

## **Picture Financial Group Limited**

**Annual report for the year  
to 31 March 2007**

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# **Picture Financial Group Limited**

## **Annual report for the year to 31 March 2007**

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# **Picture Financial Group Limited**

## **Directors and advisers**

### **Directors**

Neville Allport (resigned 13 May 2008)  
Warren Justice (resigned 25 June 2008)  
Jonathan Back (appointed 18 April 2007, resigned 17 January 2008)  
Nicholas Luckock (non-executive), (resigned 25 June 2008)  
Stephan Wilcke (non-executive), (resigned 9 October 2007)  
Gerald Whitmore (non-executive)  
Paul Barry (non-executive)  
John Caouette (non-executive), (resigned 9 October 2007)

### **Secretary**

Warren Justice (resigned 25 June 2008)

### **Registered Office**

20 Greenlands Business  
Centre  
Studley Road  
Redditch  
Worcestershire  
B98 7HD

### **Bankers**

Barclays Bank plc  
Queen Street Branch  
121 Queen Street  
Cardiff  
CF10 2BJ

### **Auditors**

PricewaterhouseCoopers LLP  
One Kingsway  
Cardiff  
CF10 3PW

### **Solicitors**

Eversheds LLP  
1 Callaghan Square  
Cardiff  
CF10 5BT

# **Picture Financial Group Limited**

## **Directors' report for the year ended 31 March 2007**

The directors present their report and the consolidated financial statements of the Company and the Group for the year ended 31 March 2007

### **Principal activities**

The Company has been established to act as a holding company. During the year the Group provided secured lending and ancillary services. New lending activity ceased in February 2008 (see below).

### **Business review, proposed dividend and transfer to reserves**

The results for the year are set out in the consolidated profit and loss account on page 7.

Turnover increased from £42.9 million for the year to 31 March 2006 to £114.1 million for the year to 31 March 2007. This increase in revenue reflects the growth in the loan book that was achieved by borrowers meeting strict acceptance criteria, via a carefully developed risk model. The level of delinquencies and consequential bad debt charge booked has been maintained within target levels.

During the year the Group entered into an agreement under which originated loans with a value of £307m were sold at a premium. The Group continued to service the loans sold.

After the end of the year, the Group's plans to secure additional funding to enable its continued growth failed following the "liquidity crunch". Further details of developments since the balance sheet date are set out in the subsequent events note below.

The directors do not recommend the payment of a dividend (2006: £nil).

### **Subsequent events**

In the latter part of 2007, the global financial markets contracted substantially, largely as a result of the impact of the sub prime funding crisis experienced in the USA. As a result, the Group was unable to secure the funding required to support its continued growth. The directors implemented a strategic review of its options including the potential sale of the business or sale of the loan book and in February 2008 the Group ceased to write new business.

The strategic review failed to identify an acceptable way forward and in June 2008 Merrill Lynch and Deutsche Bank, which had historically provided a significant proportion of the Group's funding, arranged for certain subsidiary companies to be acquired by a third party under the terms of a charitable trust in order to safeguard their interests in respect of monies loaned to the Group. As a result of these arrangements the legal and beneficial interest in the Group's loan portfolio has been transferred out of the Group.

At the same time, the Group sold its loan servicing business to a third party and the relevant staff employed by the Group were transferred to the acquirer. All of the remaining employees were made redundant.

# **Picture Financial Group Limited**

## **Directors' report for the year ended 31 March 2007 (continued)**

### **Subsequent events (continued)**

Accordingly, the directors have concluded that it is not appropriate to prepare the accounts on a going concern basis and expect to wind up the remaining group companies in the near future. The directors have made adjustments to the carrying values of the Group's assets and the Company's assets at 31 March 2007 to reflect recoverable amounts and have made provisions for losses incurred during the post balance sheet reorganisation as well as for the trading losses reflected in the Group's management accounts for the period to 31 July 2008 and for the estimated losses for the period from 1 August 2008 to the date upon which the companies remaining in the Group are expected to be liquidated.

In addition, loan notes with a value of some £37.7 million have been converted into share capital.

### **Principal risks**

The Group holds consumer loans, cash and borrowings that arise from its operations. The main risks associated with these financial instruments are:

**Credit risk** The Group's exposure to credit risk is actively managed through strict enforcement of a credit policy and through a credit committee that reports to the board of directors.

**Interest rate risk** Interest rate risk can arise where the basis of interest rates on assets and liabilities do not match. The policy of the Group is to match the interest rate bases as closely as possible.

**Liquidity risk** The Group maintains sufficient facilities for lending through its warehouse lines. Failure to secure such warehouse lines has resulted in the cessation of its operations post 31 March 2007.

### **Employee involvement**

During the year employees were provided regularly with information concerning the performance and the prospects of the business in which they are involved, through employee forums, briefing groups and employee publications.

