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Private & Commercial  
FINANCE

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Annual Report &  
Financial Statements  
2011

Private & Commercial Finance Group plc



Private & Commercial  
FINANCE

Private & Commercial Finance Group plc is the parent company of a group of specialist companies engaged in the provision of finance for vehicles, plant and equipment for consumers and businesses.

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## Company Information

**Directors**

**M R Cumming** Non-executive Chairman (*retired 31 March 2011*)  
**A N Nelson** Non-executive Chairman  
**D G Anthony** Non-executive (*appointed 21 July 2011*)  
**P D Shea** Non-executive (*resigned 21 July 2011*)  
**F Al-Yousef** Non-executive (*resigned 20 July 2011*)  
**S D Maybury** Chief Executive  
**R J Murray** Managing Director  
**Z R Kerse** Finance Director

**Secretary** **R J Murray**

**Registered Office** 39 Victoria Street  
London SW1H 0EU

**Registered Number** 2863246

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

**Nominated Adviser** **Westhouse Securities Limited**  
12th Floor  
One Angel Court  
London EC2R 7HJ

**Nominated Broker** **Daniel Stewart & Company plc**  
Becket House  
36 Old Jewry  
London EC2R 8DD

**Solicitors** **Maclay Murray & Spens LLP**  
One London Wall  
London EC2Y 5AB

**Registrars** **Computershare Investor Services PLC**  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

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Private & Commercial Finance Group plc ordinary shares are listed on the Alternative Investment Market ('AIM') of the London Stock Exchange.

Details of the Group, its products, recent developments, share price, brokers' notes and press cuttings can be found on our web-site, [www.pcfg.co.uk](http://www.pcfg.co.uk)

Private & Commercial Finance Group plc is authorised and regulated by The Financial Services Authority.

## Board of Directors

### **Anthony Nelson** Non-executive Chairman

Anthony Nelson is a member of The Association of Corporate Treasurers. After qualifying as a solicitor, he spent three years with Ford Credit in the UK and subsequently held a variety of increasingly senior management positions with two other multi-nationals.

For the twelve years prior to the formation of Private & Commercial Finance Group, he was chief executive of McDonnell Douglas Bank, which he built from a start-up in 1981 into a profitable group with assets of over £150 million.

He was Chief Executive of Private & Commercial Finance Group from 1994 to November 2008, when he was appointed as non-executive Deputy Chairman. He subsequently became non-executive Chairman in April 2011.

### **David Anthony** Non-executive

David Anthony is a chartered accountant who was previously chief executive of Hitachi Capital (UK) PLC and chairman of Hitachi Capital Vehicle Solutions Limited until 2010. He was appointed as non-executive director in July 2011.

### **Scott Maybury** Chief Executive

Scott Maybury holds a degree in business studies. After qualifying as an accountant, he spent six years with BHP-Billiton, Australia's largest multi-national corporation, and five years with McDonnell Douglas Bank.

He has extensive experience of financial control, planning, management reporting, regulatory and tax compliance and systems design and implementation.

He was Finance Director of Private & Commercial Finance Group from 1994 to November 2008, when he was appointed as Chief Executive.

### **Robert Murray** Managing Director

Robert Murray holds the ACIB Banking Diploma and has over thirty years banking and finance experience gained with Barclays Bank, Deutsche Bank, Canadian Imperial Bank of Commerce, McDonnell Douglas Bank and Private & Commercial Finance Group.

He has been involved in lending to personal, corporate and sovereign customers and also has extensive skills and experience in the appraisal and administration of a variety of financial portfolios.

### **Zane Kerse** Finance Director

Zane Kerse has been a chartered accountant since qualifying with PriceWaterhouseCoopers in 1989. He has also worked in the retail motor and financial software industries before joining Private & Commercial Finance Group as Financial Controller in 2001. He was appointed Finance Director in November 2008.



## Directors' Report

for the year ended 31 March 2011

The directors present their report and audited financial statements for the year ended 31 March 2011 (the 'year').

### Chairman's Statement

The profit before tax for the year ended 31 March 2011 was £455,336 (2010 – £528,361), a result which is primarily attributable to the 13% reduction in the Group's portfolio of earning assets during the year and reflects the tight conditions which persisted in the funding markets.

On 23 March 2011 the Government announced its intention to reduce the main rate of Corporation Tax by 2% to 26% with effect from 1 April 2011. We have a substantial deferred tax asset and paradoxically the effect of the Government's announcement is to increase our tax charge by £335,128 in respect of the period ended 31 March 2011. This is an accounting adjustment to the value of the deferred tax asset which we hold on our balance sheet and not a cash payment. Like all businesses, we welcome the reduced Corporation Tax to be paid in this and future years. A more favourable adjustment, resulting from International Financial Reporting Standards, is a significant increase in the value of our portfolio of interest rate swaps, which is the main reason for the 18% increase in shareholders' funds to £7.9 million.

We have started the new period well and I am pleased to report two achievements in the first three months of the current accounting period. Firstly, we have signed a new funding facility of £7 million to help us grow our Business Finance Division. Secondly, we have agreed terms for the purchase of £6 million of well seasoned finance receivables, subject to contract and due diligence, which we anticipate completing in July. This would give an immediate boost to earnings for the Group. These transactions mark the first steps in the direction of achieving portfolio growth and we intend to build on them.

### Strategy review

The executive directors have done well to steer the Group through a credit crisis and recession, which has seen the downfall of many of our competitors, both quoted and unquoted. The funding markets have largely been closed to our sector for the last three years, with a number of competitors being forced into run-off. Whilst we have maintained the support of our existing banks and entered into one new banking facility, we had hoped that we would be in a position to take better advantage of this opportunity with the aid of a significant new funding structure in the last accounting period. We held a number of interesting discussions, however, despite our best efforts, the gap between funders' aspirations and our own criteria proved unbridgeable. We are continuing dialogue with a number of parties and we believe the gap is narrowing.

Although the Group remained in profit throughout the economic turmoil, the return on shareholders' funds is too low. Upon taking on the role of Chairman at the beginning of April 2011, I instigated a thorough and wide ranging review of the Group's strategy and operations with the primary focus on significantly improving earnings per share.

The review encompassed

- All possible alternative funding methods, ranging from securitisation to becoming a deposit-taker;
- The Group's product range and routes to market;
- Ways and means of generating additional income to enhance earnings over and above the level of income generated by the portfolio of receivables; and
- The potential for acquisitions and/or disposals.

The main conclusions arising from the review are that

- The best way of increasing shareholder value is to grow our portfolio, supplementing the portfolio income with non-interest income, without corresponding increases in overheads ('operational gearing');
- Whilst continuing dialogue with conventional funders, we will also actively pursue negotiations with alternative lending sources utilising other funding structures;
- There are a wide variety of portfolios of financial receivables available for sale. However, potential buyers are demanding very substantial discounts and sellers are unwilling to take an immediate sizeable loss on disposal. We see this as a period of opportunity to acquire but, unless market conditions change, not one in which we expect to dispose of any of our own assets;
- We are identifying further potential acquisition targets in tandem with our negotiation of new funding arrangements, with the intention of bringing the two initiatives together simultaneously. Any such acquisitions would have to be earnings-enhancing in the first 12 months;
- Given the uncertain outlook for a recovery in the UK economy, we will maintain the credit and collateral quality of our new business rather than increase our lending rates and take on riskier customers;
- We are enhancing our website and utilising our internet-based proposal system, *eQuote*, as an additional route to market; and
- We will introduce new add-on products which complement our finance offering and generate fee income.

Our posture since the onset of the credit crunch has been largely defensive, in particular reducing costs (including closure of our office in Watford and reductions in staff costs) and generating cash. We believe that the climate is now slowly changing as some degree of confidence returns to the funding markets, or at least to those funders who have weathered the credit crunch better than others. It is vital to make every effort to seize the opportunities currently available.

## The business and trading

PCFG is a long-established finance group with a highly experienced management and an efficient and scalable infrastructure and business model.

The Group has two operating divisions:

- Business Finance Division, which provides finance for vehicles, plant and equipment for SMEs; and
- Consumer Finance Division, which provides finance for cars for consumers.

Both divisions underwrite good quality, collateralised business with realistic margins, sourced through a national network of established brokers. Proposals for new business are submitted via *eQuote*, the Group's proprietary internet-based proposal management system, which is able to filter high volumes of proposals quickly and at low cost.

During the period we wrote £40.8 million of new business compared with £43.4 million in the previous year. We remained cautious in setting terms for new business and continue to be highly selective. Our portfolio reduced in the period by 13% to £106 million, which is reported net of future finance income of more than £20 million.

We have a well spread portfolio of over 17,000 customers with an average outstanding balance of approximately £5,400 and no concentration of risk. No single customer accounts for more than 0.3% of our total portfolio. The new funding facilities will enable us to increase our new business volumes and grow our portfolio. However, we will maintain our cautious stance on underwriting new business. Although many consumers and businesses cautiously held back from seeking new finance during the period under review, the effect has been largely counterbalanced, so far as our Group is concerned, by reduced competition.



## Directors' Report

### Competitive environment

Our longstanding relationships with introductory sources stand us in good stead. We have also benefitted from the withdrawal from our market of a number of competitors. Whilst there are signs, particularly in the business finance sector, of competition returning, conditions remain favourable and there is little sign as yet of a return to the imprudent rates and terms which were offered by competitors in the last decade.

### Impairments and provisioning

Impairment charges have continued to be comfortably within our range of expectations and I am pleased to report that the improvements noted in the Interim Report issued in December 2010 have continued.

