

PCF.L / Index: AIM / Sector: Speciality & other finance  
**Private & Commercial Finance Group Plc ('PCFG' or 'the Group')**  
**Final Results**

Private & Commercial Finance Group Plc, the AIM quoted finance house, announces its results for the year ended 31 March 2008 ("the period").

### **Overview**

- Substantial increase in pre tax profits to £934,197 (15 months ended 31 March 2007: £388,748)
- Earnings per share up 227% to 3.6p (15 months ended 31 March 2007: 1.1p)
- Portfolio of finance receivables (net of unearned income) grew 46% to a record level of £132.0m (31 March 2007: £90.5m)
- Turnover up 30% on an annualised basis to a record £51.7m
- Prudent strategy focussed on quality of earnings, avoiding large exposures, tightening credit criteria and increasing margins on new business rather than growing sales aggressively
- Additional facilities agreed with Kaupthing Singer & Friedlander and two other new lenders, totalling in excess of £25 million - to continue growth of portfolio
- Continued growth expected, albeit at a lower level, with proportionately less requirement for additional capital and higher returns on new business written

### **CHAIRMAN'S STATEMENT**

I am pleased to report strong growth and a substantial increase in profits during a period which has been particularly difficult for a number of companies operating in the financial services sector.

Our profit before tax for the period at £934,197 is 2.4 times that of the preceding fifteen month period and our earnings per share benefited from a significantly lower tax charge in the period. Our portfolio of finance receivables grew by 46 per cent to a record level of £132.0m (net of unearned income of £29.1m) and turnover rose 30 per cent on an annualised basis to a record £51.7m.

Our success in an apparently difficult trading environment is attributable largely to our exceptional business model and our very experienced, professional team of people.

## **Our Business**

Private & Commercial Finance Group plc is a well established finance group with a highly efficient infrastructure and business model. The original Private and Commercial Finance Company Limited (which we acquired in 1995) was formed in 1972 and has demonstrated the robustness of a well-diversified finance house, having survived and prospered through past periods of recession, stagflation and over-exuberance.

We have two operating divisions:

- ❖ Business Finance Division, which provides finance for equipment, plant and vehicles for SME's; and
- ❖ Consumer Finance Division, which provides finance for cars for consumers.

The divisions operate similar business models whereby they receive finance proposals introduced by a well established national network of finance sources via our proprietary internet-based proposal system *e-Quote*. This enables us to process a high volume of finance proposals quickly and efficiently at low overhead cost and crucially to maintain disciplines of credit quality and documentation. In my Chairman's Statement which accompanied the Annual Report and Financial Statements for the period ended 31 March 2007 I reported that *e-Quote* was processing over 10,000 proposals each month. Less than a year later, *e-Quote* is processing over 35,000 proposals per month for the consumer finance division alone. Both divisions have experienced teams of underwriters who review those proposals which have not been automatically declined by *e-Quote*. After making such enquiries or requests for information as they deem necessary, the underwriters then decide whether to accept or decline the proposal. Further documentary, identification and anti-fraud checks are conducted prior to advancing funds.

We have always written business with the intention of retaining it and collecting the receivables ourselves rather than selling it on by means of exotic financial structures. We therefore have been unaffected by the turmoil in international markets. We have our own highly experienced credit control team who administer the portfolio of receivables and are responsible for collecting payments.

In building our portfolios we are very focussed on quality of earnings and, in addition to careful underwriting, we take great care to avoid large exposures and concentrations of risk. As at 31 March 2008 we had over 17,000 live agreements with our largest exposure to a single customer accounting for less than 0.3 per cent of our total portfolio. The average exposure is of course considerably lower at fractionally less than £7,500.

## **Strategy**

Our core business strategy is straightforward – namely to grow our portfolios of finance receivables organically and to achieve increasing returns through operational gearing. In this way we generate an increasing level of income from a growing portfolio of finance receivables while continuing to hold down fixed overheads. We have learnt lessons from past diversifications and so are adhering closely to these core businesses which we understand well and where we have developed high standards of procedures to ensure consistency throughout our operations.

