

Photobox Holdco Limited
REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS

Year end 30 April 2014



Company Registration No. 07648443

Photobox Holdco Limited

DIRECTORS AND OFFICERS

DIRECTORS

LB Amouyal
JM Bouhelier
MW Chapman
LR Handen
SM Laurent
PB Lipson
FJ Mullen
N Rimer
CF Kane

SECRETARY

Abogado Nominees Limited

REGISTERED OFFICE

100 New Bridge Street
London
EC4V 6JA

AUDITOR

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Photobox Holdco Limited

STRATEGIC REPORT

REVIEW OF THE BUSINESS

The Group performed strongly in the 12 month period, with revenue of £175,311,000 (2013: £147,617,000; 16 month period ended 30 April 2012: £143,630,000) generating Operating Profit before Exceptional Items, Amortisation and Share Option Expense of £15,632,000 (2013: £16,134,000; 16 month period ended 30 April 2012: £12,498,000).

Revenue and gross profit for the year was substantially higher than the prior two periods. This is due to the continued growth at both Photobox and Moonpig as a result of continuing new customer acquisition and focus on existing customer loyalty. Higher administration costs, particularly marketing costs and increased investment in technology, diluted this increased margin to leave Operating Profit before Exceptional Items, Amortisation and Share Option Expense for the year at £15,632,000. During the year the Group acquired the trade and assets of Sticky9, a business which enables customers to print their Instagram digital photographs enhancing the Group's personalised product offerings to customers.

Photobox Holdco Limited ("the Company") was incorporated on 26 May 2011 as a subsidiary of Photoways, Inc. On 19 July 2011, a group reconstruction led to the company becoming the parent of the group. The current period for Consolidated and Company financial statements covers the year ended 30 April 2014.

The Directors are satisfied with the net asset position of the Company at £89,620,000 (30 April 2013 restated: £85,256,000; 30 April 2012 restated: £79,789,000) and its liquidity at the year end.

RESULTS

The profit for the year, after taxation, is £3,675,000 (2013 restated: £4,029,000; loss for the 16 month period ended 30 April 2012 restated: £22,628,000), the 2012 period comparison being impacted by exceptional items generating a loss of £22,558,000.

PRINCIPAL RISKS AND UNCERTAINTIES

Competitive risks

Whilst consolidating its position as market leader in its core markets, the Group encounters significant competition from other online and mobile specialists and high street retailers who wish to have a presence in those markets. The directors consider that continuing investment in marketing, technology and product innovation should help the Group consolidate and extend its leading position in core markets.

Legislative risks

The Group is subject to consumer law in the jurisdictions in which it operates, including distance-selling and data-protection directives. In addition, the Group's production facilities are subject to further legislation (for example, in respect of Health and Safety and Waste Processing). The Group continues to retain professional advisors in respect of the risk of non-compliance with new and existing directives.

Exposure to credit, liquidity and cash flow risks

Virtually all Group revenues are derived from credit card transactions over the internet, reaching Group bank accounts in 3 to 4 days. Suppliers are generally paid on 30 day terms or more and therefore the Group's operational working capital risks are negligible. Seasonal variations to the consumer print on demand business require large-scale project expenditure to be carefully planned and monitored over the year.

Foreign exchange risks

The Group transacts mainly in Sterling and Euro. The Directors consider that the Group has a partial natural hedge in place as regards the Euro (where receipts and payments are broadly matched). All other material cashflows are in Sterling.

Photobox Holdco Limited

STRATEGIC REPORT

KEY PERFORMANCE INDICATORS

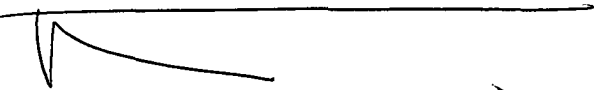
Key Performance Indicators for the Company are noted in the table below:

	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
Revenue (£'000)	£175,311	£147,617	£143,630
Gross Profit (£'000)	£91,612	£77,351	£73,012
Gross Profit vs Revenue	52.3%	52.4%	50.8%
Underlying EBITDA* (£'000)	£19,786	£19,561	£16,913
Underlying EBITDA as % of revenue	11.3%	13.3%	11.8%

*The directors consider that operating profit before interest, tax, depreciation, amortisation, exceptional items, share based payment expense, non-recurring items and foreign exchange (Underlying EBITDA) is a primary measure of operational profitability, and therefore considered to be a key KPI.

	Year ended 30 April 2014 £'000	Year ended 30 April 2013 £'000	16 month period ended 30 April 2012 £'000
Operating Profit before Exceptional Items, Amortisation and Share Option Expense	15,632	16,134	12,498
Depreciation	3,830	3,648	4,612
Foreign exchange loss/(gain)	3	(171)	(197)
Non-recurring items	321	(50)	-
Underlying EBITDA	19,786	19,561	16,913

By order of the board


S Laurent 24 July 2014
Director

Photobox Holdco Limited

DIRECTORS' REPORT

The directors present their report and consolidated financial statements for the year ended 30 April 2014.

DIVIDENDS

The directors do not recommend the payment of a dividend (2013: £nil; 2012: £nil).

FUTURE DEVELOPMENTS

The directors expect the Group to continue its current activities. The Group intends to continue to improve underlying profitability in 2014/5 through growth in sales from continuing activities, coupled with improved gross margins and controlled management of operating expenditure.

DIRECTORS

The directors who served during the year were those listed on page 1.

RESEARCH & DEVELOPMENT

Development expenditure is capitalised when its future recoverability can be foreseen with reasonable assurance and is amortised over a 3 year period. All research and other development costs are written off as incurred.

GOING CONCERN

The financial statements have been prepared on a going concern basis. The statement headed "Going Concern" on page 13 sets out certain factors relevant to the directors' consideration in reaching this assessment.

EMPLOYMENT POLICIES

The Group has a strong demand for highly qualified staff and is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. In the event of any staff becoming disabled while with the Group, their needs and abilities would be assessed and the Group would, where possible, seek to offer alternative employment to them if they were no longer able to continue in their current role.

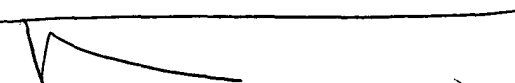
DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITOR

Ernst & Young LLP were reappointed during the year and have indicated its willingness to continue in office.

By order of the board



S Laurent 21 July 2014
Director

Photobox Holdco Limited

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare Group financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union. Under company law the directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss for that period. In preparing those Group financial statements, the directors are required to:

- Present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Photobox Holdco Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHOTOBX HOLDCO LIMITED

We have audited the group financial statements of Photobox Holdco Limited for the year ended 30 April 2014 which comprise the Consolidated Statement of Financial Position, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 5, the directors are responsible for the preparation of the group 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 group 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 30 April 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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 Strategic Report and the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Photobox Holdco Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHOTOBX HOLDCO LIMITED

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:

- 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.

Other matter

We have reported separately on the parent company financial statements of Photobox Holdco Limited for the year ended 30 April 2014.

Ernst & Young LLP 28/7/14

Nick Powell (Senior Statutory Auditor)
For and on behalf of ERNST & YOUNG LLP, Statutory Auditor
1 More London Place
London SE1 2AF

Photobox Holdco Limited
CONSOLIDATED INCOME STATEMENT
for the year ended 30 April 2014

	<i>Notes</i>	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
		£'000	(restated)* £'000	(restated)* £'000
Revenue	<i>1</i>	175,311	147,617	143,630
Cost of sales		(83,699)	(70,266)	(70,618)
Gross profit		91,612	77,351	73,012
Technology and development costs		(11,729)	(10,137)	(11,609)
Marketing costs		(45,337)	(35,309)	(31,864)
Customer service costs		(6,250)	(4,905)	(5,857)
Administrative expenses		(12,664)	(10,866)	(11,184)
Operating profit before exceptional items, amortisation and share based payment expense		15,632	16,134	12,498
Exceptional gains	<i>4</i>	-	-	10,727
Exceptional losses	<i>4</i>	(2,045)	-	(33,285)
Amortisation	<i>9</i>	(8,891)	(8,356)	(7,170)
Share based payment expense	<i>18</i>	(681)	(940)	(1,236)
Operating profit / (loss)	<i>3</i>	4,015	6,838	(18,466)
Finance income	<i>5</i>	446	67	112
Finance costs	<i>6</i>	(2,669)	(3,640)	(3,101)
Profit / (loss) before taxation		1,792	3,265	(21,455)
Taxation	<i>8</i>	1,883	764	(1,173)
PROFIT / (LOSS) FOR THE YEAR		3,675	4,029	(22,628)

All activities relate to continuing operations. All the profit / loss for the year is attributable to the equity holders of the parent. The accompanying notes are an integral part of the financial statements.

* Refer to note 23.

Photobox Holdco Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 April 2014

	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	(restated)* £'000	(restated)* £'000
PROFIT / (LOSS) FOR THE YEAR	3,675	4,029	(22,628)
Other comprehensive income / (loss):			
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations	(388)	498	(675)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR	3,287	4,527	(23,303)

* Refer to note 23.

Photobox Holdco Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION at 30 April 2014

	Notes	30 April 2014	30 April 2013	30 April 2012
		£'000	(restated)* £'000	(restated)* £'000
ASSETS				
Non-current assets				
Property, plant and equipment	10	10,138	10,345	10,806
Intangible assets	9	110,957	111,405	117,978
Deferred tax assets	8	3,526	2,343	2,456
Other non-current assets	13	735	586	1,773
		125,356	124,679	133,013
Current assets				
Inventories	12	3,027	2,898	2,416
Trade and other receivables	13	4,857	6,396	11,316
Current income tax receivable		119	-	-
Short term investments		5,072	5,053	-
Cash and cash equivalents		20,060	26,180	20,420
		33,135	40,527	34,152
TOTAL ASSETS		158,491	165,206	167,165
LIABILITIES				
Current liabilities				
Trade and other payables	14	22,951	17,725	16,226
Deferred revenue		5,657	7,005	6,010
Current income tax liabilities		-	31	1,155
Borrowings	15	7,100	7,850	6,406
Provisions for other liabilities and charges	16	635	376	278
		36,343	32,987	30,075
Non-current liabilities				
Deferred tax liabilities	8	10,480	13,722	16,020
Borrowings	15	21,812	33,017	41,110
Provisions for other liabilities and charges	16	236	224	171
		32,528	46,963	57,301
TOTAL LIABILITIES		68,871	79,950	87,376
NET ASSETS		89,620	85,256	79,789
CAPITAL AND RESERVES				
Equity attributable to owners of the parent				
Ordinary share capital	17	25	25	25
Preferred share capital	17	75	75	75
Share premium		71,193	71,160	71,160
Merger reserve		42,938	42,938	42,938
Retained earnings		(20,202)	(24,921)	(29,890)
Foreign currency translation reserve		(4,409)	(4,021)	(4,519)
TOTAL EQUITY		89,620	85,256	79,789

* Refer to note 23.

