MERCATOR GOLD PLC

MERCATOR GOLD plc
(“Mercator Gold”, “Mercator” or “the Company”)

London: 31 December 2009

AIM: MCR
US OTC: MTGDY

Trading Update and Interim Results (unaudited) For the 12 months to 30 June 2009

The Company is pleased to provide a trading update and unaudited interim results for the period to 30 June 2009 and announce that it is in the process of changing its group reporting date to 30 September. The group audited results for the period of 15 months to 30 September 2009 will be released by 28 February 2010.

The Board provides the following project updates and trading results.

ACS ASIA (1996) COMPANY LTD – A Profitable Thai Manufacturing Business

In October 2008 Mercator acquired a 70% interest in ACS Asia (1996) Company Ltd (“ACS Asia”), a profitable Thai manufacturing business, from the US diversified industrial group Tyco International. Mercator acquired its interest through Gold Crest Holdings Ltd, a company registered in Hong Kong and which owns an effective 100% interest in ACS Asia, which is incorporated in Thailand.

ACS Asia’s core product lines are Unistrut metal products, which are ubiquitous in the global construction sector. The business employs approximately 130 people and owns a modern manufacturing facility in Rayong, Thailand. ACS Asia has exclusive rights to sell Unistrut products in a number of Asian countries.

In the period to the end of June 2009, ACS Asia made an unaudited operating profit of US$697,000, with the net profit attributable to Mercator being US$483,000. In addition, Mercator receives monthly management fees from ACS Asia. As at 30 September 2009, ACS Asia's production facility was operating at approximately 80% capacity with an order book sufficient for three months. The outlook for 2010 is considered promising.

Mercator paid an initial US$750,000 for ACS Asia, of a total consideration of US$2 million. At the end of the period, approximately US$1.25 million had been paid and post-period a further US$600,000 has been paid.

Mercator's investment in ACS Asia is already delivering a healthy return and we expect the business to grow considerably in the medium term, particularly as the Asia-Pacific region has weathered the global recession well.

COPPER FLAT PROJECT – A Former Producing Mine in a Secure Jurisdiction

On 12 August 2009, after two months of due diligence, Mercator acquired an exclusive option over a 100% interest in the Copper Flat copper-molybdenum-gold-silver project in New Mexico, USA. Copper Flat is a former producing mine which management considers to be an advanced stage project that could be returned to production within a relatively short timeframe.

Historic Reserve & Infrastructure

Key infrastructure from previous mining operations remains in place at Copper Flat. A full pre-strip of the ore body has been completed, which along with the infrastructure established, represents a substantial proportion of the capital investment required to bring the project into production.

Extensive feasibility studies on the restart of production at Copper Flat were carried out during the 1980s by highly reputable technical consultants. The most recent Pincock, Allen & Holt study envisaged the mining of 5.8 million short tons of ore and two million short tons of waste annually for 11.6 years. In order to restart production, a suitable processing plant would need to be procured and commissioned.

The Copper Flat deposit has historical reserves of 45.5 million metric tons grading 0.45% Cu, 0.015% Mo, 0.15g/t Au and 2.25g/t Ag (cut-off grade 0.23% Cu), equivalent to 50.2 million short tons @ 0.45% Cu, 0.015% Mo, 0.14g/t Au and 2.04g/t Ag (cut-off grade 0.23% Cu).

The deposit appears to have excellent continuity and consistency of grade, with a low estimated stripping ratio of approximately 0.9:1, based on previous mining plans. A total of 181 reverse circulation and core drill holes have previously been completed (equating to approximately 39,000m) along with approximately 300m of underground drifting.

Detailed metallurgical test work has been completed and has consistently shown a recovery of 92% copper and the production of highly marketable concentrates with an average copper grade of 28%. These results were confirmed during actual production in 1982.

