Pall Mall Finance Limited

Directors' report and financial statements

For the year ended 31 March 2008
Registered number 5684084

Contents

Directors' report

for the year ended 31 March 2008

The directors present their annual report and the audited financial statements for the year ending 31 March 2008.

Principal activities and business review

The Company's principal activity is that of an investment holding company and the Company purchased a 68.6% investment in Cabot Financial Group Limited by purchasing 171,505 shares on 7 April 2006. Cabot Financial Group Limited is a debt purchasing company.

Results and dividend

The Company made an after tax profit of £4,095,122 for the year ended 31 March 2008 (2007: profit of £12,029,631 for the period 4 April 2006 to 31 March 2007).

The directors consider the results to be satisfactory. The directors do not propose to pay a dividend.

Future developments

The Company intends to continue to act as an investment holding company for the foreseeable future.

Post balance sheet events

Following the acquisition of the Nikko Group by Citigroup, Nikko Principal Investments Limited now intends to exit its investments over an appropriate period of time and to maximise realisable value for the shareholders. It is therefore anticipated that all subsidiaries, including Pall Mall Finance Limited, will seek to realise their investments within a reasonable period. This may include the sale of the company and its investments, or a sale of the investments held by the company.

Financial risk management

The nature of the Company's operations expose it to a number of financial risks, primarily in relation to liquidity risk, credit risk and interest rate risk. The Company's business plan involves relying on share capital and obtaining long term borrowings from the parent company to fund the investments, including loan notes acquired.

The principal risks facing the business are described below:

Credit risk

The Company has implemented policies that require appropriate understanding of the expected returns on capital invested. The amount of exposure to any individual counterparty is subject to a limit which is reassessed should additional funding be requested. Impairment provisions are made, if appropriate, in the event of any adverse change in the counterparty credit risk.

Directors' report

for the year ended 31 March 2008 (continued)

Liquidity risk

The Company has agreed that its funding requirements will be met from borrowing solely from its parent company and does not intend to utilise third party finance. The liquidity risk is managed with borrowings having a term matched with the loan note receivables. Investments are financed by share capital. The investment horizon period is expected to be 3-5 years.

Interest rate cash flow risk

The Company has interest rate cash flow risk as it has interest bearing liabilities and interest earning assets. This risk is mitigated as the Company holds fixed rate interest earning assets and fixed interest bearing liabilities, with an agreement that interest is accrued but only payable on demand by the note-holder.

Directors and directors' interests

The directors who held office during the year, together with subsequent changes to the date of approval of these financial statements, were as follows:

Brian Berry	(resigned 8 May 2008)
Peter Gissel	(resigned 12 May 2008)
Simon Oakland	(resigned 15 May 2008)
John Beck	(appointed 15 May 2008)
Andrea Farace	(appointed 15 May 2008; resigned 5 June 2008)
Peter Norris	(appointed 4 June 2008)
John Soden	(appointed 4 June 2008)

According to the Register of Directors' Interests maintained under Section 325 of the Companies Act 1985, none of the directors had at the end of the financial year any interest pursuant to Section 324 of the Companies Act 1985 in the Company.

In addition, according to the Register maintained under Section 325 of the Companies Act 1985, none of the Directors or any member of their respective immediate family (as defined in paragraph 2(B) (3) of Schedule VII of the Companies Act 1985) was granted or exercised during the financial year any right to subscribe for shares in or debentures of the Company.

Company secretary

The secretary who held office during the year was:

John Beck

Directors' report

for the year ended 31 March 2008 (continued)

Political and charitable donations.

The Company made no political contributions or donations to UK charities during the year.

Principal place of business

The Company is managed and controlled in the UK. The office of the Company and the location of board meetings throughout the year was 100 Pall Mall, London, SW1Y 5NN.

Statement of disclosure of information to auditors

The directors confirm that:

(a) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) the directors have taken all the steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The directors have taken advantage of the Elective Regime, under section 386 of the Companies Act 1985, for the dispensation from the annual appointment of auditors.

By order of the board

JBeck

John Beck
Secretary to Pall Mall Finance Limited
100 Pall Mall
London
SW1Y 5NN
14 January 2009

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm they have complied with the above requirements in preparing the financial statements.

The directors are responsible for maintaining 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

John Soden

Director

14 January 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PALL MALL FINANCE LIMITED

We have audited the financial statements of Pall Mall Finance Limited for the year to 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet, 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
14 January 2009

Pall Mall Finance Limited
Profit and loss account

for the year ended 31 March 2008

	Note	2008 £'000	4 April 2006 to 31 March 2007 £'000
Investment income	*2*	**17,451**	15,893
Administrative expenses		**(7)**	(8)
Operating profit before interest and taxation	*4*	**17,444**	15,885
Interest payable and similar charges	*5*	**(13,349)**	(3,856)
Profit on ordinary activities before taxation		**4,095**	12,029
Taxation on profit on ordinary activities	*6*	**-**	-
Retained profit	*12*	**4,095**	12,029

The results above all relate to ordinary continuing activities.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the periods stated above and their historical cost equivalents.