Despite the high levels of demand, we are taking a longer term view by bearing down on our credit criteria and increasing margins on new business rather than growing sales aggressively. The market place has changed, including the cost and availability of finance for new business, and it is not practical or prudent to pursue the same levels of growth.

The fact that we exited the lower tier of our credit ranking for consumer business as long ago as 2005 is standing us in good stead today, when the business cycle is more challenging.

## **Treasury and Accounting**

We finance our business with term borrowing facilities from major banks and preserve our interest margin by the use of interest rate swaps and caps with the same banks as our counterparties. Our major lenders, Barclays Bank (who fund our Consumer Finance Division), and Royal Bank of Scotland and Lloyds TSB (who together fund our Business Finance Division on a club basis) increased our facilities during the period and remain very supportive but, understandably given the current

stage of the cycle, are not keen to grant further increases at similar rates. We are, however, exploring with them the possibility (and indicative cost) of consolidating all our bank lines into one syndication to give us greater flexibility to write business in the sector which generates the best risk adjusted return and also to simplify our treasury administration.

I am pleased to report that since the beginning of 2008 we have agreed additional facilities with Kaupthing Singer & Friedlander and two other new lenders, totalling in excess of £25 million, which will provide us with additional headroom to write good quality business and grow our portfolio.

This year's Annual Report & Financial Statements is the first following the adoption of International Financial Reporting Standards ("IFRS"). The principal changes have had no material effect on the balance sheet or the profit and loss account and were covered in detail in our statement of 3 December 2007 and the subsequently reported interim results.

## **Competitive Environment**

In recent months we have seen certain competitors tighten their lending criteria, increase their margins or withdraw altogether from the market. We welcome the more sensible pricing and terms being adopted by those who remain active, which is making it easier for us to write good quality business with realistic margins.

## **Risks**

We are adopting a cautious stance until we are better able to assess the outlook for the economy. We anticipate a significant downturn in the economy but we are inclined to believe that some of the gloom and doom has been exaggerated. Happily, as a result of our scaleable business model, we avoid the expensive fixed overhead of a branch network or large sales force.

The strength of our portfolio, which includes £29.1 million of unearned income (31 March 2007 - £16.9 million), which will be released over the next three to four years in accordance with IFRS, comes from careful and consistent underwriting of

proposals and building a well spread range of customers, underpinned by the collateral value of the assets financed. All of these features of our business and the experience of our management team, position us well to ride out the anticipated downturn. Furthermore, in addition to a further tightening of underwriting criteria, especially affordability criteria, and increasing margins, we have increased the resources in our credit control area so that in the months ahead, we are well resourced and well-positioned to maintain tight control.

## **Regulatory Environment**

The increased levels of regulation, the latest of which are regulations under the Consumer Credit Act 2006, continue to cost time and money to implement. They also create further barriers to entry into the consumer finance market. Our group is better able than most to absorb new regulations and adapt our systems, procedures and documentation accordingly. This is just as well because the Council of the European Union approved a new Directive on Consumer Credit on 7<sup>th</sup> April 2008, which will require to be implemented by the member states of the EU in 2010 and the Ministry of Justice is also understood to be planning to introduce Enforcement Restriction Orders. Fortunately business finance is considerably less regulated than consumer finance.

## **Staff**

We are fortunate in having an exceptionally professional, hard-working and likeable team of people who successfully operate a well developed infrastructure of policies and procedures, which they themselves have participated in developing, and whose skills are supplemented by ongoing training. I thank them on behalf of the board.

## **Outlook**

I hope I have clearly demonstrated why Private & Commercial Finance Group plc is well placed to survive and prosper in what we expect to be a more challenging economic environment. We believe that the economic shake out currently underway will be for the long term benefit of cautious niche players, such as ourselves. Although we do not anticipate growing our portfolio at the same rate as

in the past two years, we nonetheless expect to continue to grow with proportionately less requirement for additional capital and higher returns on the new business we are writing.