The financial statements on pages 8 to 49 were approved by the board of directors and authorised for issue on 21 July 2014 and are signed on its behalf by:

S Laurent
Director



Company Registration No. 07648443

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Photobox Holdco Limited
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 April 2014

	<i>Notes</i>	Ordinary share capital (Note 17)	Preferred share capital (Note 17)	Share Premium (Note 17)	Merger Reserve (Note 17)	Retained earnings	Foreign currency translation reserve (Note 17)	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 January 2011		21	38	-	42,938	(8,498)	(3,844)	30,655
Restated (loss) for the period	23	-	-	-	-	(22,628)	-	(22,628)
Other comprehensive income / (loss)		-	-	-	-	-	(675)	(675)
Total comprehensive income / (loss)		-	-	-	-	(22,628)	(675)	(23,303)
Issue of share capital	17	4	37	72,082	-	-	-	72,123
Exercise of share options	17	-	-	432	-	-	-	432
Redemption of ordinary shares	17	-	-	(879)	-	-	-	(879)
Share-based payment transactions	18	-	-	-	-	1,236	-	1,236
Transaction costs		-	-	(475)	-	-	-	(475)
As at 30 April 2012 (restated)*		25	75	71,160	42,938	(29,890)	(4,519)	79,789
Restated profit for the year	23	-	-	-	-	4,029	-	4,029
Other comprehensive income / (loss)		-	-	-	-	-	498	498
Total comprehensive income / (loss)		-	-	-	-	4,029	498	4,527
Share-based payment transactions	18	-	-	-	-	940	-	940
At 30 April 2013 (restated)*		25	75	71,160	42,938	(24,921)	(4,021)	85,256
Profit for the year		-	-	-	-	3,675	-	3,675
Other comprehensive (loss)		-	-	-	-	-	(388)	(388)
Total comprehensive income / (loss)		-	-	-	-	3,675	(388)	3,287
Deferred tax on share options	8	-	-	-	-	363	-	363
Exercise of options	17	-	-	3	-	-	-	3
Issue of share capital arising from share based payment transactions	17	-	-	30	-	(30)	-	-
Share-based payment transactions	17,18	-	-	-	-	711	-	711
At 30 April 2014		25	75	71,193	42,938	(20,202)	(4,409)	89,620

* Refer to note 23.

Photobox Holdco Limited
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 April 2014

	<i>Notes</i>	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
		£'000	(restated)* £'000	(restated)* £'000
OPERATING ACTIVITIES				
Cash generated from operations	19	23,215	28,326	7,218
Interest received		231	27	19
Income tax paid		(2,116)	(2,569)	(4,573)
Net cash generated from operating activities		21,330	25,784	2,664
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment		59	122	190
Purchase of property, plant and equipment	10	(3,771)	(3,351)	(4,175)
Purchase of intangible assets	9	(2,829)	(1,329)	(1,604)
Purchase of short term deposits		(19)	(5,053)	-
Acquisition of business operations		(6,000)	-	-
Acquisition of subsidiary, net of cash acquired		-	(100)	(88,682)
Net cash flows used in investing activities		(12,560)	(9,711)	(94,271)
FINANCING ACTIVITIES				
Repayment of borrowings		(11,995)	(6,858)	(2,120)
Repayment of finance leases		(638)	(758)	(931)
Interest paid		(1,981)	(2,450)	(1,601)
Proceeds from issuance of preference share capital		-	-	48,124
Transaction costs relating to issuance of share capital		-	-	(475)
Redemption of share capital		-	-	(517)
Proceeds from the exercise of share options		40	50	70
Proceeds from borrowings		-	-	50,000
Transaction costs relating to the issue of debt		-	-	(3,398)
Net cash flows from/(used) financing activities		(14,574)	(10,016)	89,152
Net increase / (decrease) in cash and cash equivalents		(5,804)	6,057	(2,455)
Cash, cash equivalents at beginning of year		26,180	20,420	22,660
Net foreign exchange difference		(316)	(297)	215
Cash and cash equivalents at end of year		20,060	26,180	20,420

* Refer to note 23.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

1.1 CORPORATE INFORMATION

Until 19 July 2011, Photoways, Inc. was the parent company of the Group. In May 2011, a new company, Photobox Holdco Limited, was incorporated, and in July 2011, a group reconstruction took place, whereupon Photobox Holdco Limited became the ultimate parent company. Following this reconstruction, the Group acquired Moonpig.com Limited. Photobox Holdco Limited is incorporated and domiciled in the United Kingdom.

Photobox Holdco Limited ("the Company") and its subsidiaries (together, "the Group") engages in the production of personalised printed products using an internet platform. The Group trades through Photobox SAS (France), Photobox Limited (UK) and Moonpig (UK). The principal activities of the Group are that of business-to-consumer personalised printing.

The financial statements include the financial statements of the Group and the subsidiaries listed in the following table:

Name of Company	Country of incorporation	% equity interest 30 April 2014, 2013 & 2012
Photobox Holdco Gamma Limited	UK	100%
Photobox Holdco Alpha Limited	UK	100%
Photobox Holdco Beta Limited	UK	100%
Photobox Limited	UK	100%
Moonpig.com Limited	UK	100%
Photobox SAS	France	100%
Photoways Inc.	USA	100%
Photobox GmbH	Germany	100%
Online Photo Sverige AB	Sweden	100%

The registered office is:

100 New Bridge Street,
London,
EC4V 6JA.

1.2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and applied in accordance with the Companies Act 2006. The consolidated financial statements are presented in Sterling and all values are rounded to the nearest thousand (£'000), except where otherwise indicated.

The Company accounts for Photobox Holdco Limited are prepared in accordance with UK Generally Accepted Accounting Principles – see page 54 onwards for the parent company accounts.

Going concern

The Group has sufficient financial resources and as a consequence, the directors believe that they are well placed to manage its business risk successfully and to continue in operational existence for the foreseeable future. The Group has bank borrowings of £29,027,000 at the year end (2013: £41,022,000; 2012: £47,880,000), which are subject to various financial covenants (see Note 15). Based on the financial position at the year end, the Group has adequate headroom on each covenant and therefore the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

1.3 BASIS OF CONSOLIDATION

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control exists when the Company has the power to directly or indirectly manage the financial and operational policies of the subsidiary, so as to obtain advantages from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends eliminate in full.

In July 2011, a new parent company, Photobox Holdco Limited, was introduced, along with three additional new holding companies. Before this group reconstruction, Photoways, Inc. was the parent company. The insertion of Photobox Holdco Limited did not change the economic circumstance of the group and therefore the consolidated financial statements are a continuation of the existing Photoways, Inc. group. This group reconstruction is therefore not accounted for under the acquisition method of IFRS 3 "Business Combinations". The difference arising between the carrying value of the investment in subsidiary companies and the share capital and share premium of those subsidiaries is included within the merger reserve and is not distributable.

Although the reorganisation did not become effective until July 2011, the 16 month period ended 30 April 2012 consolidated financial statements of Photobox Holdco Limited are presented as if it had always been part of the Group.

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards adopted by the Group

The Group applied, for the first time, certain standard and amendments that require restatement of previous financial statements. These include IFRS 13 Fair value measurement and amendments to IAS1 Presentation of Financial Statements. Several other amendments apply for the first time from 1 May 2013. However, they do not impact the annual consolidated financial statements of the Group.

IFRS 13 Fair value measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Fair value hierarchy is provided in Note 12.

IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (eg net loss of gain on AFS financial assets) have to be presented separately from items that will not be reclassified (eg revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the Group's financial assets and liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included as an exceptional item within operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by or to the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

b) Foreign currency translation

The Group's consolidated financial statements are presented in Sterling, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

i) Transactions and balances

Transactions in foreign currencies are converted into Sterling by applying the exchange rate in force on the date of the transaction. Monetary assets and liabilities expressed in foreign currencies on the closing date are converted at the exchange rate in force on the closing date. The exchange differences that result from these operations are posted as income or expenses.

Non-monetary assets and liabilities expressed in foreign currencies are recorded and kept at the historic exchange rate in force on the date of the transaction. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in value of the item (ie translation differences on items whose gain or loss in value is recognised in the income statement will also be recognised in the income statement. Where the gain or loss is recognised in other comprehensive income, any translation difference on this amount will also be recognised in other comprehensive income).

ii) Financial statements expressed in currency

The Group's consolidated accounts are presented in Sterling.

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

- a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and
- b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- c) all resulting exchange differences are recognised in other comprehensive income.

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

c) **Revenue**

Revenue is recognised when it is probable that the future economic benefits will flow to the Group, and this income may be evaluated in a reliable fashion. No revenue is posted to the accounts when there is significant uncertainty as to the possibility of recovering the consideration due. Where the Group acquires customers through a third party, the Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. Where the Group holds the primary risks and rewards, the Group is deemed to be acting as the principal. Revenue from the sale of goods, as well as the related shipping and handling expenses billed to customers, are recognised upon shipment. Revenue is shown net of local sales tax.

Customers have the ability to return goods where they are not satisfied. Upon closing, a provision for returns and re-makes is posted to the accounts to cover the risk, based on the history of such matters.

The trading companies in the Group offer prepaid accounts and/or pre-paid vouchers/“pack” products. Customers have a maximum term after the purchase date of the pack to consume these prepaid products. The income from the sales of these packs is recognised as they are consumed. The unused part of the packs, together with the balance on pre-paid accounts where there has been no activity for 2 years, is posted to income after expiration.

d) **Exceptional items**

Exceptional items are those items the Group considers to be material in nature and out of the normal course of business that should be brought to the reader’s attention in understanding the Group’s financial performance.

e) **Borrowing costs**

Borrowing costs are expensed in the period they occur. These costs consist of interest and other costs that the entity incurs in connection with the borrowing of funds.

f) **Taxes**

i) **Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

g) Intangible fixed assets

i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

ii) Separately acquired intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life of the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

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iii) Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- technical feasibility of completing the intangible assets so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the assets; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. During the period of development, the asset is tested for impairment annually. Management has used judgement in determining the amortisation period as documented below.

	<i>Useful lives</i>	<i>Amortisation method</i>	<i>Internally generated or acquired</i>
Goodwill	Indefinite	Not applicable	Acquired
Trademark	Indefinite	Not applicable	Acquired
Trademark	Finite	Straight-line basis – 10 to 20 years	Acquired
Development costs	Finite	Straight-line basis - 3 years	Internally generated
Patents and licenses	Finite	Straight-line basis - 3 to 10 years	Acquired
Technology	Finite	Straight-line basis - 1 to 5 years	Acquired
Customer relationships	Finite	Straight-line basis - 6 to 8 years	Acquired
Other intangibles	Finite	Straight-line basis - 2 to 3 years	Acquired

The trademark acquired on the acquisition of Photobox Limited has an indefinite useful life as there is no intention to cease use of the trademark.

h) Impairment of non-financial assets

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

i) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. They are not subject to revaluation. Subsequent expenditure (expenditure for replacement and expenditure for bringing up to standard) is capitalised and amortised over the remaining useful life of the fixed asset to which it is related. All other servicing and maintenance costs are expensed as incurred.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:-

Freehold property	-	4% on cost
Leasehold improvements	-	over the unexpired term of the lease
Plant and machinery	-	20% - 25% on cost
Fixtures, fittings and equipment	-	25% - 33% on cost
Computer equipment	-	33% on cost

The carrying values of tangible fixed assets are reviewed for impairment at least annually or if events or changes in circumstances indicate the carrying value may not be recoverable.

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j) Leases

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the income statement. A leased asset is depreciated over the useful life of the asset.