The Company has no recognised gains or losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 10 to 17 form part of these financial statements

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Pall Mall Finance Limited
Balance sheet

at 31 March 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Investments	*7*	**172**	172
Current assets			
Debtors: amounts falling due after more than one year	*8*	**198,112**	180,661
Creditors: amounts falling due within one year	*9*	**(15)**	(8)
Net current assets		**198,097**	180,653
Total assets less current liabilities		**198,269**	180,825
Creditors: amounts falling due after more than one year	*10*	**(181,973)**	(168,624)
Net assets		**16,296**	12,201
Capital and reserves – equity			
Called up share capital	*11*	**172**	172
Profit and loss account	*12*	**16,124**	12,029
Total shareholder's funds	*13*	**16,296**	12,201

The financial statements on pages 8 to 17 were approved by the board of directors on 14 January 2009 and signed on its behalf by:

John Soden

John Soden
Director

The notes on pages 10 to 17 form part of these financial statements

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Notes to the financial statements

for the year ended 31 March 2008

1 Accounting policies

These accounts have been prepared under the historical cost convention and in accordance with the Companies Act 1985, and with applicable Accounting Standards issued by the Accounting Standards Board. Under s228 of the Companies Act 1985 the Company is exempt from preparing consolidated accounts and this exemption has been taken.

The following paragraphs describe the main policies.

Investment income

Investment income includes interest receivable on loan note receivables acquired from the underlying investee company as part of the financing provided relating to the acquisition of the fixed asset investment.

Investment income has been disclosed instead of turnover as this reflects more meaningfully the nature and the results of the Company's activities.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that it is more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the tax rates that are expected to apply in the years in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Investments

Debt securities, equity shares and other similar interests intended to be held for the long term or to maturity are treated as fixed asset investments, and are valued at cost less provision for permanent diminution in value.

The intention of holding each asset is regularly reviewed and if appropriate, the investment classification altered accordingly.

Cashflow statement

The Company is a wholly owned subsidiary of Nikko Principal Investments Limited and is included in the consolidated financial statements of NPIL Hold Co Limited, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard 1 (Revised 1996).

Notes to the financial statements

for the year ended 31 March 2008 (continued)

2 Investment income

Investment income represents:	**2008** **£'000**	4 April 2006 to 31 March 2007 £'000
Interest receivable from loan notes to group undertakings	**17,451**	15,893

3 Directors' emoluments and employee information

The directors received no emoluments in respect of their services to the Company during the year.

No staff were employed by the Company during the year. All services are provided by group employees.

4 Operating profit before interest and taxation

	2008 **£'000**	4 April 2006 to 31 March 2007 £'000
This is stated after charging :		
Auditors' remuneration (see below)	**7**	7
Services provided by the Company's auditors and network firms		
During the year the Company obtained the following services from the Company's auditors and its associates		
Fees payable to the Company's auditors for audit services	**6**	6
Fees payable to the Company's auditors and its associates for other services:		
Tax services	**1**	1
	7	7

Notes to the financial statements

for the year ended 31 March 2008 (continued)

5 Interest payable and similar charges

	2008 £'000	4 April 2006 to 31 March 2007 £'000
Interest payable on loans from group undertakings	**13,349**	3,856

Refer Note 10 for further details.

6 Tax on profit on ordinary activities

	2008 £'000	4 April 2006 to 31 March 2007 £'000 Restated
UK Corporation tax on profits for the period	-	-
Factors affecting the current tax charge for the period:		
Profit on ordinary activities before tax	**4,095**	12,029
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**1,229**	3,609
Group relief surrendered without payment	**(272)**	(24)
Transfer pricing adjustment on loan note interest payable	**(1,916)**	(4,764)
Transfer pricing adjustment on loan note interest receivable	**959**	1,179
Current tax charge for the period	-	-

Following a transfer pricing review carried out during the year, the basis of calculating the adjustments on loan interest has been amended and the comparative figures restated to be in accordance with this new basis. There was no effect on the previously reported tax charge as a consequence of the restatement.

Notes to the financial statements
for the year ended 31 March 2008 (continued)

7 Fixed asset investment

	2008	2007
	£'000	£'000
Cost:		
At 1 April	**172**	-
Additions	-	172
At 31 March	**172**	172

The Company purchased a 68.6% investment in Cabot Financial Group Limited, a debt purchasing company registered in England and Wales, for a consideration of £171,505 in April 2006. The investment is stated at cost.

8 Debtors: amounts falling due after more than one year

	2008	2007
	£'000	£'000
Amounts receivable from group undertakings	**198,112**	180,661

Analysis of the amounts due from group undertakings, comprising two loans, at 31 March 2008:

Maturity date			Interest rate on loan advanced	**Loan balance £'000**
31 December 2016	GBP	112,665,927	8%	**112,666**
31 December 2016	GBP	52,102,778	13%	**52,102**
Accrued and deferred interest				**33,344**
				198,112

During April 2006, the Company purchased loan notes issued by Cabot Financial Group Limited for proceeds of £164,768,705. The loan notes are repayable in full on maturity in 2016 and are unsecured.

