 £**	**As at 31 December 2009 £**
Non-current		
Amounts due from Group undertakings	-	2,194,095
Current		
Other receivables	498,923	554,521
Cash and cash equivalents	18,405	19,981
	517,328	574,502
Total financial assets - loans and receivables	517,328	2,768,597
Investments in subsidiary undertakings	10	1,503,055
	10	1,503,055
Total financial assets	517,338	4,271,652

Financial liabilities – held at amortised cost	**As at 31 December 2010 £**	**As at 31 December 2009 £**
Current liabilities		
Borrowings	1,434,599	644,534
Trade payables	377,763	168,853
Total financial liabilities – held at amortised cost	1,812,362	813,387

(v) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Executive Chairman.

2. Summary of Significant Accounting Policies (continued)

(w) Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for Impairment of Trade and Other Receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade and other receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The carrying value of trade and other receivables at 31 December 2010, excluding prepayments, was £1,011,425 (2009 – £1,391,485), net of a provision for impairment of £215,838 (2009 – £229,659).

The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such differences will impact on the carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

Net Realisable Value of Inventories

The Group makes provision for slow-moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Provisions are applied to inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The carrying value of inventories at 31 December 2010 was £479,181 (2009 – £974,985).

The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of the inventories and the provision for inventory expenses in the period in which such estimates have been changed. The calculations have been tested for sensitivity to changes in key assumptions and the Board does not believe that the key assumptions will change to such an extent so as to cause the carrying values to exceed the recoverable amounts.

3. Loss per Share

Basic loss per share is calculated by dividing the loss after tax attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December 2010	**Year ended 31 December 2009**
Loss attributable to equity holders of the Company (£)	5,075,411	4,228,178
Weighted average number of ordinary shares in issue	62,473,665	56,537,675
Basic loss per share (pence per share)	(8.12)	(7.48)

The basic and diluted loss per share is the same, as the effect of the exercise of the share warrants would be to decrease the loss per share.

Details of share warrants that could potentially dilute earnings per share in future periods are set out in note 20.

Subsequent to the reporting period the Company has issued ordinary shares. These shares will have a dilutive effect on earnings per share in future periods. Details of the shares issued since the Balance Sheet date are set out in note 29.

Other

The report and accounts for the year ended 31 December 2010 will be posted to shareholders shortly and will be laid before the next Annual General Meeting.

Copies will also be available via the website (www.designcapitalplc.com) in accordance with AIM Rule 26.