

# **Equidebt Holdings Limited**

Directors' Report and Consolidated Financial  
Statements

Registered number 5524029

For the year ended 30 April 2011

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## Contents

	Page
Directors' Report	3
Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements	7
Independent auditor's report to the members of Equidebt Holdings Limited	8
Consolidated Income Statement	9
Statements of Comprehensive Income	9
Statement of Financial Position	10
Statement of Cash Flows	11
Statement of Changes in Equity	12
Notes to the financial statements	13

## Directors' Report

The directors present their Directors' Report and financial statements for the year ended 30 April 2011

### Principal activities

The principal activity of the business consists of the purchase and collection of debt balances due from consumers, either directly from the borrower or on behalf of the lender or service provider

### Business review

The financial year has been a significant one for the business during which it has successfully completed a financial restructure, returned to profit and further enhanced both the management team and operational capabilities of the business. The financial restructure of the group was completed on 15 June 2010 when the company agreed a new banking facility with its banking syndicate which is in place until April 2013.

The results for the year are shown in the Income Statement on page 9. The consolidated profit before tax of £0.8m compares with a loss of £3.4m in the previous year. Net assets are shown on the Statement of Financial Position on page 10 and show that the position has moved from a deficit attributable to equity shareholders of £34.0m in 2010 to positive net assets of £7.9m as at April 2011.

The Board are confident in the ability of the business to grow by leveraging the existing hybrid platform, using a focused collections strategy within a robust control environment. The group is profitable with a strong balance sheet, is cash generative and well placed to scale up existing operations. Achievements in the year which have contributed to the current position include the strengthening of the management team and investment in new technology including a new dialler system.

### Key Performance Indicators

The Board considers that the following are the key performance indicators of the group, and regularly reviews their appropriateness:

• Cash Collections during the year were	£14.9m	(2010: £16.3m)
• Net purchased debt impairment at 30 April 2011 was	£1.1m	(2010: £0.3m)
• Nominal value of purchased debt receivable at 30 April 2011 was	£837.1m	(2010: £911.8m)
• Carrying value of purchased debt receivable at 30 April 2011 was	£50.9m	(2010: £55.2m)
• Commission from DCA clients for the year ended 30 April 2011 was	£2.3m	(2010: £2.2m)
• Profitability of the group for the year ended 30 April 2011 was	£0.8m	(2010: (£3.4m))
• Net assets of the group as at 30 April 2011 were	£7.9m	(2010: (£34.0m))

Key performance indicators are monitored daily by executive management and by the Board on a monthly basis.

## **Directors' report** *(continued)*

### **Principal risks and uncertainties**

Like its peers the company could be affected by

- **Economic risk**

While the state of the general economy may provide opportunities for purchasing debt at better prices and offer increased new business for its commission based business, an economic downturn will affect consumers' ability to pay which could result in impairment for the group

- **Postal & banking systems**

Disruption to these national services would disrupt important collection channels which would affect the group's cash position and ultimately the value of debt portfolios

- **Competition**

The group faces competition and must continually assess its pricing strategy compared to others while maintaining profitable relationships

- **Reputation**

This is a key risk that must be monitored by the Board and the Executive team. The group is mindful that it maintains its good reputation in the market for its ethical standards, customer service and regulatory compliance

### **Financial instruments**

The group's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt and liquidity risk

The group monitors closely the movement in interest rates and, where appropriate, uses derivative instruments to manage these exposures

The group's principal financial instruments comprise sterling cash and bank deposits, bank loans and overdrafts, other loans and obligations under finance leases together with trade debtors and trade creditors that arise directly from its operations

Purchased debt represents portfolios of debts purchased at prices below the nominal value of the debts. Reporting follows the effective interest method, where the book value of each portfolio corresponds to the present value of all forecast future cash flows discounted by an effective interest rate (EIR) determined on the date the portfolio was acquired. Changes in the book value of portfolios arise where cash flows achieved vary to those originally forecast. These adjustments are recognised in the income statement on the interest and similar income line with the exception of movements arising from impairment and reversals of impairment which are shown separately in the income statement

## **Directors' report** *(continued)*

The main risks arising from the group's financial instruments can be analysed as follows

### *Credit risk*

The group's principal financial assets are purchased debt portfolios, bank balances and trade debtors, which represent the company's maximum exposure to credit risk in relation to financial assets

The group's credit risk is primarily attributable to its purchased debt debtor balances. This is managed in appropriately pricing the portfolios of debt for purchase, by rehabilitating a percentage of the debtors' balances purchased into paying accounts and by continuously monitoring those debtor accounts. The amounts presented in the Statement of Financial Position represent the net book value of purchased portfolios of debt. Regular reassessment reviews are undertaken to ensure forecast future cash flows arising from the owned portfolios are sufficient to support the outstanding net book value of the purchased debt portfolios. This is regularly reviewed by management, as are the changes in the current economic and regulatory environments and the impact these may have on current and future cash flows. The credit risk on trade debtors is managed by monitoring the aggregate amount and duration of exposure to any one client, who on the whole, are financial institutions with high credit-ratings assigned by international credit-rating agencies. The amounts presented in the Statement of Financial Position are net of allowances for doubtful debts, estimated by the group's management based on prior experience and their assessment of the current economic environment.

The credit risk on cash deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

### *Liquidity risk*

The group's policy has been to ensure continuity of funding through the generation of cash flows from the rehabilitation of purchased debtors' balances and arranging funding for the purchase of debt portfolios via medium-term revolving credit facilities and loan capital provided by investors. The liquidity of the group is managed closely on a daily basis with regular longer term forecasting.

### *Cash flow interest rate risks*

The interest rate on the credit facility is at senior lending rates. The group monitors closely the movement in interest rates and where appropriate, uses derivative instruments to manage these exposures.

## **Environment**

The group's aspiration to protect the environment and minimise the amount of natural resources it uses is supported by the commitment to

- Comply with all relevant environmental legislation, regulations and approved codes of practice,
- Protect the environment by striving to prevent and minimise our contribution to pollution of land, air and water,
- Seek to keep wastage to a minimum and maximise the efficient use of materials and resources,
- Manage and dispose of all waste in a responsible manner,
- Provide relevant training and guidance for all staff,
- Develop our management processes to ensure that environmental factors are considered during planning and implementation, and
- Monitor and continuously improve our environmental performance.

The group's environment policy statement is regularly reviewed and updated as necessary.

## Directors' report *(continued)*

### Proposed dividend

The directors do not recommend the payment of a dividend (2010 £Nil)

### Directors

The directors who held office during the year were as follows

K Breslauer  
J E Dillon  
R T Langstaff (Appointed 24 January 2011)  
H J G Mair  
P F McDonnell (Appointed 30 September 2010)  
B A Prescott (Appointed 15 June 2010)  
R P Scott  
P A S F Wilding (Resigned 30 September 2010)

The directors benefited from certain indemnity provisions made by the company

### Employees

The group views investment in its employees as key to its success and its policy is to ensure the involvement of employees in the group's performance with incentive schemes as appropriate. There are well established communications processes including consultation forums, company briefings and the use of electronic channels.