The Company and Group's policy on equal opportunity is to ensure that all employees and candidates for employment receive treatment that is fair and equitable, regardless of sex, race or physical disability.

### **Creditor payment policy**

The Group pays its creditors in line with negotiated terms which are typically 30 days from date of invoice.

### **Directors**

The directors of the Company, who held office during the year ended 31 March 2007, are listed on page 1.

# Picture Financial Group Limited

## Directors' report for the year ended 31 March 2007 (continued)

### Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing the financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business

The directors confirm that they have complied with the above requirements in preparing the financial statements. In so doing the directors have concluded that it is not appropriate to prepare the accounts on a going concern basis, as the remaining Group companies will be liquidated in the near future (see note 30)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

All directors at the time of approving this report, confirm the following

- (a) so far as each director is aware, there is no information of which the Company's auditors are unaware, and
- (b) each director has taken all the steps they ought to have taken as a director, in order to make themselves aware of any relevant audit information, and to establish that the Company auditors are aware of that information

**By order of the Board**



**G Whitmore**  
**8 October 2008**

## **Independent auditors' report to the members of Picture Financial Group Limited**

We have audited the Group and parent Company financial statements of Picture Financial Group Limited for the year ended 31 March 2007 which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Company's affairs as at 31 March 2007 and of the Group's loss and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

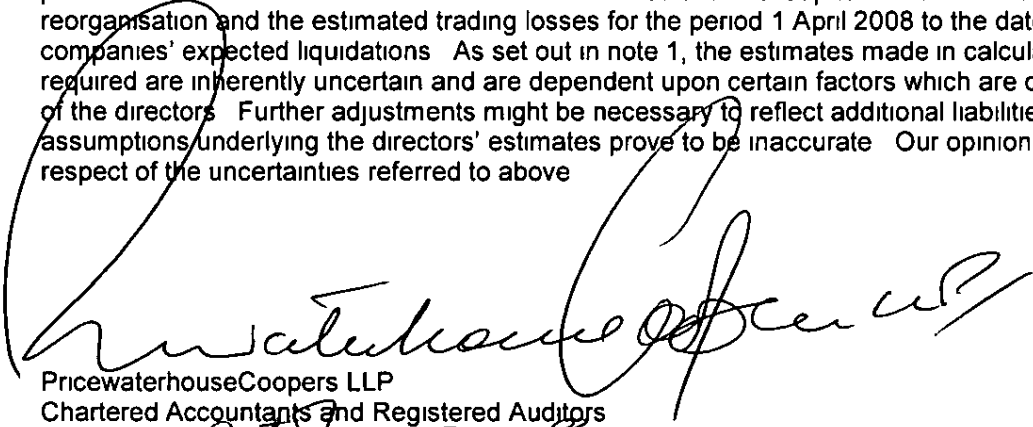
## Independent auditors' report to the members of Picture Financial Group Limited (continued)

### Emphasis of matter – fundamental uncertainties

In June 2008 the Group entered into the following significant transactions as explained in note 30,

- the disposal of two subsidiary companies engaged in the provision of funding for the Group,
- the transfer of the Group's interest in its loan book to the banks who have historically provided the Group with funding, and
- the disposal of the loan servicing operation to a third party company

In order to reflect the directors' intention to wind up the remaining Group companies in the near future, provision has been made to increase the net liabilities of the Group to reflect the cost of the resultant reorganisation and the estimated trading losses for the period 1 April 2008 to the date of the Group companies' expected liquidations. As set out in note 1, the estimates made in calculating the provision required are inherently uncertain and are dependent upon certain factors which are outside of the control of the directors. Further adjustments might be necessary to reflect additional liabilities should the assumptions underlying the directors' estimates prove to be inaccurate. Our opinion is not qualified in respect of the uncertainties referred to above.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Cardiff 13 October 2008



# Picture Financial Group Limited

## Consolidated profit and loss account for the year ended 31 March 2007

	Note	2007 £'000	2006 £'000
Turnover	2	114,079	42,909
Interest and commission payable	5	(79,602)	(25,445)
		34,477	17,464
Operating expenses		(30,465)	(15,714)
Other operating income		175	80
Operating profit		4,187	1,830
Interest receivable		466	414
Profit on ordinary activities before exceptional items	6	4,653	2,244
Exceptional items:			
Termination of operations	7	(74,608)	-
(Loss)/profit before taxation		(69,955)	2,244
Tax on (loss)/profit for the financial year	8	(825)	(533)
(Loss)/profit for the financial year	19	(70,780)	1,711

All items dealt with in arriving at the (loss)/profit before tax above relate to discontinued operations

The Group has no recognised gains and losses other than those shown above and therefore no separate statement of total recognised gains and losses has been presented

There is no difference between the (loss)/profit before taxation and the (loss)/profit for the year stated above and their historical cost equivalents

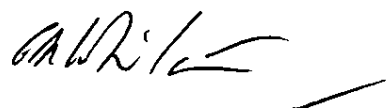
The notes on page 11 to 27 form an integral part of these financial statements

