

Registered Number 133540

Progressive Financial Services Limited  
Financial statements  
for the year ended 31 December 2005



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# **Progressive Financial Services Limited**

## **Financial statements for the year ended 31 December 2005**

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# **Progressive Financial Services Limited**

## **Directors and advisers**

### **Directors**

S P Mahon (resigned 3 January 2006)  
M W G Collins (resigned 3 January 2006)  
J J Corr (resigned 3 January 2006)  
I S Cummine (resigned 3 January 2006)  
J Blake (appointed 3 January 2006)  
P D Miller (appointed 3 January 2006)  
M A Belcher (appointed 3 January 2006)  
P Wood (appointed 3 January 2006)  
A C Cummings (appointed 3 January 2006)  
T Curry (appointed 30 January 2006)  
L A Calver (appointed 1 February 2006)

### **Secretary**

R C W Todd

### **Registered Office**

Kingston House  
Centre 27 Business Park  
Woodhead Road  
Birstall  
Batley  
WF17 9TD

### **Auditors**

PricewaterhouseCoopers LLP  
Benson House  
33 Wellington Street  
Leeds  
LS1 4JP

# **Progressive Financial Services Limited**

## **Directors' report for the year ended 31 December 2005**

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2005.

### **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year.

In preparing these financial statements, following the adoption of International Financial Reporting Standards ('IFRS') on 1 January 2005, the directors confirm that suitable accounting policies have been used and applied consistently. The directors also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005, that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

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

### **Principal activities and review of the business**

The company's principal activities continue to be the provision of consumer credit and motor finance services. The directors are satisfied with the result for the year and the company's future prospects.

On 29 June 2005, the trade and assets of Dial4aloan Limited, a loan broker and fellow subsidiary of the Cattles plc group, were transferred into the company.

### **Results and dividends**

The profit for the year, after taxation, amounted to £50,571,219 (2004: £49,395,657). The directors do not recommend the payment of a final ordinary dividend (2004: £27,000,000). The total ordinary dividend distributed during the year was £nil (2004: £27,000,000). In addition, dividends of £4,667 (2004: £4,474), £13,468 (2004: £25,309,688) and £7,351,243 (2004: £6,897,966) were proposed during the year on the "A" preference shares, the "B" preference shares and the irredeemable preference shares respectively.

### **Directors**

The directors of the company during the year were:

S P Mahon (resigned 3 January 2006)  
M W G Collins (resigned 3 January 2006)  
J J Corr (resigned 3 January 2006)  
I S Cummine (resigned 3 January 2006)  
J Blake (appointed 3 January 2006)  
P D Miller (appointed 3 January 2006)  
M A Belcher (appointed 3 January 2006)  
P Wood (appointed 3 January 2006)  
A C Cummings (appointed 3 January 2006)  
T Curry (appointed 30 January 2006)  
L A Calver (appointed 1 February 2006)

# Progressive Financial Services Limited

## Directors' report for the year ended 31 December 2005 (continued)

### Directors' interests

No director had an interest in the share capital of this company at any time during the year. The interests of those directors who served during 2005 in the issued share capital of the ultimate parent undertaking, Cattles plc, according to the register kept under section 325 of the Companies Act 1985, are shown in the annual report and financial statements of that company.

### Employment policy

The company gives sympathetic consideration to applications for employment from disabled persons wherever practicable. Successful applicants and employees who become disabled are given appropriate assistance and training and have the same career and promotion prospects as other employees.

### Employee involvement

The directors believe in encouraging the interest and involvement of employees by making them more aware of performance at both local and group level. Many employees are able to earn bonus payments based on the profitability of their individual branch or division.

In addition, due to active in-house training programmes and formal mechanisms for regularly briefing staff, such as the Cattles plc Consumer Division's magazine 'Connect' and annual conferences, groups of employees are able to meet on a regular basis to discuss future developments, exchange ideas and provide feedback to management.

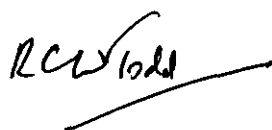
### Supplier payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers when a binding purchase contract is entered into, provided that all trading terms and conditions have been complied with. At the year end, the company had an average of 33 days purchases (2004: 23 days purchases) outstanding in trade creditors.

### Independent auditors

The company has passed an elective resolution to dispense with the obligation to re-appoint auditors annually. PricewaterhouseCoopers LLP shall, therefore, be deemed re-appointed as auditors.

By Order of the Board



R C W TODD

Secretary

12 May 2006

# **Auditors' report to the members of Progressive Financial Services Limited**

We have audited the financial statements of Progressive Financial Services Limited for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

## **Basis of audit opinion**

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

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

## **Auditors' report to the members of Progressive Financial Services Limited (continued)**

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Leeds

12 May 2006

# Progressive Financial Services Limited

## Income statement for the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Revenue	1	636,894	599,150
Finance costs	2	(105,188)	(83,045)
Other cost of sales	3	(276,935)	(262,635)
Gross profit		254,771	253,470
Administrative expenses		(179,930)	(185,006)
Profit on ordinary activities before taxation		74,841	68,464
Tax on profit on ordinary activities	5	(24,270)	(19,068)
Profit for the year attributable to equity holders		50,571	49,396

All items dealt with in arriving at profit for the year attributable to equity holders relate to continuing operations.



# Progressive Financial Services Limited

## Balance sheet as at 31 December 2005

	Notes	2005 £'000	2004 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	8	11,789	11,789
Other intangible assets	9	33,193	9,868
Property, plant and equipment	10	16,826	20,018
Investment in subsidiary undertaking	11	4	4
Loans and receivables	12	960,438	798,977
Trade and other receivables	13	96	-
Deferred tax assets	14	12,432	45,142
		<b>1,034,778</b>	<b>885,798</b>
<b>Current assets</b>			
Inventories		3,492	2,500
Loans and receivables	12	608,658	686,835
Current tax asset		4,947	-
Trade and other receivables	13	24,093	14,407
Cash and cash equivalents		8,567	12,657
		<b>649,757</b>	<b>716,399</b>
<b>Total assets</b>		<b>1,684,535</b>	<b>1,602,197</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	15	(1,460,820)	(1,385,095)
Current tax liabilities		-	(15,548)
Trade and other payables	16	(39,976)	(37,766)
Provisions	18	(386)	(3,934)
		<b>(1,501,182)</b>	<b>(1,442,343)</b>
<b>Non-current liabilities</b>			
Borrowings	15	(7,461)	(6,531)
Preference shares	19	(41,231)	(43,724)
		<b>(48,692)</b>	<b>(50,255)</b>
<b>Total liabilities</b>		<b>(1,549,874)</b>	<b>(1,492,598)</b>
<b>Net assets</b>		<b>134,661</b>	<b>109,599</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	19	100,005	100,005
Retained earnings		34,656	9,594
<b>Total shareholders' funds</b>		<b>134,661</b>	<b>109,599</b>

The financial statements on pages 6 to 63 were approved by the board of directors on 12 May 2006 and were signed on its behalf by:



P D Miller  
Director

# Progressive Financial Services Limited

## Statement of changes in shareholders' equity for the year ended 31 December 2005

	Ordinary share capital (note 19) £'000	Retained earnings £'000	Total equity £'000
At 1 January 2004	100,005	(15,607)	84,398
Profit for the year	-	49,396	49,396
Ordinary dividend (note 6)	-	(25,000)	(25,000)
Share-based payments:			
- Value of services provided	-	805	805
At 1 January 2005	100,005	9,594	109,599
Profit for the year	-	50,571	50,571
Ordinary dividend (note 6)	-	(27,000)	(27,000)
Share-based payments:			
- Value of services provided	-	1,466	1,466
- Arising on acquisition of business (note 22)	-	25	25
At 31 December 2005	100,005	34,656	134,661

# Progressive Financial Services Limited

## Cash flow statement for the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
<b>Cash flows from operating activities</b>			
Cash outflow from operations	23	(116,038)	(199,846)
Tax paid		(10,825)	(33,047)
<b>Net cash outflow from operating activities</b>		<b>(126,863)</b>	<b>(232,893)</b>
<b>Cash flows from investing activities</b>			
Cash and bank overdraft acquired as part of acquisition of a business		(181)	-
Purchase of property, plant and equipment		(3,710)	(2,909)
Proceeds from sale of property, plant and equipment		2,886	2,761
Purchase of intangible assets		(12,166)	(8,467)
<b>Net cash outflow from investing activities</b>		<b>(13,171)</b>	<b>(8,615)</b>
<b>Cash flows from financing activities</b>			
Issue of intra-group borrowings		170,165	251,409
Issue of new external borrowings		-	5,500
Repayment of external borrowings		(3,811)	(4,140)
Issue of preference shares		-	25,000
Dividends paid to equity shareholders	6	(27,000)	(25,000)
<b>Net cash inflow from financing activities</b>		<b>139,354</b>	<b>252,769</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(680)</b>	<b>11,261</b>
Cash and cash equivalents at 1 January		7,441	(3,820)
<b>Cash and cash equivalents at 31 December</b>		<b>6,761</b>	<b>7,441</b>
<b>For the purposes of the cash flow statement, cash and cash equivalents comprise:</b>			
Cash at bank and in hand		8,567	12,657
Bank overdrafts		(1,806)	(5,216)
		<b>6,761</b>	<b>7,441</b>

# Progressive Financial Services Limited

## Accounting policies

Progressive Financial Services Limited (the 'company') is a company domiciled in the UK. Consolidated financial statements have not been prepared in accordance with section 228 of the Companies Act 1985 as the company is a wholly owned subsidiary undertaking of Cattles plc, a company registered in England and Wales, which prepares consolidated financial statements.

### 1 Statement of compliance

Prior to 2005, the company prepared its audited financial statements under UK Generally Accepted Accounting Principles ('UK GAAP'). As a member of Cattles plc, a listed group required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS'), the company chose to prepare its financial statements in accordance with IFRS from 1 January 2005.

These financial statements have been prepared in accordance with IFRS and its interpretations issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('EU').

These are the company's first financial statements to which IFRS 1 'First-time Adoption of International Financial Reporting Standards' has been applied. The date of transition to IFRS for the company was 1 January 2004 and the opening IFRS balance sheet of the company has been prepared as at that date. All comparative figures in respect of 2004, including those relating to IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurements' have been restated to reflect the adoption of IFRS. Details of which of the optional IFRS 1 exemptions have been applied, as well as the reconciliations and explanations of the prior year effect of adopting IFRS on the equity (net assets), profits and cash flows of the company are provided in note 29 on pages 48 to 63.

### 2 Basis of preparation

The financial statements are prepared under the historical cost convention, and are rounded to the nearest thousand Pounds Sterling, the company's functional and presentational currency.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that 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. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed on page 18.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet as at 1 January 2004 for the purpose of the transition to IFRS.