Preliminary Economic Analysis of the Restart of Production at Copper Flat

On the basis of current historic reserves and assuming prices of US$2/lb copper, US$10/lb molybdenum, US$900/ounces gold and US$13/ounces silver, the Copper Flat project has an NPV of US$117 million and an IRR of 24%.

Assuming prices of US$3/lb copper, US$10/lb molybdenum, US$900/ounces gold and US$13/ounces silver, the Copper Flat project has an NPV of US$348 million and an IRR of 45%.

These figures are based on an owner mining scenario, initial capital costs of US$115 million and a discount rate of 8%. The current price of copper is in excess of US$3/lb.

During the course of Mercator's due diligence, it became apparent that the Copper Flat project, despite being very profitable at today's copper prices, would became marginal should copper prices fall to approximately 50% of those currently prevailing (assuming an 11 year mine life at historic reserve grade and cut-off).

However with a modest increase in reserves (approximately 20%), the project would be very profitable at US$2/lb copper and still robust at US$1.50/lb copper.

Steps to Add Value to the Copper Flat Project

On the basis of the preliminary economic analysis outlined above, Mercator is seeking to add value to Copper Flat through the expansion of the project's reserves by means of further drilling and through the acquisition of various government permits required for a restart of production. It is expected that the permitting process will take 20-36 months to complete, and the terms of Mercator's option over the project are structured to reflect this timeframe.

An initial drilling programme due to commence during January 2010 will indicate whether an expansion of reserves is likely, and the documentation necessary to complete the permitting process is planned to be ready to submit to the relevant authorities in New Mexico by the end of 2010 or early in the first quarter of 2011.

During 2010, Mercator will consider its options for the financing of the project.

Terms of Mercator's Option

Mercator acquired its option over the Copper Flat project for consideration of US$150,000. In order to exercise this option, Mercator may make payments to the vendors as follows: US$1 million by 14 February 2010; US$1.85 million by 14 August 2010; and US$7 million by 14 February 2011. All these payments are discretionary, and Mercator can elect not to proceed with the exercise of the option at any stage. The final payment may be deferred until 16 May 2011 for an additional payment of US$150,000. The vendors would retain a net smelter return (NSR) of 3.25%.

AREA 81 GOLD PROJECT – Considerable Upside Potential

Between September and December 2008 Mercator invested £175,000 in the Area 81 gold project in Papua Province, Indonesia, by way of a loan to GOC Holdings Ltd ("GOC"), a Hong Kong registered company. This loan enabled GOC to earn a 50% interest in the Area 81 project.

During the course of the year, Mercator's loan was converted into a holding of 50 million shares in an Australian company named Paniai Gold Ltd ("Paniai"), which was formed to hold the interest of GOC in the Area 81 project. Paniai has since invested a further A$700,000 in the project, having raised pre-IPO funding ahead of an IPO planned for 2010.

Mining & Exploration Potential

Paniai is the holder of a 50% interest in a joint venture over the Area 81 project with a local company. The joint venture has one granted 40 hectares mining permit and applications pending for another 490 hectares of mining permits and 170,000 hectares of exploration permits.

The joint venture initially intends to mine sizable bodies of gold bearing gravels located within its granted mining permit, and will additionally undertake exploration for new gold and copper-gold deposits within the wider project area, which lies less than 100km from the immense Grasberg copper-gold mine operated by Freeport McMoRan Copper & Gold Inc. Paniai plans to implement hydraulic mining methods and recover gold by means of sluice boxes.

The joint venture has already established solid support from the authorities within the Regency of Paniai, the administrative district in central Papua Province in which the Area 81 project is located, as well as from the local population.

Whilst the Area 81 project presents some logistical challenges, the large amount of gold (approximately 120,000 ounces) that has been extracted by Paniai's Indonesian partner over the past four years using extremely unsophisticated mining methods indicates exceptional potential for both the application of more sophisticated mining techniques and for the systematic exploration of the wider area with a view to the discovery of new deposits.

