Приложение № 4. Годовая консолидированная бухгалтерская (финансовая) отчетность Поручителя «ХОЛМ СЕРВИСЕЗ ЛИМИТЕД» за 2014 год

Holme Services Limited

Consolidated Financial Statements and Independent Auditor's Report
for the year ended 31 December 2014

HOLME SERVICES LIMITED

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014	1
INDEPENDENT AUDITOR'S REPORT	2
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	4
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS	5
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6
CONSOLIDATED STATEMENT OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8 - 38

HOLME SERVICES LIMITED

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Holme Services Limited (the "Company") and its subsidiaries (together the "Group") as of 31 December 2014, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing this consolidated financial information, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with basis of preparation as described in Note 2;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

Consolidated financial statements of the Group for the year ended 31 December 2014 were approved by management on 20 May 2015:

On behalf of the Management:

Xenia Koustai
Director
Holme Services Limited (BVI)

Anton Saykin
Finance Director
Management Company LLC "UWC"

Stelios Panayides
Director
Holme Services Limited (BVI)

ZAO Deloitte & Touche CIS
St. Petersburg Branch
"Gustaf" Business Center
Lit. K, 36/40 Sredniy prospect
Saint-Petersburg, 199004
Russia

Tel: +7 (812) 703 71 06
Fax: +7 (812) 703 71 07
www.deloitte.ru

INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Holme Services Limited

We have audited the accompanying consolidated financial statements of Holme Services Limited and its subsidiaries (collectively – the "Group"), which comprise the statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Basis of preparation in Note 2 to the consolidated financial statements which indicates that the Group's current liabilities as of 31 December 2014 exceeded its current assets by USD 151,948 thousand. This matter indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Without qualifying our opinion, we also draw attention to Note 5 to the consolidated financial statements which indicates that almost 100% of the Entity's revenues for the year ended 31 December 2014 were derived from transactions with related parties.

Deloitte & Touche

20 May 2015

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014
(US Dollar thousand)

	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Long-term loans		37	56
Intangible assets	7	33,313	54,178
Property, plant and equipment	8	527,904	985,114
Prepayments for intangible assets		832	1,073
Deferred tax asset	22	24,425	-
Total non-current assets		**586,511**	**1,040,421**
Current assets			
Inventories	9	95,343	154,831
Trade and other receivables	10	80,491	78,902
Prepaid current income tax		-	21
Cash and cash equivalents	11	722	10,485
Total current assets		**176,556**	**244,239**
TOTAL ASSETS		**763,067**	**1,284,660**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	37	37
Share premium	12	360,764	360,764
Currency translation reserve		(22,863)	(22,106)
Additional capital	12	(20,075)	(20,075)
Accumulated losses		(356,442)	(187,028)
Equity attributable to owners		**(38,579)**	**131,592**
Non-controlling interest		12	-
Total equity		**(38,567)**	**131,592**
Non-current liabilities			
Borrowings	13	473,083	688,014
Interest payable to related parties	6, 13	-	5,209
Finance lease liabilities – non-current portion		47	557
Other long-term liability		-	251
Deferred tax liabilities	22	-	12,845
Total non-current liabilities		**473,130**	**706,876**
Current liabilities			
Borrowings – current portion of non-current borrowings	13	60,847	150,544
Trade, tax and other payables and accruals	15	262,944	291,094
Provisions	16	4,369	3,923
Finance lease liabilities – current portion		344	601
Accrued expenses		-	30
Total current liabilities		**328,504**	**446,192**
Total liabilities		**801,634**	**1,153,068**
TOTAL LIABILITIES AND EQUITY		**763,067**	**1,284,660**

The notes on pages 8 to 38 are an integral part of these consolidated financial statements.

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS
FOR THE YEAR ENDED 31 DECEMBER 2014
(US Dollar thousand)

	Note	2014	2013 (restated)
Revenue		578,052	223,040
Cost of sales	17	(627,746)	(343,237)
Gross loss		**(49,694)**	**(120,197)**
General and administrative expenses	18	(28,787)	(15,172)
Other income	19	5,755	3,865
Other expenses	20	(9,539)	(5,804)
Operating loss		**(82,265)**	**(137,308)**
Finance income		167	242
Finance expenses	21	(133,974)	(63,775)
Loss before tax		**(216,072)**	**(200,841)**
Income tax benefit/(expense)	22	46,658	(7,930)
Loss for the year		**(169,414)**	**(208,771)**
Other comprehensive loss:			
Items that will not be subsequently reclassified to profit or loss			
Exchange differences on translation to presentation currency		(757)	(220)
Total comprehensive loss for the year		**(170,171)**	**(208,991)**

The notes on pages 8 to 38 are an integral part of these consolidated financial statements.