# Progressive Financial Services Limited

## Accounting policies (continued)

### 3 Financial assets

Management determines the classification of the company's financial assets at initial recognition into one of the following categories:- loans and receivables, held-to-maturity financial assets, available-for-sale financial assets and financial assets at fair value through profit or loss; and re-evaluates this designation at each reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money directly to a customer with no intention of trading the receivable. This classification includes advances made to customer under hire purchase agreements and acquired debt.

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

Loans and receivables are recognised when cash is advanced to borrowers or at the date of purchase in respect of acquired debt. These assets are initially recognised at fair value plus direct and incremental transaction costs. Loans and receivables are carried at amortised cost using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all the risks and rewards of ownership.

### 4 Revenue recognition

Revenue comprises the fair value receivable for the sale of goods and services, net of value-added tax, and is recognised as follows:

#### a) 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 ('EIR') is the rate that exactly discounts estimated future cash flows through the expected life, or contractual term if shorter, of the financial asset to the net carrying amount of the financial asset. When calculating the EIR, the company 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; payment protection insurance commissions; and direct and incremental transaction costs, such as broker commissions and certain agents' remuneration.

Amounts due from lessees under hire purchase contracts are recorded as receivables at the amount of the company'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 company's net investment (before tax) outstanding in respect of the contract.

Interest income continues to be recognised at the EIR once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, irrespective of the terms of the loan and whether interest has been suspended on the customer's account. This is referred to as the 'gross-up adjustment' to income and is offset by a corresponding 'gross-up adjustment' to the loan loss provisioning charge.

# **Progressive Financial Services Limited**

## **Accounting policies (continued)**

### **4 Revenue recognition (continued)**

#### **b) Insurance and brokerage income**

The company offers payment protection and other insurance products, such as health, life and mechanical breakdown insurance, to its customers for which a commission is received from third party fronting insurers.

Commission received from third party insurers for brokering the sale of insurance products, for which the company does not bear any underlying insurance risk, is recognised and credited to the income statement when the brokerage service has been provided.

Commission relating to other insurance products, for which the Cattles group bears the underlying insurance risk, is recognised in line with the incidence of this risk.

Income from insurance profit share arrangements with the fronting insurer is recognised on an effective interest method in respect of payment protection insurance and in line with the incidence of risk in respect of other insurance products.

Brokerage commissions charged to third party lenders for the introduction of new customers are credited to the income statement when the service has been provided.

#### **c) Sale of goods**

Sales of goods, principally motor vehicles, are recognised when the company has delivered the product to the customer; the customer has accepted the product and collectibility of the related receivable is reasonably assured.

#### **d) Other income**

Other income includes fees charged to customers for the collection of debts, which are credited to the income statement when the service has been provided.

### **5 Impairment of loans and receivables**

In respect of loans and receivables, including receivables under hire purchase contracts, the company assesses on an on-going basis whether there is objective evidence that a loan asset or a group of loan assets is impaired. A loan asset or a group of loan assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and the loss event has an impact on the estimated future cash flows of the loan asset or group of loan assets that can be reliably estimated.

The company first assesses whether objective evidence of impairment exists individually for loan assets that are individually significant, and either individually or collectively for loan assets that are not individually significant.

# **Progressive Financial Services Limited**

## **Accounting policies (continued)**

### **5 Impairment of loans and receivables (continued)**

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loan asset's original EIR. 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 a loan loss provisioning charge within other cost of sales.

For the purposes of a collective evaluation of impairment, loan assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of loan assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Where interest income continues to be recognised on impaired loans, which cannot be collected from the customer due to the interest being fixed at the outset or interest having been suspended on the customer's account, referred to as the 'gross-up adjustment' to income, a corresponding loan loss provisioning charge is made. This is referred to as the 'gross-up adjustment' to the loan loss provisioning charge.

### **6 Intangible assets**

#### **a) Goodwill**

Goodwill represents the excess of the cost of a business combination over the fair values of the company's share of the identifiable net assets acquired. Goodwill is not amortised, but is reviewed at least annually for impairment. For the purpose of impairment testing, goodwill is allocated to cash generating units.

Any impairment is recognised immediately through the income statement and is not subsequently reversed.

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

#### **b) Computer software**

Acquired software licences are capitalised as intangible assets and amortised over their useful lives (3-7 years) on a straight line basis.

Costs that are directly associated with the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 'Intangible Assets', are recognised as internally-generated intangible assets. Direct costs include the employment costs of internal software developers.

Computer software development costs recognised as assets are amortised over their estimated useful lives (5-7 years) on a straight line basis. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

All other software development and maintenance costs are recognised as an expense as incurred.

# Progressive Financial Services Limited

## Accounting policies (continued)

### 6 Intangible assets (continued)

#### c) Brand name and trademarks licence

Expenditure incurred in acquiring a licence to enable the company to exclusively use the Dial4aloan brand name and trademarks is capitalised and amortised over the licence period (10 years) on a straight line basis.

### 7 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost represents expenditure that is directly attributable to the purchase of the asset. Certain land and buildings are held at previous revalued amounts less subsequent accumulated depreciation as these amounts have been taken as their deemed cost as at the date of transition to IFRS in accordance with the exemption under IFRS 1.

*Land and buildings are not subject to regular revaluations.*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the company and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate the costs to their residual values over their estimated useful lives, as follows:

Freehold buildings	2% pa
Leasehold buildings	2% to 20% pa
Fixtures and office equipment	10% to 20% pa
Computer hardware	20% to 33⅓% pa
Motor vehicles	20% pa
Assets held for rental	20% pa

Assets held for rental comprised audio-visual electrical appliances, such as televisions, DVD and VCR players, which were hired by customers under a rental agreement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.



# **Progressive Financial Services Limited**

## **Accounting policies (continued)**

### **8 Investment in subsidiary undertaking**

The investment in a subsidiary undertaking is 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 income statement.

### **9 Inventories**

Inventories comprise motor vehicles held for resale and are stated at the lower of actual cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less variable selling expenses.

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

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### **11 Provisions**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably measured.

### **12 Employee benefits**

#### **a) 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 company.

#### **b) Pension obligations**

The company is a member of a group, which operates both a defined benefit and a number of defined contribution pension plans. The company provides no other post-retirement benefits to its employees or directors.

There is no contractual agreement or stated policy in place for charging the net expense of the defined benefit plan as a whole to the participating group companies. Consequently, the net defined benefit expense and the retirement benefit obligation are recognised in full by the plan's sponsoring employer, Cattles plc, the company's parent. The company, and other participating members, recognise a pension expense equal to their contributions payable for the period.

For defined contribution plans, the company pays contributions into privately administered pension plans on a contractual basis. The contributions are recognised as an employee benefit expense as they fall due.

# Progressive Financial Services Limited

## Accounting policies (continued)

### 12 Employee benefits (continued)

#### c) 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 company recognises termination benefits when it is demonstrably committed to either the termination of employment or a voluntary redundancy offer.

#### d) Share-based payments

The company is a member of a group which operates a number of equity-settled share-based payment plans. In respect of share awards granted after 7 November 2002 (and not vested by 1 January 2005), an expense is recognised in respect of the fair value of employee services received in exchange for the grant of shares or share options. A corresponding amount is recorded as an increase in equity within retained earnings. The expense is spread over any relevant vesting period and is calculated by reference to the fair value of the shares or share options granted, excluding the effect of any non-market vesting conditions.

In arriving at fair values, the Black-Scholes pricing model is used and various assumptions are made, for example, on expected forfeiture rates, dividend yields, share price volatility and risk free rates. The estimate for the number of options that are expected to become exercisable is revised at each balance sheet date. Any impact from the revision of original estimates is recognised in the income statement over the remaining vesting period.

### 13 Leasing – as lessee

Leases of property, plant and equipment and computer software where the company has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases or hire purchase contracts are capitalised on inception of the agreement at an amount equal to their fair value or, if lower, the present value of the minimum lease payments. The interest element of the lease cost is charged to the income statement, within administrative expenses, over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment and computer software acquired under finance leases or hire purchase contracts is depreciated/amortised over the shorter of the period of the agreement and the estimated useful lives of the assets.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement, within administrative expenses, on a straight line basis over the period of the lease.

# **Progressive Financial Services Limited**

## **Accounting policies (continued)**

### **14 Borrowings**

Borrowings include intra-group borrowings, external borrowings, overdrafts, and obligations under finance leases and hire purchase contracts.

Intra-group and external borrowings are recognised initially at fair value. These borrowings are subsequently stated at amortised cost using the effective interest method.

### **15 Preference shares**

The company's preference shares are recognised as financial liabilities. The dividends attached to these shares are non-discretionary and cumulative, and, therefore, give rise to a contractual obligation on the company.

Preference shares are initially recognised at fair value, the value of the consideration received, less directly attributable transaction costs. After initial recognition, preference shares are measured at amortised cost using the effective interest method. The effective interest method takes into account the estimated future dividend payments over the expected life of the shares.

### **16 Current tax**

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

### **17 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.

Deferred tax is determined using tax rates and laws that have been 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 to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### **18 Ordinary shares**

Ordinary shares are classified as equity.

Shares are recorded at their nominal value. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

# **Progressive Financial Services Limited**

## **Accounting policies (continued)**

### **19 Dividend distribution**

#### **a) Ordinary shares**

Ordinary dividends payable to the company's shareholders are recognised as a distribution in the period in which the dividends are paid.

#### **b) Preference shares**

Preference dividends are recognised as a finance cost in the period in which the dividend liability falls due.

### **20 Key sources of estimation uncertainty**

#### **a) Loan loss provisioning**

The company 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 effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. To the extent that the net present value of estimated future cash flows differs by +/- 1%, the loan loss provision in the balance sheet would be an estimated £15.6 million lower or £15.6 million higher.

#### **b) Goodwill impairment reviews**

Determining whether the company's goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the company to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £11.8 million. Details of the value in use calculation are provided in note 8 on page 25.

# Progressive Financial Services Limited

## Accounting policies (continued)

### 21 Financial risk management

#### a) Strategy in using financial instruments

The company issues loans to its customers, which are financed through borrowings from its parent. The parent company is responsible for managing the interest rate and liquidity risk associated with these borrowings.

The company does not use financial instruments.

#### b) Credit risk and concentration

The company takes on exposure to credit risk in respect of loans and receivables, which is the risk that a customer will be unable to pay amounts in full when due. Loan loss provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

At the time a loan is approved, direct repayment customers are all in employment, have bank accounts and are able to repay their borrowings via a direct debit payment. A significant investment in customer screening processes has been made in recent years, including the transfer of almost all customer selection and underwriting activities from branches to central processing units. All applications for direct repayment credit are initially screened centrally using a score card, which has been developed over many years in conjunction with a leading credit referencing agency and ensures consistency of underwriting decisions. Applications which successfully pass this screening are then subject to a rigorous pre-lending process, including the verification of information provided by potential customers and an assessment of other financial commitments which the applicant may have, in order to confirm that the loan is both appropriate and affordable. Exposure to credit risk is managed in part with collateral obtained on certain products.