Mercator's Contribution

In order that the Area 81 project has the best possible chance of success, Mercator introduced Paniai to Trevor Neale, a noted specialist in gold mining operations in Papua New Guinea who has now been appointed Operations Manager of the Area 81 project. Mercator also introduced Paniai to BGF Capital Ltd, a new broking house focused on the exploration and mining industry in Australia. BGF has raised approximately A$500,000 in pre-IPO funding for Paniai and has agreed to underwrite Paniai's listing on the National Stock Exchange ("NSX") in Newcastle, Australia, for approximately A$1.8 million. On listing, Mercator expects to hold 16% of Paniai Gold's issued share capital (equating to an 8% indirect project interest).

SILVER SWAN GROUP LIMITED – A Rapidly Maturing Investment

At the beginning of the period, Mercator held 10 million shares and 4 million performance shares in Silver Swan Group Limited, an exploration company listed on the Australian Stock Exchange and focused on gold and base metal projects in Australia, the most significant of which were sold to it by Mercator in April 2008.

During September 2009 the Company received an approach from a group of Silver Swan shareholders and as a result decided to sell approximately nine million of its shares for cash proceeds of approximately A$3 million. This sale, which realised book profits of more than A$1 million, allowed the Company to lock in a considerable profit on its investment whilst still leaving it with a substantial stake in any further success of Silver Swan.

Silver Swan as an Example of Mercator's Ability to Add Value

Silver Swan represents an excellent example of the process by which Mercator is able to add value to a project and then realise this value at an opportune time. The Company staked the original claim over the Austin prospect near Meekatharra in Western Australia, where Silver Swan has made a significant Cu-Zn-Au-Ag discovery of the volcanogenic massive sulphide type. Mercator was instrumental in the appointment of key management to Silver Swan when the Company sold the package of claims that included the Austin prospect to Silver Swan in April 2008.

Mercator's initiative has already delivered a cash return following the sale of approximately nine million of its shares in Silver Swan, and the Company retains exposure to the continued success of Silver Swan through its remaining ordinary shares and its 4 million performance shares.

URANIO

In November 2009, the Company announced that it had acquired 3,000,000 shares of Uranio AG (Frankfurt, Berlin, Stuttgart Stock Exchanges WKN: A0MKD4, UAI) ("Uranio"), a Swiss uranium exploration and development company, from Suphansa Holdings Ltd ("Suphansa"). The shares acquired from Suphansa represent 1.33% of Uranio's issued share capital.

Consideration for the acquisition of Mercator's stake in Uranio was the placement of 20,000,000 new ordinary shares of Mercator to Suphansa. Suphansa has agreed to a voluntary escrow of the shares issued to it for a period of 12 months.

Uranio holds a number of uranium licences in the Central African Republic and Argentina which the directors believe to be of strategic value. The management of Mercator are working with the management of Uranio to realise these licences' value.

MEEKATHARRA GOLD PROJECT – Recovery of Significant Value Expected in 2010

In October 2008, instability in the wall of the Surprise pit at the Meekatharra gold project, then operated by Mercator, forced the cessation of mining activities at Meekatharra. This precipitated substantive losses associated with the Company's forward sales of gold during a period of extreme volatility in the gold price.

Administrators of Mercator Gold Australia Pty Ltd ("MGA") were appointed on 9 October 2008, pursuant to Section 436A of the Corporations Act, and were subsequently appointed Deed Administrators of a 180 day holding Deed of Company Arrangement ("DOCA") on 4 December 2008. The DOCA was extended for a further 90 days by a meeting of creditors held on 10 June 2009. That extension ran its course. The meeting of creditors held on 7 September 2009 was adjourned by a resolution passed by creditors, and the reconvened meeting held on 7 October 2009 approved the variation to the DOCA.

During the course of the year, Mercator's directors, staff and consultants cooperated closely with the administrators of MGA to arrive at a development plan for the Meekatharra project that would enable its refinancing. This plan was used in an extensive marketing campaign by the administrators and has largely been accepted by the successful bidder for the project, Meekatharra Gold Corporation.