# Picture Financial Group Limited

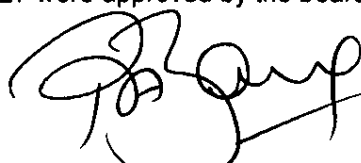
## Consolidated balance sheet as at 31 March 2007

	Note	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Tangible assets	9	-	1,241
<b>Current assets</b>			
Debtors amounts falling due within one year	11a)	16,958	26,228
Debtors amounts falling due after more than one year	11b)	709,065	430,676
Cash at bank and in hand		2,351	510
		<b>728,374</b>	<b>457,414</b>
<b>Creditors - amounts falling due within one year</b>	13	<b>(37,008)</b>	<b>(21,282)</b>
<b>Net current assets</b>		<b>691,366</b>	<b>436,132</b>
<b>Total assets less current liabilities</b>		<b>691,366</b>	<b>437,373</b>
<b>Creditors – amounts falling due after more than one year</b>	14	<b>734,766</b>	<b>439,480</b>
<b>Other provisions</b>	17	<b>29,522</b>	-
<b>Deferred income</b>	15	-	405
<b>Capital and reserves</b>			
Called up share capital	18	3	3
Share premium account	19	251	251
Warrants	20	670	300
Investment in own shares	19	(7)	(7)
Profit and loss account	19	(73,839)	(3,059)
<b>Total equity shareholders' deficit</b>	21	<b>(72,922)</b>	<b>(2,512)</b>
		<b>691,366</b>	<b>437,373</b>

The financial statements on pages 7 to 27 were approved by the board of directors on 8 October 2008 and were signed on its behalf by



G Whitmore  
Director



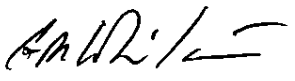
P Barry  
Director

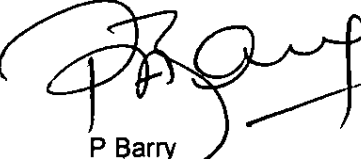
# Picture Financial Group Limited

## Company balance sheet as at 31 March 2007

	Note	2007 £'000	2006 £'000
<b>Fixed assets</b>			
Investments	10	-	-
<b>Current assets</b>			
Debtors	11(a)	3,431	1,062
Cash at bank and in hand		112	127
		<b>3,543</b>	<b>1,189</b>
<b>Creditors - amounts falling due within one year</b>	13	<b>(2,654)</b>	<b>(198)</b>
<b>Other provisions</b>	17	<b>(128)</b>	<b>-</b>
<b>Net assets</b>		<b>761</b>	<b>991</b>
<b>Capital and reserves</b>			
Called up share capital	18	3	3
Share premium account	19	251	251
Warrants	20	670	300
Investment in own shares	19	(7)	(7)
Profit and loss account	19	(156)	444
<b>Total equity shareholders' funds</b>	21	<b>761</b>	<b>991</b>

The financial statements on pages 7 to 27 were approved by the board of directors on 8 October 2008 and were signed on its behalf by

  
G Whitmore  
Director

  
P Barry  
Director

The notes on page 11 to 27 form an integral part of these financial statements

# Picture Financial Group Limited

## Consolidated cash flow statement for the year ended 31 March 2007

	Note	Year ended 31 March 2007 £'000	Year ended 31 March 2006 £'000
<b>Net cash outflow from operating activities</b>	<b>22</b>	<b>(307,063)</b>	<b>(385,639)</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		466	414
<b>Taxation</b>		<b>(1,140)</b>	<b>(3)</b>
<b>Capital expenditure and financial investment</b>			
Government grants received		200	550
Expenditure on tangible fixed assets		(793)	(299)
<b>Net cash (outflow) / inflow from capital expenditure and financial investment</b>		<b>(593)</b>	<b>251</b>
<b>Net cash outflow before financing</b>		<b>(308,330)</b>	<b>(384,977)</b>
<b>Financing</b>			
Proceeds of issue of ordinary share capital		-	8
Capital element of finance lease payments		(240)	(266)
Proceeds from loan notes issued		-	18,185
Bank loans drawn down		310,411	366,743
<b>Net cash inflow in respect of financing</b>		<b>310,171</b>	<b>384,670</b>
<b>Increase/(decrease) in cash in the year</b>	<b>23</b>	<b>1,841</b>	<b>(307)</b>

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007

### 1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. The principal accounting policies which have been applied consistently are set out below.

#### Going concern

As explained in the Directors' Report on pages 2 and 3 and in note 30 the Group effectively transferred its interest in the loan book to Merrill Lynch and Deutsche Bank, who have historically funded the Group's lending activity, on 24 June 2008. On the same date its servicing business was sold to a third party and it is now the intention of the directors to effect an orderly wind up of the Group in the near future. In these circumstances, the directors have concluded that it is not appropriate to prepare the accounts on a going concern basis.