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

k) Inventories

Stocks are stated at the lower of cost and net realisable value. Cost includes all expenditure incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred up to completion and disposal.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. Any deposits with a maturity of more than 3 months but less than 1 year are classified as short-term investments.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

m) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Groups financial assets include cash and cash equivalents, and trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

The Group evaluates its financial assets at fair value through profit and loss (held for trading) and whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the

Photobox Holdco Limited

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for the year ended 30 April 2014

Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation. The Group did not reclassify any financial assets in the current reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. The losses arising from impairment are recognised in the income statement in other operating expenses.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance cost.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Finance Position if, and only if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derecognition of financial instruments

A financial asset or liability is generally derecognised when the contract that gives right to it is settled, sold, cancelled or expires.

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Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 11.

n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

o) Share-based payments

Share options may be granted to the Group's employees, giving the right to subscribe for shares in Photobox Holdco Limited at a fixed exercise price. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by the Black-Scholes method. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

p) Pensions and other post employment benefits

The Group contributes to defined contribution pensions schemes. Under these schemes, the Group pays defined contributions to an external pension fund or insurance company in return for services performed by employees. The amount charged to the profit and loss account in respect of pension costs and other post employment benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

1.5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In addition, management has made certain judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Judgements, estimates and assumptions:

a) Carrying value of goodwill

An impairment exists when the carrying value of a cash generating unit ("CGU") exceeds its recoverable amount which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are based on one year budget together with a forecast for the following year and then projected forwards. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 9.

b) Carrying value of intangible assets both in business combinations and asset acquisitions

The Group holds a number of intangible assets that were acquired either through business combinations or direct asset acquisition. At each balance sheet date, management considers whether there are any indicators of impairment on each asset. Where this is the case, impairment reviews are conducted using value in use calculations. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

c) Recognition of intangible assets arising from business combinations

The Group has acquired a number of intangible assets following the acquisition of StickyGram.com and Moonpig.com Limited. The key assumptions are around the revenue forecasts at the time of acquisition, and the discount rate used to calculate the value of individual assets. The estimated useful life assigned to each asset is also subject to management estimate. Refer to Notes 9 and 22.

d) Valuation of reverse contingent consideration

The acquisition of Moonpig.com Limited includes consideration paid which is held in Escrow. Following the removal of Low Value Consignment Relief "LVCR", the Group were refunded a proportion of this consideration, which was treated as a reimbursement of contingent consideration. The key assumption was the estimated sales on which import VAT would arise and which qualified for reclaim from Escrow. This is further explained in Note 22.

e) Recoverability of deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits. See Note 8.

f) Share based payment

Assumptions are made in relation to share awards where the Black-Scholes model is used to calculate the charge. Key assumptions are volatility, risk free rate, the probability of non-vesting and the expected life of the option. These key assumptions are set out by option type in Note 18.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

2 CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are:

- to maximise the return to shareholders; and
- to safeguard the Group's ability to continue as a going concern.

For the purposes of the Group's capital management, the Group's capital structure includes; borrowings (see Note 16), cash and cash equivalents, issued capital, preference shares, share premium and all other equity reserves. Externally imposed capital requirements of the Group include various financial covenants on the group's borrowings.

In order to achieve the Group's primary capital management objectives, the Group's capital management policies aim to ensure the Group meets the financial covenants attached to the interest-bearing loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current and previous periods.

The group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants.

	At 30 April 2014	At 30 April 2013	At 30 April 2012
	£'000	£'000	£'000
Interest bearing loans and borrowings	28,912	40,867	47,516
Less: Cash and cash equivalents	(20,060)	(26,180)	(20,420)
Less: Short term investments	(5,072)	(5,053)	-
Net debt	3,780	9,634	27,096
Equity	89,620	85,256	79,789
Total capital	89,620	85,256	79,789
Capital and net debt	93,400	94,890	106,885

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NOTES TO THE FINANCIAL STATEMENTS
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3 OPERATING PROFIT

	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	(restated) £'000	(restated) £'000
This is stated after charging/(crediting):			
Depreciation and amounts written off property, plant and equipment:			
- owned assets	3,240	2,983	3,566
- leased assets	590	665	1,046
Amortisation and impairment of intangible fixed assets	8,891	8,356	7,170
Operating lease payments	2,685	2,522	3,109
Auditor's remuneration:			
- audit fees	150	150	155
- taxation services	128	149	23
- corporate finance services	1,193	-	-
- other services	17	5	117
Share-based payment expense	681	940	1,236
Foreign exchange gain	3	(171)	(197)
Loss/(profit) on disposal of property, plant and equipment and intangible assets	7	79	(39)

4 EXCEPTIONAL ITEMS

	Notes	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
		£'000	£'000	£'000
Exceptional gains:				
Reverse contingent consideration	22	-	-	8,000
Release of provision	16	-	-	2,727
		-	-	10,727
Exceptional losses:				
Impairment of intangible assets	9	(191)	-	(30,945)
Corporate finance advisory costs		(1,854)	-	-
Acquisition costs – Moonpig.com Limited		-	-	(2,340)
		(2,045)	-	(33,285)
Total exceptional items		(2,045)	-	(22,558)

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5 FINANCE INCOME

	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	£'000	£'000
Bank interest	231	67	112
Unrealised gain on interest rate swap	215	-	-
	446	67	112

6 FINANCE COSTS

	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	£'000	£'000
Interest payable on finance leases	24	41	93
Bank interest payable	2,455	3,236	2,827
Unrealised loss on interest rate swap	-	194	105
Amounts due in respect of interest rate swap	190	169	76
	2,669	3,640	3,101

7 STAFF COSTS

	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	£'000	£'000
Wages and salaries	26,563	20,790	24,363
Social security costs	5,944	4,296	5,383
Pension costs	922	761	808
Employee share schemes	681	940	1,236
	34,110	26,787	31,790

The average monthly number of employees (including directors) during the year was made up as follows:

	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	£'000	£'000
Management and administration	431	338	292
Production	337	295	278
	768	633	570

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7 STAFF COSTS (continued)

	Year ended 30 April 2014 £'000	Year ended 30 April 2013 £'000	16 month period ended 30 April 2012 £'000
Directors' emoluments			
Aggregate emoluments in respect of qualifying services	478	394	1,007
Pension costs	8	7	9
Health care costs	6	6	7
	492	407	1,023

The number of directors to whom retirement benefits are accruing under money purchase pension schemes was:	1	1	1
The number of directors who exercised share options was:	-	-	1

	Year ended 30 April 2014 £'000	Year ended 30 April 2013 £'000	16 month period ended 30 April 2012 £'000
The amounts in respect of the highest paid director are as follows:			
Aggregate emoluments	420	314	811
Pension costs	8	7	9
Health care costs	3	3	3
	431	324	823

During the 16 month period ended 30 April 2012, the highest paid director exercised share options.

8 TAXATION

	Year ended 30 April 2014 £'000	Year ended 30 April 2013 (restated) £'000	16 month period ended 30 April 2012 (restated) £'000
(a) Tax on profit on ordinary activities			
The tax (credit) / charge is made up as follows:			
Current tax:			
UK corporation tax on profit for the year	1,943	2,054	3,809
Foreign tax charge	281	397	-
Adjustment in respect of prior years	(45)	(1,031)	30
Total current tax	2,179	1,420	3,839
Deferred tax:			
Origination and reversal of temporary differences	(2,690)	(1,535)	(1,853)
Impact of changes in tax rates	(1,372)	(649)	(813)
Total deferred tax	(4,062)	(2,184)	(2,666)
Total tax (credit) / charge for year	(1,883)	(764)	1,173

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for the year ended 30 April 2014

8 TAXATION (continued)

	Year ended 30 April 2014	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	(restated) £'000	(restated) £'000
(b) The tax assessed for the year differs from the standard UK rate of corporation tax applicable of 22.8% (2013: 23.9%; 2012: 26.3%). The differences are explained below:			
Profit / (loss) on ordinary activities before tax	1,792	3,265	(21,455)
Profit / (loss) on ordinary activities multiplied by the UK tax rate	409	780	(5,643)
Effects of:			
Permanent differences	335	(1)	6,797
Movement in unrecognised deferred tax	(143)	(208)	675
Impact of tax rate changes on deferred tax	(1,372)	(649)	(813)
Overseas tax rates	274	407	(76)
Adjustments in respect of prior years	(45)	(1,031)	30
Deferred tax on share options	(1,341)	(62)	203
Total tax (credit) / charge for year	(1,883)	(764)	1,173

(c) Deferred tax asset	30 April 2014 £'000	30 April 2013 £'000	30 April 2012 £'000
Deferred tax asset at start of period	2,343	2,456	2,031
Deferred tax income/(charge) for the period recognised in the income statement	1,035	(95)	499
Deferred tax income for the year recognised in equity	363	-	-
Change in tax rates	(215)	(18)	(74)
Deferred tax asset at end of period	3,526	2,343	2,456

(d) Deferred tax liability	30 April 2014 £'000	30 April 2013 (restated) £'000	30 April 2012 (restated) £'000
Deferred tax liability at start of period	(13,722)	(16,020)	(1,579)
Deferred tax liability acquired	-	-	(119)
Deferred tax income for the period recognised in the income statement	1,655	1,631	1,351
Deferred tax arising on intangible assets recognised on acquisition of Moonpig	-	-	(16,560)
Change in tax rates	1,587	667	887
Deferred tax liability at end of period	(10,480)	(13,722)	(16,020)

Photobox Holdco Limited

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for the year ended 30 April 2014

8 TAXATION (continued)

e) The deferred tax asset above is represented by:	30 April 2014 £'000	30 April 2013 £'000	30 April 2012 £'000
Decelerated capital allowances	213	515	383
Deferred tax on share options	1,736	38	110
Deferred tax on temporary differences arising on Photobox SAS losses	1,577	1,790	1,963
	3,526	2,343	2,456

f) The deferred tax liability above is represented by:	30 April 2014 £'000	30 April 2013 (restated) £'000	30 April 2012 (restated) £'000
Accelerated capital allowances	-	(104)	(108)
Deferred tax on temporary differences arising on Intangibles assets	(10,480)	(13,618)	(15,912)
	(10,480)	(13,722)	(16,020)

The total amount of tax losses that can be carried forward indefinitely totals £7,964,000 (2013: £9,037,000; 2012: £9,979,000) which are partially recognised due to the inherent uncertainty of when the deferred tax asset will crystallise. The Group recognised a deferred tax asset of £3,526,000 (2013: £2,343,000; 2012: £2,456,000) and a deferred tax liability of £10,480,000 (2013 restated: £13,722,000; 2012 restated: £16,020,000) (including a £nil (2013: £nil; 2012: £119,000) liability acquired and a £nil (2013: £nil; 2012: £16,560,000) liability arising upon the acquisition of Moonpig.com Limited. The amount of deferred tax assets not recognised is £1,062,000 at 30 April 2014 (2013: £1,205,000; 2012: £1,330,000).

In 2012, a deferred tax asset of £2,456,000 was recognised despite the Group making a loss of £22,628,000 for the period. The loss in the period ended 30 April 2012 was exceptional. This was primarily caused by the recognition of exceptional losses of £33,285,000 relating to the impairment of Moonpig goodwill following the removal of LVCR and exceptional acquisition costs. Excluding the above exceptional items, the Group would have been profitable for the year and management expect this profitability to continue in the future enabling the Group to recognise the deferred tax asset.