Meekatharra Gold Corporation

The offer from Meekatharra Gold Corporation, which has been accepted by the administrators on behalf of all creditors, of which Mercator Gold is the largest, is subject to confidentiality at this time. However it can be stated that the creditors of MGA will have a 25% interest in Meekatharra Gold Corporation prior to the anticipated listing of Meekatharra Gold Corporation on the Toronto Stock Exchange. To assist with this transaction, Mercator has invested, by way of a loan convertible into shares, C$200,000 in Meekatharra Gold Corporation.

Furthermore, Mercator has agreed to contribute A$1.5 million in the form of a two year convertible instrument in the Company to a trust established to hold the creditors' interest in Meekatharra Gold Corporation. In return, Mercator will be entitled to 50% of this interest, from which the Company, in due course, expects to realise material value. Mercator has waived any further distribution from the trust.

Mercator expects the acquisition of the Meekatharra gold project to be completed by Meekatharra Gold Corporation during the course of 2010. Once this has occurred, Mercator will assume full control of MGA and with it large operating and capital tax losses, which are of significant value which may be utilised for the benefit of its only shareholder, Mercator Gold plc.

OUTLOOK

All of Mercator's projects have the capacity to deliver attractive returns, and some have already begun to do so. Drawing on the expertise and experience of its directors, staff and advisers, the Company will continue to develop its investments during the course of the next year, as well as acting to take advantage of new opportunities where appropriate. The Company successfully raised additional capital following the period end and presently has in excess of £1.5 million in cash and liquid assets.

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Income statement
For the 12 months ended 30 June 2009

	2009	2008
	£	£
Income		
Sales	2,417,703	-
Negative goodwill earned on acquisition	187,620	-
Other income	132,371	-
Operating income	**2,737,694**	**-**
Expense		
Impairment of investment in and loans to subsidiary	(2,205,882)	(30,044,000)
Administrative expenses	(3,478,134)	(1,656,015)
Operating expense	(5,684,016)	(31,700,015)
Operating loss	(2,946,322)	(31,700,015)
Financial expense	(194,133)	(220,224)
Financial income	15,364	22,504
	(5,862,785)	(31,897,735)
Minority interest	(130,049)	
Loss of associate company attributable to the Company for the period	(371,630)	(45,860)
Total expense	**(6,364,464)**	
(Loss) for the period, before taxation	**(3,626,770)**	**(31,943,595)**
Corporation tax	-	60,116
(Loss) for the period attributable to equity shareholders of the Company	**(3,626,770)**	**(31,883,479)**
Loss the period on continuing operations	(3,967,845	(31,883,479)
Profit for the period from acquisition	341,075	-
	(3,626,770)	**(31,883,479)**
(Loss) / profit per share (basic and diluted)	(5.1)p	(50.9)p

Consolidated statement of recognised income and expense

	2009	2008
Gain in value of investment in associate on dilution of holding	331,211	-
Revaluation of investment on cessation of associate status	1,022,645	-
Loss on translation	(4,848)	-
	1,349,008	-
Loss for the period	(3,626,770)	(31,883,479)
Total recognised expense for the period	(2,277,762)	(31,883,479)