Should a customer experience a longer-term adverse change in their financial position, account management is transferred from the local branch to a specialist local collection unit ('LCU'). The LCU then establishes a revised repayment schedule more suited to the customer's changed circumstances.

Home collect customers continue to be served with small value, short-term advances (typically £300). Credit risk is managed through regular analysis of the ability of borrowers to meet repayments and credit limits are amended accordingly.

The risks from a concentration of credit risk are limited due to the relatively low value of each customer's debt and to the company's large and unrelated customer base.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005

### 1 Revenue

	2005 £'000	2004 £'000
Interest income	497,702	476,478
Insurance and brokerage income	66,251	29,658
Sale of goods	51,388	66,687
Other income	21,553	25,481
Dividends received	-	846
	<b>636,894</b>	<b>599,150</b>

Interest income includes amounts totalling £33.3 million (2004: £18.7 million) which the company must continue to accrue in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' in respect of impaired loans. This additional income, which cannot be collected from the customer due to the interest being fixed at the outset or interest having been suspended on the customer's account, referred to as the 'gross-up adjustment' to income, is fully provided against as part of the loan loss provisioning charge (refer to note 3).

### 2 Finance costs

	2005 £'000	2004 £'000
Interest expense	100,312	85,051
Preference shares	4,876	(2,006)
	<b>105,188</b>	<b>83,045</b>

The finance cost/(credit) in relation to preference shares comprised:

	2005 £'000	2004 £'000
"A" preference shares		
- dividend	5	5
"B" preference shares		
- reassessment of amortised cost	-	(24,750)
- dividend	13	25,310
Irredeemable preference shares		
- reassessment of amortised cost	(2,493)	(9,469)
- dividend	7,351	6,898
	<b>4,876</b>	<b>(2,006)</b>

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 3 Other cost of sales

	2005 £'000	2004 £'000
Loan loss provisioning charge	209,095	169,445
Cost of vehicles sold	34,039	46,301
Cost of retail goods sold	5,307	8,458
Agents' remuneration	14,964	18,858
Valuation and credit referencing fees	6,367	6,212
Other	7,163	13,361
	<b>276,935</b>	<b>262,635</b>

The loan loss provisioning charge for the year ended 31 December 2005 includes the 'gross-up adjustment' of £33.3 million (2004: £18.7 million).

### 4 Auditors' remuneration

The remuneration charged by the auditors for audit services for the year ended 31 December 2005 was £0.3 million (2004: £0.3 million). In addition, the auditors did not provide any non-audit services to the company during either year.

### 5 Taxation

	2005 £'000	2004 £'000
<b>Analysis of charge in the year</b>		
Current tax:		
UK corporation tax at 30% (2004: 30%)	(7,332)	30,574
Adjustments in respect of previous years	(1,135)	(562)
	<b>(8,467)</b>	<b>30,012</b>
Deferred tax: (note 14)		
Origination and reversal of timing differences	31,463	(11,530)
Adjustments in respect of previous years	1,274	586
	<b>32,737</b>	<b>(10,944)</b>
<b>Total tax charge in the income statement</b>	<b>24,270</b>	<b>19,068</b>

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 5 Taxation (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2004: 30%).  
The tax charge for the year is more (2004: less) than the tax on profit on ordinary activities at the standard rate for the reasons set out in the following reconciliation:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	74,841	68,464
Tax on profit on ordinary activities at the standard rate	22,452	20,539
Factors affecting charge for the year:		
Expenses/(income) not deductible for tax purposes	216	(639)
Adjustments to tax charge in respect of previous years	139	24
Non-taxable preference shares finance cost/(credit)	1,463	(602)
Non-taxable dividend income	-	(254)
Total tax charge for the year	24,270	19,068

### 6 Ordinary dividends

	2005 £'000	2004 £'000
Amounts recognised as distributed to equity holders in the year:		
Final dividend for the year ended 31 December 2004 of 26.9p (2003: 24.9p) per share	27,000	25,000



# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 7 Employee benefits and directors' emoluments

	2005 £'000	2004 £'000
Wages and salaries	85,096	90,256
Social security costs	8,463	8,249
Pension costs - defined benefit pension scheme (note 24)	2,468	2,518
Pension costs - defined contribution pension schemes (note 24)	857	709
Share-based payments (note 20)	1,466	805
Other benefits	12,861	12,470
Total employee benefits	111,211	115,007

Total employee benefits include a charge of £1.1 million (2004: £2.1 million) in relation to termination benefits for the year ended 31 December 2005.

Employee benefits are charged to the income statement through administrative expenses, except those in relation to Home Collect agents, which are charged through other cost of sales.

The average monthly number of persons employed by the company during the year was as follows:	2005 Number	2004 Number
Branch office staff, agents and other operations staff	3,845	3,903
Central support services	412	422
	4,257	4,325

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 7 Employee benefits and directors' emoluments (continued)

#### Directors' emoluments

The directors during the year ended 31 December 2005 received no emoluments in respect of their services for this company.

	2005 £'000	2004 £'000
Aggregate emoluments	-	627
Contributions to defined contribution pension schemes	-	37

The number of directors to whom retirement benefits are accruing under pension schemes is:

	2005 Number	2004 Number
Under defined benefit schemes	1	1
Under defined contribution schemes	3	3

The emoluments of the highest paid director were:

	2005 £'000	2004 £'000
Aggregate emoluments	-	127
Contributions to defined contribution pension scheme	-	10

## Progressive Financial Services Limited

### Notes to the financial statements for the year ended 31 December 2005 (continued)

#### 8 Goodwill

	£'000
<b>Cost</b>	
At 1 January 2004 and 2005	14,737
<b>At 31 December 2005</b>	<b>14,737</b>
<b>Aggregate amortisation and impairment</b>	
At 1 January 2004 and 2005	(2,948)
<b>At 1 January and 31 December 2005</b>	<b>(2,948)</b>
<b>Net book amount</b>	
<b>At 31 December 2005</b>	<b>11,789</b>
At 1 January 2004 and 2005	11,789

The recoverable amount of goodwill is determined from value in use calculations for the Consumer Credit cash-generating unit, of which the company represents a substantial part. The impairment review performed as at 31 December 2005 demonstrates significant headroom.

The key assumptions for the value in use calculations are those regarding discount rates, growth rates, and expected changes to loan loss provisioning rates and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Consumer Credit division. Changes in loan loss provisioning rates and direct costs are based on historic experience and expectations of short-term future changes in the market. The company prepares a cash flow forecast for the Consumer Credit division derived from the approved budgets for the following year and extrapolates these in line with historic long-term UK GDP growth. The cash flows are discounted using a pre-tax discount rate of 8.3%.

No goodwill arose on the company's acquisition of the trade and assets of Dial4aloan Limited, a fellow subsidiary undertaking, on 29 June 2005 (refer to note 22).

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 9 Other intangible assets

Other intangible assets comprise computer software and a brand name licence.

	2005 £'000	2004 £'000
Computer software	22,135	9,868
Brand name and trademarks licence	11,058	-
	33,193	9,868

Computer software	Acquired licences £'000	Internally generated software £'000	Total £'000
<b>Cost</b>			
At 1 January 2004	13,324	424	13,748
Additions	8,059	409	8,468
Disposals	(1,315)	-	(1,315)
At 1 January 2005	20,068	833	20,901
Additions	13,535	1,204	14,739
Arising on acquisition of business	48	-	48
<b>At 31 December 2005</b>	<b>33,651</b>	<b>2,037</b>	<b>35,688</b>
<b>Aggregate amortisation</b>			
At 1 January 2004	9,890	-	9,890
Charge for the year	2,319	-	2,319
Disposals	(1,176)	-	(1,176)
At 1 January 2005	11,033	-	11,033
Charge for the year	2,499	-	2,499
Arising on acquisition of business	34	-	34
Adjustment	(13)	-	(13)
<b>At 31 December 2005</b>	<b>13,553</b>	<b>-</b>	<b>13,553</b>
<b>Net book amount</b>			
<b>At 31 December 2005</b>	<b>20,098</b>	<b>2,037</b>	<b>22,135</b>
At 31 December 2004	9,035	833	9,868
At 1 January 2004	3,434	424	3,858

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 9 Other intangible assets (continued)

Brand name and trademarks licence	£'000
<b>Cost</b>	
At 1 January 2004 and 2005	-
Addition	11,640
<b>At 31 December 2005</b>	<b>11,640</b>
<b>Aggregate amortisation</b>	
At 1 January 2004 and 2005	-
Charge for the year	582
<b>At 31 December 2005</b>	<b>582</b>
<b>Net book amount</b>	
<b>At 31 December 2005</b>	<b>11,058</b>
At 1 January 2005 and 2005	-

All amortisation charges for the year have been charged to the income statement through administrative expenses.

The internally generated computer software relates to the cost of internal software developers working on Project Phoenix, the development of the company's next generation of IT and customer relationship management systems, which will be implemented on a phased basis during 2006. The cost of acquired software assets also includes £12.2 million (2004: £5.3 million) in relation to external Project Phoenix software expenditure.

The net book amount of computer software includes amounts of £2.5 million (2004: £nil) in respect of assets held under finance leases and hire purchase contracts.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 10 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Fixtures, equipment & computer hardware £'000	Motor vehicles £'000	Rented assets £'000	Total £'000
<b>Cost</b>						
At 1 January 2004	5,559	6,869	28,458	6,307	4,546	51,739
Additions	-	1,657	3,469	1,616	126	6,868
Intra-group transfers	-	-	-	(59)	-	(59)
Disposals	(228)	(645)	(938)	(4,232)	(2,036)	(8,079)
At 1 January 2005	5,331	7,881	30,989	3,632	2,636	50,469
Additions	-	1,530	3,348	190	6	5,074
Arising on acquisition of business	-	-	1,161	31	-	1,192
Disposals	(1,172)	(85)	(1,778)	(1,939)	(2,642)	(7,616)
<b>At 31 December 2005</b>	<b>4,159</b>	<b>9,326</b>	<b>33,720</b>	<b>1,914</b>	<b>-</b>	<b>49,119</b>
<b>Aggregate depreciation</b>						
At 1 January 2004	262	3,818	20,349	3,067	2,253	29,749
Charge for the year	17	1,000	3,467	1,154	602	6,240
Intra-group transfers	-	-	-	(3)	-	(3)
Disposals	(17)	(253)	(751)	(3,315)	(1,199)	(5,535)
At 1 January 2005	262	4,565	23,065	903	1,656	30,451
Charge for the year	58	1,167	3,805	773	197	6,000
Arising on acquisition of business	-	-	669	10	-	679
Disposals	(87)	(66)	(1,422)	(1,409)	(1,853)	(4,837)
<b>At 31 December 2005</b>	<b>233</b>	<b>5,666</b>	<b>26,117</b>	<b>277</b>	<b>-</b>	<b>32,293</b>
<b>Net book amount</b>						
<b>At 31 December 2005</b>	<b>3,926</b>	<b>3,660</b>	<b>7,603</b>	<b>1,637</b>	<b>-</b>	<b>16,826</b>
At 31 December 2004	5,069	3,316	7,924	2,729	980	20,018
At 1 January 2004	5,297	3,051	8,109	3,240	2,293	21,990

Depreciation and profit/loss on disposal have been charged to the income statement through administrative expenses, except for the amounts relating to assets held for rental, which have been charged through cost of sales.