The group invests in regular training programmes to assist employees in achieving their potential.

### Charitable donations

The following charitable donations were made during the year

Consumer Credit Counselling Service	£18,000	(2010 £18,000)
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### Going Concern

The Board, while noting the 2011 financial results, have considered in depth the current five year business plan to April 2016, including cash flow projections and the banking facility and associated covenants for the group expiring in 2013. The business is cash generative and is positioned to deliver profitable growth into the foreseeable future. The financial restructuring further strengthens the positive outlook for the group and the management team have delivered business, operational and financial efficiencies in the financial year to further support the business. The Board are satisfied that the group accounts should be signed on a going concern basis.

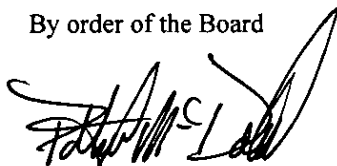
### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG Audit Plc will therefore continue in office.

By order of the Board



P F McDonnell  
Director

Equity House  
Ettington Road  
Wellesbourne  
Warwickshire  
CV35 9GA

22/07/2011

## **Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period.

In preparing these 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 they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditor's report to the members of Equidebt Holdings Limited**

We have audited the financial statements of Equidebt Holdings Limited for the year ended 30 April 2011 set out on pages 9 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 April 2011 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

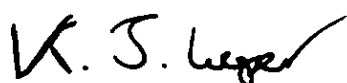
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



22/07/11

**Kieren Cooper (Senior Statutory Auditor)**  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
*Chartered Accountants*  
One Snowhill  
Snow Hill Queensway  
Birmingham B4 6GH



**Consolidated Income Statement**  
for the year ended 30 April 2011

	<i>Note</i>	<b>2011</b> <b>£000</b>	2010 £000
Interest receivable and similar income	2	11,489	21,641
Interest expense and similar charges	3	(2,875)	(7,470)
<b>Net interest income</b>		<b>8,614</b>	14,171
Fees and commission income	4	2,457	2,330
<b>Net total income</b>		<b>11,071</b>	16,501
Operating expenses	5,8	(9,463)	(10,962)
Impairment losses on loans and receivables	6	(856)	(9,012)
<b>Profit / (Loss) before income tax</b>		<b>752</b>	(3,473)
Income tax credit	9	-	71
<b>Profit / (Loss) for the year attributable to equity shareholders</b>		<b>752</b>	(3,402)

All the group's activities during the above periods relate to continuing operations

**Statements of Comprehensive Income**  
for the year ended 30 April 2011

There has been no comprehensive income or expense other than the profit/(loss) for the years as shown above

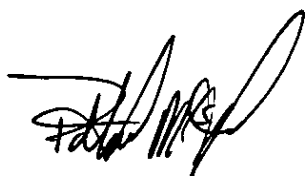
Notes on pages 13 to 39 form part of these financial statements

**Statement of Financial Position**  
**at 30 April 2011**

	<i>Note</i>	<b>Group 2011 £000</b>	<b>Group 2010 £000</b>	<b>Company 2011 £000</b>	<b>Company 2010 £000</b>
<b>Non-current assets</b>					
Property, plant and equipment	13	572	412	-	-
Investments in subsidiaries	16	-	-	-	-
Intangible assets	14	108	72	-	-
		<u>680</u>	<u>484</u>	<u>-</u>	<u>-</u>
<b>Current assets</b>					
Loans and receivables – purchased debts	11	50,866	55,178	-	-
Trade and other receivables	12	963	1,095	162	14,340
Current tax recoverable	10	-	15	-	-
Cash and cash equivalents		2,876	3,435	-	-
		<u>54,705</u>	<u>59,723</u>	<u>162</u>	<u>14,340</u>
<b>Total assets</b>		<u>55,385</u>	<u>60,207</u>	<u>162</u>	<u>14,340</u>
<b>Liabilities</b>					
Loans and borrowings	17	42,634	52,018	-	3,000
Loan notes	18	-	37,691	-	37,691
Trade and other payables	19	4,827	4,498	47	293
		<u>47,461</u>	<u>94,207</u>	<u>47</u>	<u>40,984</u>
<b>Total liabilities</b>		<u>47,461</u>	<u>94,207</u>	<u>47</u>	<u>40,984</u>
<b>Equity</b>					
Called up share capital	20	9	-	9	-
Share premium	20	51,718	8,590	51,718	8,590
Warrant reserve	20	-	1,965	-	1,965
Capital redemption reserve	20	-	-	-	-
Capital contribution reserve	20	-	-	(20,720)	(1,364)
Reserves	20	(43,803)	(44,555)	(30,892)	(35,835)
		<u>7,924</u>	<u>(34,000)</u>	<u>115</u>	<u>(26,644)</u>
<b>Total attributable to equity shareholders</b>		<u>7,924</u>	<u>(34,000)</u>	<u>115</u>	<u>(26,644)</u>
<b>Total equity and liabilities</b>		<u>55,385</u>	<u>60,207</u>	<u>162</u>	<u>14,340</u>

Notes on pages 13 to 39 form part of these financial statements

These financial statements were approved by the board of directors on 22/07/2011 and were signed on its behalf by



**P F McDonnell**  
*Director*

**Company registered number: 5524029**

**Statement of Cash Flows**  
**for the year ended 30 April 2011**

	<b>Group 2011 £000</b>	<b>Group 2010 £000</b>	<b>Company 2011 £000</b>	<b>Company 2010 £000</b>
<b>Cash flows from operating activities</b>				
Profit/(Loss) before tax	752	(3,473)	4,943	(5,290)
<i>Adjustments to reconcile profit/(loss) before tax to net cash flows from operating activities</i>				
Net interest (income)/expense	(8,614)	(17,095)	(5,010)	5,272
Interest received	14,945	16,464	4,887	146
Interest paid	(2,944)	(1,798)	-	(129)
Depreciation and impairment of property, plant and equipment	174	185	-	-
Amortisation of intangible assets	38	23	-	-
Impairment of loans and receivables	856	11,937	-	-
Decrease/(increase) in trade and other receivables	132	(50)	(5,178)	2,718
Increase/(decrease) in trade and other payables	274	(1,018)	(246)	(1,354)
Tax refund	15	-	-	-
<b>Net cash from operating activities</b>	<b>5,628</b>	<b>5,175</b>	<b>(604)</b>	<b>1,363</b>
<b>Cash flows from investing activities</b>				
Purchase cost of property, plant and equipment and intangible assets	(407)	(216)	-	-
<b>Net cash from investing activities</b>	<b>(407)</b>	<b>(216)</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>				
Repayment of existing facilities	(6,384)	(6,400)	-	-
Repayment of loan notes	(40,568)	-	(21,212)	-
Proceeds from issue of shares	41,172	-	21,816	-
Waiver of amounts due from group companies	-	-	-	(1,364)
<b>Net cash from financing activities</b>	<b>(5,780)</b>	<b>(6,400)</b>	<b>604</b>	<b>(1,364)</b>
Net decrease in cash and cash equivalents	(559)	(1,441)	-	(1)
Cash and cash equivalents at 1 May	3,435	4,876	-	1
<b>Cash and cash equivalents at 30 April</b>	<b>2,876</b>	<b>3,435</b>	<b>-</b>	<b>-</b>

