Photobox Holdco Limited

REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS

16 months ended
30 Apnl 2012

Company Registratıon No 07648443

Photobox Holdco Limited
DIRECTORS AND OFFICERS

DIRECTORS

LB Amouyal (appointed 19 July 2011)
JM Bouhelier (appointed 19 July 2011)
AR Burns (appointed 26 May 2011, resigned 19 July 2011)
MW Chapman (appointed 19 July 2011)
LR Handen (appointed 22 July 2011)
SM Laurent (appointed 26 May 2011)
PB Lipson (appointed 19 July 2011)
FJ Mullen (appointed 19 July 2011)
N Rimer (appointed 19 July 2011)

SECRETARY

Abogado Nominees Limited

REGISTERED OFFICE

100 New Bridge Street
London
EC4V 6JA

AUDITOR

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

The dırectors present theır report and consolıdated fınancıal statements for the 16 month perıod ended 30 Aprıl 2012

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

Photobox Holdco Lımıted ("the Company") was ıncorporated on 26 May 2011 as a subsıdıary of Photoways, Inc On 19 July 2011, a group reconstructıon led to the company becomıng the parent of the group On 22 July, Moonpıg com Lımıted ("Moonpıg") was acquıred, extendıng the Group's consumer offerıng ın relatıon to personalısed products The Group's prıncıpal actıvıty durıng the year contınued to be that of busıness-to-consumer personalızed prıntıng

Followıng the acquısıtıon of Moonpıg, all group companıes changed theır accountıng reference dates to 30 Aprıl and therefore thıs consolıdated Group annual report covers the 16 month perıod ended 30 Aprıl 2012 As Photobox Holdco Lımıted was only ıncorporated ın May 2011, the standalone Company fınancıal statements cover the perıod from ıncorporatıon to 30 Aprıl 2012

The Group performed strongly ın the 16 month perıod, wıth revenue of £143,630,000 (year ended 31 December 2010 £68,555,000) generatıng Operatıng Profit before Exceptıonal Items, Amortısatıon and Share Optıon Expense of £12,498,000 (year ended 31 December 2010 £2,693,000)

Revenue and Operatıng Profit before Exceptıonal Items, Amortısatıon and Share Optıon Expense for the 16 month perıod was substantıally hıgher than that for the year ended 31 December 2010 due to the long perıod of account, the acquısıtıon of Moonpıg ın July 2011, and contınued growth at Photobox, prımarıly due to contınuıng new customer acquısıtıon and focus on exıstıng customer loyalty

In Aprıl 2012 Low Value Consıgnment Relıef (LVCR) on shıpments from the Channel Island to the UK was wıthdrawn by the UK Government The ımpact of thıs has been to reduce reported net revenue and gross margın on goods produced ın Guernsey and shıpped to the UK, by an amount equıvalent to VAT on these shıpments Followıng thıs legıslatıon change, cırcumstances arose whıch gave rıse to an ımpaırment of the Group's ınvestment ın Moonpıg com Lımıted, and accordıngly, a charge has been taken ın the Group's profit and loss account

The Dırectors are satısfied wıth the net asset posıtıon of the Company at £80,415,000 (31 December 2010 £30,655,000) and ıts lıquıdıty at the year end

RESULTS AND DIVIDENDS

Operatıng Profit before Exceptıonal Items, Amortısatıon and Share Optıon Expense was £12,498,000 (2010 £2,693,000)

The loss for the 16 month perıod, after taxatıon, ıs £22,002,000 (2010 profit for the year £156,000), drıven maınly by the ımpact of ımpaırment charges on goodwıll and ıntangıble assets The dırectors do not recommend the payment of a dıvıdend (2010 £nıl)

FUTURE DEVELOPMENTS

The dırectors expect the Group to contınue ıts current actıvıtıes The Group ıntends to contınue to ımprove underlyıng profitabılıty ın 2012 through growth ın sales from contınuıng actıvıtıes, coupled wıth ımproved gross margıns and controlled growth of operatıng expendıture