Michael R Cumming

Chairman

24 June 2008

## Group Income Statement

for the year ended 31 March 2008

	Year ended 31 March 2008 £000's	<i>Restated</i> 15 months ended 31 March 2007 £000's
<b>Group turnover</b>	51,749	49,654
Cost of sales	<u>(33,745)</u>	<u>(33,108)</u>
<b>Gross profit</b>	18,004	16,546
Administration expenses	<u>(9,524)</u>	<u>(9,939)</u>
<b>Operating profit</b>	8,480	6,607
Interest Receivable	11	14
Interest Payable	<u>(7,557)</u>	<u>(6,232)</u>
<b>Profit on ordinary activities before taxation</b>	934	389
Income tax expense	<u>(32)</u>	<u>(150)</u>
<b>Profit on ordinary activities after taxation</b>	<u>902</u>	<u>239</u>
<b>Profit for the year/period attributable to equity holders</b>	<u>902</u>	<u>239</u>
<b>Earnings per 5p ordinary share</b>		
- basic and diluted	3.6 p	1.1p

## Group Statement of Recognised Income and Expense

for the year ended 31 March 2008

	Year ended 31 March 2008 £000's	<i>Restated</i> 15 months ended 31 March 2007 £000's
<b><i>Profit for the year/period</i></b>	<u>902</u>	<u>239</u>
Cashflow hedges – fair value losses net of tax	<u>(620)</u>	<u>-</u>
<b><i>Expense recognised directly in equity</i></b>	<u>(620)</u>	<u>-</u>
<b><i>Total recognised income for the year/period attributable to equity holders</i></b>	<u><u>282</u></u>	<u><u>239</u></u>

## Group Balance Sheet

as at 31 March 2008

	31 March 2008 £000's	Restated 31 March 2007 £000's
<b>ASSETS</b>		
<b>Non-current assets</b>		
Goodwill	397	397
Other intangible assets	223	271
Property, plant and equipment	159	259
Loans and receivables	89,456	58,211
Deferred tax	<u>2,221</u>	<u>2,372</u>
	<u>92,456</u>	<u>61,510</u>
<b>Current assets</b>		
Loans and receivables	42,520	32,287
Trade and other receivables	1,357	1,820
Derivative financial instruments	-	203
Corporation tax	<u>241</u>	<u>-</u>
	<u>44,118</u>	<u>34,310</u>
<b>Total assets</b>	<u>136,574</u>	<u>95,820</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	155	431
Trade and other payables	3,881	2,811
Derivative financial instruments	876	-
Corporation tax	-	364
Provisions	-	16
Bank overdrafts	<u>1,121</u>	<u>1,177</u>
	<u>6,033</u>	<u>4,799</u>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	<u>124,584</u>	<u>86,403</u>
	<u>124,584</u>	<u>86,403</u>
<b>Total liabilities</b>	<u>130,617</u>	<u>91,202</u>
<b>Net assets</b>	<u>5,957</u>	<u>4,618</u>
<b>Capital and reserves</b>		
Called up share capital	1,426	1,171
Share premium	4,150	3,348
Capital reserve	3,873	3,873
Other reserves	(620)	-
Own shares	(243)	(243)
Profit and loss account	<u>(2,629)</u>	<u>(3,531)</u>
<b>Equity shareholders' funds</b>	<u>5,957</u>	<u>4,618</u>