The net book amounts of fixtures, equipment and computer hardware, and motor vehicles include amounts of £2.7 million (2004: £3.0 million) and £1.1 million (2004: £2.4 million) respectively in respect of assets held under finance leases and hire purchase contracts. Included within the depreciation charge shown above was £2.4 million (2004: £2.0 million) in respect of assets held under finance leases and hire purchase contracts.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 11 Investment in subsidiary undertaking

Cost	£'000
At 1 January 2004 and 1 January 2005	1,457
At 31 December 2005	1,457
<b>Provision for diminution in value</b>	
At 1 January 2004 and 1 January 2005	1,453
At 31 December 2005	1,453
<b>Net book amount</b>	
At 1 January 2004 and 1 January 2005	4
At 31 December 2005	4

At 31 December 2005, the company held an investment in Macadam Finance Limited, a dormant company, which is wholly owned and registered in England and Wales.

### 12 Loans and receivables

	2005 £'000	2004 £'000
Customer loans and receivables	1,565,653	1,379,299
Intra-group receivables	3,443	106,513
	<b>1,569,096</b>	<b>1,485,812</b>
Comprising:		
Non-current assets	960,438	798,977
Current assets	608,658	686,835
	<b>1,569,096</b>	<b>1,485,812</b>

Intra-group loans and receivables are repayable on demand.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 12 Loans and receivables (continued)

Customer loans and receivables are as follows:

	2005 £'000	2004 £'000
Gross loans and receivables	1,862,095	1,627,382
Less: Allowance for loan loss provision	(296,442)	(248,083)
	1,565,653	1,379,299
Loans and receivables, analysed by product, are as follows:		
Hire purchase contracts	389,718	352,564
Other instalment credit agreements	1,175,935	1,026,735
	1,565,653	1,379,299

#### Significant terms and conditions

The significant terms of the company's loans and receivables may be summarised as follows:

The company has approximately 358,000 (2004: 337,000) direct repayment customers. Average advances are typically £1,500 (2004: £1,400) for small unsecured personal loans, £4,800 (2004: £4,800) for HP loans for the purchase of cars, £7,700 (2004: £6,700) for standard secured loans and £12,300 (2004: £12,200) for superior secured loans. Interest charged on hire purchase loans is fixed at the outset whereas interest on unsecured and secured loans is added monthly.

The company continues to disengage from those sectors of the home collected market regarded as being uneconomic. Consequently the number of home collected customers has reduced to 308,000 (2004: 337,000). The company continues to offer a home collected product to customers who require small value, short-term advances (typically £300). Interest on these loans is fixed at the outset.

Details of the weighted average effective interest rate for the company's customer loans and receivables are in note 17.



# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 12 Loans and receivables (continued)

#### Maturity profile of customer loans and receivables

The contractual maturity of the company's customer loans and receivables is set out in the table below:

	Net investment in hire purchase receivables	Other loans and receivables	2005 Total	Net investment in hire purchase receivables	Other loans and receivables	2004 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Within one year	160,277	444,938	605,215	150,859	429,463	580,322
One to two years	105,298	198,104	303,402	97,430	182,118	279,548
Two to three years	73,449	121,132	194,581	67,543	100,528	168,071
Three to four years	31,048	75,966	107,014	29,936	62,724	92,660
Four to five years	7,141	60,624	67,765	3,367	48,499	51,866
Over five years	12,505	275,171	287,676	3,429	203,403	206,832
	389,718	1,175,935	1,565,653	352,564	1,026,735	1,379,299

The company provide hire purchase facilities for customers to purchase motor vehicles from Welcome Car Finance and third party dealers.

The company's gross investment in hire purchase contracts is set out in the table below:

	2005 £'000	2004 £'000
Gross investment:		
Within one year	255,584	253,305
One to five years	345,935	332,925
Over five years	19,942	5,755
	621,461	591,985
Unearned future finance income	(147,954)	(152,768)
Present value of future lease payments	473,507	439,217
Allowance for bad debt provision	(83,789)	(86,653)
	389,718	352,564

Under the terms of the finance lease agreements and the hire purchase contracts, no un-guaranteed residual values are accruing to the company and no contingent rents are payable.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 13 Trade and other receivables

	2005 £'000	2004 £'000
Trade receivables	1,338	1,367
Other receivables	16,579	9,112
Prepayments and accrued income	6,272	3,928
	<b>24,189</b>	<b>14,407</b>

Of the total trade and other receivables above, £0.1 million (2004: £nil) represents a non-current prepayment.

### 14 Deferred tax assets

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2004: 30%).

Deferred tax assets have been recognised in respect of temporary differences where it is probable that these assets will be recovered.

Any deferred tax liability is available for offset against deferred tax assets, such that the deferred tax asset at each balance sheet date is shown net.

The movements in deferred tax assets during the year are shown below:

	At 1 January 2005 £'000	Arising on acquisition of business £'000	Recognised in income £'000	At 31 December 2005 £'000
Accelerated capital allowances	868	27	(1,141)	(246)
Other timing differences	44,274	-	(31,596)	12,678
	<b>45,142</b>	<b>27</b>	<b>(32,737)</b>	<b>12,432</b>

Other timing differences principally relate to the timing differences arising from changes in accounting policies in relation to loans and receivables as a result of the transition to IFRS.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 15 Borrowings

	2005 £'000	2004 £'000
<b>Current</b>		
Unsecured overdrafts	1,806	5,216
Unsecured external borrowings	686	644
Obligations under finance leases and hire purchase contracts	2,125	2,930
Unsecured intra-group borrowings	1,456,203	1,376,305
	<b>1,460,820</b>	<b>1,385,095</b>
<b>Non-current</b>		
Unsecured external borrowings	3,928	4,614
Obligations under finance leases and hire purchase contracts	3,533	1,917
	<b>7,461</b>	<b>6,531</b>
<b>Total borrowings</b>	<b>1,468,281</b>	<b>1,391,626</b>

Unsecured external borrowings relate to a fixed rate 6.39% loan, which is repayable in quarterly instalments by September 2011.

Unsecured intra-group borrowings are subject to an interest charge based on the average cost of borrowing borne by the company's parent, Cattles plc, plus an appropriate margin.

#### Maturity profile of borrowings

The contractual maturity of external borrowings and bank overdrafts, and obligations under finance lease and hire purchase contracts held by the company is set out in the table below:

	External borrowings and bank overdrafts £'000	Obligations under finance lease and hire purchase contracts £'000	2005 Total £'000	External borrowings and bank overdrafts £'000	Obligations under finance lease and hire purchase contracts £'000	2004 Total £'000
Within one year	2,492	2,125	4,617	5,860	2,930	8,790
One to two years	732	2,097	2,829	695	1,438	2,133
Two to three years	779	523	1,302	738	398	1,136
Three to four years	830	465	1,295	784	81	865
Four to five years	885	352	1,237	833	-	833
Over five years	702	96	798	1,564	-	1,564
	<b>6,420</b>	<b>5,658</b>	<b>12,078</b>	<b>10,474</b>	<b>4,847</b>	<b>15,321</b>

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 15 Borrowings (continued)

The company's gross obligations under finance lease and hire purchase contracts are as follows:

	2005 £'000	2004 £'000
Gross lease payments:		
Not later than one year	2,301	3,172
Later than one year but not more than five	3,700	2,029
Later than five years	96	-
	6,097	5,201
Future finance charges	(439)	(354)
Present value of minimum lease payments	5,658	4,847

The above figures relate to motor vehicles acquired under hire purchase contracts, and computer hardware and software acquired under finance lease and hire purchase contracts.

### 16 Trade and other payables

	2005 £'000	2004 £'000
<b>Current</b>		
Trade payables	22,862	19,969
Other taxes and social security	3,834	3,870
Other payables	1,136	159
Accruals	12,144	13,768
	39,976	37,766

### 17 Financial instruments

Details of management's policies for controlling the risks associated with undue concentrations of credit risk are given in the section on Financial Risk Management on page 19.

The company holds no derivatives and has identified no embedded derivatives, which require separate accounting for in accordance with IAS 39 'Financial Instruments: Recognition & Measurement'.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 17 Financial instruments (continued)

#### Fair values of non-derivative financial instruments

The following table summarises the carrying values and fair values of those financial assets and liabilities not recognised in the balance sheet of the company at fair value:

	2005		2004	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Customer loans and receivables	1,565,653	1,565,653	1,379,299	1,379,299
Intra-group receivables	3,443	3,443	106,513	106,513
External borrowings	4,614	4,633	5,258	5,284
Intra-group borrowings	1,456,203	1,456,203	1,376,305	1,376,305
Preference shares	41,231	41,231	43,724	43,724
Obligations under finance lease and hire purchase contracts	5,658	5,658	4,847	4,847

The fair value of loans and receivables is shown as their carrying value. The carrying value of loans and receivables and, hence, the fair value represents the discounted amount of estimated future cash flows expected to be received. The discount rate used is the original EIR, which is consistent with the rates on new loans being written.

The fair values of intra-group receivables and borrowings equate to their carrying values as the interest rates being earned and charged on these items are based upon prevailing market rates.

The fair value of external borrowings are calculated by discounting expected future cash flows at appropriate market interest rates prevailing at each balance sheet date.

The fair value of preference shares equates to their carrying value as preference shares are held at amortised cost, which represents the discounted amount of estimated future dividends expected to be paid.

The fair value of obligations under finance leases and hire purchase contracts equates to their carrying value as the interest rates being paid on these obligations are substantially the same as those prevailing in the current open market.