PRINCIPAL RISKS AND UNCERTAINTIES

Competıtıve rısks
Whılst consolıdatıng ıts posıtıon as market leader ın ıts core markets, the Group encounters sıgnıficant competıtıon from other onlıne and mobıle specıalısts and hıgh street retaılers who wısh to have a presence ın those markets The dırectors consıder that contınuıng ınvestment ın marketıng, technology and product ınnovatıon should help the Group consolıdate and extend ıts leadıng posıtıon ın core markets

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

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

Foreign exchange risks
The Group transacts mainly in Sterling and Euro The Directors consider that the Group has an effective natural hedge in place as regards the Euro (where receipts and payments are broadly matched) All other material cashflows are in Sterling

DIRECTORS

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

KEY PERFORMANCE INDICATORS

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

	16 month period ended 30 April 2012	Year ended 31 December 2010
Revenue (£'000)	**£143,630**	£68,555
Gross Profit (£'000)	**£73,012**	£31,413
Gross Profit vs Revenue	**50.8%**	45 8%
Adjusted EBITDA* (£'000)	**£17,110**	£5,410
Adjusted EBITDA as % of revenue	**11 9%**	7 9%

*The directors consider that Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (Adjusted EBITDA) is a primary measure of operational profitability, and therefore considered to be a key KPI A reconciliation of Operating Profit before Exceptional Items, Amortisation and Share Option Expense to Adjusted EBITDA is shown below

	16 month period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Operating Profit before Exceptional Items, Amortisation and Share Option Expense	**12,498**	2,693
Depreciation	**4,612**	2,717
Adjusted EBITDA	**17,110**	5,410

Revenue and margins are influenced by a combination of the mix of the products sold, the pricing strategy and production costs Adjusted EBITDA margins are negatively impacted in the 16 month period due to the fact that the 16 month financial period contains 2 periods January to April, which has historically been a period of lower profitability at Photobox due to the inherent seasonality of the business

GOING CONCERN

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

CHARITABLE DONATIONS

During the year, the company donated £31,028 to Moonpig Foundation

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

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

AUDITOR

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

By order of the board

S Laurent 17 August 2012
Director

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

Photobox Holdco Limited

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

We have audited the group financial statements of Photobox Holdco Limited for the period ended 30 April 2012 which comprise the Consolidated Statement of Financial Position, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 21 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 30 April 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter

We have reported separately on the parent company financial statements of Photobox Holdco Limited for the period ended 30 April 2012

Ernst & Young LLP

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

17/8/12

Photobox Holdco Limited
CONSOLIDATED INCOME STATEMENT
For the period ended 30 April 2012 Company Registration No 07648443

	Notes	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000 (restated)*
Revenue	*1*	143,630	68,555
Cost of sales		(70,618)	(37,142)
Gross profit		**73,012**	**31,413**
Technology and development costs		(11,609)	(5,834)
Marketing and customer service costs		(37,721)	(16,729)
Administrative expenses		(11,184)	(6,157)
Operating profit before exceptional items, amortisation and share option expense		**12,498**	**2,693**
Exceptional items	*3*	(22,558)	-
Amortisation	*8*	(7,170)	(1,414)
Share option expense	*6*	(1,236)	(1,292)
Operating loss	*2*	**(18,466)**	**(13)**
Finance income	*4*	112	27
Finance costs	*5*	(3,101)	(64)
Loss before taxation		**(21,455)**	**(50)**
Taxation	*7*	(547)	206
(LOSS) / PROFIT FOR THE PERIOD		**(22,002)**	**156**

* Refer to Note 1 4 (a)

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

Photobox Holdco Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 April 2012 Company Registration No 07648443

	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000 (restated)*
(LOSS) / PROFIT FOR THE PERIOD	**(22,002)**	**156**
Other comprehensive loss		
Exchange differences on translation of foreign operations	(675)	(185)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(22,677)**	**(29)**

* Refer to Note 1 4 (a)