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(US Dollar thousand)

	Share capital	Share premium	Additional capital	Currency translation reserve	Retained earnings/ (Accumulated losses)	Non-controlling interest	Total equity
Balance at 1 January 2013	**37**	**360,764**	**(20,071)**	**(21,886)**	**21,743**	-	**340,587**
Comprehensive loss:							
Loss for the year	-	-	-	-	(208,771)	-	(208,771)
Currency translation differences on translation to presentation currency	-	-	-	(220)	-	-	(220)
Total comprehensive loss for the year	**-**	**-**	**-**	**(220)**	**(208,771)**	**-**	**(208,991)**
Distribution to shareholders	-	-	(4)	-	-	-	(4)
Balance at 31 December 2013	**37**	**360,764**	**(20,075)**	**(22,106)**	**(187,028)**	**-**	**131,592**
Comprehensive loss:							
Loss for the year	-	-	-	-	(169,414)	-	(169,414)
Currency translation differences on translation to presentation currency	-	-	-	(757)	-	-	(757)
Total comprehensive loss for the year	**-**	**-**	**-**	**(757)**	**(169,414)**	**-**	**(170,171)**
Non-controlling interests arising on the set-up of NCP "The association of the enterprises of steel industry"	-	-	-	-	-	12	12
Balance at 31 December 2014	**37**	**360,764**	**(20,075)**	**(22,863)**	**(356,442)**	**12**	**(38,567)**

The notes on pages 8 to 38 are an integral part of these consolidated financial statements.

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
(US Dollar thousand)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	556,891	279,288
Other proceeds	-	157
Cash paid to suppliers	(574,473)	(307,993)
Cash paid to employees	(65,520)	(39,524)
Other payments	(37,025)	(20,977)
Net cash used in operating activities	**(120,127)**	**(89,049)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment to third parties	(4,650)	(55,323)
VAT refund received on property, plant and equipment	12	28,132
Payments for intangible assets	(1,475)	(6,406)
Government grants received	42,726	35,032
Interest received	209	-
Other	-	246
Net cash generated by investing activities	**36,822**	**1,681**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings received from third parties	78,081	53,406
Proceeds from borrowings received from related parties	116,865	119,057
Repayment of borrowings received from third parties	(53,906)	(8,912)
Commissions and fees paid to banks	(2,855)	-
Interest paid	(63,003)	(68,827)
Net cash generated by financing activities	**75,182**	**94,724**
Net increase/(decrease) in cash and cash equivalents	**(8,123)**	**7,356**
Effect of exchange rate changes on cash and cash equivalents	**(1,640)**	**(5,520)**
Cash and cash equivalents at the beginning of the year	**10,485**	**8,649**
Cash and cash equivalents at the end of the year	**722**	**10,485**

The notes on pages 8 to 38 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION ABOUT THE GROUP AND ITS ACTIVITY

Holme Services Limited (the "Company") is incorporated and domiciled in British Virgin Islands (BVI) as a private limited liability company on 11 January 2007. The Company's registered office is at Trident Chambers, Road Town, Tortola, British Virgin Islands.

During the reporting period, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") were mainly involved in production of railway cars at the plant located in the Russian Federation (town of Tikhvin, Tikhvin region, Leningradskaya oblast) and in further development of the plant to achieve a higher production capacity.

The Company owns the following significant entities:

	31 December 2014		31 December 2013	
Company name	**Country of residence**	**Interest, %**	**Country of residence**	**Interest, %**
Raygold Limited	Cyprus	99.97%	Cyprus	99.97%
AFCT Advanced Freight Car Technology Limited ("AFCT")	Cyprus	99.97%	Cyprus	99.97%
Deanroad Limited ("Deanroad")	Cyprus	99.97%	Cyprus	99.97%
Rail1520 IP Limited	Cyprus	100.00%	Cyprus	100.00%
Pegadisa Management Limited	Cyprus	100.00%	Cyprus	100.00%
LLC "TM-Energosbyt"	Cyprus	100.00%	Cyprus	100.00%
CJSC "Tikhvin Railway Car Manufacturing Plant" ("TVSZ")	Russia	100.00%	Russia	100.00%

Until 2014, United Wagon Plc was the sole shareholder of the Company. On 22 December 2014, United Wagon Plc sold 100% of the Company's shares to JSC «Research and production corporation "United Wagon Company" (JSC "RPC UWC") (Russia).

Ultimately the Company is owned by a group of individuals, of which the most significant share belongs to Alexander Nesis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation – The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies below. The Group maintains its accounting records in accordance with the laws, accounting and reporting regulations of the countries where the Group entities are domiciled. Accounting principles and financial reporting procedures in those jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, the financial statements of the Group entities have been adjusted to ensure that they are presented in accordance with IFRS.

These consolidated financial statements are presented in thousand of US dollars (hereinafter "USD thousand"), unless otherwise indicated.