Accordingly, the Group's assets have been stated in the financial statements at their estimated recoverable amounts. In addition, provisions have been included for those losses which are expected to arise subsequent to the balance sheet date up to the date on which the Group companies are liquidated.

The write down of the assets and the inclusion of liabilities arising as a result of the decision to cease operations have been reflected as an exceptional item in the profit and loss account (see note 7).

In arriving at the balance sheet values of assets and liabilities, adjustments have been made by the directors to reduce assets to their expected net realisable values, recognise liabilities arising in connection with the decision to cease operations and to recognise future potential losses. By the nature of these adjustments, estimates have been made which are key judgements in the preparation of the financial statements. In particular, the areas of significant uncertainty include:

- (a) the extent of future losses, as some Group companies have not yet been placed in liquidation,
- (b) the extent to which contingent liabilities (see note 28) regarding disputes with HMRC crystallise into actual liabilities, and
- (c) the extent to which the Welsh Assembly Government seek repayment of grants provided to the Group in earlier periods.

Further detail of the write down of assets, the recognition of liabilities and provision for future trading losses have been included within note 17.

#### Basis of accounting

The financial statements are prepared under the historical cost convention reflecting realisable value on the basis that the Group is no longer a going concern. The comparative figures included in the financial statements are on a going concern basis which was appropriate when those statements were originally prepared.

#### Basis of consolidation

The consolidated financial statements incorporate the results of Picture Financial Group Limited and its subsidiaries, all made up to 31 March 2007. Also consolidated within the financial statements are the results of Picture Financial Jersey Limited and Picture Financial Jersey (No 2) Limited, companies incorporated in Jersey and owned by a charitable trust, on the basis of the contractual arrangements between these companies and the Group, which effectively give the Group control over the companies' operations within the meaning of FRS 5 "Reporting the Substance of Transactions".

The Group has taken advantage of the provision in Section 320 of the Companies Act 1985 and has not presented a profit and loss account for the Company.

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 1 Accounting policies (continued)

#### Turnover

Turnover comprises interest receivable on customer loans outstanding and fees and commissions receivable, net of Value Added Tax. Fees and commissions receivable, which relate to the sale of insurance products and the premium received in respect of the sale of loans together with the servicing charges receivable in respect of the loans sold, are recognised in the profit and loss account when earned.

#### Loan de-recognition

Customer loans are de-recognised where the Group has transferred substantially all the risks and rewards of ownership.

#### Broker commissions

Fees payable to third parties for the introduction of loans and advances to customers are allocated to accounting periods over the expected life of the agreement on a straight line basis. As a result of the arrangements entered into on 24 June 2008 (see note 30), the unamortised broker commission costs on the balance sheet at 31 March 2007 have been written off.

#### Bad and doubtful debts

It is the Company's policy to make provisions for bad and doubtful debts to reflect the losses incurred in the loan portfolio at the balance sheet date, as follows -

##### Specific provisions

Specific provisions maintained are based upon an assessment of the propensity for a loan to default and the likely loss that will result to the Group, taking into account the value of the security held and the costs expected to be incurred in order to realise the security. The value of the resulting provision is equivalent to the amount necessary to reduce the carrying value of the advance to its ultimate net realisable value.

##### General provisions

General provisions are raised to cover latent bad and doubtful debts which are present in any portfolio of advances, but have not been specifically identified. The level of general provision held is determined by reference to the expected time delay between the default event and the incidence of late or missed payments.

The aggregate specific and general provisions made during the year, less the amount released and recoveries of bad debt previously written off are included within operating expenses. Bad debts are written off when the loss has been confirmed.

#### Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

#### Related party transactions

The Company and Group have taken advantage of the exemptions available under Financial Reporting Standard Number 8 (Related Party Disclosures) not to disclose transactions with other Group undertakings.

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 1 Accounting policies (continued)

#### Depreciation

Tangible fixed assets, which are stated at purchase cost plus any incidental costs of acquisition, are depreciated on a straight line basis over their estimated useful economic lives at the following annual rates

Computer hardware and software	4 years
Fixtures and fittings and other equipment	4 years

Depreciation rates are reviewed periodically by the Directors' to take account of any changes in circumstances

As a result of the arrangements entered into on 24 June 2008 (see note 30) the fixed assets on the balance sheet at 31 March 2007 have been written down to their recoverable amounts

#### Government grants

Government grants related to capital expenditure are credited to revenue over the useful lives of the related assets. Revenue related grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate

#### Leasing and hire purchase commitments

When the Company or the Group enters into a lease, which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account and the capital element which reduces the outstanding obligation for future instalments

All other leases are accounted for as operating leases and the rental charges, net of any incentives received, are charged to the profit and loss account on a straight-line basis over the life of the lease

#### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

#### Employee Benefit Trust

The Group's Employee Benefit Trust is a separately administered trust and its results have been included in the consolidated financial statements. In accordance with Urgent Issue Task Force Abstract 39 "Accounting for ESOP Trusts", own shares held through the EBT have been deducted in arriving at shareholders' funds. As a result shareholders' funds at 31 March 2007 have been reduced by £7,000 (2006 £7,000)

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 2 Turnover

	2007 £'000	2006 £'000
Interest receivable	49,643	18,109
Fees and commission receivable	45,678	24,800
Premium on loan sale	18,383	-
Servicing charges	375	-
	114,079	42,909

All of the Group's turnover derives from principally one activity, being the provision of lending and ancillary services. The premium on loan sale relates to the sale of loans with a principal value of £307m (2006 £nil)

### 3 Directors' emoluments

	2007 £'000	2006 £'000
Aggregate emoluments and other benefits	483	470
<b>Highest paid director</b>		
Aggregate emoluments and benefits	259	252

### 4 Employee information

#### Group

The average monthly number of persons employed by the Group (including executive directors) during the year was 169 (2006 113)

The aggregate payroll costs of these persons was as follows

	2007 £'000	2006 £'000
Wages and Salaries	7,855	5,541
Social Security	886	573
	8,741	6,114



# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 4 Employee information (continued)

#### Company

The average monthly number of persons employed by the Company (including executive directors) during the year was 15 (2006 15)

The aggregate payroll costs of these persons was as follows

	2007 £'000	2006 £'000
Wages and Salaries	1,420	1,441
Social Security	172	164
	<b>1,592</b>	<b>1,605</b>

### 5 Interest and commission payable

	2007 £'000	2006 £'000
Interest on loan notes	4,541	3,422
Other interest charges	35,801	13,800
	<b>40,342</b>	<b>17,222</b>
Broker commission expensed	39,260	8,223
	<b>79,602</b>	<b>25,445</b>

### 6 Profit on ordinary activities before exceptional items

Profit on ordinary activities before exceptional items is stated after charging/(crediting)

	2007 £'000	2006 £'000
Auditors remuneration		
- Audit fees (Company £9,000 (2006 £8,000))	123	66
- Non audit services	194	64
Depreciation (excluding asset write downs of £1,499,000 (note 7))	535	333
Operating lease charges		
Land and buildings	456	336
Government grants	(605)	(80)

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 7 Exceptional items

	2007 £'000	2006 £'000
<b>Termination of operations</b>		
Provision for future trading losses (including reorganisation costs)	28,916	-
Direct costs, previously subject to spreading over the expected lives of the associated loan, expensed	42,887	-
Assets write down	1,499	-
VAT provided (note 28)	1,358	-
Accelerated release of deferred income	(350)	-
Legal and professional costs	298	-
	<b>74,608</b>	<b>-</b>

### 8 Tax on (loss) / profit on ordinary activities

#### (a) Analysis of charge in the year

	2007 £'000	2006 £'000
<b>Current tax</b>		
UK Corporation tax current year	-	350
Adjustment in respect of previous year	(31)	(25)
Total current tax (note 8(b))	<b>(31)</b>	<b>325</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	856	15
Adjustment in respect of previous year	-	193
Total deferred tax (note 8(c))	<b>856</b>	<b>208</b>
<b>Total tax charge</b>	<b>825</b>	<b>533</b>

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 8 Tax on (loss)/profit on ordinary activities (continued)

(b) The tax assessed for the year is different from the standard rate of corporation tax in the UK (30%)  
The differences are explained below -

	2007 £'000	2006 £'000
(Loss)/profit before tax	(69,955)	2,244
(Loss)/profit multiplied by the standard rate of corporation tax in the UK (30%)	(20,987)	673
Effects of		
Timing differences		
Accelerated capital allowances	498	(15)
Losses not recognised in deferred tax	-	(755)
Expenses not deductible	20,489	447
Prior period (credit)	(31)	(25)
Current tax (credit)/charge for the year (note 8(a))	(31)	325

### (c) Deferred tax

	2007 £'000	2006 £'000
At start of year	(856)	(1,064)
Origination and reversal of timing differences	856	208
At end of year (note 11)	-	(856)

Deferred tax asset is made up as follows

	2007 £'000	2006 £'000
Accelerated capital allowances	-	(28)
Tax losses carried forward	-	884
	-	856

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 9 Tangible assets

Group	Computer hardware and software £'000	Other fixtures and fittings £'000	Total £'000
<b>Cost</b>			
At 1 April 2006	589	1,060	1,649
Additions during the year	219	574	793
<b>At 31 March 2007</b>	<b>808</b>	<b>1,634</b>	<b>2,442</b>
<b>Depreciation</b>			
At 1 April 2006	187	221	408
Charge for the year	621	1,413	2,034
<b>At 31 March 2007</b>	<b>808</b>	<b>1,634</b>	<b>2,442</b>
<b>Net book value</b>			
<b>At 31 March 2007</b>	<b>-</b>	<b>-</b>	<b>-</b>
At 31 March 2006	402	839	1,241