Photobox Holdco Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 April 2012 Company Registration No 07648443

	Notes	30 April 2012 £'000	31 December 2010 £'000 (restated)*	31 December 2009 £'000 (restated)*
ASSETS				
Non-current assets				
Property, plant and equipment	*9*	10,036	7,109	6,587
Intangible assets	*8*	118,748	22,663	23,959
Deferred tax assets	*7*	2,456	2,031	1,607
Other non-current assets	*12*	1,773	253	263
		133,013	32,056	32,416
Current assets				
Inventories	*11*	2,416	1,556	980
Trade and other receivables	*12*	11,316	4,494	2,594
Cash and cash equivalents		20,420	22,660	16,052
		34,152	28,710	19,626
TOTAL ASSETS		**167,165**	**60,766**	**52,042**
LIABILITIES				
Current liabilities				
Trade and other payables	*13*	16,210	19,724	14,739
Deferred revenue		6,010	2,101	2,142
Current income tax liabilities		1,155	560	99
Borrowings	*14*	6,422	714	568
Provisions	*15*	278	381	211
		30,075	23,480	17,759
Non-current liabilities				
Deferred tax liabilities	*7*	15,394	1,579	1,878
Borrowings	*14*	41,110	2,123	1,280
Provisions	*15*	171	2,929	1,733
		56,675	6,631	4,891
TOTAL LIABILITIES		**86,750**	**30,111**	**22,650**
NET ASSETS		**80,415**	**30,655**	**29,392**
CAPITAL AND RESERVES				
Equity attributable to owners of the parent				
Ordinary share capital	*16*	25	21	21
Preferred share capital	*16*	75	38	38
Share premium		71,160	-	-
Merger reserve		42,938	42,938	42,938
Retained earnings		(29,264)	(8,498)	(9,946)
Foreign currency translation reserve		(4,519)	(3,844)	(3,659)
TOTAL EQUITY		**80,415**	**30,655**	**29,392**

* Refer to Note 1 4 (a)

The financial statements on pages 8 to 43 were approved by the board of directors and authorised for issue on 17 August 2012 and are signed on its behalf by

S Laurent, Director

Photobox Holdco Limited
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 30 April 2012

	Notes	**Ordinary share capital (Note 16) £'000**	**Preferred share capital (Note 16) £'000**	**Share Premium (Note 16) £'000**	**Merger Reserve (Note 16) £'000**	**Retained earnings (Note 16) £'000**	**Foreign currency translation reserve (Note 16) £'000**	**Total equity £'000**
As at 1 January 2010 (restated)*		**21**	**38**	-	**42,938**	**(9,946)**	**(3,659)**	**29,392**
Profit for the period		-	-	-	-	156	-	156
Other comprehensive loss		-	-	-	-	-	(185)	(185)
Total comprehensive income / (loss)		-	-	-	-	156	(185)	(29)
Share-based payment transactions	*17*	-	-	-	-	1,292	-	1,292
As at 30 December 2010 (restated)*		**21**	**38**	-	**42,938**	**(8,498)**	**(3,844)**	**30,655**
Loss for the period		-	-	-	-	(22,002)	-	(22,002)
Other comprehensive loss		-	-	-	-	-	(675)	(675)
Total comprehensive loss		-	-	-	-	(22,002)	(675)	(22,677)
Issue of share capital	*16*	4	37	72,082	-	-	-	72,123
Exercise of share options	*16*	-	-	432	-	-	-	432
Redemption of ordinary shares	*16*	-	-	(879)	-	-	-	(879)
Share-based payment transactions	*17*	-	-	-	-	1,236	-	1,236
Transaction costs		-	-	(475)	-	-	-	(475)
At 30 April 2012		**25**	**75**	**71,160**	**42,938**	**(29,264)**	**(4,519)**	**80,415**

* Refer to Note 1 4 (a)