Going concern – The Group's financial statements have been prepared on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

The Group's current liabilities as of 31 December 2014 exceeded current assets, and net deficit of working capital amounted to USD 151,948 thousand (31 December 2013: USD 201,953 thousand).

(US Dollar thousand, unless otherwise stated)

The aforementioned fact indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

In 2014, the Group continued its production activities. The 2014 volume of production (9,637 railcars) was higher than initially planned and higher than is required per a covenant on TVSZ credit facilities. Based on management forecasts, the minimum expected production volume of TVSZ will amount to 12,983 and 16,143 railcars in 2015 and 2016 respectively. The planned increase in production volumes is expected to enable the Group to achieve profitability.

Management efforts to improve the Group's liquidity position are concentrated primarily on extending and refinancing the existing borrowings. In addition, management considers negotiating advance payments from customers, reduction of advance payments to suppliers, extended trade credit periods and factoring to optimise the working capital management.

Foreign currency translation

(i) 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 ("the functional currency"). The functional currency of the Group's entities is the Russian Rouble ("RUB"). The consolidated financial statements are presented in US Dollars ("USD") which is the presentation currency used by the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(iii) Group companies

The results and financial position of all entities of the Group are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented (i.e., including comparatives) are translated at the closing rate at the date of that statement of financial position;
(b) Income and expenses are translated at average exchange rates for the relevant period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(c) Equity components are presented at historic rates and all resulting exchange differences are recognised within other comprehensive income or loss and as a separate component of equity.

The translation exchange rates which have been used are as follows:

Exchange rate of RUB against USD (Central Bank of the Russian Federation)	**31 December 2014**	**31 December 2013**
As of the reporting date	56.2584	32.7292
Average rate for the respective period	38.4217	31.8480

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.

Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Intangible assets

Intangible assets acquired are initially recognised by the Group at the cost of acquisition. After initial recognition intangible assets are measured at the cost of acquisition less amortization and impairment losses.

Intangible assets with a definite useful life are amortised on a straight-line basis over their useful economic life and are reviewed for impairment whenever an impairment indicator is identified. Intangible assets with an indefinite useful life are not amortised and are reviewed for impairment on an annual basis.

The Group recognises intangible assets arising out of development when it can demonstrate all of the following:

- The technical feasibility of completing the asset so it will be available for use or sale;
- Its intention to complete, use or sell the asset;
- Its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of adequate technical, financial and other resources to complete, use or sell the asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditure on research activities is recognised as an expense in the period in which it was incurred. Development expenditure, that does not meet the criteria of intangible assets, is charged to the statement of comprehensive income when incurred.

No amortisation is charged for intangible assets that are in the phase of development. Amortisation begins when the asset is available for use, that is, when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Patents transferred from intangible assets under development to intangible assets subject to amortisation are amortised over their useful economic lives ranging between 51 to 174 months. Know-hows and production technology development costs are considered to have indefinite useful lives. Such assets are not amortised and are carried at cost less accumulated impairment losses. The ERP system development and installation costs are amortised over 120 months which is the best estimate of its useful economic life.

Expenditure, which enhances or extends the performance of intangible assets beyond their original specifications is recognised as a capital improvement and added to the original cost of the intangible asset.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, where required. The historical cost of property, plant and equipment includes the expenditure related directly to the acquisition of assets and, in respect of qualifying assets, capitalised borrowing costs in accordance with the Group's accounting policies. Construction in progress is accounted for at purchase cost less provision for impairment, if required.

Repair and maintenance costs are charged to expenses when incurred. Costs for replacement of major assemblies or components of property, plant and equipment are capitalised and the replaced parts are retired.

Upon sale or retirement, the cost and related accumulated depreciation are eliminated from financial statements. Gains and losses on disposal of property, plant and equipment are recognised in profit or loss at the amount of the difference between disposal proceeds and carrying amount.

Depreciation

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land and assets under construction are not depreciated.

Depreciation is charged as from the time when an asset is available for use over the following useful economic lives.

	Useful life (number of years)
Production plant and buildings	20–50
Machinery, equipment and motor vehicles	2–31
Office equipment and furniture	1–10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Classification of financial assets and financial liabilities

Financial assets

All the Group's financial assets fall into the category "loans and receivables". Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables comprise accounts receivable and loans issued.

Loans issued and receivables are initially recognised at their fair value and subsequently carried at amortised cost using effective interest method. A provision for impairment of loans issued and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the instrument. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the financial asset is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. The uncollectible assets are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in profit or loss.

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Financial liabilities

All of the Group's financial liabilities fall into the category "other financial liabilities" and are carried at amortised cost. Other financial liabilities (including borrowings and trade and other payables) are initially recognised at their fair value net of related transaction costs and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less cost of completion and selling expenses.