The carrying values of trade and other receivables, cash and cash equivalents, bank overdrafts and trade and other payables approximate to fair value due to their relatively short maturity and are not shown in the above table.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 17 Financial instruments (continued)

#### Effective interest rates

	Weighted average effective interest rates at year end	
	2005	2004
	%	%
Customer loans and receivables *	47.9	58.5
External borrowings *	6.4	6.4
Intra-group borrowings	7.0	7.5
Preference shares	9.2	9.0
Obligations under finance leases and hire purchase contracts *	6.4	6.2

\* These assets and liabilities bear interest at fixed rates

The weighted average effective interest rate on the company's cash and bank overdrafts are based on the prevailing UK base rate less 0.5% and plus 1% respectively.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 18 Provisions

	Restructuring £'000	Other £'000	Total £'000
At 1 January 2005	3,359	575	3,934
Amounts utilised during in year	(3,359)	(189)	(3,548)
At 31 December 2005	-	386	386

The restructuring provision related to restructuring activities within the Home Collect business.

### 19 Share capital

#### a) Ordinary share capital

	Authorised			
	2005		2004	
	No.	£'000	No.	£'000
Ordinary shares of £1 each	100,000,000	100,000	100,000,000	100,000
Ordinary shares of 1p each	1,004,500	10	1,004,500	10
	101,004,500	100,010	101,004,500	100,010

	Allotted, called up and fully paid			
	2005		2004	
	No.	£'000	No.	£'000
Ordinary shares of £1 each	100,000,000	100,000	100,000,000	100,000
Ordinary shares of 1p each	499,500	5	499,500	5
	100,499,500	100,005	100,499,500	100,005

The rights attached to the ordinary shares are as follows:

#### Voting

On a show of hands every ordinary shareholder who is present in person or by proxy at a general meeting of the company shall have one vote and on a poll every ordinary shareholder who is present in person or by proxy shall have one vote for every share held.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 19 Share capital (continued)

#### Dividends

Subject to the preferential rights attaching to the "A", "B" and irredeemable preference shares, ordinary shareholders shall be entitled to receive such dividend as the company by ordinary resolution may from time to time declare as a final dividend (such dividend not to exceed the amount recommended by the Board) or as the Board may from time to time declare as an interim dividend.

#### Return of capital on a winding-up

Subject to the preferential rights attaching to the "A", "B" and irredeemable preference shares, ordinary shareholders are entitled to participate in any surplus assets on the winding-up of the company in proportion to their shareholdings.

#### b) Preference share capital

Number of shares	Authorised		Allotted, called up and fully paid	
	2005	2004	2005	2004
	No.	No.	No.	No.
"A" preference shares of 1p each	10,000,000	10,000,000	10,000,000	10,000,000
"B" preference shares of 1p each	25,000,000	25,000,000	25,000,000	25,000,000
Irredeemable preference shares of 1p each	150,000,000	150,000,000	78,477,202	78,477,202
	185,000,000	185,000,000	113,477,202	113,477,202

Called-up preference shares	Allotted, called up and fully paid			
	2005		2004	
	Carrying value	Nominal value	Carrying value	Nominal value
	£'000	£'000	£'000	£'000
"A" preference shares of 1p each	100	100	100	100
"B" preference shares of 1p each	250	250	250	250
Irredeemable preference shares of 1p each	40,881	785	43,374	785
	41,231	1,135	43,724	1,135



# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **19 Share capital (continued)**

#### **Rights attached to the preference shares**

The "A" and "B" preference shares have the following rights:

- i) to receive first out of profits a cumulative dividend at the rate of 6 month Sterling LIBOR per annum on the amount paid up as to nominal value on each "A" or "B", as applicable, preference share;
- ii) in a winding up, to receive repayment of capital as to nominal value and any unpaid and accrued dividends in preference to all other classes of share; and
- iii) no right to attend and vote at general meetings of the company, except where a resolution is to be proposed:
  - a) abrogating, varying or modifying any of the rights of the holders of the "A" or "B", as applicable, preference shares; or
  - b) in respect of a winding up of the company; or
  - c) if any "A" or "B", as applicable, preference dividend has been declared but not paid.

The irredeemable preference shares have the following rights:

- i) to receive second out of profits a cumulative preferential dividend equal to 12 month Sterling LIBOR plus 4.68% multiplied by £1.00, paid annually in arrears;
- ii) in a winding up, to receive repayment of capital as to nominal value, any unpaid dividends and a further £0.99 per irredeemable preference share in preference to all classes of share other than the "A" and "B" preference shares; and
- iii) no right to attend and vote at general meetings of the company.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 20 Share-based payments

#### Equity-settled share option schemes

The parent company, Cattles plc, has a number of option schemes, the Cattles Executive Share Option Scheme (1994), the Cattles Executive Share Option Scheme (1996) and the Cattles Employee Sharesave Scheme. Certain employees of the company have outstanding options under these schemes as at 31 December 2005 as follows:

Period granted	Exercise price (pence)	Exercise period	2005 Number of share options	2004 Number of share options
Executive Share Option Schemes				
1998	241.35	2001 – 2008	2,000	2,000
1999	326.40 – 363.95	2002 – 2009	154,000	172,000
2000	220.10 – 245.70	2003 – 2010	4,000	22,000
2001	221.60 – 283.20	2004 – 2011	19,700	27,200
2002	324.50 – 331.90	2005 – 2012	26,000	26,000
			205,700	249,200
Employee Sharesave Scheme				
1999	259.20	2004 – 2005	-	34,693
2001	200.90	2006 – 2007	633,633	757,085
2003	285.60	2008 – 2009	359,186	485,899
2005	243.20	2010 – 2011	710,543	-
			1,909,062	1,526,877

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 20 Share-based payments (continued)

The outstanding share options may be analysed by range of exercise prices as follows:

Range of exercise prices (pence)	2005			2004		
	Weighted average exercise price (pence)	Number of share options	Weighted average remaining life (years)	Weighted average exercise price (pence)	Number of share options	Weighted average remaining life (years)
200.00 – 249.00	223.27	1,353,876	3.54	201.83	792,285	2.56
250.00 – 299.00	285.44	375,186	3.50	283.78	536,592	4.21
300.00 – 363.95	356.81	180,000	3.75	357.33	198,000	4.70
Total	248.08	1,909,062	3.55	250.79	1,526,877	3.42

A reconciliation of option movements during the year is shown below:

	2005		2004	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of year	1,526,877	250.79	2,266,805	251.01
Granted during year	717,823	243.20	-	-
Exercised during year	(114,016)	227.11	(472,910)	256.22
Expired during year	(221,622)	261.74	(267,018)	243.05
Outstanding at 31 December	1,909,062	248.08	1,526,877	250.79
Exercisable at 31 December	205,700	344.77	257,893	324.02

On 25 October 2005 717,823 options were granted with an estimated fair value of £0.2 million. The weighted average share price during the period for options exercised over the year was 320p (2004: 338p).

# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **20 Share-based payments (continued)**

#### **Shares issued under senior executive performance related plans and staff share incentive plan**

The parent company also has a number of share award plans for senior executives, including certain employees of the company, namely the Restricted Share Scheme and Long-Term Incentive Plan. Details of each plan are set out in the financial statements of Cattles plc.

During the year 45,384 shares (2004: 34,763 shares) with an estimated fair value of £0.1 million (2004: £0.1 million) were awarded to directors and senior executives under the Long-Term Incentive Plan (2004: Restricted Share Scheme).

The parent company also operates a Share Incentive Plan ('SIP'), which is open to all eligible UK employees of the company, and is an HMRC approved all-employee scheme. During the year 562,736 shares (2004: 458,113 shares) with an estimated fair value of £1.2 million (2004: £1.2 million) were awarded to the company's employees under the SIP.

#### **Fair value of share-based payments**

The fair values of all share-based payments arising from share awards granted post 7 November 2002 have been estimated using the Black-Scholes option pricing model; the assumptions used in the calculations are set out in the financial statements of Cattles plc.

The company recognised a total charge of £1.5 million (2004: £0.8 million) related to equity-settled share-based payment transactions during the year.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 21 Distributable reserves

As a result of the transition to IFRS, the company had negative retained earnings and no distributable reserves. To rectify this position, the company obtained court approval on 14 November 2005 for a capital reduction whereby its share premium account (which still existed from a legal perspective following the transition to IFRS) was cancelled and a special reserve established which could be used to offset the negative retained earnings.

Following the capital reduction, any realised profits made by the company from 14 November 2005 are available for distribution.

### 22 Acquisition

The company acquired the trade and net assets of Dial4aloan Limited, a fellow subsidiary undertaking of the Cattles group, on 29 June 2005 for consideration of £0.6 million. The assets and liabilities were acquired at their fair value, which equated to their net book value, at the amounts shown below:

	£'000	£'000
Consideration, settled via intra-group balance		596
Fair value of net assets acquired:		
Other intangible assets	14	
Property, plant and equipment	513	
Deferred tax asset	27	
Current tax receivable	1,204	
Trade and other receivables	315	
Borrowings, including net intra-group payables	(333)	
Trade and other payables	(1,119)	
Share-based payment equity reserve	(25)	
Less: Net assets		(596)
Goodwill		-

The post-acquisition result contributed by the Dial4aloan business to the company's total profit for the year ended 31 December 2005 is not material and, therefore, is not disclosed. Furthermore, on the grounds of materiality, an estimation of the company's total revenue and profit for the year on the basis that the acquisition had been effected as at 1 January 2005 has not been disclosed.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 23 Reconciliation of profit before taxation to cash outflow from operations

	2005 £'000	2004 £'000
<b>Profit before taxation</b>	<b>74,841</b>	<b>68,464</b>
Adjustments for:		
Depreciation of property, plant and equipment	6,000	6,240
Profit on disposal of property, plant and equipment	(108)	(219)
Amortisation of intangible assets	3,081	2,319
Loss on disposal of intangible assets	-	139
Preference share finance cost/(credit)	(2,036)	(11,703)
Share-based payments	1,466	805
Increase in loans and receivables	(186,353)	(273,538)
(Increase)/decrease in inventories	(992)	487
Increase in trade and other receivables	(9,480)	(414)
Increase in trade and other payables	1,091	4,083
(Decrease)/increase in provisions	(3,548)	3,491
<b>Cash outflow from operations</b>	<b>(116,038)</b>	<b>(199,846)</b>

The amount of interest paid and received during the year was £101.1 million (2004: £69.0 million) and £0.9 million (2004: £0.8 million) respectively.

The amount of preference dividends paid during the year was £6.9 million (2004: £25.3 million).

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 24 Pension obligations

The company is a member of a group, which operates both a defined benefit pension scheme and defined contribution pension plans.

#### Defined benefit post-employment benefits plan

The defined benefit scheme provides benefits based on final salary for certain of the company's employees. The assets of the scheme are held in a separate trustee-administered fund. Contributions to the scheme are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The scheme was closed to new applicants from 1998.

The retirement benefit obligation is recognised in the balance sheet of the sponsoring employer, the parent company. The company's employee benefit expense for the year ended 31 December 2005 in relation to the defined benefit scheme represents the employer contributions payable of £2.5 million (2004: £2.5 million).

Further details on the valuation of the total retirement benefit obligation, including the assumptions upon which the valuation is based, are set out in the financial statements of Cattles plc.