Photobox Holdco Limited

CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended 30 April 2012

	Notes	**Period ended 30 April 2012 £'000**	**Year ended 31 December 2010 £'000 (restated)***
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	*18*	7,415	9,246
Interest received		19	47
Income tax paid		(4,573)	-
NET CASH GENERATED FROM OPERATING ACTIVITIES		**2,861**	**9,293**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(4,175)	(3,498)
Purchase of intangible assets		(1,604)	(564)
Acquisition of subsidiary, net of cash acquired		(88,682)	-
Net cash flows used in investing activities		**(94,461)**	**(4,062)**
FINANCING ACTIVITIES			
Proceeds from issuance of preference share capital		48,124	-
Transaction costs relating to issuance of share capital		(475)	-
Redemption of share capital		(517)	-
Proceeds from the exercise of share options		70	-
Proceeds from borrowings		50,000	1,647
Transaction costs relating to the repayment of debt		(3,398)	-
Repayment of borrowings		(2,120)	-
Repayment of finance leases		(931)	(600)
Interest paid		(1,601)	-
Net cash flows from financing activities		**89,152**	**1,047**
Net increase / (decrease) in cash and cash equivalents		**(2,448)**	**6,278**
Cash, cash equivalents and bank overdrafts at beginning of period		22,660	16,052
Net foreign exchange difference		208	330
Cash and cash equivalents at end of period		**20,420**	**22,660**

* Refer to Note 1 4 (a)

1.1 CORPORATE INFORMATION

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

Photobox Holdco Limited ("the Company") and its subsidiaries (together, "the Group") engages in the production of personalized printed products using an internet platform The Group trades through Photobox SAS (France), Photobox Limited and Moonpig (UK) and Photobox GmbH (Germany) The principal activities of the Group are described in the Directors' Report

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

Name of Company	Country of incorporation	% equity interest 30 April 2012	% equity interest 31 December 2010
Photobox Holdco Gamma Limited	UK	100%	-
Photobox Holdco Alpha Limited	UK	100%	-
Photobox Holdco Beta Limited	UK	100%	-
Photobox Limited	UK	100%	100%
Moonpig com Limited	UK	100%	-
Photobox SAS	France	100%	100%
Photoways Inc	USA	100%	100%
Photobox GmbH	Germany	100%	100%
Online Photo Sverige AB	Sweden	100%	-

The registered office is noted on page 1 of the accounts

1.2 BASIS OF PREPARATION

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

The company accounts for Photobox Holdco Limited are prepared in accordance with UK Generally Accepted Accounting Principles – see page 44 onwards for the parent company accounts

Going concern

The Group has sufficient financial resources and as a consequence, the directors believe that they are well placed to manage its business risk successfully and to continue in operational existence for the foreseeable future The Group has bank borrowings of £47,880,000 at the year end (2010 £nil), which are subject to various financial covenants (see Note 14) Based on the financial position at the year end, the Group has adequate headroom on each covenant and therefore the Directors consider it appropriate to adopt the going concern basis in preparing the financial statements

1.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 April 2012

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

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

Although the reorganisation did not become effective until July 2011, the consolidated financial statements of Photobox Holdco Limited are presented as if it had always been part of the Group Accordingly, the results of the Group for the entire period ended 30 April 2012 are shown in the consolidated income statement and the comparative figures for the year ended 31 December 2010 and 31 December 2009 are also prepared on this basis

1.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards adopted by the Group

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011

- IAS 24 Related Party Transactions (amendment) effective 1 January 2011
- IAS 32 Financial Instruments Presentation (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below

IAS 24 Related Party Transactions (amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity The adoption of the amendment did not have any impact on the financial position or performance of the Group

IAS 32 Financial Instruments Presentation (amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording There are separate transitional provisions for each standard The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group

- *IAS 1 Presentation of Financial Statements* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group

- *IFRS 3 Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- *IFRS 3 Business Combinations* (measurement options available for non-controlling interest)
- *IFRS 3 Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- *IFRS 7 Financial Instruments – Disclosures* (collateral and qualitative and quantitative disclosures)
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 34 Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group