Notes on pages 13 to 39 form part of these financial statements

## Statement of Changes in Equity for the year ended 30 April 2011

### Group.

	Called up Share Capital	Share Premium	Warrant Reserve	Retained Earnings	Total Equity
	£000	£000	£000	£000	£000
At 1 May 2010	-	8,590	1,965	(44,555)	(34,000)
Total comprehensive income for the year	-	-	-	752	752
Issue of share capital	9	-	-	-	9
Transferred to share premium	-	1,965	(1,965)	-	-
Loan notes capitalised on issue of new share capital	-	38,163	-	-	38,163
Transfer A share capital	-	3,000	-	-	3,000
<b>At 30 April 2011</b>	<b>9</b>	<b>51,718</b>	<b>-</b>	<b>(43,803)</b>	<b>7,924</b>
At 1 May 2009	-	8,590	1,965	(41,153)	(30,598)
Total comprehensive income for the year	-	-	-	(3,402)	(3,402)
<b>At 30 April 2010</b>	<b>-</b>	<b>8,590</b>	<b>1,965</b>	<b>(44,555)</b>	<b>(34,000)</b>

## Statement of Changes in Equity for the year ended 30 April 2011

### Company\*

	Called up Share Capital	Share Premium	Warrant Reserve	Capital Contribution Reserve	Retained Earnings	Total Equity
	£000	£000	£000	£000	£000	£000
At 1 May 2010	-	8,590	1,965	(1,364)	(35,835)	(26,644)
Total comprehensive income for the year	-	-	-	-	4,943	4,943
Issue of share capital	9	-	-	-	-	9
Transferred to share premium	-	1,965	(1,965)	-	-	-
Loan Notes capitalised on issue of new share capital	-	38,163	-	(19,356)	-	18,807
Transfer A share capital	-	3,000	-	-	-	3,000
<b>At 30 April 2011</b>	<b>9</b>	<b>51,718</b>	<b>-</b>	<b>(20,720)</b>	<b>(30,892)</b>	<b>115</b>
At 1 May 2009	-	8,590	1,965	-	(30,545)	(19,990)
Total comprehensive income for the year	-	-	-	-	(5,290)	(5,290)
Capital contribution	-	-	-	(1,364)	-	(1,364)
<b>At 30 April 2010</b>	<b>-</b>	<b>8,590</b>	<b>1,965</b>	<b>(1,364)</b>	<b>(35,835)</b>	<b>(26,644)</b>

Notes on pages 13 to 39 form part of these financial statements

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

#### ***Basis of preparation***

Equidebt Holdings Limited (the "company") is a company incorporated in the UK

The group financial statements consolidate those of the company and its subsidiaries (together referred to as the "group") The parent company financial statements present information about the company as a separate entity and not about its group

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") On publishing the parent company financial statements here together with the group financial statements, the company is availing of the exemption in S230 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements

At 30 April 2011 a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for either the group or the company's financial statements as at 30 April 2011 The standards and interpretations are not expected to have significant effect on the financial statements of either the group or the company

No standards or interpretations available for early adoption are expected to have a significant effect on the results or net assets of the group or the company when adopted

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except where stated otherwise

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21

#### ***Going concern***

The business is cash generative and is positioned to deliver profitable growth into the foreseeable future The group has recently completed a major business and financial restructuring which further strengthens the positive outlook for the group and the management team have delivered business, operational and financial efficiencies in the financial year to further support the business

The directors have prepared business plans and carried out sensitivity analysis of stressed, but reasonable scenarios, to demonstrate that they can operate within the terms of the new bank facility and therefore continue to trade for a period of at least 12 months from signing the accounts Therefore the directors believe it appropriate to prepare the accounts on a going concern basis

#### ***Measurement convention***

The financial information is prepared on the historical cost basis

#### ***Basis of consolidation***

Subsidiaries are entities controlled by the group Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities In assessing control, potential voting rights that are currently exercisable or convertible are taken into account The financial information of subsidiaries are included in the consolidated financial information from the date that control commences until the date that control ceases Intra-group balances are eliminated in preparing the consolidated financial information

## Notes (continued)

### 1 Accounting policies (continued)

#### *Classification of financial instruments issued by Equidebt Holdings Limited*

Following the adoption of IAS 32, financial instruments issued by Equidebt Holdings Limited are treated as a liability to the extent that they meet the following conditions

- there is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, or
- there is a contract that will or may be settled in the entity's own equity instruments and this is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as equity

Interest and other finance payments associated with financial liabilities are dealt with as part of interest expense and similar charges. Dividends on financial instruments that are classified in equity are recorded directly in equity

#### *Financial assets and liabilities*

A financial instrument is defined as any form of contract giving rise to a financial asset in one party and a financial liability or equity instrument in a counterparty

Financial instruments are carried and recognised in the group in accordance with the rules in IAS 39

Financial assets and financial liabilities are initially recognised at fair value plus transaction expenses that are directly attributable to the acquisition or issue of the financial asset or financial liability. Subsequent measurement is based on amortised cost. The group does not account for any financial instruments at fair value through the profit and loss account

A financial asset or financial liability is recognised in the Statement of Financial Position when the company becomes party to the instrument's contractual terms

A financial asset is removed from the Statement of Financial Position when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. A financial liability is removed from the Statement of Financial Position when the obligation in the agreement has been discharged or otherwise extinguished

#### *Classification of financial instruments*

- *Loans and receivables - purchased debt* Loans and receivables are non-derivative financial assets that are not quoted in an active market. The category also includes acquired receivables. Assets in this category are carried at amortised cost. Amortised cost is determined based on the effective interest rate calculated and determined on the acquisition date
- *Financial liabilities* Financial liabilities are carried at amortised cost

## Notes (continued)

### 1 Accounting policies (continued)

#### *Purchased debt*

Purchased debt represents portfolios of debts purchased at prices below the nominal value of the debts

Reporting follows the effective interest method, where the book value of each portfolio corresponds to the present value of all forecast future cash flows discounted by an effective interest rate (EIR) determined on the date the portfolio was acquired. Changes in the book value of portfolios arise where cash flows achieved, vary to those original forecasts. These adjustments are recognised in the income statement on the interest and similar income line with the exception of movements arising because of impairment and reversals of impairment which are shown separately in the income statement.

At the time of the purchase of each portfolio, a forecast is made of the portfolio's forecast cash flows. Using this forecast, each portfolio is assigned an effective interest rate that is then used to discount cash flows through the life of the portfolio. Current cash flow forecasts are monitored over the course of the year and updated based on, among other things, actual cash collections. The carrying value is disclosed on the Statement of Financial Position on page 10.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

Leases in which the group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease. Thereafter, they are accounted for in accordance with the accounting policy applicable to that asset. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

Computer equipment	4 years
Fixtures and fittings	10 years

#### *Intangible assets and goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the net fair value of identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles that can be reliably measured are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment. Negative goodwill arising on an acquisition is recognised in profit or loss.