FACTORS AFFECTING CURRENT AND FUTURE TAX CHARGES

During the period, as a result of changes in the UK main corporation tax rate to 21% that was substantively enacted on 2 July 2013 (effective from 1 April 2014) the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate to reduce the rate to 20% on 1 April 2015 were also substantively enacted on 2 July 2013 therefore this reduction has been taken into consideration in the calculation of deferred tax.

Photobox Holdco Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 April 2014

9 INTANGIBLE ASSETS

	Goodwill (restated) £'000	Trademark (restated) £'000	Technology and capitalised development costs £'000	Customer database (restated) £'000	Other £'000	Total (restated) £'000
Cost						
1 January 2011	17,194	13,959	3,575	3,374	1,293	39,395
Additions	-	-	1,296	-	308	1,604
Acquisitions	65,963	26,629	1,878	35,197	2,532	132,199
Disposals	-	-	-	-	(265)	(265)
Transfers	-	-	-	-	94	94
Foreign exchange	(550)	(477)	(11)	(114)	(79)	(1,231)
30 April 2012	82,607	40,111	6,738	38,457	3,883	171,796
Additions	-	-	1,083	-	246	1,329
Disposals	-	-	(435)	-	-	(435)
Transfers	-	-	-	-	142	142
Foreign exchange	361	313	7	75	56	812
30 April 2013	82,968	40,424	7,393	38,532	4,327	173,644
Additions	-	-	2,374	-	455	2,829
Acquisitions	3,771	205	480	260	1,321	6,037
Disposals	-	-	(67)	-	(114)	(181)
Foreign exchange	(247)	(213)	(5)	(51)	(45)	(561)
30 April 2014	86,492	40,416	10,175	38,741	5,944	181,768
Amortisation and Impairment						
1 January 2011	1,721	8,590	2,542	2,721	1,158	16,732
Charge for year	-	999	1,175	3,917	1,079	7,170
Impairment	30,945	-	-	-	-	30,945
Disposal	-	-	-	-	(258)	(258)
Foreign exchange	(96)	(477)	(4)	(117)	(77)	(771)
30 April 2012	32,570	9,112	3,713	6,521	1,902	53,818
Charge for year	-	1,331	1,272	4,436	1,317	8,356
Disposal	-	-	(435)	-	-	(435)
Foreign exchange	63	313	2	75	47	500
30 April 2013	32,633	10,756	4,552	11,032	3,266	62,239
Charge for year	-	1,345	1,473	4,434	1,639	8,891
Impairment	-	191	-	-	-	191
Disposal	-	-	(49)	-	(114)	(163)
Foreign exchange	(43)	(213)	(2)	(51)	(38)	(347)
30 April 2014	32,590	12,079	5,974	15,415	4,753	70,811
Net book value						
30 April 2014	53,902	28,337	4,201	23,326	1,191	110,957
30 April 2013	50,335	29,668	2,841	27,500	1,061	111,405
30 April 2012	50,037	30,999	3,025	31,936	1,981	117,978

Other intangible assets include non-compete agreements, and information content for products and software.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

9 INTANGIBLE ASSETS (continued)

Impairment test

Goodwill and intangible assets acquired through business combinations have been allocated to three CGUs, for impairment testing as follows:

- Photobox Core CGU
- Moonpig CGU
- Sticky9 CGU

Carrying amount of goodwill and intangibles allocated to each of the CGUs:

	Indefinite useful lives			Finite useful lives			
	Goodwill (restated)	Trademark	Trademark (restated)	Technology and capitalised development costs	Customer database (restated)	Other	Total (restated)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Photobox Core CGU	15,020	5,369	-	1,223	37	173	21,822
Moonpig CGU	35,017	-	25,630	1,802	31,899	1,808	96,156
Sticky9 CGU	-	-	-	-	-	-	-
30 April 2012	50,037	5,369	25,630	3,025	31,936	1,981	117,978
Photobox Core CGU	15,318	5,369	-	1,239	-	220	22,146
Moonpig CGU	35,017	-	24,299	1,602	27,500	841	89,259
Sticky9 CGU	-	-	-	-	-	-	-
30 April 2013	50,335	5,369	24,299	2,841	27,500	1,061	111,405
Photobox Core CGU	15,114	5,369	-	2,210	-	325	23,018
Moonpig CGU	35,017	-	22,968	1,623	23,098	150	82,856
Sticky9 CGU	3,771	-	-	368	228	716	5,083
30 April 2014	53,902	5,369	22,968	4,201	23,326	1,191	110,957

The Group performed its annual impairment test at 31 January 2014 (2013: 30 April 2013; 2012: 30 April 2012) over the Photobox Core, Moonpig and Sticky9 CGUs.

Photobox Core CGU:

The recoverable amount of the Photobox Core CGU has been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management. The forecasts were prepared to 30 April 2015 and then projected for a further 5 years. The discounted cash flow model is prepared after making assumptions around growth rate of turnover, operating margin rate, growth rate of other operating charges, variation in working capital requirements and the level of investment. These assumptions are based on past experience of growth rates in both existing and new territories.

The discount rate used is 14.8% (2013: 17.4%; 2012: 17.3%) and the perpetual net income growth rate assumed is 3% (2013: 3%; 2012: 3%). The impairment review shows significant headroom and therefore significant changes in these assumptions would be needed before any impairment would be required. In particular, the discount rate would need to increase to more than 31% (2013: 50%; 2012: 50%) before any impairment would be required or projected revenue growth would need to fall to less than 0% (2013: 0%; 2012: 2%) which would be a significant fall from projected revenues. The directors believe there are no such changes in assumptions expected which could lead to impairment.

Photobox Holdco Limited

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for the year ended 30 April 2014

Moonpig CGU:

The Group also considers all aspects of trading and regulation which may have an impact on the Group. In November 2011, HMRC announced the removal of the LVCR scheme, with respect to shipments made from the Channel Islands. This had a direct impact on the profitability of Moonpig.com Limited which produces and ships a large proportion of its goods from Guernsey. This was an indicator for impairment in the period ended 30 April 2012 and, as a result, a £30,945,000 impairment was taken on the goodwill.

At 31 January 2014, the Group has performed its annual impairment review. The recoverable amount of the Moonpig CGU has been determined based on a value in use calculation using cash flow projections from financial forecasts approved by senior management. The forecasts were prepared to 30 April 2015, together with a forecast for the year to 30 April 2016 and then projected for a further 5 years. The discounted cash flow model is prepared after making assumptions around growth rate of turnover, operating margin rate, growth rate of other operating charges, variation in working capital requirements and the level of investment. These assumptions are based on past experience of growth rates in both existing and new territories.

The discount rate used is 16.7% (2013: 18.0%; 2012: 17.5%) and the perpetual growth rate assumed is 2% (2013: 2%; 2012: 2%). Growth rates up to the perpetual rate are consistent with historical trends over revenues, volumes and operating expenses.

The 2014 and 2013 impairment review shows significant headroom and therefore significant changes in these assumptions would be needed before any impairment would be required. In particular, projected revenue growth would need to fall to less than 5% (2013: 3%) before any impairment would be required, which would be a significant fall from projected revenues. The directors believe there are no such changes in assumptions expected which could lead to impairment.

Sticky9 CGU:

At 31 January 2014, the Group has performed its annual impairment review. Subsequent to the acquisition of StickyGram, Instagram announced changes in their position asking that, for those brands using the Instagram API, the “insta” or “gram” terminology is no longer used in its name. This was an indicator of impairment for the period ended 31 January 2014 and has resulted in an impairment of the tradename of £191,000. In March 2014, the Directors have subsequently taken the decision to change their tradename to Sticky9.

The recoverable amount of the Sticky9 CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management. The forecasts were prepared to 30 April 2015, together with a forecast for the year to 30 April 2016 and then projected for a further 6 years. A period of more than 5 years has been used in this impairment review given that the company is still growing rapidly and the Directors do not believe it will trend to a terminal growth rate within 5 years. This projection is consistent with the estimates made during the purchase price allocation exercise. The discounted cash flow model is prepared after making assumptions around growth rate of turnover, operating margin rate, growth rate of other operating charges, variation in working capital requirements and the level of investment. These assumptions are based on past experience of growth rates in existing brands and CGUs.

The discount rate used is 22.2% and the perpetual growth rate assumed is 2%. Growth rates up to the perpetual rate are consistent with historical trends over revenues, volumes and operating expenses.

The impairment review shows significant headroom and therefore significant changes in these assumptions would be needed before any further impairment would be required. In particular, the discount rate would need to increase to more than 28% or revenue would need to grow at a rate 20% lower than projected for all projected periods. The directors believe there are no such changes in assumptions expected which could lead to a further impairment.

Photobox Holdco Limited
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10 PROPERTY, PLANT AND EQUIPMENT

	Freehold property (restated) £'000	Plant and machinery (restated) £'000	Fixtures and fittings (restated) £'000	Leasehold improvements (restated) £'000	Computer equipment (restated) £'000	Assets under construction (restated) £'000	Total (restated) £'000
Cost							
1 January 2011	-	9,297	676	1,743	4,548	3	16,267
Additions	133	924	161	955	554	1,448	4,175
Acquisitions (Note 23)	3,830	2,023	1,492	413	9	-	7,767
Disposals	-	(446)	(70)	(12)	-	-	(528)
Transfers	-	276	381	67	385	(1,202)	(93)
Foreign exchange	-	(428)	(58)	(95)	(247)	(28)	(856)
30 April 2012	3,963	11,646	2,582	3,071	5,249	221	26,732
Additions	20	1,187	166	352	1,275	351	3,351
Disposals	-	(951)	(87)	(18)	-	-	(1,056)
Transfers	-	8	(1,447)	28	1,416	(442)	(437)
Foreign exchange	-	287	25	67	190	13	582
30 April 2013	3,983	12,177	1,239	3,500	8,130	143	29,172
Additions	3	1,467	152	585	885	679	3,771
Disposals	-	(317)	(165)	(187)	-	-	(669)
Transfers	-	83	218	-	446	(747)	-
Foreign exchange	-	(192)	(25)	(40)	(150)	(2)	(409)
30 April 2014	3,986	13,218	1,419	3,858	9,311	73	31,865
Depreciation and impairment							
1 January 2011	-	4,719	546	855	3,038	-	9,158
Acquisitions (Note 23)	323	1,454	996	314	7	-	3,094
Charge for the year	119	2,321	421	562	1,189	-	4,612
Disposals	-	(299)	(70)	(8)	-	-	(377)
Foreign exchange	-	(285)	(31)	(57)	(188)	-	(561)
30 April 2012	442	7,910	1,862	1,666	4,046	-	15,926
Charge for year	190	1,551	226	596	1,085	-	3,648
Disposals	-	(753)	(86)	(16)	-	-	(855)
Transfers	-	(295)	(1,153)	-	1,150	-	(298)
Foreign exchange	-	200	19	45	142	-	406
30 April 2013	632	8,613	868	2,291	6,423	-	18,827
Charge for year	190	1,498	277	763	1,102	-	3,830
Disposals	-	(274)	(160)	(187)	-	-	(621)
Transfers	-	-	-	-	-	-	-
Foreign exchange	-	(143)	(16)	(35)	(115)	-	(309)
30 April 2014	822	9,694	969	2,832	7,410	-	21,727
Net book value							
30 April 2014	3,164	3,524	450	1,026	1,901	73	10,138
30 April 2013	3,351	3,564	371	1,209	1,707	143	10,345
30 April 2012	3,521	3,736	720	1,405	1,203	221	10,806
31 December 2010	-	4,578	130	888	1,510	3	7,109

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

10 PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of plant and machinery includes £501,000 (2013: £1,148,000; 2012: £1,806,000) in respect of assets held under finance leases or hire purchase contracts.