#### Defined contribution post-employment benefit plans

The expense recognised for the year ended 31 December 2005 in relation to defined contribution plans is £0.9 million (2004: £0.7 million).

### 25 Operating lease arrangements

At the balance sheet date the company had total future lease payments under non-cancellable operating leases, which expire as follows:

	2005		2004	
	Land and buildings £'000	Motor vehicles £'000	Land and buildings £'000	Motor vehicles £'000
Future lease payments:				
Within one year	671	728	473	253
Between one and five years	10,372	5,753	10,500	8,203
After five years	5,560	-	6,027	-
	16,603	6,481	17,000	8,456
The following amounts were recognised in the income statement during the year:				
Lease payments	7,112	5,258	5,740	4,714

# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **26 Contingent liabilities**

The company, together with other companies in the Cattles group, has entered into an unsecured unlimited multilateral bank guarantee.

The company is a participating member of the Cattles group defined benefit scheme. The company has a contingent liability in the deficit on the pension scheme of £34.7 million as at 31 December 2005 (2004: £28.9 million) as the company is required, along with other participating companies, to make additional shortfall contributions based on the advice of the scheme's independent actuary.

### **27 Capital commitments**

The company had expenditure authorised and contracted but not provided for in relation to property, plant and equipment and software of £0.8 million (2004: £nil) and £8.3 million (2004: £0.7 million) respectively at 31 December 2005.

### **28 Related party transactions**

#### **Ultimate parent undertaking**

The ultimate parent undertaking and controlling party of the company is Cattles plc, registered in England and Wales.

The largest and smallest group in which the results of the company are consolidated is that headed by Cattles plc. The consolidated financial statements of this group are available to the public and may be obtained from the Registered Office, Kingston House, Centre 27 Business Park, Woodhead Road, Birstall, Batley, WF17 9TD.

#### **Related party transactions**

During the year the company entered into a number of related party transactions with fellow subsidiary undertakings and its parent company as outlined below in the narrative and table:

- The company received borrowing facilities from its parent company, for which a financing charge was levied each month. This charge was based upon the parent's average cost of borrowing.
- The company employed the services of a fellow subsidiary undertaking for certain debt collection activities for which a fee was levied. This fee was derived on an arm's length basis.
- The company also paid commission to another fellow subsidiary undertaking in exchange for the brokerage of new loans. The rate of commission paid was derived on an arm's length basis.
- The company acquired the trade and assets of a fellow subsidiary, and also entered into a licence with the subsidiary to use its brand name and trademarks.



# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 28 Related party transactions (continued)

- The company levied management charges for the provision of IT services to the parent company and a fellow subsidiary undertaking, and for the provision of compliance services to the parent company. The charges were calculated on a cost incurred basis.
- The company paid a management fee to the parent company in relation to receiving certain services, such as property management, procurement and internal audit. This management fee was calculated on a cost incurred basis.
- The company's main office was rented from a fellow subsidiary undertaking at a market-based rent.
- The company administered the payroll of the Cattles group. Payroll costs were recharged to the parent company and fellow group companies. The company did not make any charge for providing these services.
- In addition, during 2004 the company sold a portfolio of debt to a fellow subsidiary undertaking for which the consideration received was derived on an arm's length basis.

	2005 £'000	2004 £'000
Borrowing of funds	171,800	245,400
Inter-company finance charge	99,916	69,140
Debt collection charges	893	923
Brokerage commission	2,985	3,685
Acquisition of trade and assets (note 22)	596	-
Acquisition of brand name and trademarks licence (note 9)	11,640	-
Management charge – central services	1,150	1,350
Management fee – IT and compliance services	2,590	640
Sale of loan portfolios	-	1,000
Office rental	800	750

Receivables due from and payables to the parent company and fellow subsidiary undertakings are disclosed in notes 12 and 15 respectively.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 28 Related party transactions (continued)

#### Key management compensation

	2005 £'000	2004 £'000
Short-term employee benefits	1,820	1,132
Post-employment benefits	146	100
Termination benefits	224	-
Share-based payments	94	73
	2,284	1,305

The above total for key management compensation does not include any amounts in relation to those directors of the company during the year, who are also directors of Cattles plc, as these individuals are not compensated for their services to this company.

Certain key management are members of the Cattles group's Restricted Share Scheme and Long-Term Incentive Plan and 116,541 shares were notionally held in respect of them at 31 December 2005 (2004: 82,740). During the year 45,384 shares (2004: 34,763 shares) with an estimated fair value of £0.1 million (2004: £0.1 million) were awarded to key management under these schemes.

In addition, certain key management are members of group's executive share option schemes. At 31 December 2005 32,000 options previously granted to these key management were outstanding (2004: 49,500) of which 32,000 (2004: 49,500) were exercisable. During the year 17,500 options (2004: 17,000) were exercised by key management and the weighted average share price during this period was 320p (2004: 338p).

### 29 Transition to IFRS

The financial statements for the year ended 31 December 2005 are the company's first financial statements that comply with IFRS. The company reported under UK GAAP in its financial statements for the year ended 31 December 2004. In order to show the effect of the transition from UK GAAP to IFRS on the company's reporting financial position and financial performance, IFRS 1 'First-time Adoption of International Financial Reporting Standards' requires the following reconciliations to be presented and explained:

- A reconciliation of equity (i.e. net assets) at 1 January 2004 (the date of transition to IFRS) and 31 December 2004; and
- A reconciliation of profit for the year ended 31 December 2004.

These reconciliations are set out on pages 50 to 61. In addition, in order to show the effect of the transition from UK GAAP to IFRS on the company's cash flows, a reconciliation of cash flows for the year ended 31 December 2004 has also been given on page 62.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 29 Transition to IFRS (continued)

The company has applied certain of the optional exemptions from full retrospective application of IFRS and the mandatory exceptions of IFRS 1.

#### Exemptions from full retrospective application

The company has applied only the following optional exemptions:

**Business combinations** The company has not restated any business combinations that took place prior to 1 January 2004.

**Share-based payment transactions** The company has applied IFRS 2 'Share-based Payment' from 1 January 2004 to those share awards that were issued after 7 November 2002 but that have not vested by 1 January 2005.

The company has not elected to take advantage of the exemption from restating comparatives for IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' given the nature of its business, and there being no similar exemption for IAS 17 'Leases' in relation to hire purchase receivables, in order that the 2004 comparatives are meaningful.

#### Exceptions from full retrospective application

The company has applied only the following optional exceptions:

**Derecognition of financial assets and liabilities** Non-derivative financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The company did not choose to apply the IAS 39 derecognition criteria from an earlier date.

**Estimates** Estimates under IFRS at 1 January 2004 are consistent with estimates made for the same date under UK GAAP.

Notes to the financial statements for the year ended 31 December 2005 (continued)

29 Transition to IFRS (continued)

Reconciliation of Equity as 1 January 2004

Previously reported UK GAAP balances in UK GAAP format	IAS 32/39 Financial instruments Income recognition	IAS 32/39 Financial instruments Loan loss provisioning	IAS 32 Financial instruments Classification of preference shares	IFRS 3 Business combinations	IAS 10 Events after the balance sheet date	IAS 12 Income tax	Others	Total effect of the transition to IFRS
<b>Fixed assets</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>
Intangible assets	22,785			(10,990)			3,857	(7,135)
Tangible fixed assets	25,423						(3,433)	(3,433)
Investments in subsidiary undertakings	4						585,195	585,195
						32,859	1,399	34,198
	48,212			(10,990)		32,859	586,598	608,337
<b>Current assets</b>								
Stocks	2,987							2,987
Customers' accounts receivable	1,207,042	(39,764)			(846)		(583,484)	(684,771)
Debtors	19,354						(3,050)	(3,050)
Cash at bank and in hand	10,777							10,777
	1,240,160	(39,764)			(846)		(586,534)	(690,139)
<b>Creditors - amounts falling due within one year</b>								
Bank and other borrowings	(17,668)						(1,013,239)	(1,013,239)
Corporation tax	(18,584)							
Dividends payable	(25,003)				25,000		3	25,003
Trade and other creditors and accruals	(1,051,136)	1,874					1,013,549	1,015,423
							(445)	(445)
	(1,112,391)	1,874			25,000		(130)	26,744
<b>Net current assets</b>	127,769							
<b>Total assets less current liabilities</b>	175,981							
<b>Creditors - amounts falling due after more than one year</b>								
Other borrowings	(1,716)							(35,305)
								(35,305)
<b>Net assets</b>	174,265							
<b>Capital and reserves</b>								
Share capital	100,712				24,154	32,859	294	(89,867)
Share premium account	71,196							(707)
Profit and loss account	2,257				24,154	32,859	294	(71,196)
<b>Equity shareholders' funds</b>	174,265				24,154	32,859	294	(89,867)

Restated IFRS balances in IAS 1 format	ASSETS	LIABILITIES
Non-current assets	15,652	
Intangible assets	21,990	
Property, plant and equipment	585,195	
Loans and receivables	4	
Investments in subsidiary undertakings	34,198	
Deferred tax assets	657,039	
Current assets		
Investments	2,987	
Loans and receivables	524,271	
Trade and other receivables	13,992	
Cash and cash equivalents	10,777	
	550,027	
<b>Total assets</b>	1,207,066	
Current liabilities		
Borrowings and bank overdrafts	(1,030,907)	
Current tax liabilities	(18,584)	
Trade and other payables	(35,213)	
Provisions	(443)	
	(1,085,647)	
<b>Non-current liabilities</b>		
Trade and other payables	(1,716)	
Preference shares	(35,305)	
<b>Total liabilities</b>	(1,122,668)	
<b>Net assets</b>	84,398	
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	100,005	
Retained earnings	(15,607)	
<b>Total shareholders' equity</b>	84,398	

# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **29 Transition to IFRS (continued)**

#### **Reconciliation of Equity at 1 January 2004 (continued)**

##### **IAS 32 and IAS 39 Financial instruments – Income recognition**

IFRS requires the company's customers' accounts receivable balance to be classified as 'loans and receivables' and for these balances to be held at amortised cost using the effective interest method. The effective interest method allocates the interest income arising from a loan over its expected life, or contractual life if shorter. The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the loan to its net carrying amount. When calculating the EIR, all cash flows arising from the contractual terms of the loan, such as early settlement options, have to be considered.

The EIR calculation includes all direct and incremental fees and costs. Consequently, acceptance fees and similar fees charges to customers on inception of the loan agreement, as well as commissions earned on the sale of payment protection insurance sold alongside the loan, are included as part of the EIR and effectively recognised over the expected term of the loan. In addition, transaction costs incurred on inception of the loan, which are direct and incremental, such as broker commissions and certain agent commissions, are also included in the EIR and recognised over the expected period of the loan.