Computer software acquired by the group is recognised as an intangible asset and is stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each Statement of Financial Position date. Computer software is amortised from the date it is available for use over its estimated useful life of four years.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits with a maturity of less than three months. At the reporting date there was £567k (2010 £349k) of funds in separate bank accounts, held in trust on behalf of clients.

#### ***Impairment***

The carrying amounts of the group's assets other than deferred tax assets are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is re-estimated and an impairment charge made accordingly.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date. The impairment review of goodwill is based on a valuation using future forecast cash flows arising from a) the portfolios of purchased debt and b) the commission collect businesses, net of costs, discounted at the weighted average cost of capital. Providing this supports a valuation in excess of the goodwill figure carried in the Statement of Financial Position, no impairment is required.

The recoverable amount of the group's investments in purchased debt is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

#### ***Reversals of impairment***

An impairment loss in respect of purchased debt is reversed if a subsequent increase in forecast future cash flows results in an increase in the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

#### ***Loans and borrowings and loan notes***

Loans and borrowings and loan notes are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement in interest expense and similar charges over the period of the borrowings on an effective interest basis.

#### ***Employee benefits***

##### ***Defined contribution plans***

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. Other pension costs disclosed in note 7 represent contributions paid to the defined contribution plans.

#### ***Revenue recognition and segmental reporting***

Income from purchased debt portfolios is recognised on an effective interest rate method through the interest and similar income line in the income statement. The effective interest rate is the rate that exactly discounts the estimated future cash flows on each portfolio through its expected life back to the cost of acquisition.

The group earns commission income from debt collection and other services it provides to its clients. Commission is recognised when the provision of services has occurred and there is a contractual obligation to pay.

The group makes a charge to debtors when taking legal action as part of the collection process. The benefit that the company acquires from this activity is reflected through enhanced recoverability of purchased debt assets, rather than being recognised as a separate receivable.

Other income within fees and commission relates to income from services ancillary to debt collection provided to clients.

The business operates only within the UK and is regarded as one segment due to the nature of the services provided and the methods used to provide these services.



## **Notes** *(continued)*

### **1** **Accounting policies** *(continued)*

#### **Interest expense**

Interest expense is recognised as it accrues, using the effective interest method

#### **Leases**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

#### **Taxation**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Statement of Financial Position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

#### **Critical accounting estimates and judgements**

The preparation of financial information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Where management's judgement has been applied, this is noted in the relevant accounting policy.

#### **Purchased debt**

As indicated above, the recognition of purchased debt is based on the company's own forecast of future cash flows from acquired portfolios; the carrying amount is disclosed in the Statement of Financial Position on page 10. A 1% movement in the forecast future cash flows at the Statement of Financial Position date has an approximate impact of £0.6m, which would be recognised in the company Income Statement in the period in which those cash flow estimates were revised.

#### **Unidentified receipts**

The company makes every effort to allocate cash received to the correct debtor account. Rigorous procedures are undertaken in following up all receipts from or on behalf of unidentifiable debtors and overpayments by debtors who cannot be located.

In some instances, however, it is not possible to identify the debtor account or locate the debtor for refund and in these circumstances the provision is released only when it is appropriate to do so based on management's best estimates and experience.

**Notes** *(continued)*

**2 Interest receivable and similar income**

	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>
On purchased debt portfolios		
Interest receivable	11,686	12,907
Valuation adjustments	(197)	8 733
On bank balances	-	1
	<u>11,489</u>	<u>21,641</u>

**3 Interest expense and similar charges**

	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>
On borrowings secured on purchased debt portfolios	2,394	1,645
Amortisation of loan arrangement fees	-	578
Loan note interest	481	5,247
	<u>2,875</u>	<u>7,470</u>

**4 Fees and commission income**

	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>
Commission on collections on behalf of third parties	2,327	2,227
Court and legal fee income	-	27
Other income	130	76
	<u>2,457</u>	<u>2,330</u>

## Notes (continued)

### 5 Operating expenses

	2011 £000	2010 £000
Staff costs (note 7)	4,588	5,362
Operating Leases		
Land and Buildings	369	370
Depreciation	174	188
Amortisation	38	672
Other operating expenses	4,121	3,594
Exceptional charge	173	776
	<hr/>	<hr/>
Total operating expenses	9,463	10,962
	<hr/>	<hr/>

#### Auditors' remuneration included in the above

Audit of these and other group entities financial statements	55	61
Other services relating to taxation	-	35
Services relating to corporate finance transactions entered into or proposed to be entered into by, or on behalf of, the company	20	-
All other services	1	28
	<hr/>	<hr/>
Total operating expenses	76	124
	<hr/>	<hr/>

### 6 Impairment losses on loans and receivables

	2011 £000	2010 £000
Impairment losses on loans and receivables	856	9,012
	<hr/>	<hr/>
	<hr/>	<hr/>
	£000	£000
Charged to impairment during the year	3,158	12 350
Credit relating to impairment charged in prior years	(2,302)	(3,338)
	<hr/>	<hr/>
Impairment losses on loans and receivables	856	9,012
	<hr/>	<hr/>

## Notes (continued)

### 7 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows

	Number of employees		Number of employees	
	Group 2011	Group 2010	Company 2011	Company 2010
Collections	95	106	-	-
Administration	65	67	1	3
	<u>160</u>	<u>173</u>	<u>1</u>	<u>3</u>

The aggregate payroll costs of these persons were as follows

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Wages and salaries	4,148	4,862	239	535
Social security costs	349	397	10	28
Other pension costs	91	103	5	13
	<u>4,588</u>	<u>5,362</u>	<u>254</u>	<u>576</u>

### 8 Directors' remuneration

	Group 2011 £000	Group 2010 £000
Directors' emoluments	416	296
Company contributions to money purchase pension plans	12	17
	<u>428</u>	<u>313</u>

The aggregate of emoluments of the highest paid director was £191,462 in the year to 30 April 2011 (2010 £165,115), and company pension contributions of £Nil (2010 £13,100) were made to a money purchase scheme on his behalf. Compensation for loss of office was paid to directors of £69,000 (2010 £Nil)

	Number of Directors	
	2011	2010
Retirement benefits are accruing to the following number of directors under Money purchase schemes	<u>1</u>	<u>2</u>

## Notes (continued)

### 9 Taxation

#### Recognised in the income statement

	2011 £000	2010 £000
Current tax expense		
Current year	-	-
Adjustments for prior years	-	-
	<hr/>	<hr/>
	-	-
Deferred tax expense		
Origination and reversal of temporary differences		
Current year	-	-
Adjustment for prior years	-	(71)
Changes in tax rates	-	-
	<hr/>	<hr/>
Total tax in income statement	-	(71)
	<hr/>	<hr/>

#### Reconciliation of effective tax rate

	2011 £000	2010 £000
Profit / (Loss) for the year	752	(3,473)
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 27.84% (2010: 28%)	209	(972)
Expenses not deductible	235	51
Prior year adjustments	-	(71)
Other timing differences	(1)	-
Net deferred tax not recognised	330	(1,863)
Use of tax losses not recognised in deferred tax	-	(707)
Difference between tax value and market value of interest accrued in the year	-	3,491
Utilisation of brought forward tax losses	(773)	-
	<hr/>	<hr/>
Total tax in income statement	-	(71)
	<hr/>	<hr/>

On 23 March 2011 the Government announced that the main rate of Corporation Tax would be reduced from 28% to 26% with effect from 1 April 2011.