Balance sheet
At 30 June 2009

		Group		Company	
		2009	2008	2009	2008
	Note	£	£	£	£
Assets					
Non-current assets					
Property, plant and equipment		483,546	3,686	973	3,686
Investments in subsidiaries		3,396,858	3,201,760	6,006,828	3,201,760
Investment in associate		-	1,093,339	-	1,093,339
Other investment		2,269,219	-	174,999	-
Other non current assets		1,253	-	-	-
		6,150,876	4,298,785	6,182,800	4,298,785
Current assets					
Trade and other receivables	7.2	1,527,341	79,996	927,533	79,996
Cash and cash equivalents	7.2	126,969	24,902	34,588	24,902
		1,654,310	104,898	962,121	104,898
Inventory		1,241,820	-		-
Taxation		12,940	-		-
Other current assets		86,918	-	12,940	-
Current assets		2,995,988	104,898	975,061	104,898
Total assets		9,146,864	4,403,683	7,157,861	4,403,383
Non-current liabilities					
Interest bearing borrowings		2,526,747	2,206,214	2,526,747	2,206,214
Current liabilities					
Trade and other payables	7.2	1,984,358	339,074	621,061	339,074
Total liabilities		4,511,105	2,545,288	3,147,808	2,545,288
Net assets		4,635,759	1,858,395	4,010,053	1,858,395
Equity attributable to shareholders					
Share Capital		7,275,991	6,267,491	7,275,991	6,267,491
Share premium		30,837,845	27,182,233	30,837,845	27,182,233
Other reserves		785,857	722,423	785,857	722,423
Minority interest		327,579			
Retained losses		(34,591,513)	(32,313,752)	(34,889,641)	(32,313,752)
Total equity		4,635,759	1,858,395	4,010,053	1,858,395

The financial statements were approved and authorised for issue by the Board of Directors on 30 December 2009.

Statement of changes in equity

	Share capital £	Share premium £	Retained losses £	Other reserves £	Total £
Balance at 1 July 2008	6,267,491	27,182,233	(32,313,752)	722,423	1,858,395
Loss for the period ended 30 June 2009			(3,626,770)		(3,589,142)
Attributable share of changes in equity of associated company for the period				44,383	44,383
Gain in value of associate following dilution of holding			331,211		331,211
Revaluation of investment on ceasing to be an associate			1,022,645		1,022,645
Equity portion of Loan note issued in period				19,051	19,051
Exchange loss on translation			(4,847)		(42,475)
Total recognised income and expense for the period attributable to equity shareholders of the Company			(2,277,761)	63,434	2,238,637
Issue of shares	1,008,500	3,655,612			4,664,112
Minority interest			327,579		317,278
Balance at 30 June 2009	7,275,991	30,837,845	(34,263,272)	785,857	4,635,759

Cash flow statement

For the 12 months ended 30 June 2009

	2009 **£**	**2008** **£**
Operating activities		
(Loss) / profit for the period before tax	**(3,626,770)**	**31,943,595**
Adjustments:		
Impairment of investment in and loans to subsidiary	2,205,882	30,044,000
Depreciation expense property, plant and equipment	38,014	3,550
Loss on disposal of property, plant and equipment	457	1,958
Loss of associate company for the period	352,976	-
Minority interest in subsidiary	130,049	
Negative goodwill on consolidation	(187,620)	
Interest income	(15,364)	(1,977,248)
Issue costs amortised – Convertible loan	59,984	38,835
Interest cost imputed on unwinding loan discount	79,600	52,834
Interest paid	17,067	108,078
Interest on Convertible loan notes	174,224	
Share based payments	44,383	-
Shares issued in lieu of expense payments	129,894	
Corporation tax	-	(60,116)
Increase in inventories	(255,953)	-
Decrease in provision for software expenses	(80,329)	-
Decrease in accounts receivable	(698,361)	25,993
Net (decrease) in amounts due to related parties	(537,222)	-
Increase/(decrease) in accounts payable	487,792	(2,232)
Foreign exchange	(9,890)	-
Net cash flow used in operations	**(1,691,187)**	**(918,383)**
Investing activities		
Purchase of property plant and equipment	(44,882)	
Proceeds from sale of equipment		1,285
Investment in Indonesian venture	(174,999)	
Acquisition of subsidiary	(326,337)	
Interest expense	(17,067)	
Loans issued	(2,450,980)	(3,030,586)
Loans repaid	-	225,000
Interest received	15,364	22,504
Net cash used in investing activities	**(2,998,901)**	**(2,781,797)**