11 FINANCIAL ASSETS AND LIABILITIES

	30 April 2014	30 April 2013	30 April 2012
	£'000	£'000	£'000
<i>Financial assets at fair value through profit or loss</i>			
Reverse contingent consideration	-	2,389	8,000
Current	-	2,389	6,731
Non-current	-	-	1,269
<i>Financial liabilities at fair value through profit or loss</i>			
Interest rate swap	84	299	105
Current	84	299	105
Non-current	-	-	-

Reverse contingent consideration: As part of the purchase agreement with the previous owners of Moonpig.com Limited, reverse contingent consideration relating to any future changes to the LVCR scheme which adversely impact Moonpig.com revenue, was agreed. Consideration was due from the vendor, paid out of Escrow each month, dependent on monthly sales, and capped at a cumulative total of £8,000,000. The fair value at the date of the acquisition was £nil, as the Group did not envisage the loss of LVCR in its entirety and therefore the full amount was included in consideration in 2012 (see Note 22). The remaining debtor at 30 April 2014 is £nil (2013: £2,389,000).

Interest rate swap: In July 2011, the Group entered into an interest rate swap on the bank loan. At the balance sheet date, the notional amount of the debt to which the swap is applied is £19,352,000 (2013: £27,349,000; 2012: £31,920,000). The Group pays a fixed rate of 1.29% on the notional amount and pays a variable rate based on LIBOR on the remaining balance. The fair value of this interest rate swap has been calculated as £84,000 (2013: £299,000; 2012: £105,000) with the movement in the year taken to the income statement. Any future change in the value of this interest rate swap will be taken to the income statement. The swap matures on 31 August 2014.

Photobox Holdco Limited

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for the year ended 30 April 2014

11 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair values

	Carrying Amount			Fair Values		
	30 April 2014	30 April 2013	30 April 2012	30 April 2014	30 April 2013	30 April 2012
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Financial assets</i>						
Trade and other receivables	4,857	4,007	3,316	4,857	4,007	3,316
Reverse contingent consideration	-	2,389	8,000	-	2,389	8,000
Short term investments	5,072	5,053	-	5,072	5,053	-
Cash	20,060	26,180	20,420	20,060	26,180	20,420
	29,989	37,629	31,736	29,989	37,629	31,736
<i>Financial liabilities</i>						
Trade and other payables	22,867	17,426	16,121	22,867	17,426	16,121
<i>Interest-bearing loans and borrowings:</i>						
Obligations under finance leases	495	1,122	1,794	495	1,122	1,794
Floating rate borrowings	28,417	39,745	45,722	30,141	39,231	45,119
Interest rate swap	84	299	105	84	299	105
	51,863	58,592	63,742	53,587	58,078	63,139

The fair value of floating rate borrowings has been calculated by discounting the expected future cash flows at prevailing market interest rates.

Financial risk management objectives and policies

Market risk

- Interest rate risk**

Interest rate risk is the risk that the Group is impacted from fluctuations in interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term borrowings. The Group considers whether it needs to manage its exposure to interest rate risk on an ongoing basis. At the inception of the bank loan the Group entered into an interest rate swap expiring in August 2014 which covers 66.67% of the bank loan.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term borrowings. A movement in the forecast LIBOR rate of +/- 0.25% would lead to an increase / decrease of the total interest cost as shown below:

	Impact on profit or loss before tax		
	2014 £'000	2013 £'000	2012 £'000
+ 0.25% increase in interest rates	29	37	31
- 0.25% reduction in interest rates	(29)	(37)	(31)

Photobox Holdco Limited

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for the year ended 30 April 2014

11 FINANCIAL ASSETS AND LIABILITIES (continued)

• Foreign currency risk

The Group is exposed to foreign currency risk arising from movements in foreign exchange. The Group's exposure to the risk of changes in foreign currencies relates primarily to the Group's operating activities. The Group transacts mainly in Sterling and Euros. The Directors consider that the Group has a partial natural hedge in place as regards the Euro (where receipts and payments are broadly matched). All other material cashflows are in Sterling.

The Group's sensitivity to foreign currency risk has been analysed below by calculating the impact on the group's profit by a 10% strengthening or weakening of the Euro.

	Impact on profit or loss before tax		
	2014	2013	2012
	£'000	£'000	£'000
+ 10% strengthening of Euro	174	142	(237)
- 10% weakening of Euro	(60)	(187)	240

Credit risk

Credit risk is the risk that a customer or counterparty will not meet its contractual obligations resulting in a financial loss for the Group. The Group considers its credit risk to be very low as virtually all Group revenues are derived from credit card transactions over the internet, reaching the Group bank accounts in 3 to 4 days.

At 30 April 2014, the Group had trade receivables of £374,000 (2013: £504,000; 2012: £1,448,000). Trade receivables are reviewed regularly for any risk of impairment and provisions are booked where necessary.

At 30 April 2014, the Group had nil customers (2013: nil; 2012: 1) that owed the group more than £250,000 and accounted for approximately 43% of trade receivables in 2012.

Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet its obligations as they fall due. The Group manages this risk through regular monitoring of short-term and long-term cash flows to identify liquidity requirements. Liquidity and forecast headroom over the Group's borrowings covenants for the coming 12 months are reviewed by the Group Chief Financial Officer.

The Group has access to a revolving credit facility of £3m in addition to its existing borrowings to meet any shortfall.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities.

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

11 FINANCIAL ASSETS AND LIABILITIES (continued)

At 30 April 2014, the Group held the following financial instruments carried at fair value in the statement of financial position:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss:				
Reverse contingent consideration				
At 30 April 2014	-	-	-	-
At 30 April 2013	-	-	2,389	2,389
At 30 April 2012	-	-	8,000	8,000
Financial liabilities at fair value through profit or loss:				
Interest rate swaps				
At 30 April 2014	-	84	-	84
At 30 April 2013	-	299	-	299
At 30 April 2012	-	105	-	105

12 INVENTORY

	30 April 2014 £'000	30 April 2013 £'000	30 April 2012 £'000
Raw materials and consumables	3,083	2,992	2,516
Less: Provision for write off of raw materials and consumables	(56)	(94)	(100)
	3,027	2,898	2,416

The cost of inventories recognised as an expense and included in cost of sales during the year amounted to £27,808,000 (year ended 30 April 2013: £25,458,000; period ended 30 April 2012: £23,605,000).

Photobox Holdco Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 April 2014

13 TRADE AND OTHER RECEIVABLES

	At 30 April 2014	At 30 April 2013	At 30 April 2012
	£'000	£'000	£'000
<i>Due within one year:</i>			
Trade receivables	374	504	1,448
Less: provision for impairment of trade receivables	(75)	(97)	(52)
Trade receivables - net	299	407	1,396
Other receivables	1,794	3,884	7,904
Prepayments	2,764	2,105	2,016
	4,857	6,396	11,316
<i>Due after more than one year:</i>			
Other receivables	735	586	1,773

Provision for impairment of trade receivables

	Collectively impaired £'000	Total £'000
At 1 January 2011	12	12
Charge for the year	62	62
Utilised	-	-
Unused amounts reversed	(22)	(22)
At 31 April 2012	52	52
Charge for the year	71	71
Utilised	-	-
Unused amounts reversed	(26)	(26)
At 30 April 2013	97	97
Charge for the year	25	25
Utilised	-	-
Unused amounts reversed	(47)	(47)
At 30 April 2014	75	75

14 TRADE AND OTHER PAYABLES

	At 30 April 2014	At 30 April 2013	At 30 April 2012
	£'000	(restated) £'000	(restated) £'000
Trade payables	6,091	6,157	5,618
Other payables	822	563	1,189
Other taxation and social security	2,915	3,172	2,203
Accruals	13,123	7,833	7,216
	22,951	17,725	16,226

Photobox Holdco Limited
NOTES TO THE FINANCIAL STATEMENTS
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15 BORROWINGS

	At 30 April 2014	At 30 April 2013	At 30 April 2012
	£'000	(restated) £'000	(restated) £'000
Current			
Obligations under finance leases – current	375	595	692
Bank loan	6,725	7,255	5,714
	7,100	7,850	6,406
Non-current			
Obligations under finance leases – non-current	120	527	1,102
Bank loan	21,692	32,490	40,008
	21,812	33,017	41,110
Total borrowings	28,912	40,867	47,516

Included in the bank loans is an amount of £8,201,000 (2013: £17,755,000; 2012: £24,380,000) (gross of costs relating to the raising of the debt), which is payable in instalments which commenced in February 2012 and ending in July 2015, and carries interest of LIBOR plus a maximum of 4% (varying according to the level of gross leverage). The balance of £20,826,000 (2013: £23,267,000; 2012: £23,500,000) (gross of costs relating to the raising of the debt) carries interest of LIBOR plus 4.25%, and is repayable in a single instalment in July 2016. The remainder of the balance comprises the net of interest accrued and costs amortising over the life of the loan at the year end of £610,000 (2013: £1,277,000; 2012: £2,158,000). The loan is secured on the owned assets of the group and is subject to various covenants. All covenants have been met during the year and, based on forecasts, management does not anticipate any covenant breaches.

Obligations under finance leases disclosed above are secured on the related assets.

16 PROVISIONS

	Warranty provision	Restructuring provision	Other provisions	Total
At 1 January 2011	381	-	2,929	3,310
Additions to provisions	165	98	153	416
Use of provision in the year	(366)	-	(115)	(481)
Release of provision in the year	-	-	(2,727)	(2,727)
Other movements	-	-	(59)	(59)
Foreign exchange	-	-	(10)	(10)
At 30 April 2012	180	98	171	449
Additions to provisions	220	-	228	448
Use of provision in the year	(165)	(60)	(32)	(257)
Release of provision in the year	(15)	(38)	-	(53)
Foreign exchange	8	-	5	13
At 30 April 2013	228	-	372	600
Additions to provisions	383	-	329	712
Use of provision in the year	(226)	-	(188)	(414)
Release of provision in the year	-	-	(15)	(15)
Foreign exchange	(6)	-	(6)	(12)
At 30 April 2014	379	-	492	871

Photobox Holdco Limited

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for the year ended 30 April 2014

16 PROVISIONS (continued)

Warranty provision relates to the estimated cost for re-production of products which may require re-work. It is expected that most of these costs will be incurred in the next financial year.

Restructuring provision relates to the expected cost of redundancies announced in Guernsey in April 2012. The restructuring was completed in the financial year ended 30 April 2013.

Other provisions relate to various litigation matters, dilapidation provisions and product credits. The release of the provision in the year ended 30 April 2012 related to a tax provision which was no longer required. The timing of settlement for litigation matters and dilapidations is unknown but not anticipated in the next financial year.