The depreciation charge for the year includes accelerated depreciation of £1,499,000 (see note 7)

The net book value of property held under finance leases arrangements at 31 March 2007 was £nil (2006 £763,000)

The depreciation charge for assets held under finance leases was £763,000 (2006 £208,000)

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 10 Investments

	2007 £'000	2006 £'000
<b>Cost</b>		
<b>At the start and end of the year</b>	-	-

The Company directly holds the entire ordinary share capital of Picture Financial Holdings Limited, a UK incorporated holding company

Picture Financial Holdings holds substantially the entire ordinary share capital of the following UK incorporated companies, being the Group's material subsidiary companies

Company	Activity
Picture Financial Services plc	Originator of secured loans
Picture Financial Funding Limited	Raising of finance
Picture Finance Limited	Loan servicing company
Button Financial Services Limited	Originator of secured loans
Picture Financial Funding (No 2) Limited	Raising of finance

Picture Financial Jersey Limited and Picture Financial Jersey (No 2) Limited are consolidated within the results of the Group as explained in note 1. Summary financial information for these companies at 31 March 2007 is as follows

	Picture Financial Jersey Limited	Picture Financial Jersey (No 2) Limited
<b>Profit and loss account for the period ended 31 March</b>	2007 £'000	2007 £'000
Interest receivable	41,937	10,443
Interest payable and similar charges	(41,937)	(10,443)
<b>Profit for the financial year</b>	-	-
	2007 £'000	2007 £'000
<b>Balance sheet at 31 March</b>		
Debtors	759,544	282,834
Cash	2,508	4,348
Creditors	(762,052)	(287,182)
<b>Net Assets</b>	-	-
Share Capital	-	-
<b>Total equity shareholders' funds</b>	-	-

#### Summary cash flow statement

The movement on cash is entirely the result of the cash inflow/outflow from operating activities

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 11 Debtors

#### (a) Amounts falling due within one year

	2007		2006	
	Group £'000	Company £'000	Group £'000	Company £'000
Loans and advances to customers (see note 12)	10,264	-	10,944	-
Amounts due from Group companies	-	3,431	-	1,055
Deferred taxation (note 8(c))	-	-	856	-
Corporation tax (see note 28)	-	-	-	-
Other debtors	1,649	-	3,777	7
Prepayments and accrued income	5,045	-	10,651	-
	16,958	3,431	26,228	1,062

#### (b) Amounts falling due after more than one year

	2007		2006	
	Group £'000	Company £'000	Group £'000	Company £'000
Loans and advances to customers (see note 12)	709,065	-	409,400	-
Prepayments and accrued income	-	-	21,276	-
	709,065	-	430,676	-

### 12 Disposal of the Group's loan book

In June 2008, Merrill Lynch and Deutsche Bank, which had historically provided a significant proportion of the Group's funding, arranged for Picture Financial Funding Limited and Picture Financial Funding (No 2) Limited to be acquired by a third party under the terms of a charitable trust in order to safeguard their interests in respect of monies loaned to the Group. As a result of these arrangements the legal and beneficial interest in the Group's loan portfolio of £719,329,000 was transferred out of the Group.

The future loss on the sale of the loan book has been included as a provision at 31 March 2007 (see note 17).

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 13 Creditors – Amounts falling due within one year

	2007		2006	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank and other borrowings (Note 16)	27,288	-	12,003	-
Hire purchase and other similar agreements (Note 16)	258	-	239	-
Trade creditors	1,097	5	794	15
Amounts owed to Group companies	-	2,445	-	-
Corporation tax	-	-	410	59
Other taxation and social security	251	64	212	63
Accruals	7,225	140	6,204	61
Other creditors	889	-	1,420	-
	37,008	2,654	21,282	198

### 14 Creditors – Amounts falling due after more than one year

	2007		2006	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank and other borrowings (Note 16)	696,088	-	405,083	-
Loan Notes (Note 16)	38,392	-	33,852	-
Hire purchase and other similar agreements (Note 16)	286	-	545	-
	734,766	-	439,480	-

Of the loan notes £20,318,000 (2006 £19,860,000) are due 2034 and £18,074,000 (2006 £13,992,000) are due 2035. The loan notes bear interest at a rate of 12.3% per annum.

### 15 Deferred income

#### Group

	Government grants £'000
At 1 April 2006	405
Received during the year	200
Credited to profit	(605)
At 31 March 2007	-

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 16 Bank and other borrowings

#### Group

The maturity of bank and other borrowings is as follows

	2007 £'000	2006 £'000
Within one year	27,288	12,003
Between one and two years	696,088	405,083
After more than five years	38,392	33,852
	761,768	450,938

The Group entered into two senior revolving credit facilities which allowed for the draw down of monies to fund new customer loans. The Group had also entered into a separate subordinated facility. Interest on all three facilities is charged at commercial rates linked to LIBOR to reflect the lenders level of credit risk. The amounts drawn down are secured against the underlying loans (see note 12).