The application of the effective interest method has the effect of recognising income to give a constant rate of return on the amount outstanding from the customer over the period of the loan.

The effective interest method of income recognition differs to that which had been adopted by the company under UK GAAP. Previously, interest receivable on secured and unsecured interest-bearing personal loan agreements was recognised on an accruals basis. In case of home collected credit, an initial amount of the interest receivable was credited to the income statement, mainly to cover the costs associated with setting up the transaction. The remaining amount of interest was carried forward as deferred revenue and released on a straight line basis in proportion to the reduction in the customer's balance. In the case of hire purchase agreements, which now fall under the scope of IAS 17 'Leases' but where the accounting treatment is similar to that under IAS 39, interest receivable was previously computed at the inception of the loan, added to the customer's balance and released to profit on the 'sum of the digits' basis over the life of the agreement with unearned interest carried forward as deferred revenue.

Acceptance fees and similar fees, and payment protection insurance commissions, were previously recognised on inception of the loan agreement with an appropriate provision made for the rebate of such fees should a customer settle their loan early.

Under UK GAAP, a proportion of loan origination costs were spread over the life of the loan. However, certain of these costs are not considered to be direct and incremental to individual loans as they relate to marketing and advertising costs.

The total impact as at 1 January 2004 (before any loan loss provisioning adjustment) of loans and receivables being valued at amortised cost was a decrease in loans and receivables by £61.5 million, a decrease in trade and other receivables by £1.5 million, a decrease in trade and other payables by £1.9 million and a decrease in retained earnings by £61.1 million.

# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **29 Transition to IFRS (continued)**

#### **Reconciliation of Equity at 1 January 2004 (continued)**

##### **IAS 32 and IAS 39 Financial instruments – Loan loss provisioning**

IFRS requires the company to assess at each balance sheet date whether there is any objective evidence that a loan or a group of loans is impaired. If any such impairment exists, the amount of the loan loss provision is measured as the difference between the loan's carrying amount on the balance sheet and the present value of estimated future cash flows (excluding future credit losses not yet incurred) discounted at the loan's original EIR.

This methodology differs to that previously adopted under UK GAAP where the provision for doubtful debts was based on the number of months since a full payment, or equivalent, had been received from a direct repayment customer and, in the case of a home collected customer's loan, was based on the level of payments received during the latest 13 week period of the loan. There was no discounting under UK GAAP.

The different provisioning methodology results in a higher initial loan loss provision when a loan is impaired, consequently the impact as at 1 January 2004 was a decrease in loans and receivables by £39.8 million together with a reduction in retained earnings by the same amount.

##### **IAS 32 Financial instruments – Classification of preference shares**

IAS 32 stipulates that the substance of a financial instrument governs its classification, rather than its legal form. The company's preference shares, to which non-discretionary and cumulative dividends are attached, are, therefore, considered to be financial liabilities rather than equity and have been reclassified accordingly on transition to IFRS.

The reclassified preference shares are valued in the balance sheet at their amortised cost, which is based on the discounted value of the estimated future dividend payments over the expected life of the shares.

The impact of the above change in classification and valuation method as at 1 January 2004 was a decrease in share capital by £0.7 million, a decrease in share premium account by £71.2 million, an increase in retained earnings by £36.6 million and the recognition of new liability for preference shares of £35.3 million.

##### **IFRS 3 Business combinations**

On transition to IFRS, the company was required to review the carrying value of goodwill for potential impairment. This review showed that no impairment loss had occurred. IFRS 3 has a strict definition of what qualifies as a business within the context of a business combination. The company's previous acquisitions of debt portfolios where no infrastructure was taken over do not meet this new definition and, therefore, goodwill relating to these acquisitions has had to be written off on transition.

The value of the goodwill written off to retained earnings as at 1 January 2004 was £11.0 million.

# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **29 Transition to IFRS (continued)**

#### **Reconciliation of Equity at 1 January 2004 (continued)**

##### **IAS 10 Events after the balance sheet date**

Under UK GAAP, dividends were recognised in the balance sheet when proposed. IAS 10 prohibits the recording of a balance sheet liability in relation to proposed ordinary distributions until they have been approved. Therefore, as at 1 January 2004, the company's proposed ordinary dividend liability of £25.0 million and its dividend receivable balance of £0.8 million were removed and the amounts were written back to retained earnings.

##### **IAS 12 Income tax**

The transition to IFRS in areas such as loans and receivables has resulted in deferred tax assets arising from timing differences being recognised. Consequently, an increase to the company's deferred tax asset of £32.9 million has been recognised as at 1 January 2004 together with an increase in retained earnings by the same amount.

##### **Others**

The adoption of IFRS has resulted in a number of other smaller or presentational changes, including the following:

##### ***Reclassification of capitalised software***

IAS 38 'Intangible Assets' requires capitalised software costs to be recognised as an intangible asset rather than as a tangible fixed asset as was the case under UK GAAP. Therefore, capitalised software of a net carrying amount of £3.4 million has been reclassified from property, plant and equipment to intangible assets.

##### ***Capitalisation of software development costs***

Previously under SSAP 13 there was an option to capitalise software development expenditure provided certain criteria were met. However, under IAS 38 costs arising from software development must be capitalised and recognised as an intangible asset if certain detailed criteria are met. The company's project to develop the next generation of IT and customer relationship management systems meets these criteria such that staff and consultancy costs totalling £0.4 million have been written back to retained earnings and capitalised as an intangible asset.

# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **29 Transition to IFRS (continued)**

#### **Reconciliation of Equity at 1 January 2004 (continued)**

##### **Others (continued)**

##### ***Reclassification of provisions, intra-group receivables and payables and deferred tax asset***

On transition to IFRS in order that the format of the company's balance sheet was in accordance with IAS 1 'Presentation of Financial Statements', a number of reclassifications were necessary as follows:

- The non-current portion of loan and receivables (£585.2 million) was transferred out of current loans and receivables;
- Intra-group receivables (£1.7 million) were reclassified from debtors to loans and receivables;
- Intra-group payables (£1,013.2 million) and from creditors to borrowings respectively;
- The existing deferred tax asset (£1.3 million) was reclassified from debtors to a new deferred tax asset category; and
- Provisions (£0.4 million) were reclassified from trade and other creditors and accruals to provisions.



# Notes to the financial statements for the year ended 31 December 2005 (continued)

## 29 Transition to IFRS (continued)

### Reconciliation of Equity at 31 December 2004

Previously reported UK GAAP balances in UK GAAP format	IFRS Adjustments						Restated IFRS balances in IAS 1 format	
	IAS 32/39 Financial instruments Income recognition	IAS 32/39 Financial instruments Loan loss provisioning	IAS 32 Financial instruments Classification of preference shares	IFRS 3 Business combinations	IAS 10 Events after the balance sheet date	IAS 12 Income tax	Others	Total effect of the transition to IFRS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Fixed assets</b>								
Intangible assets	21,389						9,867	268
Tangible fixed assets	29,007			(9,599)			(8,989)	(8,989)
Investments in subsidiary undertakings	4						798,977	798,977
								4
<b>Current assets</b>								
Customer accounts receivable	1,512,025						1,878	45,142
Stocks	2,500						43,266	43,266
Debtors	124,567						801,731	801,731
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025						(692,464)	(692,464)
Stocks	2,500						(108,382)	(108,382)
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
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Customer accounts receivable	1,512,025							
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Customer accounts receivable	1,512,025							
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<b>Current assets</b>								
Customer accounts receivable	1,512,025							
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<b>Current assets</b>								
Customer accounts receivable	1,512,025							
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Debtors	124,567							
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<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							
<b>Current assets</b>								
Customer accounts receivable	1,512,025							
Stocks	2,500							
Debtors	124,567							
Cash at bank and in hand	12,657							
	1,651,749							

# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **29 Transition to IFRS (continued)**

#### **Reconciliation of Equity at 31 December 2004 (continued)**

##### **IAS 32 and IAS 39 Financial instruments – Income recognition**

The recognition of loans and receivables at amortised cost using the effective interest method has resulted in a decrease in loans and receivables by £70.3 million, a decrease in trade and other receivables by £1.8 million, a decrease in trade and other payables by £0.5 million and a decrease in retained earnings by £71.6 million.

##### **IAS 32 and IAS 39 Financial instruments – Loan loss provisioning**

The recognition of loan loss provisioning under the IAS 39 methodology resulted in a decrease in loans and receivables by £62.4 million and a corresponding decrease in retained earnings.

##### **IAS 32 Financial instruments – Classification of preference shares**

The reclassification of the company's preference shares as debt has resulted in a decrease in share capital by £1.1 million, a decrease in share premium account by £113.4 million, an increase in retained earnings by £70.8 million and the recognition of new liability for preference shares of £43.7 million.

##### **IFRS 3 Business combinations**

Under IFRS 3 goodwill is no longer amortised annually, rather it is subject to an annual impairment review. Therefore, amortisation recognised under UK GAAP for the year ended 31 December 2004 of £1.4 million has been written back to the balance sheet. This adjustment, along with the write off of goodwill relating to the acquisitions which fail to meet the definition of a business combination of £11.0 million, resulted in a net reduction to goodwill (and retained earnings) of £9.6 million.

##### **IAS 10 Events after the balance sheet date**

Under IAS 10, the company's proposed ordinary dividend liability of £27.0 million has been removed with the corresponding amount written back to retained earnings.

##### **IAS 12 Income tax**

An adjustment to deferred tax of £43.3 million has been recognised as at 31 December 2004 in relation to timing differences arising from the IFRS transitional adjustments in areas such as loans and receivables.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 29 Transition to IFRS (continued)

#### Reconciliation of Equity at 31 December 2004 (continued)

##### Others

The impact of other transitional adjustments as at 31 December 2004 included:

- **Reclassification of capitalised software** – £9.0 million has been reclassified from property, plant and equipment to intangible assets.
- **Capitalisation of software development costs** – £0.8 million has been written back to retained earnings and capitalised as an intangible asset.
- **Revision of freehold property residual values** – The residual values and useful economic lives of property, plant and equipment were reviewed as at the date of transition, such that the depreciation charged on certain freehold properties was revised resulting in an increase in their net book value by £0.1 million.
- **Reclassification of loans and receivables** – The non-current portion of loans and receivables (£692.5 million) was transferred out of current loans and receivables.
- **Reclassification of intra-group balances** – Intra-group receivables (£108.4 million) and intra-group payables (£1,376.3 million) have been reclassified to loans and receivables and borrowings respectively.
- **Reclassification of deferred tax asset** – The existing deferred tax asset (£1.9 million) was reclassified from debtors to the new deferred tax asset category.
- **Reclassification of provisions** – Provisions amounting to £3.9 million were reclassified from trade and other creditors and accruals to the new provisions category.