Notes to the financial statements
for the year ended 31 March 2008 (continued)

8 Debtors: amounts falling due after more than one year (continued)

Analysis of the amounts due from group undertakings, comprising two loans, at 31 March 2007:

Maturity date			Interest rate on loan advanced	Loan balance £'000
31 December 2016	GBP	112,665,927	8%	112,666
31 December 2016	GBP	52,102,778	13%	52,102
Accrued and deferred interest				15,893
				180,661

9 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Amount due to group undertakings	**6**	1
Accruals	**9**	7
	15	8

Amount due to group undertakings is unsecured and interest free.

10 Creditors: amounts falling due after more than one year

	2008 £'000	2007 £'000
Amounts due to parent company	**181,973**	168,624

Notes to the financial statements

for the year ended 31 March 2008 (continued)

10 Creditors: amounts falling due after more than one year (continued)

Analysis of the amounts due to parent company, comprising two loans, at 31 March 2008:

Maturity date			Interest rate on loan advanced	**Loan balance £'000**
31 December 2016	GBP	115,768,705	8%	**115,768**
31 December 2016	GBP	49,000,000	8%	**49,000**
Accrued and deferred interest				**17,205**
				181,973

Amounts due to parent company are unsecured and repayable in 2016.

During the year, following a review of the funding facilities, the interest rate on the first tranche of £115.8m of loan note funding was changed from 0% to 8%, to be consistent with the rate charged on the second tranche of loan note funding.

Analysis of the amounts due to parent company, comprising two loans, at 31 March 2007:

Maturity date			Interest rate on loan advanced	Loan balance £'000
31 December 2016	GBP	115,768,705	0%	115,768
31 December 2016	GBP	49,000,000	8%	49,000
Accrued and deferred interest				3,856
				168,624

11 Called up share capital

	2008 £	2007 £
Authorised		
200,000 Ordinary shares of £1 each	**200,000**	200,000
Allotted, called up and fully paid		
171,505 Ordinary shares of £1 each	**171,505**	171,505

Notes to the financial statements

for the year ended 31 March 2008 (continued)

12 Profit and loss account reserve

	2008 £000	2007 £000
At incorporation / 1 April	**12,029**	-
Retained profit for the period	**4,095**	12,029
At 31 March	**16,124**	12,029

13 Reconciliation of movements in shareholder's funds

	2008 £000	2007 £000
Shareholder's funds at incorporation / 1 April	**12,201**	-
Share capital issued	-	172
Profit for the period	**4,095**	12,029
Shareholder's funds at 31 March	**16,296**	12,201

14 Capital and other commitments

The Company had no capital or other commitments not provided for at 31 March 2008 (2007: nil).

15 Contingent liabilities

The Company had no contingent liabilities at 31 March 2008 (2007: nil).

16 Related party transactions

As 100% of the Company's voting rights are held by Nikko Principal Investments Limited, the Company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Notes to the financial statements

for the year ended 31 March 2008 (continued)

17 Parent and controlling undertaking

Name	Country of incorporation	Address from where group accounts are obtainable
Immediate Parent Company		
Nikko Principal Investments Limited	United Kingdom	100 Pall Mall, London, SW1Y 5NN
Intermediate Holding Company		
NPIL Hold Co Limited	United Kingdom	100 Pall Mall, London, SW1Y 5NN
Ultimate Parent Company to 9 May 2007		
Nikko Citi Holdings Inc. (prior to 1 May 2008 known as Nikko Cordial Corporation)	Japan	6-5, Nihonbashi Kabuto-cho, Chuo-ku, Tokyo 103-8825 Japan
Ultimate Parent Company from 9 May 2007		
Citigroup Inc.	United States	399 Park Avenue, New York NY10043

The parent undertaking of the smallest and largest group that presents consolidated financial statements including the results of the Company is NPIL Hold Co Limited, a company registered in England & Wales.

Nikko Cordial Corporation (now known as Nikko Citi Holdings Inc), a company incorporated in Japan, had beneficial ownership of the entire shareholding of NPIL Hold Co Limited as at 31 March 2007. On 9 May 2007, Citigroup Inc acquired a 61.08% stake in Nikko Cordial Corporation, and is therefore regarded as the ultimate parent company at the balance sheet date. Citigroup Inc. acquired a further stake in June 2007 and bought out the remaining minority shareholders of Nikko Cordial Corporation on 23 January 2008.

On 1 May 2008, Nikko Cordial Corporation merged with its immediate parent company, Citigroup Japan Holdings Limited, and became Nikko Citi Holdings Inc.

Copies of the financial statements for NPIL Hold Co Limited are available from the Company Secretary at the above address. Copies of the financial statements for Nikko Cordial Corporation are available on request from Nikko Citi Holdings Inc (formerly Nikko Cordial Corporation) at the above address.

18 Post balance sheet events

Following the acquisition of the Nikko Group by Citigroup, Nikko Principal Investments Limited now intends to exit its investments over an appropriate period of time and to maximise realisable value for the shareholders. It is therefore anticipated that all subsidiaries, including Pall Mall Finance Limited, will seek to realise their investments within a reasonable period. This may include the sale of the company and its investments, or a sale of the investments held by the company.