### Regulatory environment

We welcomed the Regulations implementing the European Consumer Credit Directive because they further increased barriers to entry to a consumer credit market, which had already been depopulated by the withdrawal from the market of a number of competitors. We successfully adapted our systems, documentation and procedures without undue expense and are operating well under the new regime.

### Funding

During recent months there have been improvements in the availability of new funding from new lenders to our sector. During June 2011 we signed a three year facility with a new bank for an initial sum of £7 million and are in negotiations with existing and new lenders for additional facilities of £8 million. I am pleased to report that we also reached agreement with all of our existing lenders for extensions of the terms of their facilities and there are no scheduled maturities in the next 12 months.

Whilst these are all promising signs, we continue to pursue the objective of a major funding facility on the right terms and structure which, coupled with an acquisition of comparable size, would deliver the substantial increase in earnings per share that we seek to achieve.

### Underwriting and IT infrastructure

Over the years we have systematically upgraded and refined our methodology for underwriting lending proposals. This has included the checks incorporated into *eQuote*, our bespoke, internet-based proposal management system. In particular, in addition to many other tests, we have, for several years, taken into account the levels of applicants' overall indebtedness and scrutiny of their income and outgoings, thus enabling us to judge their ability to service new loans. This cautious, forward-looking approach stood us in good stead during the economic downturn and continues to do so.

We are also in the process of significantly enhancing our web-site so that it is more customer-facing and able to provide services to both existing and new customers. This is scheduled to come into operation by 30 September 2011. Our portfolio of receivables is managed by our highly effective and experienced in-house team supported by the Instalment Credit and Collections Suite ('ICS'), a market leading finance and lease management system which is as advanced in terms of technology as *eQuote*.

Our integrated IT systems and the carefully developed processes which they operate are as good as any similar system in the UK and are a key part of our ability to underwrite and manage a far higher volume of transactions without comparable increases in costs.

## Staff

The quality, skill and hard work of our professional and experienced staff is a major factor in our sustained performance and, on behalf of the Board, I would like to take this opportunity to thank them.

## Directorate changes

I am pleased to advise that David Anthony was appointed as non-executive director on 21 July 2011. David, who is a chartered accountant, was chief executive of Hitachi Capital (UK) PLC and chairman of Hitachi Capital Vehicle Solutions Limited until 2010. I am sure that his experience in our sector and impressive wider business experience will prove to be invaluable.

Peter Shea and Faisal Al-Yousef, who have been non-executive directors since 2001 and 2005 respectively, have recently stepped down from their positions. Although it is not strictly a requirement of the AIM market, Peter felt that as chairman of Daniel Stewart & Co, the Company's Broker (which it was not when he joined the Board), it was appropriate to step down to avoid any possible suggestion of a conflict of interest. Happily, Peter's incisive analysis and expertise in the capital markets will continue to be available to PCFG on an advisory basis through Daniel Stewart. Faisal had been finding it increasingly difficult to find the time to travel to London from the Gulf to attend board meetings.

I also pay a warm tribute to my predecessor as Chairman, Michael Cumming, for the supportiveness, shrewd insights and humour with which he performed the role. On behalf of the Board, I thank Michael, Peter and Faisal for all their help and support during challenging times.

## Outlook

With our new funding headroom, the good quality business we are writing and the firm foundation of a strong and growing portfolio supported by a highly experienced team, we have a firm base on which to grow earnings as the year progresses, even with no major new initiatives. If, however, we are successful in making this the year in which we achieve our more ambitious goals, prospects should be even brighter.

**Anthony N Nelson**  
Chairman

28 July 2011



## Directors' Report

### Results and dividends

The Group profit for the year before taxation was £455,366 (2010 – £528,361). The taxation charge for the year was £417,588 (2010 – £150,255).

The directors do not recommend the payment of a final dividend (2010 – £nil).

### Financial highlights and key performance indicators

	2011 £'000	Group 2010 £'000
Turnover	57,940	60,200
Gross profit	16,737	18,684
Profit before taxation	455	528
Loans and receivables (net of unearned income and impairment charges)	105,965	121,892
Shareholders' funds	7,885	6,703
Net assets per share	15.0p	12.7p

### Principal activities, business review and future developments

The Group's principal activities are the purchase, hire, financing and sale of vehicles and equipment and the provision of related fee-based services. The Group will continue to administer its portfolio of financial assets to improve profitability for both its Consumer Finance and Business Finance Divisions. Further commentary on the financial performance and future developments of the Group is provided in the Chairman's Statement on pages 4 to 7.

### Directors and their interests

The directors of the Company during the year ended 31 March 2011 were those listed on page 2.

The directors' interests in the shares of the Company, all of which were beneficial interests, at 31 March 2011 are listed below:

	At 31 March 2011 No. of ordinary shares of 5p each	At 31 March 2010 No. of ordinary shares of 5p each
A N Nelson	1,658,506	1,658,506
S D Maybury	1,600,006	1,600,006
R J Murray	998,340	998,340
M R Cumming	200,000	200,000
P D Shea	164,000	164,000
F Al-Yousef	5,000	5,000

F Al-Yousef has a beneficial interest in 5,375,000 ordinary shares of the Company through Aberdeen Holdings Limited. These shares are held with BBHISL Nominees Limited.

The Company's Articles of Association permit it to indemnify directors in accordance with the Companies Act.

An instalment credit agreement for the purchase of a motor vehicle and entered into on normal market terms between R J Murray and a group company had an outstanding balance of £1,145 at 31 March 2011.

## Substantial shareholdings

At 30 June 2011 the Company had been notified of the following interests of 3% or more in its issued ordinary share capital:

	Percentage
Brookwell Limited	19.99
BBHISL Nominees Limited	11.05
The Bank of New York (Nominees) Limited	8.82
Commerz Nominees Limited	6.26
Pershing Nominees Limited	3.94
HSBC Global Custody Nominee (UK) Limited	3.56
A N Nelson	3.15
S D Maybury	3.03

## Hedge accounting

The fair value of derivative financial instruments is recorded on the Group's balance sheet. The cumulative gain or loss of hedging instruments recognised directly to equity is reported net of tax in 'Other reserves' in the balance sheet. Any gains or losses on hedge instruments deemed as ineffective are recognised directly in the income statement.

The cumulative gain or loss reported in 'Other reserves' is a valuation at a point in time and does not represent the actual liability or asset that is likely to arise over periods of up to five years. The Group has no intention of crystallising these gains or losses as they form part of the adopted long-term interest rate hedging strategy to safeguard the Group's margin on loans and receivables.

As a fair value adjustment it is therefore not considered as part of the Group's capital and reserves for the calculation of capital ratios. The fair value of derivative financial instruments recorded in the Group's balance sheet at 31 March 2011 was a liability of £1,091,764 (2010 – liability of £3,039,344).

## Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Group and its suppliers, provided that trading terms have been complied with. At 31 March 2011 the Group had an average of 23 days purchases outstanding in trade payables (2010 – 23 days) and the Company had an average of 37 days (2010 – 22 days).

## Principal risks and uncertainties

### Credit risk

The Group is exposed to the risk that customers owing the Group money will not fulfil their obligations. The Group regularly reviews its lending criteria as well as its credit exposure to all customers. However, default risk may arise from events which are outside the Group's control, primarily customer under-performance due to factors such as loss of employment, family circumstances, illness, business failure, adverse economic conditions or fraud.

The successful management of credit risk is central to the Group's business. The majority of the Group's lending is secured and amortised over the life of the assets. The credit risk from concentration is limited due to the relatively low value of each customer's debt and to the Group's large and diverse customer base. In order to ensure that arrears are minimised, emphasis is placed on retaining a diversified portfolio, using prudent underwriting methods and resisting the inclination to increase credit risk in the quest for increased volumes of new business.

The counterparties to the Group's financial liabilities are financial institutions. Credit risk represents operational disruption if counterparties were unable to perform completely as contracted. It is the Group's policy to monitor the financial standing of these counterparties on an on-going basis and the exposure to any individual counterparty. The Group's financial asset exposure to these counterparties is limited to derivatives and cash at bank.



## Directors' Report

### **Inadequate security**

The Group is exposed to the risk that the security upon which its advances are made may reduce in value, so that the Group may not recover some or all of its advances in the event of a customer default. This risk is mitigated by maintaining a diverse portfolio of customers, spreading risk across a variety of assets and sectors, lending for a period of time appropriate to the assets' lives and forming detailed assessments on both the value of the security and the customer's ability to service the debt. Specialist third party asset and vehicle valuations are obtained, where considered necessary.

### **Treasury management**

The Group is exposed to the liquidity and interest rate risk arising from the requirement to fund its operations. Liquidity risk is the risk arising from unplanned decreases or changes in funding sources. The Group funds itself through bi-lateral facilities with UK and international banks with original maturities of up to four years. The Group also has a successful track record in senior debt and fund-raising activity in addition to equity placements.

The Group has minimal risk to its income from changes in market interest rates. All loans and receivables are fixed over the term of the contract. Facilities provided by banks are at fixed and floating rates, and interest rate swaps are used, where appropriate, to reduce interest rate fluctuations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The Group does not operate in, nor has exposure to, currencies other than pounds sterling.

### **Capital management**

The Group's objective is to maintain a strong capital base to support current operations in line with relevant forecasts. Capital base for these purposes comprises equity shareholder funds less the hedging reserve and at 31 March 2011 this amounted to £8.6 million (2010 – £8.6 million). The Group is not subject to external regulatory capital requirements. It is, however, required within certain of its subsidiaries' borrowing facilities to maintain a ratio of borrowings to net worth. Throughout the year the Group complied with these ratios. The Group has a successful track record in equity placings over a number of years.