# Notes to the financial statements for the year ended 31 December 2005 (continued)

## 29 Transition to IFRS (continued)

### Reconciliation of Profit for the year ended 31 December 2004

	Previously reported UK GAAP balances in UK GAAP format	IAS 32/39 Financial instruments Income recognition	IAS 32/39 Financial instruments Loan loss provisioning	IAS 32 Financial instruments Classification of preference shares	IFRS 2 Share-based payments	IFRS 3 Business combinations	IAS 12 Income tax	Others	Total effect of the transition to IFRS	Restated IFRS balances in IAS 1 format
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	617,644	(19,340)						846	(18,494)	599,150
Cost of sales	(349,217)	43,008	(41,377)	2,006				(85,051)	(83,045)	(83,045)
Gross profit	268,327	23,668	(41,377)	2,006				846	86,682	253,470
Administrative expenses	(170,765)	(15,397)			(805)	1,396		585	(14,221)	(185,006)
Profit before taxation	97,542	8,271	(41,377)	2,006	(805)	1,396		1,431	(29,078)	68,464
Taxation	(29,476)						10,408		10,408	(19,088)
Profit after taxation	68,066	8,271	(41,377)	2,006	(805)	1,396	10,408	1,431	(18,670)	49,396
Dividends <sup>(1)</sup>	(59,212)			7,463					7,463	
Retained profit for the year	8,854	8,271	(41,377)	9,469	(805)	1,396	10,408	1,431	(11,207)	

<sup>(1)</sup> Under IFRS, dividends are shown as a deduction from equity

# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **29 Transition to IFRS (continued)**

#### **Reconciliation of Profit for the year ended 31 December 2004 (continued)**

##### **IAS 32 and IAS 39 Financial instruments – Income recognition**

###### ***Fees and insurance revenues***

Since loans and receivables are valued at amortised cost using the effective interest method, this has the impact of deferring the recognition of acceptance fees and similar fees and payment protection insurance commissions, which form part of the EIR calculation, over the expected life of the loan. These fees were previously recognised on inception of the loan agreement with an appropriate provision made for the rebate of such fees should a customer settle their loan early.

In addition under IFRS, insurance commissions on health, life and mechanical breakdown insurance products are recognised in line with the incidence of risk.

Therefore, for the year ended 31 December 2004, revenue from fees was £8.8 million lower and revenue from insurance commissions was £19.1 million lower.

###### ***Interest income***

The EIR calculation takes account of cash flows arising from all contractual terms of the loan agreement, including the early settlement option for which a fee is charged. Consequently, interest income (before the 'gross-up adjustment') was £18.5 million higher for the year ended 31 December 2004.

###### ***Loan origination costs***

As only direct and incremental costs, being broker commissions and certain agents' commissions, are included in the EIR calculation, and hence effectively presented as part of revenue rather than being classified as part of cost of sales or administrative expenses, this has resulted in a decrease in revenue by £28.6 million, a decrease in cost of sales by £43.0 million and an increase in administrative expenses by £15.4 million.

###### ***Grossing-up of income***

IAS 39 requires that income continues to be recognised on an outstanding balance at the original EIR, irrespective of whether or not this interest can either be charged to the customer under the terms of the loan agreement or even should be charged, if a customer is encountering serious repayment difficulties. Management has, therefore, decided that this additional interest should not actually be charged to customers, and that a corresponding loan loss provisioning charge should be made. The impact on profit is zero, but the revenue and loan loss provisioning charge lines are effectively 'grossed-up' by the same amount. The income gross-up adjustment for the year ended 31 December 2004 was £18.7 million.

# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **29 Transition to IFRS (continued)**

#### **Reconciliation of Profit for the year ended 31 December 2004 (continued)**

##### **IAS 32 and IAS 39 Financial instruments – Loan loss provisioning**

Under IAS 39 loan loss provisions must be measured as the difference between the loan's carrying amount on the balance sheet and the present value of estimated future cash flows discounted at the loan's original EIR. This approach differs to the bad debt provisioning methodology which had been adopted under UK GAAP which was based around the amount and recency of the customer's last few payments, and which did not take account of discounting.

The impact on the loan loss provisioning charge being calculated in accordance with IAS 39 (before the 'gross-up adjustment') for the year ended 31 December 2004 was an increase of £22.7 million. As explained on the previous page, the loan loss provisioning charge gross-up adjustment for the year was £18.7 million. Therefore, the total adjustment to profit was a decrease of £41.4 million

##### **IAS 32 Financial instruments – Classification of preference shares**

Under IAS 32, the company's preference shares, to which non-discretionary and cumulative dividends are attached, have been reclassified from equity to debt. Consequently, the "B" and irredeemable preference shares issued in the year with a fair value of £42.6 million have been revalued to their amortised cost of £8.4 million giving rise to a credit to finance costs of £34.2 million. In addition, dividends recognised in 2004 in relation to all of the company's preference shares of £32.2 million have been reclassified from dividends to finance costs. Therefore, the net decrease to finance costs for the year ended 31 December 2004 was £2.0 million.

##### **IFRS 2 Share-based payments**

The company is a member of a group which has a number of share award schemes, being the Restricted Share Scheme for senior executives, the Executive Share Option Scheme, the Share Incentive Plan and the Employee Sharesave Scheme (SAYE).

IFRS 2 requires an expense to be recognised for share-based awards and that this expense is recognised by the company employing the award recipients. The expense is calculated by reference to the fair value of the shares or share options granted, using the Black-Scholes model, and is spread over the vesting period of the awards. In arriving at fair values, various assumptions are made, for example, on expected forfeiture rates, dividend yields, share price volatility and risk free rates. When a charge is recognised, a corresponding amount is recognised as an increase in equity.

This approach differs to that previously adopted under UITF 17, where the expense was based on the share price at the date of appropriation or notional award and was recognised by the parent company, Cattles plc, rather than by the company. Furthermore, an expense was only recognised in respect of the Restricted Share Scheme and the Share Incentive Plan with the corresponding entry being the recognition of a liability. No charge was required to be made in respect of the Executive Share Option Scheme or the Employee Sharesave Scheme.

The adoption of IFRS 2 has resulted in a share-based payments charge of £0.8 million being recognised for the year ended 31 December 2004.

# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **29 Transition to IFRS (continued)**

#### **Reconciliation of Profit for the year ended 31 December 2004 (continued)**

##### **IFRS 3 Business combinations**

As goodwill is no longer recognised under IFRS, the UK GAAP amortisation charge for the year ended 31 December 2004 of £1.4 million has been added back to profit.

##### **IAS 12 Income tax**

As a result of the adjustments to certain incomes and expenditures arising under IFRS for the year ended 31 December 2004, a deferred tax credit of £10.4 million has been recognised in the year.

##### **Others**

The adoption of IFRS has also resulted in a number of other changes, being:

- An increase in revenue of £0.8 million due to the reclassification of dividend income received in the year, as is required by IAS 18 'Revenue';
- The separate disclosure, in accordance with IAS 1 'Presentation of Financial Statements', of finance costs on the face of the income statement, rather than being included in total cost of sales (£85.1 million); and
- A reduction in administrative expenses by £0.6 million, principally due to the write-back to profit of software development costs now being capitalised as an intangible asset.

# Progressive Financial Services Limited

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 29 Transition to IFRS (continued)

#### Reconciliation of Cash Flows for the year ended 31 December 2004

	UK GAAP IFRS format	IFRS adjustments	IFRS
	£'000	£'000	£'000
<b>Cash flows from operating activities</b>			
Cash outflow from operations	(175,377)	(24,469)	(199,846)
Tax paid	(33,047)		(33,047)
<b>Net cash outflow from operating activities</b>	<b>(208,424)</b>	<b>(24,469)</b>	<b>(232,893)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(10,543)	7,634	(2,909)
Proceeds from sale of property, plant and equipment	2,761		2,761
Purchase of intangibles assets	-	(8,467)	(8,467)
<b>Net cash outflow from investing activities</b>	<b>(7,782)</b>	<b>(833)</b>	<b>(8,615)</b>
<b>Cash flows from financing activities</b>			
Issue of intra-group borrowings	251,409		251,409
Issue of new external borrowings	5,500		5,500
Repayment of external borrowings	(241)	(3,899)	(4,140)
Capital element of hire purchase contract payments	(3,899)	3,899	-
Issue of preference shares	25,000		25,000
Dividends paid to preference shareholders	(25,302)	25,302	-
Dividends paid to equity shareholders	(25,000)		(25,000)
<b>Net cash inflow from financing activities</b>	<b>227,467</b>	<b>25,302</b>	<b>252,769</b>
<b>Net increase in cash and cash equivalents</b>	<b>11,261</b>	<b>0</b>	<b>11,261</b>
Cash and cash equivalents at beginning of year	(3,820)		(3,820)
<b>Cash and cash equivalents at end of year</b>	<b>7,441</b>	<b>0</b>	<b>7,441</b>



# **Progressive Financial Services Limited**

## **Notes to the financial statements for the year ended 31 December 2005 (continued)**

### **29 Transition to IFRS (continued)**

#### **Reconciliation of Cash Flows for the year ended 31 December 2004 (continued)**

There are some major differences between a cash flow statement prepared under IAS 7 'Cash Flow Statements' and one prepared under FRS 1.

#### **Definition of cash and cash equivalents**

The cash flows reported under IAS 7 relate to movements in cash and cash equivalents, whereas FRS1 required the movements in cash only. There was no concept of cash equivalents under FRS1 and any cash flows relating to short-term highly liquid investments were included in the heading 'management of liquid resources'.

#### **Presentational changes**

IAS 7 only requires cash flows to be reported under three headings: operating, investing and financing, whereas FRS 1 required cash flows to be reported under nine headings, including separate headings for cash flows arising from taxation and equity dividend. Under IAS 7 tax cash flows are now included within operating activities, equity dividends receipts are included with investing activities and equity dividend payments are included within financing activities.

In addition, under IFRS, borrowings include obligations under finance lease and hire purchase contracts which has resulted in the capital element of hire contract payments of £3.9 million made during 2004 being reclassified in the cash flow statement as repayment of borrowings.

#### **Reclassification of preference share dividend payment**

Under UK GAAP, the company's preference share dividend paid in the year of £25.3 million would have been reported as a financing cash flow, whereas under IFRS this dividend payment is reported as a finance cost, such that this cash flow has been reclassified as an operating cash flow.

#### **Reclassification of software-related cash flows**

Given that certain software development costs are now being capitalised in accordance with IAS 38 rather than being expensed as incurred, the amount of cash outflow from operations (before tax paid) has reduced by £0.8 million for the year ended 31 December 2004. The cash outflows arising from software development expenditure are now included within investing activities.

On transition to IFRS, capitalised software has been reclassified from property, plant and equipment to intangible assets. Therefore, cash flows arising from the purchase of software (£7.6 million) are now shown separately within the investing activities section of the cash flow statement.