17 SHARE CAPITAL AND RESERVES

	At 30 April 2014	At 30 April 2013	At 30 April 2012
	£'000	£'000	£'000
<i>Allotted, issued and fully paid:</i>			
25,036,239 ordinary shares of 0.1p each*	25	25	25
31,350,187 "A" Convertible preference shares of 0.1p each	31	31	31
7,077,781 "B" Convertible preference shares of 0.1p each	7	7	7
36,758,342 "C" Convertible preference shares of 0.1p each	37	37	37
	100	100	100

*including 4,334 Non-Voting Ordinary Shares

Under merger accounting, share capital is presented on the assumption that it has been in issue through both the comparative and the current period. Comparative balances have therefore been restated to reflect share capital at the date of the group reconstruction (19 July 2011), being the shares issued by Photobox Holdco Limited to acquire Photoways, Inc.

The issued share capital of the Company is divided into the following classes of shares: (i) Ordinary Shares; (ii) Non-Voting Ordinary shares; (iii) Class A Convertible preference Shares; (iv) Class B Convertible preference Shares; and (v) Class C Convertible preference Shares.

Each holder of outstanding Class A Convertible preference shares, Class B Convertible preference shares and Class C Convertible preference shares are entitled to cast such number of votes as is equal to the number of Ordinary Shares into which the Class A Convertible preference shares, Class B Convertible preference shares and/or Class C Convertible preference shares held by such holder are convertible as of the record date for determining shareholders entitled to vote on such matter.

Subject to applicable laws and the Articles of association, holders of Class A Convertible preference shares, Class B Convertible preference shares and Class C Convertible preference shares shall vote together with the holders of Ordinary Shares as a single class. Class A Convertible preference shares, Class B Convertible preference shares and Class C Convertible preference shares are convertible into Ordinary shares at the option of the holder.

Class A Convertible preference shares

Class A Convertible preference shares carry a dividend US\$0.09229 per annum plus all dividend previously accrued on the shares of Series A Preferred Stock pursuant to the Photoways Inc articles of association. Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company. Class A Convertible preference shares are convertible into Ordinary shares at the option of the holder.

Photobox Holdco Limited

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for the year ended 30 April 2014

17 SHARE CAPITAL AND RESERVES (continued)

Class B Convertible preference shares

Class B Convertible preference shares carry a dividend US\$0.15256 per annum plus all dividend previously accrued on the shares of Series B Preferred Stock pursuant to the Photoways Inc articles of association. Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company. Class B Convertible preference shares rank in preference to the holders of any other class or series of shares (other than the holders of Class C Convertible preference shares) and on a pari passu basis with the holders of Class C Convertible preference shares. Class B Convertible preference shares are convertible into Ordinary shares at the option of the holder.

Class C Convertible preference shares

Class C Convertible preference shares carry a dividend of 8.0% per annum plus all dividend previously accrued on the shares of Series C Preferred Stock pursuant to the Photoways Inc articles of association. Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company. Class C Convertible preference shares rank in preference to the holders of any other class or series of shares (other than the holders of Class B Convertible preference shares) and on a pari passu basis with the holders of Class B Convertible preference shares. Class C Convertible preference shares are convertible into Ordinary shares at the option of the holder.

Year ended 30 April 2014:

As at 30 April 2014 the following shares were in issue:

Ordinary shares	25,036,239
Class A Convertible preference shares	31,350,187
Class B Convertible preference shares	7,077,781
Class C Convertible preference shares	36,758,342

In the year ended 30 April 2014 the following issues were made:

Ordinary shares:

On 20 January 2014, 34,200 £0.001 ordinary shares were issued in exchange for the provision of non-executive director services. Cash consideration was £nil.

During the year, 4,125 £0.001 ordinary shares were issued in exchange for the exercise of share options. Cash consideration of £3,000 was received.

Year ended 30 April 2013:

As at 30 April 2013 the following shares were in issue:

Ordinary shares	24,997,914
Class A Convertible preference shares	31,350,187
Class B Convertible preference shares	7,077,781
Class C Convertible preference shares	36,758,342

No shares were issued in the year ended 30 April 2013.

16 month period ended 30 April 2012:

As at 30 April 2012 the following shares were in issue:

Ordinary shares	24,997,914
Class A Convertible preference shares	31,350,187
Class B Convertible preference shares	7,077,781
Class C Convertible preference shares	36,758,342

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

17 SHARE CAPITAL AND RESERVES (continued)

In the period ended 30 April 2012 the following issues were made:

Ordinary shares:

On 19 July 2011, 20,525,655 £0.001 ordinary shares were issued as part of a share for share exchange with the former shareholders of Photoways Inc. for cash consideration of £nil.

On 22 July 2011, 1,327,842 £0.001 ordinary shares were converted into 1,327,842 £0.001 "C" Convertible preference shares for cash consideration of £nil.

On 26 July 2011, 5,618,414 £0.001 ordinary shares were issued for in exchange for 5,618,414 convertible loan notes in Photobox Alpha Limited (which were converted into ordinary share capital in Photobox Holdco Alpha Limited immediately after this swap).

On 10 August 2011, 100,000 options over ordinary shares were exercised for cash consideration of £70,376, and 100,000 ordinary shares were issued.

On 30 August 2011, 81,687 £0.001 ordinary shares were issued for cash consideration.

"A" Convertible preference shares:

On 19 July 2011, 31,369,641 £0.001 "A" Convertible preference shares were issued as part of a share for share exchange with the former shareholders of Photoways Inc. for cash consideration of £nil.

On 22 July 2011, 19,454 £0.001 "A" Convertible preference shares were converted into 19,454 £0.001 "C" Convertible preference shares for cash consideration of £nil.

"B" Convertible preference shares:

On 19 July 2011, 7,077,781 £0.001 "B" Convertible preference shares were issued as part of a share for share exchange with the former shareholders of Photoways Inc. for cash consideration of £nil.

"C" Convertible preference shares:

On 22 July 2011, 27,430,906 £0.001 "C" Convertible preference shares were issued for cash consideration of £48,123,546.

On 22 July 2011, 1,347,296 £0.001 "C" Convertible preference shares were issued in respect of the conversion of 1,327,842 ordinary shares and 19,454 "C" Convertible preference shares referred to above.

On 26 July 2011, 7,980,140 £0.001 "C" Convertible preference shares were issued in exchange for 7,980,140 convertible loan notes in Photobox Holdco Alpha Limited (which were converted into ordinary share capital in Photobox Holdco Alpha Limited immediately after this swap).

The merger reserve arose on the group reconstruction when Photobox Holdco Limited was inserted as the ultimate parent of the group and purchased the share capital of the previous parent, Photoways, Inc.

The foreign exchange reserve represents the exchange difference arising on the retranslation of foreign currency denominated group companies into the group's Sterling presentation currency.

18 SHARE BASED PAYMENTS

Following a group reconstruction, the Group's ultimate parent company changed from Photoways, Inc. to Photobox Holdco Limited. Up until 22 July 2011, all options were granted by the Photoways, Inc Board of Directors under the 2005 Stock Option and Grant Plan Photoways, Inc (together with various Amendments and Addendums). All options issued since 22 July 2011 have been granted under the Long Term Incentive Plan of Photobox Holdco Limited.

Except as determined at the sole discretion of the Board of Directors (of Photoways Inc. for options granted prior to 22 July 2011, and Photobox Holdco Limited for options granted since 22 July 2011), the vesting period of the options starts on the 1st anniversary of the grant date (where 25% of the options vest), and continues with monthly vesting over a period of 36 months. The maximum term of an option is 10 years from the date the option is granted.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

18 SHARE BASED PAYMENTS (continued)

Following the reconstruction, all option holders entered into either a swap agreement or a put and call agreement whereby the options remain under the rules of Photoways Inc plan. Where a swap agreement is in place, the only modification to this scheme is that upon exercise, the holder receives an ordinary share in Photobox Holdco Limited rather than a share of common stock in Photoways, Inc. Where a put and call agreement is in place, when option holders exercise their option, they receive a share of common stock in Photoways, Inc. At the point of a triggering event, Photobox Holdco Limited will exercise a call option to acquire this share of common stock in Photoways, Inc. for an ordinary share in Photobox Holdco Limited. Under both arrangements, the change to the settlement of the option reflects a modification but does not result in any change in the fair value of the options originally issued under the 2005 plan.

	Year ended 30 April 2014		Year ended 30 April 2013		16 month period ended 30 April 2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At start of period	15,679,428	£0.84	15,924,291	£0.82	12,852,488	£0.82
Granted	926,000	£0.89	615,000	£0.89	4,643,000	£0.88
Forfeited	(391,875)	£0.87	(797,863)	£0.83	(947,259)	£0.86
Exercised	(54,125)	£0.74	(62,000)	£0.82	(623,938)	£0.72
At end of period	16,159,428	£0.84	15,679,428	£0.84	15,924,291	£0.82
Exercisable at end of period	11,932,141	£0.81	11,341,690	£0.81	9,556,174	£0.80

The weighted average remaining contractual life for the share options outstanding as at 30 April 2014 is 6.31 years (30 April 2013: 6.10 years; 30 April 2012: 6.89 years).

The weighted average fair value of options granted during the year was £0.68 (year ended 30 April 2013 £0.44; period ended 30 April 2012 £0.45).

Of the options exercised in the year ended 30 April 2014, 50,000 option exercises resulted in the issue of shares in Photoways, Inc which are subject to the put and call agreement described above (2013: 62,000; 2012: nil).

The following table lists the inputs used:

Grant date	Strike price	Risk free rate	Volatility	Expected life (years)	Fair value of option
Year ended 31.12.2005	\$1.15	3.70%	65.42%	5.58 - 5.89	\$0.70
Year ended 31.12.2006	\$1.15	3.70%	56.77%	5.58 - 6.08	\$0.63 to \$0.65
Year ended 31.12.2007	\$1.15 to \$1.39	4.50%	100.00%	6.00	\$0.93 to \$1.12
Year ended 31.12.2008	\$1.39	4.0%	100.00%	6.08	\$1.12
Year ended 31.12.2009	\$1.39	2.10% - 2.50%	100.00%	6.08	\$1.11
Year ended 31.12.2010	\$1.39	1.27% - 1.93%	60.00%	6.08	\$0.78 to \$0.79
Year ended 31.12.2011	\$1.39	2.80%	57.00%	6.00	\$0.77
Year ended 31.12.2011	\$0.89	1.03% - 1.32%	57.00%	6.00	£0.45
4 months ended 30.4.2012	£0.89	1.05%	57.00%	6.00	£0.45
Year ended 30.4.2013	£0.89	0.69% - 0.78%	57.00%	6.00	£0.44 to £0.45
Year ended 30.4.2014	£0.89 to £1.39	1.68% - 1.94%	56.00%	6.00	£0.44 to £0.89

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

18 SHARE BASED PAYMENTS (continued)

The expected volatility is based on the historical volatility of comparator listed companies for a period of 6 years from the date of grant.

The transfers to reserve as per IFRS 2 in relation to the grant of share options to the group's part or full time officers, employees or directors for the year was £681,000 (year ended 30 April 2013 £940,000; period ended 30 April 2012: £1,236,000).