## Group Cash Flow Statement

for the year ended 31 March 2008

	Year ended 31 March 2008 £000's	Restated 15 months ended 31 March 2007 £000's
<b>Cash flows from operating activities</b>		
<b>Profit before taxation</b>	934	389
Adjustments for:		
Amortisation of other intangible assets	166	250
Depreciation	95	185
(Profit)/loss on sale of property, plant and equipment	(4)	43
Fair value movement on derivative financial instruments	217	24
Increase in loans and receivables	(41,478)	(26,610)
Decrease in trade and other receivables	462	13
Increase/(decrease) in trade and other payables	1,055	(72)
<b>Cash outflow from operating activities</b>	<u>(38,553)</u>	<u>(25,778)</u>
Tax (paid)/received	(244)	163
<b>Net cash outflow from operating activities</b>	<u>(38,797)</u>	<u>(25,615)</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(96)	(45)
Proceeds from sale of property, plant and equipment	105	86
Purchase of other intangible assets	(117)	(230)
<b>Net cash outflow from investing activities</b>	<u>(108)</u>	<u>(189)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	1,056	692
Proceeds from borrowings	38,182	24,912
Repayments of borrowings	(277)	(155)
<b>Net cash inflow from financing activities</b>	<u>38,961</u>	<u>25,449</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	56	(355)
Cash and cash equivalents at beginning of the period	(1,177)	(822)
<b>Cash and cash equivalents at end of the period</b>	<u>(1,121)</u>	<u>(1,177)</u>
<b>Bank overdrafts</b>	<u>(1,121)</u>	<u>(1,177)</u>
<b>The amount of interest paid and received during the year/period is as follows:</b>		
Interest paid	7,184	6,605
Interest received	11	14

## Notes to the financial statements

1. Financial Information – the financial information set out above does not constitute the Group's statutory accounts as defined in Section 240 of the Companies Act 1985. The comparative financial information is based on the statutory accounts for the period ended 31 March 2007 as restated for the adoption of International Financial Reporting Standards ("IFRS") as reported in the statement released by the Group on 3 December 2007.

The accounts for the period ended 31 March 2007, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies. The statutory accounts and audit opinion for the year ended 31 March 2008 will be signed on 18 July 2008 and will be delivered to the Registrar following the Company's annual general meeting.

2. Basis of Preparation – These consolidated statements have been prepared in accordance with IFRS and its interpretations issued by the International Accounting Standards Board, as adopted by the EU, and on the basis of the accounting policies set out in the 31 March 2007 financial statements as updated where necessary for the adoption of IFRS and new accounting standards adopted in the period.

The financial information contained within this preliminary statement was approved and authorised for issue by the Board on 20 June 2009.

3. Dividends – The board is not recommending the payment of a final dividend.

4. Earnings per Ordinary Share – The calculation of basic earnings per ordinary share is based on profits of £902,190 (2007 - £238,833) and on 25,206,455 (2007 – 21,998,317) ordinary shares, being the weighted average number of shares in issue during the period.

Due to the level of the exercise prices and exercisable dates of the share options and convertible debt, they are not dilutive of earnings.

5. Hedge Accounting – changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly to equity and the ineffective portion is recognised immediately to the income statement. The cumulative gain or loss on the hedging instrument recognised directly to equity is reported net of tax in 'Other reserves' in the balance sheet.

6. New Accounting Standards – During the year the Group adopted the new accounting standards of International Financial Reporting Standard 7 (IFRS 7) – 'Financial Instruments Disclosure'. There has been no significant financial impact on the Group's financial statements as a result of the adoption of this accounting standard.

7. The 2008 Report & Financial Statements will be posted to all shareholders on 23 July 2008. Further copies can be obtained from the Secretary of the Company at 39 Victoria Street, London SW1H 0EU or can be downloaded from our website, [www.pcfg.co.uk](http://www.pcfg.co.uk).

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For further information visit [www.pcfg.co.uk](http://www.pcfg.co.uk) or contact:

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Notes to Editors:

Private & Commercial Finance Group plc, which is authorised and regulated by the Financial Services Authority, is an independent AIM-listed finance house. Through its operating subsidiaries the Company provides a carefully selected range of high quality equipment finance products tailored for both business and personal customers. The range extends from financing cars for consumers to leasing a wide range of equipment to businesses.