On the same date the Government also announced that there would be subsequent 1% reductions per annum to reach 23% with effect from 1 April 2014. These tax rate reductions had not been substantively enacted at the date of the Statement of Financial Position. This will reduce the company's future current tax charge.

## Notes (continued)

### 10 Current tax recoverable

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Tax receivable	-	15	-	-

### 11 Loans and receivables – purchased debt - Group

	2011 £000	2010 £000
<i>Loans and receivables</i>		
At beginning of year	55,178	58,890
Interest receivable	11,686	12,907
Valuation adjustments following re-estimation of forecast future cash flows	(197)	8,733
Net interest receivable (note 2)	11,489	21,640
Cash collections	(14,945)	(16 340)
Impairment (Note 6)	(856)	(9,012)
At end of year	50,866	55,178

### 12 Trade and other receivables

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Trade receivables	307	416	-	-
Prepayments and accrued income	626	590	-	-
Share capital not paid up	30	89	30	89
Amounts due from group companies	-	-	132	14,251
	963	1,095	162	14,340

## Notes (continued)

### 13 Property, plant and equipment – Group

	Fixtures and fittings £000	Computer hardware £000	Improvements to property £000	Total £000
<b>Cost</b>				
At 30 April 2009	342	829	6	1,177
Transfers	-	(65)	-	(65)
Additions	-	224	3	227
Disposals	(2)	-	-	(2)
Write-offs	-	(8)	-	(8)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 April 2010	340	980	9	1,329
Additions	-	333	-	333
Write-offs	(2)	-	-	(2)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 April 2011	338	1,313	9	1,660
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>				
At 30 April 2009	214	553	1	768
Transfers	-	(30)	-	(30)
Charge for year	38	150	-	188
Write-offs	(1)	(8)	-	(9)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 April 2010	251	665	1	917
Charge for year	30	143	1	174
Write-offs	(2)	(1)	-	(3)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 April 2011	279	807	2	1,088
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 30 April 2011	59	506	7	572
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 April 2010	89	315	8	412
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 14 Intangible assets – Group

	Goodwill £000	Computer software £000	Total £000
<b>Cost</b>			
At 30 April 2009	16,947	377	17,324
Additions	-	55	55
Disposals	-	(181)	(181)
	<hr/>	<hr/>	<hr/>
Balance at 30 April 2010	16,947	251	17,198
Additions	-	74	74
	<hr/>	<hr/>	<hr/>
Balance at 30 April 2011	16,947	325	17,272
	<hr/>	<hr/>	<hr/>
<b>Amortisation and impairment</b>			
At 30 April 2009	16,947	307	17,254
Amortisation for the year	-	31	31
Eliminated on disposals	-	(159)	(159)
	<hr/>	<hr/>	<hr/>
Balance at 30 April 2010	16,947	179	17,126
Amortisation for the year	-	38	38
	<hr/>	<hr/>	<hr/>
Balance at 30 April 2011	16,947	217	17,164
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 30 April 2011	-	108	108
	<hr/>	<hr/>	<hr/>
At 30 April 2010	-	72	72
	<hr/>	<hr/>	<hr/>

### 15 Deferred tax assets and liabilities

#### – Group

No deferred tax assets or liabilities have been recognised at the year end (2010 £Nil), and there has been no movement in deferred tax during the current or previous period

Within the group there are net deferred tax assets of £2.9m (2010 £4.5m) relating to taxable losses offset by other timing differences that have not been recognised due to the uncertainty over the timing of their future recoverability

#### – Company

Within the company there are net deferred tax assets of £Nil (2010 £0.8m) relating to taxable losses offset by other timing differences that have not been recognised due to the uncertainty over the timing of their future recoverability



## Notes (continued)

### 16 Investments in subsidiaries

#### Group

The group has the following investments in the ordinary share capital of subsidiaries, each of which is incorporated in the United Kingdom

		2011 %	2010 %
Equidebt Limited	Debt collection	100	100
Sine Qua Non Services Limited*	Debt collection	100	100
Credit Ancillary Services Limited*	Debt collection, trace and investigation services	100	100
Equidebt EBT Limited	Trust company	100	100
Credit Helpline Limited*	Non trading – dormant	100	100
Speed 8758 Limited*	Non trading – dormant	100	100

\* Indirect holding via Equidebt Limited

#### Company

**Investments  
in subsidiaries  
£000**

#### Cost

At 30 April 2010 and 30 April 2011

-

### 17 Loans and borrowings

This note provides information about the contractual terms of the group's interest-bearing loans and borrowings within the current financial year. For more information about the group's exposure to interest rate risk, see note 21 (c).

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Borrowings secured on purchased debt portfolios	42,634	49,018	-	-
Shares classified as debt	-	3,000	-	3,000
	<u>42,634</u>	<u>52,018</u>	<u>-</u>	<u>3,000</u>

## Notes (continued)

### 18 Loan notes

#### Group and Company

	2011 £000	2010 £000
10% unsecured subordinated loan notes repayable 2012	-	14,980
10% unsecured redeemable loan notes repayable 2012	-	4,211
10% convertible unsecured subordinated loan notes repayable 2012	-	11,225
25% unsecured preferred loan notes repayable 2010/2011/2012	-	7,275
	<u>-</u>	<u>37,691</u>

Following the restructure of the business on 15 June 2010, the loan notes in issue at that time, as well as the shares classified as debt (See note 17), were redeemed against the issue of a new share capital structure. Details of the new share capital in issue is shown in note 20.