Financing activities		
Proceeds from issue of share capital	4,534,717	261,750
Proceeds from issue of convertible loan notes	200,000	2,366,100
Repayment of finance lease creditors	(8,671)	
Increase in amounts due to a director	224,264	
Interest paid on convertible loan notes	(174,224)	(154,730)
Interest paid - other	(17,067)	
Net cash from financing activities	**4,759,019**	**2,473,120**
Net change in cash and cash equivalents	**85,998**	**(1,236,367)**
Cash and cash equivalents at beginning of the period	**24,902**	**1,261,269**
Effect of changes in foreign exchange rates	**16,069**	
Cash and cash equivalents at end of the period	**126,969**	**24,902**

For the 12 months ended 30 June 2009

Notes:

1. No dividend is proposed in respect of the period.

2. The results for the period are derived from continuing activities.

3. The calculations of loss per share have been based on the retained loss after taxation for the period and on a weighted average of 71,035,567 ordinary shares in issue during the period.

4. The unaudited results have been prepared on a going concern basis and on the basis of the accounting policies adopted in the audited accounts for the year ended 30 June 2008.

5. The interim report is unaudited and does not constitute Statutory Accounts as defined in section 240 of the Companies Act 1985. A copy of the Company's 2008 Statutory Accounts has been filed with the Registrar of Companies. The auditors' opinion on those Statutory Accounts was qualified and the reasons for qualification remain valid in these accounts.

6. The Interim Report for the twelve months to 30 June 2009 was approved by the Directors on 30 December 2009.

7.

7.1 BASIS OF PREPARATION OF INTERIM REPORT

Reverse acquisition accounting and IFRS

The Interim financial report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) except that an initial decision at the interim stage in 2008 to adopt reverse acquisition accounting has been reversed.

The information for the period ended 30 June 2009 is not audited and does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The 12 month accounts to 30 June 2008 are audited.

The information for the period ended 30 June 2009 is taken from the statutory accounts for the period then ended.

7.2 ACCOUNTING POLICIES

Basis of Accounting

The interim financial report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) with the exception that the accounts of its subsidiaries have not been consolidated, as explained below.

Basis of consolidation

The adoption of reverse acquisition in our interim accounts to 31 December 2007 has been reversed. This period, that adoption has been reversed and this is consistent with the recently issued annual statements for the ended 30 June 2008.
This results from the fact that our principal operating subsidiary in Australia, Mercator Gold Australia Pty Ltd., has been put into Administration. Obtaining financial information from this company has proved impossible and the Directors do not consider the application of reverse acquisition accounting principles to be appropriate in these circumstances.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and VAT.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates that recoverable amount of the cash-generated unit to which the asset belongs. An intangible asset with indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair values 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 the time value of money and the risks specific to the asset for which the estimate of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

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 by the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and Cash Equivalents

“Cash and cash equivalents” includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Payables

Trade and other payables represent liabilities for goods and services provided to the Company prior to the period end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms.

Employee Benefits

Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits are reported at cost or fair value as appropriate to the reward earned. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. Liabilities for wages and salaries are included as part of other Payables and liabilities for annual leave are included as part of Employee Benefit Provisions.

Borrowings

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders’ equity, net of income tax effects.

Contributed Equity

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

Goods and Services and Value Added Tax

Revenues, expenses and assets are recognised net of VAT except where VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the taxation authority.

Share Based Payments

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or options over shares ("equity-settled transactions").

The fair value of options is recognised as an expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which the holder becomes unconditionally entitled to the options. Fair value is determined using a Black-Scholes option pricing model. The cumulative expense recognised between grant date and vesting date is adjusted to reflect the directors' best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with the company until vesting date.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the income statement. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

Company Information

Company Number 05079979

Directors

M B Silver	Executive Chairman
P A Harford	Managing Director
M J de Villiers	Finance Director
M Elias	Non-Executive Director
R N Allen	Non-Executive Director

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