### **Funding**

The Group's financial instruments include borrowings, derivatives, convertible loan notes and overdraft facilities. The main purpose of these financial instruments is to raise finance to fund the Group's principal activities. Continued, sustainable growth is dependent on the Group seeking further debt facilities or increases to those already in place. The Group continues to operate within an industry-wide scarcity of funding, however the Group will continue to source new facilities and funding relationships.

The main risks arising from the Group's financial instruments are detailed in note 21 to the Financial Statements.

## Statement of going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Financial Statements. The Group's policies and processes for managing its capital are described in the notes to the Financial Statements. Details of the Group's financial risk management objectives, its financial instruments and hedging activities and its exposures to credit risk and liquidity risk are also set out in the notes to the Financial Statements.

The directors have completed a formal assessment of the Group's financial resources including the forecasts. Based on this review, the directors believe that the Group is well placed to manage its business risks successfully within the expected economic outlook. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

## Corporate governance

The Company has had non-executive directors since May 1995. Meetings of the board of directors are held on a regular monthly basis. The Company has adopted The Model Code for AIM companies.

The Audit Committee consists of David Anthony (Chairman) and Anthony Nelson. The Audit Committee meets once a year and is responsible, *inter alia*, for ensuring that the financial performance of the Group is properly reported and monitored and also for meeting the auditors and reviewing the reports from the auditors in relation to the Financial Statements and internal control systems.

The Remuneration Committee consists of Anthony Nelson (Chairman) and David Anthony. The Remuneration Committee is responsible, *inter alia*, for reviewing the performance of the executive directors and for setting the scale and structure of their remuneration and the basis of their service contracts, bearing in mind the interests of shareholders. The Remuneration Committee also determines the allocation of share options to employees under the Approved Share Option Scheme.

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group Financial Statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the directors must not approve the Group Financial Statements unless they are satisfied they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing those Financial Statements the directors are required to:

- 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;
- provide additional disclosures when compliance with the specific requirements in IFRS 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 that the Group has complied with IFRS, 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 Group Financial Statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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.



## Directors' Report

### Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Re-appointment of auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**R J Murray**  
Director and Secretary

28 July 2011

# Independent Auditors' Report

to the members of Private & Commercial Finance Group plc

We have audited the Financial Statements of the Private & Commercial Finance Group plc for the year ended 31 March 2011 which comprise, the Group Income Statement and Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company Statements of Cash Flows and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) 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 Statement of directors' responsibilities set out on page 11, the directors are responsible for the preparation of the Group and Company Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group and Company 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 and the parent undertaking'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 Annual 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 Group's and the Company's affairs at 31 March 2011 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the parent undertaking Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.



## Independent Auditors' Report

to the members of Private & Commercial Finance Group plc

### Opinion on other matters prescribed by the Companies Act 2006

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

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

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

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

**Javier Faiz** (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP (Statutory Auditor)

London

28 July 2011

## Group Income Statement

for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
<b>Group turnover</b>	2	<b>57,940</b>	60,200
Cost of sales	3	(41,203)	(41,516)
<b>Gross profit</b>		<b>16,737</b>	18,684
Administration expenses		(10,625)	(12,007)
<b>Operating profit</b>		<b>6,112</b>	6,677
Interest payable	4	(5,657)	(6,149)
<b>Profit on ordinary activities before taxation</b>	5	<b>455</b>	528
Income tax expense	6	(417)	(150)
<b>Profit on ordinary activities after taxation</b>		<b>38</b>	378
<b>Profit for the year attributable to equity holders</b>	19	<b>38</b>	378
Earnings per 5p ordinary share – basic and diluted	8	<b>0.1p</b>	0.9p

## Group Statement of Comprehensive Income

for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
<b>Profit for the year</b>		<b>38</b>	378
Cash flow hedges – fair value gains	21	1,620	1,134
Income tax effect	6	(472)	(318)
<b>Other comprehensive income for the year</b>		<b>1,148</b>	816
<b>Total comprehensive income for the year</b>		<b>1,186</b>	1,194



## Group and Company Balance Sheets

at 31 March 2011

	Note	2011 £'000	Group 2010 £'000	2011 £'000	Company 2010 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	10	397	397	–	–
Other intangible assets	11	816	855	–	–
Investment in subsidiary undertakings	9	–	–	1,000	1,000
Property, plant and equipment	12	100	173	–	–
Loans and receivables	13	55,599	69,195	5,250	5,250
Deferred tax	20	4,602	4,968	–	–
		<b>61,514</b>	<b>75,588</b>	<b>6,250</b>	<b>6,250</b>
<b>Current assets</b>					
Loans and receivables	13	50,366	52,697	2,547	3,022
Trade and other receivables	14	417	572	243	184
Corporation Tax		–	–	–	251
Cash and cash equivalents		1,047	660	–	–
		<b>51,830</b>	<b>53,929</b>	<b>2,790</b>	<b>3,457</b>
<b>Total assets</b>		<b>113,344</b>	<b>129,517</b>	<b>9,040</b>	<b>9,707</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Interest-bearing loans and borrowings	16	29,611	8,761	–	–
Trade and other payables	15	1,281	1,860	364	337
Derivative financial instruments		393	320	–	–
Corporation Tax		306	965	–	–
Bank overdrafts	16	645	300	–	–
		<b>32,236</b>	<b>12,206</b>	<b>364</b>	<b>337</b>
<b>Non-current liabilities</b>					
Derivative financial instruments		698	2,719	–	–
Interest-bearing loans and borrowings	16	72,525	107,889	2,968	2,943
		<b>73,223</b>	<b>110,608</b>	<b>2,968</b>	<b>2,943</b>
<b>Total liabilities</b>		<b>105,459</b>	<b>122,814</b>	<b>3,332</b>	<b>3,280</b>
<b>Net assets</b>		<b>7,885</b>	<b>6,703</b>	<b>5,708</b>	<b>6,427</b>
<b>Capital and reserves</b>					
Called-up share capital	18	2,637	2,636	2,637	2,636
Share premium	19	4,384	4,377	4,384	4,377
Capital reserve	19	3,873	3,873	3,873	3,873
Other reserves	19	(700)	(1,848)	–	–
Own shares	19	(255)	(243)	(255)	(243)
Profit and loss account	19	(2,054)	(2,092)	(4,931)	(4,216)
<b>Shareholders' funds</b>		<b>7,885</b>	<b>6,703</b>	<b>5,708</b>	<b>6,427</b>

The Financial Statements were approved and authorised for issue by the board of directors on 28 July 2011.

Signed on behalf of the board of directors by:

**S D Maybury**  
Director

**Z R Kerse**  
Director

## Group and Company Statements of Changes in Equity

for the year ended 31 March 2011

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
<b>Total comprehensive income for the year</b>	<b>1,186</b>	1,194	<b>(715)</b>	(749)
New share capital subscribed	<b>8</b>	1,393	<b>8</b>	1,393
Purchase of own shares	<b>(12)</b>	–	<b>(12)</b>	–
Net addition to shareholders' funds	<b>1,182</b>	2,587	<b>(719)</b>	644
<b>Opening shareholders' funds</b>	<b>6,703</b>	4,116	<b>6,427</b>	5,783
<b>Closing shareholders' funds</b>	<b>7,885</b>	6,703	<b>5,708</b>	6,427



## Group and Company Statements of Cash Flows

for the year ended 31 March 2011

	Note	2011 £'000	Group 2010 £'000	2011 £'000	Company 2010 £'000
<b>Cash flows from operating activities</b>					
Profit before taxation		455	528	(1,050)	(1,044)
Adjustments for:					
Amortisation of other intangible assets	11	163	166	–	–
Amortisation of issue costs		33	7	33	7
Depreciation	12	54	72	–	–
Profit on sale of property, plant and equipment		(2)	–	–	–
Fair value movement on derivative financial instruments	4	(194)	(190)	–	–
Decrease in loans and other receivables		15,927	12,575	1,062	1,611
Decrease/(increase) in trade and other receivables		155	(72)	(60)	33
(Decrease)/increase in trade and other payables		(712)	760	27	31
<b>Cash flows from operating activities</b>		<b>15,879</b>	<b>13,846</b>	<b>12</b>	<b>638</b>
Tax paid		(1,183)	(1,372)	–	(175)
<b>Net cash flows from operating activities</b>		<b>14,696</b>	<b>12,474</b>	<b>12</b>	<b>463</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	12	(3)	(59)	–	–
Proceeds from sale of property, plant and equipment		24	5	–	–
Purchase of other intangible assets	11	(124)	(719)	–	–
<b>Net cash flows used in investing activities</b>		<b>(103)</b>	<b>(773)</b>	<b>–</b>	<b>–</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of share capital		–	1,360	–	1,360
Purchase of own shares		(12)	–	(12)	–
Proceeds from borrowings		–	–	–	230
Repayments of borrowings		(14,539)	(13,138)	–	(2,053)
<b>Net cash flows used in financing activities</b>		<b>(14,551)</b>	<b>(11,778)</b>	<b>(12)</b>	<b>(463)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>					
		42	(77)	–	–
Cash and cash equivalents at beginning of the year		360	437	–	–
<b>Cash and cash equivalents at end of the year</b>		<b>402</b>	<b>360</b>	<b>–</b>	<b>–</b>
Cash at bank		1,047	660	–	–
Bank overdrafts	16	(645)	(300)	–	–
		402	360	–	–
<b>The amount of interest paid during the year is as follows:</b>					
Interest paid	4	5,985	6,283	256	307

# Notes to the Financial Statements

for the year ended 31 March 2011

## 1 Accounting policies

### General information

Private & Commercial Finance Group plc ('the Company') is a public company, domiciled in the United Kingdom. Its ordinary shares are listed on the Alternative Investment Market ('AIM') of the London Stock Exchange. The Group Financial Statements for the year ended 31 March 2011 were authorised for issue in accordance with a resolution of the board of directors on 28 July 2011.