The maturity of obligations under hire purchase contracts is as follows

	2007 £'000	2006 £'000
Within one year	258	239
Between one and two years	229	239
Between two and five years	57	306
	544	784

### 17 Other provisions

A provision of £15,627,000 is at 31 March 2007 to reflect the future loss on the sale of the loan book (see note 30).

A provision of £13,289,000 is held for losses incurred during the post balance sheet reorganisation, trading losses reflected in the Group's management accounts for the period to 31 July 2008 and the estimated losses for the period from 1 August 2008 to the date upon which the remaining companies in the Group are expected to be wound up.

A provision of £606,000 (Company £128,000) has been made in connection with the VAT dispute, as set out in note 28.



# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 18 Called up share capital

	2007 £'000	2006 £'000
<b>Authorised</b>		
10,000,000 £0.01 ordinary shares	100	100
<b>Allotted and fully paid</b>		
254,219 ordinary shares of £0.01	3	3

### 19 Reserves

	Group		Company	
	Share premium account £'000	Profit and loss account £'000	Share premium account £'000	Profit and loss account £'000
At 1 April 2006	251	(3,059)	251	444
(Loss) for the financial year	-	(70,780)	-	(600)
<b>At 31 March 2007</b>	<b>251</b>	<b>(73,839)</b>	<b>251</b>	<b>(156)</b>

In addition at 31 March 2007 and 31 March 2006 the Trustee of the Employment Benefit Trust held 6,690 shares for the benefit of employees. These shares will be used by the Trustees to meet the requirements of the Group's share option schemes in future periods.

### 20 Warrants

#### Group and Company

The Company has issued additional share warrants in the year in consideration of certain amendments to the subordinated facility agreement. Details of the warrants in issue, which are to be satisfied by the issue of new ordinary shares on a one for one basis, are as follows:

#### Warrants for a specified number of ordinary shares

Ordinary shares	Date of agreement	Exercise period	Warrant price £	Value of warrant proceeds at date of agreement £
12,711	9 August 2005	At any point up to five business days after occurrence of certain defined events including shareholder exit	23.60	299,980
4,340	12 April 2006	As above	85.25	369,985

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 20 Warrants (continued)

#### Movement on warrants issued

	£'000
At 1 April 2006	300
Value of warrants issued in the year	370
<b>At 31 March 2007</b>	<b>670</b>

The value of the warrants issued during the year has been determined by reference to the P/E multipliers for similar listed entities, discounted to reflect the lack of a market for a non-listed entity. The warrants issued in previous accounting periods were valued by comparing the interest applicable to the loan funding with the commercial rate commensurate with the level of credit risk associated with such lending.

### 21 Reconciliation of movements in equity shareholders' (deficit)/funds

	2007		2006	
	Group £'000	Company £'000	Group £'000	Company £'000
Opening equity shareholders (deficit)/funds	(2,512)	991	(4,531)	658
(Loss)/profit after taxation	(70,780)	(600)	1,711	25
Net proceeds from the issue of shares	-	-	1	1
Movement on investment in own shares	-	-	7	7
Warrant proceeds	370	370	300	300
<b>Closing equity shareholders (deficit) / funds</b>	<b>(72,922)</b>	<b>761</b>	<b>(2,512)</b>	<b>991</b>

### 22 Reconciliation of operating profit to net cash outflow from operating activities

	2007 £'000	2006 £'000
Operating profit	4,187	1,830
Depreciation	535	333
Release of deferred income	(605)	(80)
Increase in debtors	(312,362)	(393,648)
Increase in creditors	1,182	5,926
<b>Net cash outflow from operating activities</b>	<b>(307,063)</b>	<b>(385,639)</b>

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 23 Reconciliation of net cash flow to movement in net debt

	2007 £'000	2006 £'000
Increase/(decrease) in cash in the year	1,841	(307)
Cash inflow from movement in debt	(310,171)	(384,662)
Increase in net debt resulting from cash flows	(308,330)	(384,969)

### 24 Analysis of net debt

	At 1 April 2006 £'000	Cash flow £'000	Non cash movement £'000	At 31 March 2007 £'000
Bank and cash	510	1,841	-	2,351
Debt due within one year	(12,003)	(15,285)	-	(27,288)
Debt due after one year	(438,935)	(295,126)	(419)	(734,480)
Hire purchase due within one year	(239)	239	(258)	(258)
Hire purchase due after 1 year	(545)	1	258	(286)
	(451,212)	(308,330)	(419)	(759,961)

### 25 Commitment under operating leases

#### Group

	2007 Property £'000	2006 Property £'000
Annual commitments under non-cancellable operating leases expiring		
Within two to five years	600	537
	600	537