### 19 Trade and other payables

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Client funds payable	1,203	351	-	-
Trade payables	559	294	-	-
Non-trade payables and accrued expense	3,061	3,846	47	286
Other tax and social security	4	7	-	7
	<u>4,827</u>	<u>4,498</u>	<u>47</u>	<u>293</u>

### 20 Capital and reserves

#### Reconciliation of movement in capital and reserves – Group

	Share Capital £000	Share Premium £000	Warrant Reserve £000	Retained Earnings £000	Total Equity £000
Balance at 30 April 2009	-	8,590	1,965	(41,153)	(30,598)
Loss for the year	-	-	-	(3,402)	(3,402)
	<u>-</u>	<u>8,590</u>	<u>1,965</u>	<u>(44,555)</u>	<u>(34,000)</u>
At 30 April 2010	-	8,590	1,965	(44,555)	(34,000)
Profit for the year	-	-	-	752	752
Movements on capitalisation of loan notes	9	43,128	(1,965)	-	41,172
	<u>9</u>	<u>51,718</u>	<u>-</u>	<u>(43,803)</u>	<u>7,924</u>
At 30 April 2011	9	51,718	-	(43,803)	7,924

## Notes (continued)

### 20 Capital and reserves (continued)

#### Reconciliation of movement in capital and reserves – Company

	Share Capital £000	Share Premium £000	Warrant Reserve £000	Capital Contribution Reserve £000	Retained Earnings £000	Total Equity £000
Balance at 1 May 2009	-	8,590	1,965	-	(30,545)	(19,990)
Loss for the year	-	-	-	-	(5,290)	(5,290)
Capital contribution	-	-	-	(1,364)	-	(1,364)
At 30 April 2010	-	8,590	1,965	(1,364)	(35,835)	(26,644)
Profit for the year	-	-	-	-	4,943	4,943
Movements on capitalisation of loan notes	9	43,128	(1,965)	-	-	41,172
Capital contribution	-	-	-	(19,356)	-	(19,356)
At 30 April 2011	9	51,718	-	(20,720)	(30,892)	115

#### Share Capital

The addition to share capital of £9,000 is due to the restructure which occurred in June 2010

#### Share Premium

The addition to share premium of £43,128,000 is due to the restructure which occurred in June 2010

#### Warrant Reserve

The warrant reserve comprised share warrants that were issued on 1 July 2007 and were attached to the variable unsecured redeemable loan notes (see note 18), this reserve was eliminated by the restructure in June 2010 when all loan notes were redeemed

#### Capital Contribution Reserve

A capital contribution of £19,356,000 was made by the company in Equidebt Limited, in connection with the restructure of June 2010

## Notes (continued)

### 20 Capital and reserves (continued)

#### Share capital

Any profits of the company which are available for lawful distribution and which the Board resolves to distribute to Members shall first be distributed to the holders of the A shares in priority to all other classes of Share

On an exit, the share sale value shall be distributed as follows first, in paying to the holders of the A shares (as a class) a priority profit share, and thereafter any further share sale value shall be distributed amongst holders of the B shares

	A Ordinary shares		B Ordinary shares		C Ordinary shares		D Ordinary shares	
	2011	2010	2011	2010	2011	2010	2011	2010
	£	£	£	£	£	£	£	£
<b>Authorised</b>								
In thousands of £1 shares	-	-	501	-	-	-	-	-
In thousands of £0.0001 shares	5,436	2,700	3,332	1,800	-	500	-	-
In thousands of £0.0000001 shares	-	-	-	-	-	-	-	10,000
	<b>5,436</b>	<b>2,700</b>	<b>3,833</b>	<b>1,800</b>	<b>-</b>	<b>500</b>	<b>-</b>	<b>10,000</b>
<b>Allotted, called up and fully paid</b>								
In thousands of £1 shares	-	-	501	-	-	-	-	-
In thousands of £0.0001 shares	5,436	2,700	3,332	1,800	-	500	-	-
In thousands of £0.0000001 shares	-	-	-	-	-	-	-	10,000
	<b>5,436</b>	<b>2,700</b>	<b>3,833</b>	<b>1,800</b>	<b>-</b>	<b>500</b>	<b>-</b>	<b>10,000</b>
<b>Allotted and not fully paid</b>								
In thousands of £0.0001 shares	-	-	-	-	-	500	-	-
In thousands of £0.0000001 shares	-	-	-	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>500</b>	<b>-</b>	<b>-</b>

	A Ordinary shares		B Ordinary shares		C Ordinary shares		D Ordinary shares	
	2011	2010	2011	2010	2011	2010	2011	2010
	£	£	£	£	£	£	£	£
<b>Allotted, called up and fully paid</b>								
Shares classified as liabilities	-	270	-	-	-	-	-	-
Shares classified in shareholders funds	5,436	-	3,833	180	-	-	-	1
	<b>5,436</b>	<b>270</b>	<b>3,833</b>	<b>180</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Allotted, called up and fully paid</b>								
Shares classified in shareholders funds	-	-	-	-	-	50	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>-</b>

#### Dividends

After the Statement of Financial Position date dividends of £Nil per qualifying ordinary share (2010 £Nil) were proposed by the directors

## **Notes** *(continued)*

### **21 Financial instruments**

#### **(a) Fair values of financial instruments**

##### *Loans and receivables – Purchased debt*

The fair value of purchased debt receivables is estimated as the present value of future cash flows, discounted at the effective interest rate at the date of purchase

##### *Trade and other receivables*

The fair value of trade and other receivables is estimated as its carrying amount

##### *Trade and other payables*

The fair value of trade and other payables is estimated as its carrying amount

##### *Cash and cash equivalents*

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the Statement of Financial Position date.

##### *Interest-bearing borrowings*

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the Statement of Financial Position date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

## Notes (continued)

### 21 Financial instruments (continued)

#### Fair values

The fair values for each class of financial assets and financial liabilities together with their carrying amounts shown in the Statement of Financial Position are as follows

<i>Group</i>	<b>Carrying amount 2011 £000</b>	<b>Fair value 2011 £000</b>	<b>Carrying amount 2010 £000</b>	<b>Fair value 2010 £000</b>
Cash & cash equivalents	2,876	2,876	3,435	3,435
Loans and receivables – purchased debt (note 11)	50,866	50,866	55,178	55,178
Other assets – trade receivables (note 12)	307	307	416	416
Borrowings secured on purchased debt portfolios (note 17)	(42,634)	(42,634)	(49,018)	(49,018)
Loan notes (note 18)	-	-	(37,691)	(37,691)
Client funds payable (note 19)	(1,203)	(1,203)	(351)	(351)
Trade payables (note 19)	(559)	(559)	(294)	(294)
<b>Total financial instruments</b>	<b>9,653</b>	<b>9,653</b>	<b>(28,325)</b>	<b>(28,325)</b>
<b>IAS 39 categories of financial instruments</b>				
Cash and cash equivalents	2,876		3,435	
Loans and receivables - purchased debt (note 11)	50,866		55,178	
Other assets - trade receivables (note 12)	307		416	
<b>Total loans and receivables</b>	<b>51,173</b>		<b>55,594</b>	
<b>Total financial assets</b>	<b>54,049</b>		<b>59,029</b>	
Borrowings secured on purchased debt portfolio (note 17)	(42,634)		(49,018)	
Loan notes (note 18)	-		(37,691)	
Client funds payable (note 19)	(1,203)		(351)	
Trade payables (note 19)	(559)		(294)	
<b>Total financial liabilities measured at amortised cost</b>	<b>(44,396)</b>		<b>(87,354)</b>	
<b>Total financial instruments</b>	<b>9,653</b>		<b>(28,325)</b>	

The directors consider that there is no material differences between the carrying value and the fair value of the financial assets and liabilities disclosed within this financial statement