### Basis of preparation

These Financial Statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, interpretations issued by the International Accounting Standards Board ('IASB') and the Companies Act 2006.

The Financial Statements have been prepared under the historical cost convention, modified to include the mark-to-market valuation of derivatives and in accordance with applicable accounting standards. The Financial Statements are presented in pounds sterling and all values are rounded to the nearest thousand (£'000), except where otherwise indicated.

### Changes in accounting policies

The accounting policies adopted are consistent with those used in the previous financial year except that the Group has adopted all standards, amendments and interpretations which became effective during the year. The adoption of these standards, amendments and interpretations did not have any effect on the financial position or performance of the Group but have resulted in additional disclosures.

### Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of Private & Commercial Finance Group plc and all of its subsidiary undertakings, of which there were twelve at 31 March 2011 (twelve at 31 March 2010). The Financial Statements of the subsidiaries are prepared for the same reporting year as the parent undertaking, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets or liabilities, are eliminated in full.

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.

No income statement is presented for Private & Commercial Finance Group plc as permitted by Section 408 of the Companies Act 2006. Of the profit for the financial year, a loss of £715,133 (2010 – loss of £749,186) was attributable to the Company.

### Significant accounting judgments, estimates and assumptions

The preparation of Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors which are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of IFRS which have a significant effect on the Financial Statements and estimates with a significant risk of material adjustment within the next financial year are provided below.



## Notes to the Financial Statements

### 1 Accounting policies

#### Impairment of goodwill

The Group determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the 'value in use' of the cash-generating units ('CGU') to which the goodwill is allocated. Estimating a 'value in use' amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 March 2011 was £397,149 (2010 – £397,149). Further details are provided in note 10.

#### Loan loss provisioning

The Group reviews its loans and receivables on an on-going basis to assess the level of impairment. Future cash flows are estimated on the basis of the contractual cash flows of the assets and historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effect of current conditions, which did not affect the period on which the historical loss experience is based, and to remove the effect of conditions in the historical period which do not exist currently.

#### Property, plant and equipment

Plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight-line basis over the useful life of the assets, as follows:

IT hardware	–	3 to 4 years
Office equipment, fixtures and fittings	–	5 years
Operating lease equipment	–	1 to 7 years

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de-recognised.

The assets' residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each financial year-end.

#### Investment in subsidiary undertakings

Investments in subsidiary undertakings are initially recognised at cost. The Company recognises income from the investment only to the extent that it receives distributions from post-acquisition accumulated profits. Distributions received in excess of such profits are regarded as a recovery of investment and recognised as a reduction in the cost of the investment.

At each reporting date an assessment is made as to whether there is any indication that the investment may be impaired. If such an indication exists, the Company estimates the investment's recoverable amount. The investment is written down to the recoverable amount if this is lower than its carrying value. The impairment loss is recognised in the Company's income statement.

#### Borrowing costs

Borrowing costs are recognised as an expense when incurred in accordance with the effective interest rate method.

## 1 Accounting policies

### Intangible assets

#### Goodwill

Goodwill arising on acquisition represents the excess of the cost of a business combination over the fair values of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised but is reviewed at least annually for impairment. For the purpose of impairment testing, goodwill is allocated to each CGU. Each CGU is consistent with the Group's primary reporting segments. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Computer software

Acquired software and subsequent enhancements are capitalised as intangible assets and amortised over their useful lives (3 to 8 years) on a straight-line basis. All other software development and maintenance costs are recognised as an expense as incurred. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each financial year-end.

### Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of the asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount and a previously recognised impairment is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount nor exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

### Financial assets

The Group classifies its financial assets as either loans and receivables or derivative financial instruments used for hedging. In accordance with IAS 17 'Leases', leases where the Group does not transfer substantially all the risks and rewards incidental to ownership of the asset are classified as operating leases. All other leases are treated as finance leases within loans and receivables.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market.

Conditional sale agreements, hire purchase contracts and finance leases are initially recognised at the lower of fair value of the leased asset or the present value of the minimum lease payments. These assets are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. Other loans and receivables, including personal loans, are initially recognised at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate, less any provision for impairment.

The Group has not held any financial assets at fair value through profit or loss, held to maturity or available for sale during the year.



# Notes to the Financial Statements

## 1 Accounting policies

### **Impairment of financial assets**

The Group assesses, on an on-going basis, whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a loan loss provision. The amount of the loss is recognised in the income statement as loan loss provisioning charge.

The Group first assesses whether objective evidence of impairment exists individually for financial assets which are individually significant and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Future cash flows for a group of loan assets that are collectively evaluated for impairment are estimated on the basis of contractual cash flows and historical loss experience for assets with similar credit characteristics.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

### **Treasury shares**

Own equity instruments which are re-acquired treasury shares are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

### **Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and at hand and short-term deposits with an original maturity of three months or less. For the purpose of the group statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### **Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the 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 are recognised in the income statement when the liabilities are de-recognised as well as through the amortisation process.

### **Convertible debt**

The component of the convertible debt which exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. The coupon on the debt is charged as interest expense in the income statement. On issuance of the convertible debt, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not re-measured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debt based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

## 1 Accounting policies

### De-recognition of financial assets and liabilities

#### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when the rights to receive cash flows from the asset have expired or where the Group has transferred substantially all the risks and rewards of ownership.

#### Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

#### Issue costs

The costs of issue of share capital are set off against the share premium reserve created at the time of issue. If there is insufficient premium arising on the issue, the costs would be set off against any pre-existing share premium. The costs of issue of the convertible debt are set off against the financing on origination and are subsequently amortised over the term.

#### Provisions

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

#### Employee benefits

##### Short-term benefits

Wages, salaries, commissions, bonuses, social security contributions, paid annual leave and non-monetary benefits, including death-in-service premiums are accrued in the period in which the associated services are rendered by employees of the Group.

##### Pensions

Permanent staff are eligible for a contribution by the Company to their personal pension schemes, equal to a fixed percentage of the staff member's basic salary. The cost to the Company is charged to the income statement as incurred and is disclosed in note 7 of the Financial Statements.

##### Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either the termination of employment or a voluntary redundancy offer.



# Notes to the Financial Statements

## 1 Accounting policies

### Share-based payment transactions

The Company operates an approved equity-settled share option scheme for its employees. For awards granted after 7 November 2002 (and not vested by 1 January 2006) and in accordance with IFRS 2 'Share-based payment', an expense is recognised in respect of the fair value of employee services received in exchange for the grant of share options. A corresponding amount is recorded as an increase in equity within retained earnings. The expense is spread over the relevant vesting period and is calculated by reference to the fair value of the share options granted.

In arriving at fair values, the Black-Scholes pricing model is used and estimates are made of dividend yields, share price volatility, risk-free rates and expected life of the share options. On transition to IFRS 2, the Group elected not to apply IFRS 2 to share option awards granted before 7 November 2002. These options are not material and have not been disclosed in note 7 'Share-based payments'. The fair value of the options was estimated to be £nil when IFRS 2 was first implemented on 1 January 2006.

The Company also operates an unapproved share option scheme for the executive directors. No grants have been made in the year under either of the share option schemes.

### Operating leases

#### Group as a lessee

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

#### Group as a lessor

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Rental income arising from operating leases is accounted for on a straight-line basis over the lease terms.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. The following criteria must also be met:

#### Interest income

Interest income is recognised in the income statement for all financial assets, measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the contractual life, or expected life, if shorter, of the financial asset to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instruments, such as early settlement options, but does not include an expectation for future credit losses.

The calculation includes all fees charged to customers, such as acceptance or similar fees, and direct and incremental transactions costs, such as broker commissions.

Amounts due under instalment credit contracts and finance leases are recorded as receivables at the amount of the Group's net investment in the contract. Finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment, before tax, outstanding in respect of the contract.

#### Insurance commission

Commission received from third party insurers for all insurance broking business, for which the Group does not bear any underlying insurance risk, is credited to the income statement at inception of the policies.

#### Other income

Other income includes fees and commissions charged to customers and third parties for the collection of debts and fees charged for other services, which are credited to the income statement when the service has been provided.

## 1 Accounting policies

### Taxes

#### Current tax

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates of tax that have been enacted, or substantively enacted, by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

#### Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

Deferred tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred tax is determined using tax rates and laws which have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The carrying amount of the deferred tax asset in respect of tax losses at 31 March 2011 was £nil (2010 – £nil) and the unrecognised deferred tax asset at 31 March 2011 was £156,090 (2010 – £209,383). Further details are provided in note 20.

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

#### Value Added Tax ('VAT')

Revenues, expenses and assets are recognised net of the amount of VAT except in the case of overdue loans and receivables, other receivables and other payables which are shown inclusive of VAT.

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



# Notes to the Financial Statements

## 1 Accounting policies

### Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its exposure to interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year which do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

The Group uses cash flow hedges when hedging exposure to variability in cash flows which are attributable to a particular risk associated with a recognised asset or liability. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

- the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement;
- amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs; and
- if the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

### Future changes in accounting policies

The following accounting standards, amendments and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee are effective for the Group's accounting periods beginning on or after 1 April 2011:

	Effective from:
● IFRS 9 'Financial instruments'	1 January 2013
● IAS 24 (amendment), 'Related party disclosures'	1 January 2011
● IAS 32 (amendment), 'Financial instruments; presentation'	1 February 2011
● IFRIC 14 (amendment), 'Prepayment of a minimum funding requirement'	1 January 2011
● IFRIC 19 'Extinguishing financial liabilities with equity instruments'	1 January 2010
● Improvements to IFRS	1 May 2010

Adoption of these standards and interpretations is not expected to have a material impact on the Group or Company Financial Statements.