Under the terms of the disposal of the loan servicing business in June 2008, the obligations under operating leases were assigned to the purchaser

### 26 Capital commitments

There were no capital commitments at 31 March 2007 (2006 £Nil)

# **Picture Financial Group Limited**

## **Notes to the financial statements for the year ended 31 March 2007 (continued)**

### **27 Ultimate controlling party**

During the year, the Company and the Group was ultimately controlled by the nine partnerships comprising the Apax Europe V Funds, which are advised by Apax Partners Europe Managers Limited and together had an aggregate interest of 72.4% of the issued share capital of the Company. On 9 October 2007, Apax disposed of its entire interest in the Company and the Group to PFGH Invest Limited, a company owned and controlled by Mr Neville Robert Allport. Under the terms of a Suspension and Option Deed dated 9 October 2007, Merrill Lynch and Deutsche Bank had an option to acquire the interest in the Group from PFGH Invest Limited but that option was cancelled on 25 June 2008.

Accordingly, Mr Allport is considered to be the company's controlling party.

### **28 Contingent liabilities**

The Group and Company have the following contingent liabilities:

#### **(a) HMRC**

HMRC has challenged the VAT liability of supplies received from certain third party suppliers. The original treatment adopted by the Group was based on independent professional advice and confirmation provided by HMRC.

Recently HMRC has challenged the VAT treatment and raised assessments for £1.3 million. It is possible that further assessments amounting to £6.5 million could be raised. Having taken independent counsel opinion, the directors believe that the Group has meritorious defence to the challenges raised. However, in order to expedite a solution an offer to HMRC based upon the total tax recoverable as a result of corporation tax overpayments has been proposed. As a result a provision of £606,000 reflecting the on account payments of corporation tax is included at 31 March 2007.

A further £752,000 VAT payable balance has been offset against corporation tax relief on losses.

HMRC has not indicated whether or not they will accept the offer. As a result, HMRC may pursue increased claims over and above that offered and provided in the accounts.

#### **(b) Welsh Assembly Government (WAG)**

Under the terms of the offer letter for grants from WAG, the amounts can be reclaimed, in the event that the conditions of the grant, as regards employment, are not met. The Group received £850,000 which may be subject to reclaim.

# Picture Financial Group Limited

## Notes to the financial statements for the year ended 31 March 2007 (continued)

### 29 Related party transactions

Apax Europe V Fund ("Apax") and certain of the Company's directors and employees have subscribed for the Group's loan notes. The interest payable and balance outstanding in respect of these loan notes is as follows

Director	2007 Interest payable	Balance outstanding at 31 March 2007	2006 Interest payable	Balance outstanding at 31 March 2006
	£'000	£'000	£'000	£'000
Apax	4,133	37,736	3,218	33,604
Paul Barry	14	128	11	114
Gerald Whitmore	33	290	25	258
John Caouette	13	122	8	108
Other investors	13	116	10	103
	4,206	38,392	3,272	34,187

In addition, director fees of £30,000 (2006 £30,000) and expenses of £1,000 (2006 £2,000) were paid to Apax, as well as arrangement fees of £nil (2006 £522,000). The unamortised value of Apax arrangement fees at 31 March 2007 was £nil (2006 £335,000) and has been offset against the proceeds of the issue.

On 9 October 2007, Apax sold its holding in the Group's loan notes to PFGH Invest Limited, a company referred to in Note 27.

### 30 Post balance sheet events

In the latter part of 2007, the global financial markets contracted substantially largely as a result of the impact of the sub prime funding crisis experienced in the USA. As a result the Group was unable to secure the funding required to support its continued growth. The directors implemented a strategic review of its options including the potential sale of the business or sale of the loan book and in February 2008 the Group ceased to write new business.

The strategic review failed to identify an acceptable way forward and in June 2008 Merrill Lynch and Deutsche Bank which had historically provided a significant proportion of the Group's funding arranged for certain subsidiary companies to be acquired by a third party under the terms of a charitable trust in order to safeguard their interests in respect of monies loaned to the Group. As a result of these arrangements the legal and beneficial interest in the Group's loan portfolio has been transferred out of the Group.

At the same time the Group sold its loan servicing business to a third party and the relevant staff employed by the Group were transferred to the acquirer. All of the remaining employees were made redundant.

Accordingly, the directors have concluded that it is not appropriate to prepare the accounts on a going concern basis and expect to wind up the remaining group companies in the near future. The directors have made adjustments to the carrying values of the Group's assets at 31 March 2007 to reflect recoverable amounts and have made provisions for losses incurred and the Company's assets during the post balance sheet reorganisation as well as for the trading losses reflected in the Group's management accounts for the period to 31 July 2008 and for the estimated losses for the period from 1 August 2008 to the date upon which the companies remaining in the Group are expected to be liquidated.

In addition, loan notes with a value of some £37.7 million have been converted into share capital.