## Notes (continued)

### 21 Financial instruments (continued)

<i>Company</i>	<b>Carrying amount 2011 £000</b>	<b>Fair value 2011 £000</b>	<b>Carrying amount 2010 £000</b>	<b>Fair value 2010 £000</b>
Cash & cash equivalents	-	-	-	-
Amounts due from group companies (note 12)	132	132	14,251	14,251
Loan notes (note 18)	-	-	(37,691)	(37,691)
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial instruments	132	132	(23,440)	(23,440)
	<hr/>	<hr/>	<hr/>	<hr/>
<i>IAS 39 categories of financial instruments</i>				
Cash and cash equivalents	-	-	-	-
	<hr/>		<hr/>	
Amounts due from group companies (note 12)	132		14,251	
	<hr/>		<hr/>	
Total loans and receivables	132		14,251	
	<hr/>		<hr/>	
Total financial assets	132		14,251	
	<hr/>		<hr/>	
Loan notes (note 18)	-		(37,691)	
	<hr/>		<hr/>	
Total financial liabilities measured at amortised cost	-		(37,691)	
	<hr/>		<hr/>	
Total financial instruments	132		(23,440)	
	<hr/>		<hr/>	

## **Notes (continued)**

### **21 Financial instruments (continued)**

#### **(b) Credit risk**

##### *Financial risk management*

##### **Group**

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily in relation to cash and cash equivalents, accounts receivable, purchased debt and outlays on behalf of clients. It is the responsibility of the Finance Director to manage its short term financial assets. These are managed on a daily basis by reviewing the transactions with the financial institutions and monitoring against a regularly updated forecast position.

The group's cash and cash equivalents consist primarily of bank balances and other short-term financial assets with a remaining maturity of less than three months. The group has deposited its cash equivalents with established financial institutions where the risk of loss is considered remote.

The group has accounts receivable and purchased debt from financial sector clients.

The group acquires portfolios of consumer receivables and works to collect them, assuming all the rights and risks associated with the receivables. The portfolios are purchased at prices significantly below their nominal value and the group retain the entire amount it collects, including interest and fees. To minimise the risks in this business, the group exercises prudence in its purchase decisions. Purchases are usually made from clients with whom the group has maintained long relationships, so it is usually familiar with the receivables in question and such purchases have to be sanctioned by the group Credit Committee. Ultimate management of this risk rests with the Board and Credit Committee, who convene regularly to review the performance of these accounts against the original investment criteria.

The group also collects consumer receivables on a contingent basis for a number of financial sectors clients. These are primarily in respect of bank overdrafts, credit card accounts and bank loans.

##### **Company**

The company's cash and cash equivalents consist primarily of bank balances and other short-term financial assets with a remaining maturity of less than three months. The company has deposited its cash equivalents with established financial institutions where the risk of loss is considered remote.

##### *Exposure to credit risk*

##### **Group**

The maximum credit exposure of the group is represented by the Statement of Financial Position carrying amount of each financial asset, excluding any collateral held, as shown by the table at note 21(a). At that date there were no material concentrations of risk.

Purchase debt receivables are in respect of a significant number of individual consumer receivables, primarily credit card accounts, bank overdrafts and bank loans acquired from UK financial institutions. There is no material concentration of receivables with any individual debtors.

Trade receivables are due from a number of UK financial sector clients. There is no material concentration of receivables with any one client.

##### **Company**

The maximum credit exposure of the company is represented by the Statement of Financial Position carrying amount of each financial asset, excluding any collateral held. At that date there were no material concentrations of risk.



## Notes (continued)

### 21 Financial instruments (continued)

#### *Credit quality of financial assets and impairment losses*

##### **Group**

The directors consider the credit quality of the financial asset at the Statement of Financial Position date is high

On acquisition, purchased debt receivables are past due and significantly impaired with reference to the underlying debtor balance. The company undertakes a rigorous reassessment review every three months on a portfolio by portfolio basis. Cash flow forecasts are prepared for each portfolio which are discounted by the effective interest rate assessed on purchase and compared with the current carrying value of the portfolio.

The age based on date of acquisition, and the cumulative reassessment for purchased debt at the Statement of Financial Position date was

	Carrying value		Cumulative reassessment	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
<i>Financial year of acquisition</i>				
Prior to 2006/7	7,869	9,258	(5,316)	(4,500)
2006/7	14,118	14,880	(13,041)	(13,413)
2007/8	13,390	14,262	(11,507)	(11,666)
2008/9	15,489	16,778	6,186	5,879
	<u>50,866</u>	<u>55,178</u>	<u>(23,678)</u>	<u>(23,700)</u>

The ageing of trade receivables, past due but not impaired, at the Statement of Financial Position date was

	2011 £'000	2010 £'000
Not past due	64	-
Past due (0-30 days)	79	181
Past due (31-60 days)	55	163
More than 60 days past due	109	72
	<u>307</u>	<u>416</u>

Trade receivables of £12,870 (2010 £134,950) at the Statement of Financial Position date are considered to be impaired and have been fully provided for

#### (c) **Market risk**

##### *Financial risk management*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments.

##### *Exposure to market risk*

##### **Group and Company**

The group and company are exposed to movements in interest rates. Interest rate risk is managed by the Finance Director by utilising a combination of fixed and floating facilities provided by established financial institutions with maturity periods in excess of one year.

The group and company are not significantly exposed to movements in foreign exchange rates and equity prices.

## Notes (continued)

### 21 Financial instruments (continued)

#### (c) Market risk (continued)

##### Market risk – Interest rate risk

##### Profile

At the Statement of Financial Position date the interest rate profile of the interest-bearing financial instruments was

	Group 2011 £000	2010 £000	Company 2011 £000	2010 £000
<b>Fixed rate instruments</b>				
Loan notes (note 18)	-	(37,691)	-	(37,691)
	-	(37,691)	-	(37,691)
<b>Variable rate instruments</b>				
Cash and cash equivalents	2,876	3,435	-	-
Loans and receivables – purchased debt	50,866	55,178	-	-
Loan and borrowings (note 17)	(42,634)	(49,018)	-	-
	11,108	9,595	-	-

##### Sensitivity analysis

A change of 100 basis points in interest rates at the Statement of Financial Position date would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the Statement of Financial Position date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for 2010.

	Group 2011 £000	Group 2010 £000
<b>Equity</b>		
Increase	426	490
Decrease	(426)	(490)
<b>Profit or loss</b>		
Increase	426	490
Decrease	(426)	(490)

The impact on the group is not material.

#### (d) Liquidity risk

##### Group

##### Financial risk management

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due.

The group is funded predominantly by bank facilities. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due. Liquidity risk is managed by the Finance Director and is monitored by continually forecasting long range debt requirements against available current facilities.