## 2 Turnover and segmental analysis

Turnover represents gross rental and instalment credit income receivable, the hire, financing and sale of equipment, and the provision of related fee based services, stated net of VAT.

The Group operates in the principal areas of consumer finance for motor vehicles and business finance for vehicles, plant and equipment. Segment assets include loans and receivables, trade and other receivables, cash and cash equivalents and tax assets. Segment liabilities comprise trade and other payables, derivative financial instruments, tax liabilities and certain borrowings that can be attributed to the segment but exclude borrowings that are for general corporate purposes.

No geographical analysis is presented because the Group operates within the United Kingdom market only.

Turnover, profit on ordinary activities before taxation and assets and liabilities are analysed in the following tables.

	Consumer finance £'000	Business finance £'000	Central £'000	Total £'000
<b>Year ended 31 March 2011</b>				
<b>Group</b>				
<b>Turnover</b>	24,885	33,055	–	57,940
<b>Profit/(loss) on ordinary activities before taxation</b>	949	620	(1,114)	455

	Consumer finance £'000	Business finance £'000	Central £'000	Total £'000
<b>Year ended 31 March 2010</b>				
<b>Group</b>				
<b>Turnover</b>	26,102	34,098	–	60,200
<b>Profit/(loss) on ordinary activities before taxation</b>	749	1,006	(1,227)	528

	Consumer finance £'000	Business finance £'000	Central £'000	Total £'000
<b>Year ended 31 March 2011</b>				
<b>Group</b>				
<b>Total assets</b>	60,182	51,676	1,486	113,344
<b>Total liabilities</b>	54,647	43,858	6,954	105,459
<b>Other segment items</b>				
Depreciation of assets held for operating leases	–	(3)	–	(3)
Interest payable	(2,794)	(2,608)	(255)	(5,657)
Loan loss provisioning charge	(2,219)	(1,746)	–	(3,965)

	Consumer finance £'000	Business finance £'000	Central £'000	Total £'000
<b>Year ended 31 March 2010</b>				
<b>Group</b>				
<b>Total assets</b>	64,805	62,964	1,748	129,517
<b>Total liabilities</b>	60,263	55,887	6,664	122,814
<b>Other segment items</b>				
Depreciation of assets held for operating leases	–	(15)	–	(15)
Interest payable	(2,976)	(2,867)	(306)	(6,149)
Loan loss provisioning charge	(1,649)	(3,496)	–	(5,145)



## Notes to the Financial Statements

### 3 Cost of sales

Cost of sales represents the amortisation of finance leases and instalment credit contracts (the difference between gross rental and income recognised, in accordance with note 1) and the depreciation of operating lease assets.

### 4 Interest payable

	2011 £'000	2010 £'000
Interest-bearing loans and borrowings and bank overdrafts	(5,851)	(6,339)
Fair value movements on derivative financial instruments	194	190
	<b>(5,657)</b>	<b>(6,149)</b>

### 5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after crediting/(charging):

#### (a) Finance revenue

	2011 £'000	2010 £'000
Net income from operating leases	2	4
Net income from finance leases	5,190	7,131
Net income from instalment credit contracts	10,662	10,983
Insurance commission and other income	883	566
Gross profit	<b>16,737</b>	<b>18,684</b>

#### (b) Other revenue and expenses

	2011 £'000	2010 £'000
Included in cost of sales:		
Depreciation of assets held for operating leases	(3)	(15)
Included in administration expenses:		
Loan loss provisioning charge	(3,965)	(5,145)
Depreciation of property, plant and equipment	(51)	(57)
Operating lease rentals payable	(164)	(164)
Amortisation of other intangible assets	(163)	(166)
Auditors' remuneration		
– audit of the Group and Company Financial Statements	(67)	(70)
– audit of the Company's subsidiaries' Financial Statements	(45)	(40)
– other services relating to taxation	(50)	(79)

## 6 Taxation

(a) Analysis of tax charge in the year	2011 £'000	2010 £'000
<b>Current tax</b>		
UK Corporation Tax on profit of the year	(529)	(1,237)
Adjustments in respect of prior years	6	16
	(523)	(1,221)
<b>Deferred tax</b>		
Origination and reversal of temporary differences	441	1,087
Adjustments in respect of prior years	–	(16)
Change in tax rate	(335)	–
Total tax charge for the year	(417)	(150)

(b) Deferred tax on items recognised directly in equity	2011 £'000	2010 £'000
Relating to cash flow hedges	(453)	(318)
Change in tax rate	(19)	–
	(472)	(318)

### (c) Factors affecting the tax charge for the year

The tax assessed for the year is higher than the standard rate for current Corporation Tax in the UK of 28% (2010 – 28%). The differences are explained below.

Deferred tax has been recognised at 26% (2010 – 28%). On 23 March 2011, as part of the 2011 Budget, the Government announced its intention to legislate to reduce the main rate of Corporation Tax to 26% with effect from 1 April 2011 and then by a further 1% per annum reaching 23% with effect from 1 April 2014. The reduction to 26% was subsequently enacted prior to 31 March 2011 under the provisions of the Provisional Collection of Taxes Act 1968 and the effect of this reduction is therefore reflected in the above calculation of the deferred tax asset. The directors estimate that the maximum effect of the subsequent rate reductions will be to reduce the Company's deferred tax asset to £4,071,278.

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	455	528
Profit on ordinary activities multiplied by the standard rate of Corporation Tax of 28% (2010 – 28%)	(127)	(148)
Effects of:		
Expenses not deductible for taxation purposes	(2)	(2)
Adjustments in respect of prior years	6	–
Change in tax rate	(335)	–
Utilisation of previously unrecognised losses	41	–
Total tax charge for the year	(417)	(150)



## Notes to the Financial Statements

### 7 Directors' emoluments and staff costs

The aggregate payroll costs of the Group (including directors and Chairman) were:

	2011 £'000	2010 £'000
Salaries and fees	2,330	2,278
Social security costs	255	237
Pension costs	119	102
	<b>2,704</b>	<b>2,617</b>

The average monthly number of persons employed by the Group was:

	2011 No.	2010 No.
Directors and administration	7	7
Consumer finance	25	28
Business finance	25	27
	<b>57</b>	<b>62</b>

Directors' emoluments	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Pension contributions £'000	2011 £'000	2010 £'000
<b>Executive directors</b>						
S D Maybury	100	34	1	27	162	127
R J Murray	107	32	1	11	151	118
Z R Kerse	100	30	1	6	137	107
<b>Non-executive directors</b>						
M R Cumming	17	–	–	–	17	17
A N Nelson	68	–	–	–	68	68
P D Shea	14	–	–	–	14	14
F Al-Yousef	11	–	–	–	11	11
	<b>417</b>	<b>96</b>	<b>3</b>	<b>44</b>	<b>560</b>	<b>462</b>

There are three directors receiving company contributions to personal pension schemes (2010 – three). The bonus paid related to the year ended 31 March 2010.

## 7 Directors' emoluments and staff costs

### Share-based payments

#### Approved equity-settled share option scheme

The grant price is determined by reference to the mid-market price of the Company's ordinary shares on the day proceeding the date of the grant. The options are conditional on continued employment and have a minimum vesting period of three years. If options remain unexercised after a period of ten years from the date of the grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest. The weighted average remaining contractual life is two years (2010 – three years).

	Group 2011 No.	Company 2011 No.	Weighted average exercise price (pence)	Group 2010 No.	Company 2010 No.	Weighted average exercise price (pence)
Outstanding at the beginning of the year	182,000	182,000	47	182,000	182,000	47
Forfeited during the year	(9,000)	(9,000)	47	–	–	–
Outstanding at the end of the year	173,000	173,000	47	182,000	182,000	47
Exercisable at the end of the year	173,000	173,000	47	182,000	182,000	47

The fair value was measured at the grant date using the Black-Scholes model. The inputs were as follows:

Grant date	7 April 2003	14 June 2004
Share price at grant date	48.5p	47.5p
Exercise price	51p	43.25p
Shares under option	111,500	117,500
Vesting period	3-10 years	3-10 years
Expected volatility	20%	20%
Expected life	6.5 years	6.5 years
Risk free rate	3.75%	4.50%
Expected dividends	nil	nil
Fair value per model at grant date	13.8p	17.8p

The expected volatility is based on historical volatility over a period consistent with the expected option life. The risk-free rate is based on Government bonds.

Management has reviewed the inputs and has estimated fair value to be nil when IFRS 2 'Share-based payment' was first implemented on 1 January 2006. There has been no charge to the income statement or adjustment to equity for share-based payments during the year.



## Notes to the Financial Statements

### 8 Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on profit of £37,748 for the year (2010 – profit of £378,106) on 52,726,036 (2010 – 40,672,666) ordinary shares, being the weighted-average number of ordinary shares in issue during the year. In the current financial year and the previous year the convertible loan notes were not dilutive of earnings.

	2011 No. of ordinary shares of 5p each	2010 No. of ordinary shares of 5p each
Basic weighted average number of shares	<b>52,726,036</b>	40,672,666

### 9 Investments

#### Company

The subsidiary undertakings of Private & Commercial Finance Group plc at 31 March 2011, all of which are incorporated and operate in the United Kingdom and are registered in England and Wales, were as follows:

Name of company	Proportion held	Nature of business
PCF Group Holdings Limited	100%	Holding company
AMC Trust Limited	100%*	Holding company
PCF Group Limited	100%*	Holding company
Private and Commercial Finance Company Limited	100%*	Instalment credit
PCF Asset Finance Limited	100%*	Hire purchase
PCF Equipment Leasing Limited	100%*	Leasing
PCF Leasing Limited	100%*	Leasing
The Asset Management Corporation Limited	100%*	Leasing
Henry Butcher Industrial Finance Limited	100%*	Dormant
PCF Business Finance Limited	100%*	Dormant
TMV Finance Limited	100%*	Dormant
United Motor Finance Limited	100%*	Dormant

\*Held by a subsidiary of the Company

All the companies have an Accounting Reference Date of 31 March.