19 CASH GENERATED FROM OPERATIONS

	Year ended 30 April 2014 £'000	Year ended 30 April 2013 (restated) £'000	16 month period ended 30 April 2012 (restated) £'000
Profit / (loss) before taxation	1,792	3,265	(21,455)
Adjustments for:			
- Depreciation	3,830	3,648	4,612
- Amortisation	8,891	8,356	7,170
- Goodwill impairment charge	-	-	30,945
- Intangible fixed asset impairment charge	191	-	-
- (Profit)/loss on disposal of property plant and equipment and intangible fixed assets	7	79	(39)
- Share based payment charge	681	940	1,236
- Net finance costs / (income)	2,223	3,573	2,989
- Unrealised foreign exchange loss / (gain) on operating activities	(282)	412	(601)
Changes in working capital:			
- Inventories	(147)	(455)	(520)
- Trade and other receivables	1,615	5,856	(7,877)
- Trade and other payables	4,414	2,652	(9,242)
	23,215	28,326	7,218

20 COMMITMENTS AND CONTINGENCIES

a) Contingencies

All group companies, excluding Photobox Holdco Limited, have given a guarantee in respect of the bank borrowings which amounted to £29,027,000 (30 April 2013: £41,022,000; 30 April 2012: £47,880,000).

b) Operating lease commitments

The group leases various premises and machinery under non-cancellable operating leases. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	At 30 April 2014 £'000	At 30 April 2013 £'000	At 30 April 2012 £'000
No later than 1 year	2,046	2,283	2,421
Later than 1 year and no later than 5 years	3,211	4,151	4,503
Later than 5 years	321	658	951
	5,578	7,092	7,875

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

20 COMMITMENTS AND CONTINGENCIES (continued)

c) Finance lease commitments

The group has finance leases for various items of plant and machinery. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	At 30 April 2014		At 30 April 2013		At 30 April 2012	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	£'000	£'000	£'000	£'000	£'000	£'000
No later than 1 year	375	375	595	595	692	692
Later than 1 year and no later than 5 years	143	120	569	527	1,182	1,102
Total minimum lease payments	518	495	1,164	1,122	1,874	1,794
Less amounts representing finance charges	(23)	-	(42)	-	(80)	-
Present value of minimum lease payments	495	495	1,122	1,122	1,794	1,794

21 RELATED PARTY TRANSACTIONS

Insight Venture Management LLC

During the year, the Group paid £9,000 (2013 - £nil; 2012 - £37,000) to Insight Venture Management LLC ("Insight") for consultancy services.

LR Handen, a director of Photobox Holdco Limited, is an employee of Insight and a Managing Director in investment funds which are managed by Insight (and which are shareholders in Photobox Holdco Limited).

Key Management

During the 16 month period ended 30 April 2012, I S Martin (a member of Key Management) became a trustee of a registered charity Moonpig Foundation (registered no. 7171262), which is a separate legal entity from Moonpig.com Ltd. There were financial transactions between the two entities during the year to the value of £33,000 (2013: £3,000; 2012: £32,000), of which £nil (2013: £nil; 2012: £1,000) was received by Moonpig.com Ltd for the re-imbursement of fundraising expenses and £33,000 (2013: £3,000; 2012: £31,000) was paid to the Foundation as a charitable donation. There was an accrual for £nil (2013: £3,000; 2012: £nil) payable to the Moonpig Foundation at the period end.

Compensation of Key Management personnel of the Group

	Year ended 30 April 2014	Year ended 30 April 2013	16 months ended 30 April 2012
	£'000	£'000	£'000
Short-term employee benefits	1,904	1,328	2,460
Post-employment pension and medical benefits	172	30	40
Share-based payment transactions	508	902	1,033
Total compensation relating to Key Management personnel	2,584	2,260	3,533

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to Key Management personnel. Key Management are those persons having authority and responsibility for planning, directing and controlling the activities of the group.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

21 RELATED PARTY TRANSACTIONS (continued)

Interests in long term incentive plans

Share options held by executive and non-executive members of the Board of Directors and Key Management personnel, under the 2005 Stock Option and Grant Plan Photoways, Inc and the Photobox Holdco Limited Long Term Incentive Plan, to purchase ordinary shares have the following expiry dates and exercise prices:

	Expiry date	Exercise price	30 April 2014 Number outstanding	30 April 2013 Number outstanding	30 April 2012 Number outstanding
Issue date:					
2005	2015	\$1.15	200,101	200,101	200,101
2006	2016	\$1.15	3,440,335	3,440,335	3,440,335
2007	2017	\$1.15	1,153,501	1,153,501	1,153,501
2008	2018	\$1.39	250,000	250,000	250,000
2009	2019	\$1.39	15,000	15,000	15,000
2010	2020	\$1.39	3,525,225	3,525,225	3,525,225
2011	2021	£0.89	3,710,000	3,710,000	3,710,000
2012	2022	£0.89	50,000	50,000	-
2013	2023	£0.89	380,000	-	-
			12,724,162	12,344,162	12,294,162

22 BUSINESS COMBINATIONS

Acquisition of StickyGram.com

On the 18 June 2013, the Group acquired the trade and assets of StickyGram.com (subsequently renamed Sticky9), a business which enables customers to print their Instagram digital photographs. The principle reason for the acquisition was to expand the Group's offering of personalised products to customers and enhance the Group's social and mobile platforms.

Assets acquired and liabilities assumed

	Note	Fair value recognised on acquisition £'000
Cash consideration		6,000
Contingent consideration		37
Total consideration		6,037
Net assets acquired		-
Goodwill and intangibles arising on acquisition	10	6,037
Analysed as follows:		
Intangible assets	10	2,266
Goodwill	10	3,771

Goodwill is allocated entirely to the Sticky9 CGU. Goodwill recognised is deductible for income tax purposes.

From the date of acquisition to 30 April 2014, Sticky9 contributed £1,325,000 of revenue and a loss before tax of £1,369,000 to the net profit before tax of the Group, of which £1,343,000 relates to the amortisation and impairment of goodwill and intangibles arising on acquisition.

Transactions costs of £68,000 were expensed in the period.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

22 BUSINESS COMBINATIONS (continued)

Of the total goodwill and intangibles arising of £6,037,000, intangible assets to the value of £2,266,000 were recognised on acquisition, primarily in terms of the technology and non-compete agreement. The remaining goodwill represents the value derived from future incremental profitability over and above that which existed at the time of the acquisition, including synergies and cost savings through economies of scale.

Subsequent to the acquisition of StickyGram, Instagram announced changes in their position asking that for those brands using the Instagram API, the “insta” or “gram” terminology is no longer used in its name. This was an indicator of impairment for the year ended 31 April 2014 and has resulted in an impairment of the tradename of £191,000. In March 2014, the Directors took the decision to change their tradename to Sticky9.

Acquisition of Moonpig.com Limited

On the 22 July 2011, the Group acquired the entire share capital of Moonpig.com Limited, an unlisted company based in the UK and specialising in the sale of personalised greetings cards. The Group acquired Moonpig.com Limited as it significantly boosts the group’s market share over personalised photographic products.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Moonpig.com Limited at the date of acquisition were:

	<i>Note</i>	Fair value recognised on acquisition £’000
Cash		84,807
Cash held in Escrow		12,000
Share capital		23,856
Deferred consideration		100
Total consideration		120,763
Net assets acquired:		
Assets		
Tangible and intangible fixed assets	10,11	4,763
Cash and cash equivalents		8,125
Trade and other receivables		748
Inventories		383
		14,019
Liabilities		
Trade and other payables		8,776
Deferred tax liability	9	119
Total identifiable net assets at fair value		5,124
Goodwill and intangibles arising on acquisition	10	115,639
Analysed as follows:		
Intangible assets	10	66,236
Deferred tax arising on intangible assets	9	(16,560)
Goodwill	10	65,963

Goodwill is allocated entirely to the Moonpig CGU. None of the goodwill recognised is deductible for income tax purposes.

From the date of acquisition to 30 April 2012, Moonpig.com Limited contributed £35,280,000 of revenue and £9,838,000 to the net profit before tax of the Group.

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

22 BUSINESS COMBINATIONS (continued)

The Group issued 5,700,101 ordinary shares and 7,980,140 "C" Preference Shares as part consideration for the 100% interest in Moonpig.com Limited based on the 22 July 2011 Series "C" subscription price.

Transactions costs of £2,340,000 were expensed and included in exceptional items in the prior period. Costs attributable to the issuance of the shares of £475,000 were charged directly to equity as a reduction in share premium.

Of the total goodwill and intangibles arising of £115,639,000, intangible assets to the value of £66,236,000 were recognised on acquisition, primarily in terms of the trademark and customer relationships. The remaining goodwill represents the value derived from future incremental profitability over and above that which existed at the time of the acquisition, including synergies and cost savings through economies of scale. An impairment review was performed at 30 April 2012 and as a result an impairment was taken against goodwill (see Note 10).

Reverse contingent consideration: As part of the purchase agreement with the previous owners of Moonpig.com Limited, reverse contingent consideration relating to any future changes to the LVCR scheme which adversely impact Moonpig.com revenue, was agreed. Consideration was due from the vendor, paid out of Escrow each month, dependent on monthly sales, and capped at a cumulative total of £8,000,000. The fair value at the date of the acquisition was £nil, as the Group did not envisage the loss of LVCR in its entirety and therefore the full amount was included in consideration. The full amount of £8,000,000 was refunded to the group during 2012 and 2013. A debtor in respect of this £8,000,000 was recognised on the balance sheet in 2012, and the credit taken to the Income Statement in the year. The remaining debtor at 30 April 2014 is £nil (2013: £2,389,000).

23 PRIOR YEAR RESTATEMENTS

Prior year comparatives have been restated for the following items:

a) Reallocation of tangible asset and intangible asset impairment against goodwill.

An adjustment has been made to recognise the impairment of the Guernsey freehold property, customer relationship and trade name following the removal of LVCR in the period ended 30 April 2012 against goodwill rather than the individual assets. This adjustment has a consequential deferred taxation impact in periods ended 2012 and 2013. The impairment was originally booked as at 30 April 2012 and therefore only has an impact on depreciation and amortisation for the year ended 30 April 2013.

b) Reallocation of computer equipment included within fixtures and fittings

A presentation adjustment has been made to reallocate computer equipment shown within fixtures and fittings asset category. This adjustment has no effect on the net book value or depreciation charge (see note 11).

c) Reclassification of bank overdraft

A presentation adjustment has been made to reclassify the company credit card from bank overdrafts to other payables. This adjustment has no effect on net assets or profit for the year however has reduced borrowings by £21,000 in 2013 and £16,000 in 2012.