## Notes (continued)

### 21 Financial instruments (continued)

#### (d) Liquidity risk (continued)

##### Company

The company's approach to managing liquidity is the same as the group's

##### Liquidity risk – Group

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements

	Up to 3 months £000	3-6 months £000	1-5 years £000	Total £000	Carrying amount £000
<i>At 30 April 2011</i>					
Loans and Borrowings (note 17)	493	493	50,529	51,515	42,634
Loan notes (note 18)	-	-	-	-	-
Trade payables (note 19)	559	-	-	559	559
	<u>1,052</u>	<u>493</u>	<u>50,529</u>	<u>52,074</u>	<u>43,193</u>

	Up to 3 months £000	3-6 months £000	1-5 years £000	Total £000	Carrying Amount £000
<i>At 30 April 2010</i>					
Loans and Borrowings (note 17)	314	314	63,027	63,655	49,018
Loan notes (note 18)	-	-	56,848	56,848	37,691
Trade payables (note 19)	294	-	-	294	294
	<u>608</u>	<u>314</u>	<u>119,875</u>	<u>120,797</u>	<u>87,003</u>

##### Liquidity risk – Company

	Up to 3 months £000	3-6 months £000	1-5 years £000	Total £000	Carrying amount £000
<i>At 30 April 2011</i>					
Loans and Borrowings (note 17)	-	-	-	-	-
Loan notes (note 18)	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Up to 3 Months £000	3-6 months £000	1-5 years £000	Total £000	Carrying amount £000
<i>At 30 April 2010</i>					
Loans and Borrowings (note 17)	-	-	3,000	3,000	3,000
Loan notes (note 18)	-	-	56,848	56,848	37,691
	<u>-</u>	<u>-</u>	<u>59,848</u>	<u>59,848</u>	<u>40,691</u>

## Notes (continued)

### 21 Financial instruments (continued)

#### (e) Capital management

##### Group

The Board's policy is to secure a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business

The group is not subject to any externally imposed capital requirements

There were no changes in the group's approach to capital management during the year

##### Company

The Board's policy is to secure a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The company is not subject to any externally imposed capital requirements. There were no changes in the company's approach to capital management during the year

### 22 Operating leases

Non-cancellable operating lease rentals are payable as follows

	Group 2011 £000	Group 2010 £000
Less than one year	374	372
Between one and five years	1,211	1,323
More than five years	1,141	1,379
	<hr/> 2,726 <hr/>	<hr/> 3,074 <hr/>

The group leases its two premises in Wellesbourne and Surbiton under operating leases. During the year to 30 April 2011, £369,000 was recognised as an expense in the income statement in respect of operating leases (2010 £370,000)

### 23 Commitments

#### Capital commitments

At the Statement of Financial Position date of 30 April 2011, neither the group nor the company had any significant capital commitments, (2010 £Nil)

#### Other commitments

At the Statement of Financial Position date of 30 April 2011, the group was not contracted to purchase any debt portfolios, (2010 Nil)

## Notes (continued)

### 24 Related parties

#### Group

##### *Identity of related parties with which the group has transacted*

The group has identified its related parties as the Board of Directors of the group (and their close family). Whilst there are other key personnel in the group responsible for the implementation of strategy, it is only the group Board of Directors who are responsible for planning, directing and controlling the activities of the group. There are common directorships among all group entities.

The common directors in the years concerned were

K Breslauer  
H Mair  
P F McDonnell  
B A Prescott  
R P Scott  
P A S F Wilding

##### *Transactions with key management personnel*

The compensation of the directors is disclosed within note 8.

Loans to the group by directors and their close family were as follows

	Group 2011 £000	Group 2010 £000
R P Scott and his close family	-	382
	-	382

Interest earned on loans to the group by the directors and their close family were as follows

	Group 2011 £000	Group 2010 £000
R P Scott and his close family	7	61
	7	61

These transactions solely relate to interest receivable on loan notes outstanding to R P Scott and his close family, up to the company restructure on 15 June 2010. On this date all loan notes were capitalised and no further interest payments were accrued or paid.

## Notes (continued)

### 24 Related parties (continued)

#### Transactions with ultimate controlling party

(a) At the 30 April 2010 the ultimate controlling party was RJD Partners Limited. At the Statement of Financial Position date RJD Partners Limited held the following loan notes in Equidebt Holdings Limited

#### Loans to the Group

	2011 £000	2010 £000
10% unsecured subordinated loan notes repayable 2012	-	13,212
10% unsecured redeemable loan notes repayable 2012	-	3,159
	<u>-</u>	<u>16,371</u>

#### Interest earned on loans to the group

	2011 £000	2010 £000
10% unsecured subordinated loan notes repayable 2012	149	1,278
10% unsecured redeemable loan notes repayable 2012	49	423
	<u>198</u>	<u>1,701</u>

(b) Following the restructure of the business, which took place on 15 June 2010, the ultimate controlling party is now Patron Phoenix Investments SARL which controls 74.5% of the voting rights

Patron Phoenix Investments SARL held the following loan notes in Equidebt Holdings Limited as at 30 April 2011

#### Loans to the group

	2011 £000	2010 £000
10% convertible unsecured subordinated loan notes repayable 2012	-	12,205
25% unsecured preferred loan notes repayable 2010/2011/2012	-	7,156
	<u>-</u>	<u>19,361</u>

#### Interest earned on loans to the group (net of repayments in the year)

	2011 £000	2010 £000
10% convertible unsecured subordinated loan notes repayable 2012	146	984
25% unsecured preferred loan notes repayable 2010/2011/2012	220	1,541
	<u>366</u>	<u>2,525</u>

## Notes (continued)

### 24 Related parties (continued)

#### Transactions with group companies

Equidebt Holdings Limited has the following group balances

	2011 £000	2010 £000
<i>Equidebt Limited</i>		
Current account	33	12,712
Loan account	-	1,440
<i>Equidebt EBT Limited</i>		
Current account	99	99
	<u>132</u>	<u>14,251</u>

Group interest on inter-company balances was

	2011 £000	2010 £000
Equidebt Limited loan account	-	23
Credit Ancillary Services Limited loan account	-	123
	<u>-</u>	<u>146</u>

In the year to 30 April 2011, management charges receivable from Equidebt Limited of £255,400 (2010 £576,100) were included in the income statement, these were straight recharges of costs incurred. The cash movements between the company and Equidebt Limited are represented by a combination of these management charges and the movements in group balances shown above, this includes £5,491,500 recharged during the year to Equidebt Limited in relation to funding costs (2010 £Nil).

As part of the restructure in June 2010 the company released Equidebt Limited from any liability to pay £19,356,000 of the inter company balance in exchange for accepting the transfer of liabilities and obligations of loan notes to the same value which were subsequently converted to equity in Equidebt Limited.

Although a formal contract between the group parties is not in place, this is not considered to be necessary as the management charges relate to straight recharges of salary costs incurred. No interest was charged by Equidebt Holdings Limited to Equidebt Limited during the year.

### 25 Ultimate parent company and parent company of larger group

No other group financial statements include the results of the company.

Following the restructure of the business on 15 June 2010, and the signing of new banking arrangements that will remain in place until April 2013, the ultimate controlling party, at the Statement of Financial Position date, is Patron Phoenix Investments SARL which controls 74.5% of the voting rights.