	Investment in subsidiary undertakings £'000
Cost and net book value At 1 April 2010 and 31 March 2011	1,000

The Company has an investment in PCF Group Holdings Limited. The net asset value of PCF Group Holdings Limited at 31 March 2011 was £1,007,063. If the investment had been sold at this valuation, any potential capital gains arising on the sale would have been exempt under the substantial shareholdings legislation. If the disposal had given rise to a loss, the loss would not be an allowable loss for tax purposes.

It is the opinion of the directors that the recoverable amount of the Company's investment in PCF Group Holdings Limited is not less than the amount at which it is stated in the Company's Financial Statements.

## 10 Goodwill

	2011 £'000	2010 £'000
Cost and net book value At 1 April 2010 and 31 March 2011	<b>397</b>	397

Goodwill relates entirely to the Group's Consumer Finance Division and arises from the acquisition of TMV Finance Limited in November 2000. There has been no impairment to goodwill in the current or prior year.

The recoverable amount of goodwill is determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding discount rates, growth rates, loan loss rates and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and estimates cash flows adjusted for risks specific to the Consumer Finance Division. Changes in loan loss rates and direct costs are based on historic experience and expectations of future changes in the market. The Group produces a cash flow forecast for a two year period which assumes a constant growth rate consistent with current market conditions and recent historic growth. Growth beyond this period is assumed as zero and the Group extrapolates these forecasts out to a maximum of five years. The risk adjusted cash flows are discounted using a pre-tax discount rate of 6.0% (2010 – 5.6%).

## 11 Other intangible assets

Other intangible assets are comprised solely of computer software.

<b>Group</b>	2011 £'000	2010 £'000
<b>Cost</b>		
At 1 April	<b>2,304</b>	1,585
Additions	<b>124</b>	719
At 31 March	<b>2,428</b>	2,304
<b>Amortisation and impairment</b>		
At 1 April	<b>1,449</b>	1,283
Amortisation for the year	<b>163</b>	166
At 31 March	<b>1,612</b>	1,449
<b>Net book value at 31 March</b>	<b>816</b>	855



## Notes to the Financial Statements

### 12 Property, plant and equipment

<b>2011 Group</b>	Operating lease equipment £'000	IT, office equipment, fixtures and fittings £'000	Total £'000
<b>Cost</b>			
At 1 April 2010	82	582	664
Additions in the year	–	3	3
Disposals in the year	(68)	–	(68)
At 31 March 2011	14	585	599
<b>Depreciation</b>			
At 1 April 2010	53	438	491
Depreciation charge for the year	3	51	54
Disposals in the year	(46)	–	(46)
At 31 March 2011	10	489	499
<b>Net book value</b>			
At 31 March 2011	4	96	100
At 31 March 2010	29	144	173
<b>2010 Group</b>			
<b>Cost</b>			
At 1 April 2009	94	523	617
Additions in the year	–	59	59
Disposals in the year	(12)	–	(12)
At 31 March 2010	82	582	664
<b>Depreciation</b>			
At 1 April 2009	46	381	427
Depreciation charge for the year	15	57	72
Disposals in the year	(8)	–	(8)
At 31 March 2010	53	438	491
<b>Net book value</b>			
At 31 March 2010	29	144	173
At 31 March 2009	48	142	190

All operating lease equipment relates to vehicles, plant and equipment.

### 13 Loans and receivables

#### Maximum exposure and maturity

	Instalment credit £'000	Finance leases £'000	Total £'000
<b>2011</b>			
<b>Group</b>			
Maturity profile			
Within one year	48,179	23,452	71,631
One to five years	47,333	17,678	65,011
Gross loans and receivables	95,512	41,130	136,642
Unearned future finance income	(15,322)	(4,899)	(20,221)
Loan loss provision	(7,067)	(3,389)	(10,456)
	73,123	32,842	105,965
Comprising			
Current assets	33,124	17,242	50,366
Non-current assets	39,999	15,600	55,599
	73,123	32,842	105,965
<b>2010</b>			
<b>Group</b>			
Maturity profile			
Within one year	50,305	26,949	77,254
One to five years	57,337	24,142	81,479
Gross loans and receivables	107,642	51,091	158,733
Unearned future finance income	(18,006)	(7,040)	(25,046)
Loan loss provision	(7,778)	(4,017)	(11,795)
	81,858	40,034	121,892
Comprising			
Current assets	33,566	19,131	52,697
Non-current assets	48,292	20,903	69,195
	81,858	40,034	121,892

For terms relating to financial assets, loans and receivables refer to note 21.



## Notes to the Financial Statements

### 13 Loans and receivables

#### Credit quality

	Instalment credit £'000	Finance leases £'000	Total £'000
<b>2011</b>			
<b>Group</b>			
Neither past due nor impaired	74,351	29,544	103,895
Past due but not impaired – one day up to one month	3,201	2,024	5,225
– one month to two months	691	500	1,191
Impaired	17,269	9,062	26,331
Gross loans and receivables	95,512	41,130	136,642
<b>2010</b>			
<b>Group</b>			
Neither past due nor impaired	79,442	35,625	115,067
Past due but not impaired – one day up to one month	6,026	3,015	9,041
– one month to two months	2,221	1,226	3,447
Impaired	19,953	11,225	31,178
Gross loans and receivables	107,642	51,091	158,733

The credit risk inherent in loans and receivables is reviewed under impairment policies as detailed in note 1. Under this review, the credit quality of assets which are neither past due nor impaired were considered to be good. In the case of assets where there was evidence of non-payment or other objective evidence of impairment the assets are considered as impaired. The carrying amount of gross loans and receivables whose terms have been renegotiated which would otherwise be past due or impaired is £2.6 million at 31 March 2011 (2010 – £3.8 million).

#### Loan loss provision

	Instalment credit £'000	Finance leases £'000	Total £'000
<b>2011</b>			
<b>Group</b>			
At 1 April 2010	7,778	4,017	11,795
Utilised	(3,706)	(1,598)	(5,304)
Additional provisions created	2,995	970	3,965
At 31 March 2011	7,067	3,389	10,456
<b>2010</b>			
<b>Group</b>			
At 1 April 2009	5,813	2,678	8,491
Utilised	(680)	(1,161)	(1,841)
Additional provisions created	2,645	2,500	5,145
At 31 March 2010	7,778	4,017	11,795

### 13 Loans and receivables

<b>Collateral</b>	2011 £'000	2010 £'000
Loans secured on equipment, plant and vehicles under conditional sale/hire purchase agreements	90,101	102,097
Unsecured other loans	5,410	5,545
Finance leases of equipment, plant and vehicles	41,131	51,091
<b>Gross loans and receivables</b>	<b>136,642</b>	<b>158,733</b>

An estimate of the fair value of collateral on past due or impaired loans and receivables is not disclosed as it would be impractical to do so.

#### Company

The non-current loans and receivables as shown on the Company balance sheet of £5,250,000 (2010 – £5,250,000) comprise amounts due from subsidiary companies with repayment terms of five years or more. In current assets there are amounts of £2,546,711 (2010 – £3,022,097) due from subsidiary companies, all of which are repayable on demand.

### 14 Trade and other receivables

	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
Trade receivables	15	10	20	–
Prepayments	167	111	172	76
Security deposits	92	92	92	92
Other receivables	143	30	288	16
	<b>417</b>	<b>243</b>	<b>572</b>	<b>184</b>

Trade and other receivables are not interest-bearing and are generally on terms of up to 30 days. The maximum exposure to credit risk and the fair value of trade and other receivables equates to the carrying amount.

### 15 Trade and other payables

	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
Trade payables	442	58	471	97
Taxes and social security costs	103	105	181	68
Security deposits	56	–	56	–
Other payables	414	26	798	53
Accruals	266	175	354	119
	<b>1,281</b>	<b>364</b>	<b>1,860</b>	<b>337</b>

Trade and other payables are not interest-bearing and are normally settled on 30 day terms.



## Notes to the Financial Statements

### 16 Interest-bearing loans and borrowings

	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
<b>Current</b>				
Secured bank borrowings	29,611	–	8,761	–
Convertible debt	–	–	–	–
	29,611	–	8,761	–
<b>Non-current</b>				
Secured bank borrowings	69,557	–	104,946	–
Convertible debt	2,968	2,968	2,943	2,943
	72,525	2,968	107,889	2,943
Total interest-bearing loans and borrowings	102,136	2,968	116,650	2,943

Loans and borrowings are stated net of unamortised issue costs of £0.3 million (2010 – £0.4 million). These costs are allocated to the income statement over the term of the facility using the effective interest method.

#### Bank overdrafts

The bank overdrafts have effective interest rates of base rate plus a margin and are secured by a debenture over the individual group companies to which they apply. These facilities are repayable on demand.

#### Interest-bearing loans and borrowings

##### £65.0 million term loan facility

This loan has an effective interest rate of LIBOR plus a margin and an extension of the maturity date to 1 October 2012 has recently been agreed. The loan is secured by both a charge over the loans and receivables and a debenture over the assets of the group undertaking to which it applies and the guarantee of the Company.

##### £25.75 million term loan facility

This loan has an effective interest rate of LIBOR plus a margin and an extension of the maturity date to 1 October 2012 has recently been agreed. The loan is secured by both a charge over the loans and receivables and a debenture over the assets of the group undertaking to which it applies and the guarantee of the Company.