The effect on the Consolidated income statement, Consolidated statement of comprehensive income, Statement of financial position and Statement of changes in equity has been set out below:

Effect on Consolidated income statement	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	£'000
Profit/(loss) for the year as previously reported	4,221	(22,002)
Change in depreciation within cost of sales	(31)	-
Change in amortisation	(249)	-
Change in taxation	88	(626)
Profit/(loss) for the year restated	4,029	(22,628)

Photobox Holdco Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 April 2014

23 PRIOR YEAR RESTATEMENTS (continued)

Effect on Consolidated statement of comprehensive income	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	£'000
Total Comprehensive income/(loss) for the year	4,719	(22,677)
Change in profit/(loss) for the year	(192)	(626)
Total Comprehensive income/(loss) for the year restated	4,527	(23,303)

Effect on Consolidated statement of financial position	Year ended 30 April 2013	16 month period ended 30 April 2012
Total assets		
	£'000	£'000
Total assets as previously reported	165,486	167,165
Change in Property, plant and equipment	(31)	770
Change in Intangible assets	(249)	(770)
Total assets restated	165,206	167,165

Total intangible assets	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	£'000
Total assets as previously reported	112,424	118,748
Brought forward impact	(770)	-
Change in Intangible assets	(249)	(770)
Total assets restated	111,405	117,978

Total property plant and equipment	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	£'000
Total assets as previously reported	9,606	10,036
Brought forward impact	770	-
Change in Intangible assets	(31)	770
Total assets restated	10,345	10,806

Total liabilities	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	£'000
Total liabilities as previously reported	79,412	86,750
Brought forward impact	626	-
Change in deferred tax liability	(88)	626
Total liabilities restated	79,950	87,376

Photobox Holdco Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

23 PRIOR YEAR RESTATEMENTS (continued)

Effect on Consolidated statement of change in equity

Retained earnings	Year ended 30 April 2013	16 month period ended 30 April 2012
	£'000	£'000
Retained earnings as previously reported	(24,103)	(29,264)
Brought forward impact	(626)	-
Change in profit/(loss) for the year	(192)	(626)
	(24,921)	(29,890)

24 EVENTS AFTER THE REPORTING PERIOD

On 23 May 2014, the Group entered into a new revolving credit facility which enables the Group to draw down funds up to £50,000,000. Interest is charged on the outstanding balance of the facility at LIBOR plus a lending margin that is dependent upon gross leverage. The previous bank facility was repaid in full.

Photobox Holdco Limited (Company)

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 company and the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d. 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Photobox Holdco Limited (Company)

REPORT OF THE INDEPENDENT AUDITOR

We have audited the financial statements of Photobox Holdco Limited for the period ended 30 April 2014 which comprise the Balance Sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 49, 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 April 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Photobox Holdco Limited (Company)

REPORT OF THE INDEPENDENT AUDITOR

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Ernst & Young LLP 28/7/14

Nick Powell (Senior Statutory Auditor)
For and on behalf of ERNST & YOUNG LLP, Statutory Auditor
1 More London Place
London SE1 2AF

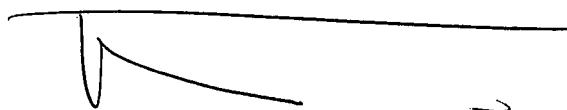
Photobox Holdco Limited (Company)

COMPANY BALANCE SHEET

at 30 April 2014

	<i>Notes</i>	30 April 2014 £'000	30 April 2013 £'000
Fixed assets			
Investments in group companies	4	112,252	112,252
Current assets			
Debtors	5	3	-
Cash at bank and in hand		1	-
TOTAL ASSETS		112,256	112,252
Current liabilities			
Creditors: amounts falling due within one year	6	(1,959)	(107)
TOTAL LIABILITIES		(1,959)	(107)
NET ASSETS		110,297	112,145
Capital and reserves			
Ordinary share capital	7	25	25
"A" Preference share capital	7	31	31
"B" Preference share capital	7	7	7
"C" Preference share capital	7	37	37
Share premium	8	71,193	71,160
Merger reserve	8	40,875	40,875
Retained earnings	8	(1,871)	10
TOTAL SHAREHOLDERS' FUNDS	9	110,297	112,145

The financial statements on pages 53 to 58 were approved by the board of directors and authorised for issue on 24 July 2014 and are signed on its behalf by:



S Laurent
Director

Company Registration No. 07648443

Photobox Holdco Limited (Company)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable Accounting Standards in the UK. A summary of the material accounting policies, which have been consistently applied and reviewed by the board of directors in accordance with Financial Reporting Standard (FRS) 18, "Accounting policies", is set out below:

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Going concern

The company has sufficient financial resources and as a consequence, the directors believe that they are well placed to manage its business risk successfully and to continue in operational existence for the foreseeable future. Therefore they consider it appropriate to adopt the going concern basis in preparing the financial statements.

Investments in subsidiaries

Investments in subsidiaries are initially recorded at cost. Where an acquisition satisfies the provisions of section 612 of the Companies Act 2006 for merger relief, the investment is stated at the nominal value of shares issued plus the fair value of any other consideration.

Cash flow statement

The Company has taken advantage of the exemption in FRS 1 Revised 1996 "Cash flow statements" which provides that where a company is a member of a group and a consolidated cash flow statement is published, the company does not have to prepare a cash flow statement.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Taxation

Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Financial instruments

The Company does not have any financial instruments, other than intercompany payables and receivables and cash. Due to the short-term nature of these balances, the Company considers the fair value of these items to equal the carrying value.

2. PROFIT FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss after taxation was £1,881,000 (2013: £4,000). The Company has no employees. Audit fees are disclosed in note 3 to the consolidated financial statements. The company has paid no dividends in the period.

Photobox Holdco Limited (Company)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

3. STAFF COSTS & DIRECTORS REMUNERATION

Staff costs of the two executive directors in the period were borne by a fellow group company.

The profit and loss account includes £30,000 in respect of remuneration for non-executive directors.

4. INVESTMENTS IN GROUP COMPANIES

	£'000
<i>Cost and net book value</i>	
As at 1 May 2013 and 2014	112,252

The company was incorporated on 26 May 2011 and following a group reorganisation, the company became the new parent of the group.

Interests in group undertakings

Details of subsidiary undertakings are as follows:

Name of Company	Country of incorporation	Holding	Proportion of voting rights and shares directly held	Proportion of voting rights and shares indirectly held	Nature of business
Photobox Holdco Gamma Ltd	UK	Ordinary shares	100.0%	-	Holding company
Photobox Holdco Alpha Ltd	UK	Ordinary shares	-	100.0%	Holding company
Photobox Holdco Beta Ltd	UK	Ordinary shares	-	100.0%	Holding company
Photobox UK Ltd (previously Photobox Ltd)	UK	Ordinary shares	-	100.0%	Trading company
Moonpig.com Ltd	UK	Ordinary shares	-	100.0%	Trading company
Photobox SAS	France	Share capital	-	100.0%	Trading company
Photoways Inc.	USA	Common stock	-	100.0%	Holding company
		Preference stock			
Photobox GmbH	Germany	Share capital	-	100.0%	Service company
Online Photo Sverige AB	Sweden	Share capital	-	100.0%	Service company

The directors are of the opinion that the individual investments in the subsidiary undertakings have a value not less than the amount at which they are shown in the Balance Sheet.

5. DEBTORS

	30 April 2014 £'000	30 April 2013 £'000
<i>Due within one year:</i>		
Amounts owed by other group undertakings	3	-
	3	-

Photobox Holdco Limited (Company)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

6. CREDITORS: Amounts falling due within one year

	30 April 2014 £'000	30 April 2013 £'000
Amounts owed to group undertakings	1,959	107

Amounts due to group undertakings are unsecured and interest free, have no fixed date of repayment and are repayable on demand.

7. SHARE CAPITAL

	At 30 April 2014 £'000	At 30 April 2013 £'000
<i>Allotted, issued and fully paid:</i>		
25,036,239 ordinary shares of 0.1p each*	25	25
31,350,187 "A" Convertible preference shares of 0.1p each	31	31
7,077,781 "B" Convertible preference shares of 0.1p each	7	7
36,758,342 "C" Convertible preference shares of 0.1p each	37	37
	100	100

*including 4,334 Non-Voting Ordinary Shares

Under merger accounting, share capital is presented on the assumption that it has been in issue through both the comparative and the current period. Comparative balances have therefore been restated to reflect share capital at the date of the group reconstruction (19 July 2011), being the shares issued by Photobox Holdco Limited to acquire Photoways, Inc.

The issued share capital of the Company is divided into the following classes of shares: (i) Ordinary Shares; (ii) Non-Voting Ordinary shares; (iii) Class A Convertible preference Shares; (iv) Class B Convertible preference Shares; and (v) Class C Convertible preference Shares.

Each holder of outstanding Class A Convertible preference shares, Class B Convertible preference shares and Class C Convertible preference shares are entitled to cast such number of votes as is equal to the number of Ordinary Shares into which the Class A Convertible preference shares, Class B Convertible preference shares and/or Class C Convertible preference shares held by such holder are convertible as of the record date for determining shareholders entitled to vote on such matter.

Subject to applicable laws and the Articles of association, holders of Class A Convertible preference shares, Class B Convertible preference shares and Class C Convertible preference shares shall vote together with the holders of Ordinary Shares as a single class. Class A Convertible preference shares, Class B Convertible preference shares and Class C Convertible preference shares are convertible into Ordinary shares at the option of the holder.

Class A Convertible preference shares

Class A Convertible preference shares carry a dividend US\$0.09229 per annum plus all dividend previously accrued on the shares of Series A Preferred Stock pursuant to the Photoways Inc articles of association. Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company. Class A Convertible preference shares are convertible into Ordinary shares at the option of the holder.

Photobox Holdco Limited (Company)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

Class B Convertible preference shares

Class B Convertible preference shares carry a dividend US\$0.15256 per annum plus all dividend previously accrued on the shares of Series B Preferred Stock pursuant to the Photoways Inc articles of association. Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company. Class B Convertible preference shares rank in preference to the holders of any other class or series of shares (other than the holders of Class C Convertible preference shares) and on a pari passu basis with the holders of Class C Convertible preference shares. Class B Convertible preference shares are convertible into Ordinary shares at the option of the holder.

Class C Convertible preference shares

Class C Convertible preference shares carry a dividend of 8.0% per annum plus all dividend previously accrued on the shares of Series C Preferred Stock pursuant to the Photoways Inc articles of association. Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company. Class C Convertible preference shares rank in preference to the holders of any other class or series of shares (other than the holders of Class B Convertible preference shares) and on a pari passu basis with the holders of Class B Convertible preference shares. Class C Convertible preference shares are convertible into Ordinary shares at the option of the holder.

Year ended 30 April 2014:

As at 30 April 2014 the following shares were in issue:

Ordinary shares	25,036,239
Class A Convertible preference shares	31,350,187
Class B Convertible preference shares	7,077,781
Class C Convertible preference shares	36,758,342

In the year ended 30 April 2014 the following issues were made:

Ordinary shares:

On 20 January 2014, 34,200 £0.001 ordinary shares were issued in exchange for the provision of non-executive director services. Cash consideration was £nil.

During the year, 4,125 £0.001 ordinary shares were issued in exchange for the exercise of share options. Cash consideration of £3,000 was received.

Year ended 30 April 2013:

As at 30 April 2013 the following shares were in issue:

Ordinary shares	24,997,914
Class A Convertible preference shares	31,350,187
Class B Convertible preference shares	7,077,781
Class C Convertible preference shares	36,758,342

No shares were issued in the year ended 30 April 2013.

Photobox Holdco Limited (Company)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 April 2014

8. STATEMENT OF MOVEMENT ON RESERVES

	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
At 1 May 2013	71,160	40,875	10
Issue of share capital	33	-	-
Loss for the year	-	-	(1,881)
At 30 April 2014	71,193	40,875	(1,871)

9. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	30 April 2014 £'000	30 April 2013 £'000
Opening shareholders' funds	112,145	112,149
(Loss) / profit for the financial year	(1,881)	(4)
Issue of share capital (net of costs)	33	-
Closing shareholders' funds	110,297	112,145

10. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption from disclosure available to parent companies under FRS 8 "Related party disclosures", where transactions and balances between group entities have been eliminated on consolidation.