##### £16.0 million block discounting facility

This loan has an effective interest rate of 7.5% and a maturity date of 13 September 2013. The facility is secured by both a charge over the loans and receivables and a debenture over the assets of the group undertaking to which it applies and the guarantee of the Company.

##### £6.0 million block discounting facilities

These loans have effective fixed interest rates of 7.0% and maturity dates of up to four years. The facilities are secured by charges over the loans and receivables of the group undertaking to which they apply.

## 16 Interest-bearing loans and borrowings

### Convertible debt

In 1999 the Company issued £2,346,928 of £1 convertible unsecured loan notes at par, by way of a placing and open offer. The loan notes had a final maturity date of 30 September 2009 and carried an interest rate of 8%. These loan note holders were offered an option of rolling into a new convertible unsecured loan note with a final maturity date of 30 September 2013 and carrying an interest rate of 10%. This offer resulted in the issue of £605,076 of £1 convertible unsecured loan notes at par. The remainder of the 1999 loan notes were redeemed at par on 30 September 2009 in cash.

In 2003 the Company issued £3,079,043 of £1 convertible unsecured loan notes at par, by way of a placing and open offer. The loan notes could have been converted by the noteholder into ordinary shares at the price of 76p on any interest date between 31 March 2004 and 30 September 2010. The loan notes have a final maturity date of 30 September 2013 and carry an interest rate of 8%. The unamortised issue costs of the loan notes have been set off against the debt. At 31 March 2011, £488,517 (2010 – £481,088) of loan notes had been converted at 76p and £149,600 of loan notes had been repurchased at an average price of 79p.

The Company is unable to call and redeem the loan notes until the maturity date.

	2011 £'000	2010 £'000
<b>Maturity of financial liabilities</b>		
In one year or less or on demand	30,256	9,061
In more than one year but not more than two years	57,456	104,659
In more than two years but not more than five years	15,069	3,230
In more than five years	–	–
	<b>102,781</b>	<b>116,950</b>

The £25.75 million term loan facility reported in one year or less has been extended since the balance sheet date.

	2011 £'000	2010 £'000
<b>Undrawn committed borrowing facilities</b>		
Expiring in one year or less	7,320	–
Expiring in more than one year but not more than two years	3,250	6,743
Expiring in more than two years but not more than five years	2,816	1,842
	<b>13,386</b>	<b>8,585</b>

### Principal covenants

The subsidiary companies must comply with principal lending covenants in respect of the ratio of borrowings to net worth and the ratio of profit before interest and tax to net interest expense. In both years, none of these covenants had been breached.



## Notes to the Financial Statements

### 17 Operating lease arrangements

#### Operating lease arrangements where the Group or Company is lessee

Future minimum rentals payable under non-cancellable property leases are as follows:

	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
Not later than one year	139	122	164	123
After one year but not more than five years	82	82	221	204
After five years	–	–	–	–
	<b>221</b>	<b>204</b>	<b>385</b>	<b>327</b>

A seven year property lease was entered into on 4 December 2005.

A three year property lease was entered into on 14 August 2008.

#### Operating lease arrangements where the Group or Company is lessor

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
Not later than one year	–	–	3	–
After one year but not more than five years	–	–	–	–
After five years	–	–	–	–
	–	–	<b>3</b>	–

### 18 Issued share capital

	Number	£'000
<b>Authorised ordinary shares</b>		
At 1 April 2009, 1 April 2010 and 31 March 2011 – 5p each	250,000,000	12,500
<b>Allotted and fully paid ordinary shares</b>		
At 1 April 2009 – 5p each	28,569,366	1,428
Issue of new shares through placing	24,108,664	1,205
Exercise of convertible debt options	43,347	3
At 1 April 2010 – 5p each	52,721,377	2,636
Exercise of convertible debt options	9,774	1
At 31 March 2011 – 5p each	52,731,151	2,637

## 19 Reconciliation of shareholders' funds and movements on reserves

Group	Share premium £'000	Capital reserve £'000	Other reserves £'000	Own shares £'000	Profit and loss account £'000
At 1 April 2009	4,192	3,873	(2,664)	(243)	(2,470)
Fair value gains on cash flow hedges net of tax	–	–	830	–	–
Transfer to net profit	–	–	(14)	–	–
Net gains recognised directly in equity	–	–	816	–	–
Profit for the year	–	–	–	–	378
Total recognised income and expense for the year	–	–	816	–	378
Issue of new shares	185	–	–	–	–
At 1 April 2010	4,377	3,873	(1,848)	(243)	(2,092)
Fair value gains on cash flow hedges net of tax	–	–	1,289	–	–
Transfer to net profit	–	–	(141)	–	–
Net gains recognised directly in equity	–	–	1,148	–	–
Profit for the year	–	–	–	–	38
Total recognised income and expense for the year	–	–	1,148	–	38
Purchase of own shares	–	–	–	(12)	–
Issue of new shares	7	–	–	–	–
At 31 March 2011	4,384	3,873	(700)	(255)	(2,054)

### Capital reserve

On 23 May 2006 the ordinary shares of 25p of the Company were divided into five new ordinary shares of 5p. Four of each of the five newly sub-divided ordinary shares were designated deferred shares. The deferred shares were purchased by the Company at nil value and cancelled, resulting in the creation of a capital reserve.

### Other reserves

From 1 April 2007 the Group adopted hedge accounting for the existing and any new derivative financial instruments. The hedging reserve includes the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions which have not yet occurred. The hedging reserve appears in 'Other reserves'. Further information on derivative financial instruments and hedging is contained in note 1.

### Own shares (Employee Share Option Plan)

Own shares represents 645,015 (2010 – 464,015) ordinary shares held by Intertrust International Management Limited to meet obligations under the Company's Approved Share Option Scheme. This is shown as a deduction to shareholders' funds.

The shares are stated at cost and their market value at 31 March 2011 was £36,605 (2010 – £31,321). If they had been sold at this value, there would have been a capital loss of £218,542 arising on the sale.

Dividends on the shares have been waived. Expenses of the trust are included in the income statement.



## Notes to the Financial Statements

### 19 Reconciliation of shareholders' funds and movements on reserve

Reconciliation of changes in reserves	Share premium £'000	Capital reserve £'000	Own shares £'000	Profit and loss account £'000
<b>Company</b>				
At 1 April 2009	4,192	3,873	(243)	(3,467)
Loss for the year	–	–	–	(749)
Total recognised income and expense for the year	–	–	–	(749)
Issue of new shares	185	–	–	–
At 1 April 2010	4,377	3,873	(243)	(4,216)
Loss for the year	–	–	–	(715)
Total recognised income and expense for the year	–	–	–	(715)
Purchase of own shares	–	–	(12)	–
Issue of new shares	7	–	–	–
At 31 March 2011	4,384	3,873	(255)	(4,931)

### 20 Deferred tax asset

Group	2011 £'000	2010 £'000
Decelerated capital allowances	4,362	4,201
Derivative financial instruments	240	767
	<b>4,602</b>	<b>4,968</b>
Deferred tax asset at the start of the year	4,968	4,215
Recognised in income	106	1,071
Recognised in equity	(472)	(318)
Deferred tax asset at the end of the year	<b>4,602</b>	<b>4,968</b>

There is an unrecognised deferred tax asset of £156,090 (2010 – £209,383). This asset relates to tax losses arising in prior years, which are unutilised at the balance sheet date.

## 21 Financial instruments

The Group's principal financial instruments are financial assets comprising loans and receivables and financial liabilities recorded at amortised cost comprising overdrafts and interest bearing loans and borrowings. The Group also enters into derivative financial instruments to reduce its exposure to interest rate fluctuations. A description of the principal risks, as well as details on how the Group manages these risks, is contained in the section of the Directors' Report entitled 'Principal risks and uncertainties'.

### Liquidity and interest rate risks

The Group's policy on funding capacity is to ensure there is always sufficient long-term funding in place. The Group endeavours to have committed borrowing facilities in place in excess of its forecast gross borrowing requirements for a minimum of the next twelve months. At 31 March 2011, the Group's principal committed borrowing facilities totalled £116.2 million (2010 – £125.6 million) of which 12% (2010 – 7%) were undrawn. In addition, it is the Group's policy to maintain uncommitted facilities for its working capital requirements. The contractual maturities of the Group's and Company's facilities are detailed in note 16 along with the Group's committed facilities.

The Group borrows at both fixed and floating interest rates and then uses derivative financial instruments to manage its exposure to interest rate fluctuations. At 31 March 2011 the proportion of the Group's borrowings at fixed rates, including borrowings matched with derivatives, was 64% (2010 – 72%), fixed for an average period of 0.8 years (2010 – 1.2 years). Derivatives are amortising interest rate swaps where the Group pays fixed rate interest on a quarterly basis. Based on the exposure to interest rate risk an increase in LIBOR by one half of one percentage point for the whole financial year would have had an adverse effect on profit for the year of £195,606 (2010 – £172,917) and a favourable impact on equity of £11,911 (2010 – £281,178).

The following tables set out the gross contractual maturities of the Group's and Company's financial instruments.

#### Group

##### Year ended 31 March 2011

Fixed rate	Within	1-2	2-3	3-4	4-5	More than	Total
	1 year	years	years	years	years	5 years	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loans and receivables – gross	71,631	35,044	19,666	8,343	1,941	17	136,642
Trade and other receivables	250	–	–	–	–	–	250
Cash and cash equivalents	1,047	–	–	–	–	–	1,047
Interest-bearing loans and borrowings	(6,433)	(1,630)	(12,518)	–	–	–	(20,581)
Convertible debt	(256)	(256)	(3,173)	–	–	–	(3,685)
Trade and other payables	(1,178)	–	–	–	–	–	(1,178)
Derivative financial instruments	(1,374)	(319)	(58)	(16)	–	–	(1,767)
<b>Floating rate</b>	<b>Within</b>	<b>1-2</b>	<b>2-3</b>	<b>3-4</b>	<b>4-5</b>	<b>More than</b>	<b>Total</b>
	<b>1 year</b>	<b>years</b>	<b>years</b>	<b>years</b>	<b>years</b>	<b>5 years</b>	<b>£'000</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Derivative financial instruments	379	240	69	23	–	–	711
Bank overdrafts	(645)	–	–	–	–	–	(645)
Interest-bearing loans and borrowings	(26,690)	(57,670)	–	–	–	–	(84,360)



## Notes to the Financial Statements

### 21 Financial instruments

#### Group

Year ended 31 March 2010

#### Fixed rate

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Loans and receivables – gross	77,254	40,827	26,623	11,128	2,890	11	158,733
Trade and other receivables	400	–	–	–	–	–	400
Cash and cash equivalents	660	–	–	–	–	–	660
Interest-bearing loans and borrowings	(1,669)	(1,669)	(1,669)	–	–	–	(5,007)
Convertible debt	(256)	(256)	(256)	(3,182)	–	–	(3,950)
Trade and other payables	(1,679)	–	–	–	–	–	(1,679)
Derivative financial instruments	(2,856)	(1,374)	(319)	(58)	(16)	–	(4,623)

#### Floating rate

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Derivative financial instruments	1,177	899	328	82	26	–	2,512
Bank overdrafts	(300)	–	–	–	–	–	(300)
Interest-bearing loans and borrowings	(25,743)	(87,826)	–	–	–	–	(113,569)

#### Company

Year ended 31 March 2011

#### Fixed rate

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Loans and receivables – gross	2,547	–	–	–	–	5,250	7,797
Trade and other receivables	133	–	–	–	–	–	133
Convertible debt	(256)	(256)	(3,173)	–	–	–	(3,685)
Trade and other payables	(306)	–	–	–	–	–	(306)

#### Company

Year ended 31 March 2010

#### Fixed rate

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Loans and receivables – gross	3,022	–	–	–	–	5,250	8,272
Trade and other receivables	108	–	–	–	–	–	108
Convertible debt	(256)	(256)	(256)	(3,182)	–	–	(3,950)
Trade and other payables	(269)	–	–	–	–	–	(269)

The financial instruments are shown gross to reflect capital and interest. The amounts shown therefore are not the carrying amounts as included on the Group and Company balance sheets.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

## 21 Financial instruments

The following table sets out the contractual maturities of the notional value of the Group's derivative financial instruments.

Group	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	Over 4 years £m	Total £m
<b>2011</b>						
Interest rate swaps	28.8	12.4	2.9	1.0	–	45.1
<b>2010</b>						
Interest rate swaps	23.5	23.1	21.5	9.0	–	77.1

The Company has no derivative financial instruments at 31 March 2011 (31 March 2010 – £nil).

### Fair values of financial instruments

The following table sets out a comparison by category of carrying amounts and fair values of financial instruments that are carried in the Financial Statements.

Group	Book value 2011 £m	Fair value 2011 £m	Book value 2010 £m	Fair value 2010 £m
<b>Financial assets</b>				
Loans and receivables – net	106.0	118.7	121.9	130.9
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	(102.1)	(102.4)	(116.7)	(116.6)
<b>Company</b>				
<b>Financial assets</b>				
Loans and receivables – net	7.8	7.8	8.3	8.3
<b>Financial liabilities</b>				
Interest-bearing loans and borrowings	(2.9)	(3.2)	(2.9)	(3.2)

Fair values are calculated by discounting cash flows at prevailing interest rates for equivalent debt instruments or by using the market interest rates for other financial assets or liabilities. The carrying value of all the other Group and Company financial instruments is regarded as a reasonable approximation of the fair value. Under IFRS 7 'Financial instruments: disclosures', the Group's derivative financial instruments are classed as Level 2 because they are not traded in an active market and the fair value is determined by discounting cash flows. There have been no transfers between valuation levels during the year.



## Notes to the Financial Statements

### 21 Financial instruments

#### Cash flow hedges

The following table shows the impact of the Group's cash flow hedges on the income statement and equity during the year.

	2011 £'000	2010 £'000
Amount recognised in equity	1,761	1,148
Amount removed from equity as interest expense	141	14
Ineffectiveness recognised as interest expense	53	176

#### Effective interest rates

The following profile of the Group's financial assets and liabilities is stated after taking into account the effects of interest rate swaps referred to above.

<b>Weighted-average effective interest rate</b>	2011 %	2010 %
Loans and receivables	19.0	19.0
Interest-bearing loans and borrowings	5.6	5.5

Interest on floating rate borrowing is determined by the relevant margin over LIBOR for each facility.

### 22 Contingent liabilities

#### Guarantees and security

##### Group

The loan facilities in the following subsidiary undertakings are secured by a debenture over the assets of the subsidiary undertaking.

PCF Group Limited  
Private and Commercial Finance Company Limited  
PCF Equipment Leasing Limited  
PCF Asset Finance Limited

##### Company

The Company has contingent liabilities of £100.0 million at 31 March 2011 (31 March 2010 – £114.2 million) in connection with guarantees relating to banking facilities of the Group companies.

### 23 Related parties

Apart from the instalment credit agreement to R J Murray disclosed in the Directors' Report, there were no material related party transactions.

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Becket House, 36 Old Jewry, London EC2R 8DD at 10.30am on Friday 30 September 2011 to consider and, if thought fit, pass the following resolutions, of which Resolutions 1 to 7 will be proposed as ordinary resolutions and Resolution 8 as a special resolution.

### Ordinary Business

- 1 To receive and approve the Report of the Directors and the audited Financial Statements of the Company for the year ended 31 March 2011.
- 2 To receive and approve the Report on the Directors' Remuneration as set out in the audited Financial Statements for the year ended 31 March 2011.
- 3 To re-elect R J Murray, who is retiring as a director by rotation, as a director of the Company.
- 4 To re-elect Z R Kerse, who is retiring as a director by rotation, as a director of the Company.
- 5 To re-elect D G Anthony, who is retiring pursuant to Article 93, as a director of the Company.
- 6 To re-appoint Ernst & Young LLP as auditors of the Company and to authorise the directors to determine their remuneration.

### Special Business

- 7 To consider and, if thought fit, pass the following as an ordinary resolution  
'that the directors be and are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 ('the Act'), in substitution for any existing authority, to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 560(1) of the Act) up to an aggregate nominal amount of £2,500,000 provided that such authority shall expire (unless previously renewed, varied or revoked by the Company in General Meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may prior to the expiry of such authority make an offer, agreement or other arrangement under which the relevant securities would be or might fall to be allotted after such expiry and the directors may allot such relevant securities pursuant to any such offer, agreement or other arrangements as if the authority conferred by this resolution had not expired.'
- 8 To consider and, if thought fit, pass the following as a special resolution  
'that the directors be and are hereby empowered, pursuant to Section 571 of the Companies Act 2006 ('the Act'), to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the authority conferred by Resolution 7 set out in the notice of Annual General Meeting of the Company dated 8 August 2011, as if Section 561(1) of the Act did not apply to such allotment provided that any such allotment shall be limited to:
  - (a) the allotment of equity securities for cash where such securities have been offered (by rights issue, open offer or otherwise) to holders of equity securities in proportion (as nearly as may be) to their holdings of ordinary shares of 5p each of the Company ('Ordinary Shares') (but on the notional assumption that the holders of loan notes convertible in to Ordinary Shares had exercised their conversion right into Ordinary Shares in full and become the registered holders of such Ordinary Shares immediately prior to the record date for such offer), but subject to the directors having the right to make such exclusions or other arrangements in connection with such offer as they deem necessary or expedient to deal with fractional entitlements and legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange or otherwise; and
  - (b) any other allotment (otherwise than pursuant to sub-paragraph (a) of this resolution) of equity securities up to the aggregate nominal value of £500,000



## Notice of Annual General Meeting

and shall expire (unless previously renewed, varied or revoked by the Company in General Meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution but so that the directors shall be entitled to make, at any time prior to the expiry of the power hereby conferred, any offer, agreement or other arrangement under which the relevant securities would be or might fall to be allotted after such expiry and the Directors may allot securities pursuant to such offer, agreement or other arrangement as if the powers conferred by this resolution had not expired.

By order of the board

**R J Murray**  
Secretary

8 August 2011

**Registered Office**  
39 Victoria Street  
London SW1H 0EU

### Notes

- 1 A member entitled to attend and vote at the above Annual General Meeting is entitled to appoint a proxy to attend and, on poll, to vote on his/her behalf. Members may appoint more than one proxy provided that each proxy is appointed to exercise rights attached to different shares. A proxy need not be a member of the Company.
- 2 A Form of Proxy is enclosed. To be valid, Forms of Proxy must be lodged with the Company's Registrars, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol, BS99 3EA not less than 48 hours before the time appointed for the holding of the Annual General Meeting.
- 3 Completion of a Form of Proxy will not prevent a member from attending and voting in person at the meeting, if the member so wishes.
- 4 The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members registered in the Register of Members of the Company at 10.30am on Wednesday 28 September 2011 shall be entitled to vote at the meeting in respect of the number of ordinary shares registered in their name at the relevant time. Changes to entries in the Register of Members after 10.30am on Wednesday 28 September 2011 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 5 CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- 6 In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('EUI') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA 10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
- 7 CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- 8 The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.



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**Private & Commercial**  
FINANCE

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