- *IFRIC 13 Customer Loyalty Programmes* (determining the fair value of award credits)
- *IFRIC 14 Prepayments of a Minimum Funding Requirement*
- *IFRIC 19 Extinguishing financial liabilities with Equity Instruments*

Standards issued but not yet effective

The Company has not applied the following new or revised standards and interpretations that have been issued, but are not yet effective or not yet adopted by the European Union

IFRS 9 Financial Instruments. Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39 The standard is currently expected to be effective for annual periods beginning on or after January 1, 2015 The Company will apply IFRS 9 from 1 May 2015 if adopted by EU, but it is not expected to have material impact on the Company's financial statements

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after January 1, 2013 if adopted by EU IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company The standard provides additional guidance to assist in the determination of control where this is difficult to assess This standard is not expected to have any impact on the Company upon implementation

IFRS 11 Joint Arrangements
IFRS 11 Joint Arrangements modifies the accounting for joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case) The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to accounts or interests in jointly controlled entities IFRS 11 is effective for annual periods beginning on or after January 1, 2013 if adopted by EU The Company is not engaged in any joint arrangements and expects no impact upon implementation of this standard

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities IFRS 12 is effective for annual periods beginning on or after January 1, 2013 if adopted by EU The Company does not have any undisclosed interests in other entities and does not expect any material impact upon implementation of this standard

IFRS 13 Fair Value Measurement

IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements The standard is expected to be effective for annual periods beginning on or after January 1, 2013, if adopted by EU As the standard only specifies fair value calculations for balances and transactions that already under IFRS require fair value measurement the Company does not expect any significant impact upon implementation of this standard

IAS 19 Revised – Employee Benefits

The revised standard eliminating an option to defer the recognition of gains and losses, known as the 'corridor method', streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in other comprehensive income (OCI), and enhancing the disclosure requirements for defined benefit plans The standard is expected to be effective for annual periods beginning on or after January 1, 2013, if adopted by EU This amendment is not expected to have any material impact on the Company upon implementation

IAS 28 Revised – Investment in Associates and Joint Ventures

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates The amendment becomes effective for annual periods beginning on or after January 1, 2013 The amendment is not expected to have any impact on the Company upon implementation

IFRS 1 Amendment – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards* introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation They also remove the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions This amendment is not considered to be applicable to the Company

IFRS 7 Amendment – Disclosures – Transfers of Financial Assets

The amendment to IFRS 7 increases the disclosure requirements for transactions involving transfers of financial assets This amendment is intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure (referred to as 'continuing involvement') in the asset The amendment also requires disclosure where transfers of financial assets are not evenly distributed throughout the period (e g , where transfers occur near the end of a reporting period) This amendment is not expected to have any impact on the Company upon implementation

IFRS 7 Amendment – Disclosures – Offsetting Financial Assets and Financial Liabilities

The new disclosures will require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations It is required to be applied for annual periods beginning on or after January 1, 2013 if adopted by EU This amendment is not expected to have any material impact on the Company upon implementation

IAS 1 Amendment – Presentation of Items of Other Comprehensive Income

The amendment to IAS 1 improves the consistency and clarity of the presentation of items of other comprehensive income The amendment is required to be applied for annual periods beginning on or after July 1, 2012 if adopted by EU This amendment is not expected to have any material impact on the Company upon implementation

IAS 12 Amendments – Deferred Tax: Recovery of Underlying Assets

The amendment clarifies the determination of deferred tax on investment property measured at fair value The amendment becomes effective for annual periods beginning on or after January 1, 2012 if adopted by EU This amendment is not considered to be applicable to the Company

IAS 32 Amendment – Presentation – Offsetting Financial Assets and Financial Liabilities

The amendment to IAS 32 clarifies the circumstances when an entity has a legally enforceable right to set-off financial assets and financial liabilities The amendment is required to be applied for annual periods beginning on or after January 1, 2014 if adopted by EU This amendment is not expected to have any material impact on the Company upon implementation

a) Changes in accounting policies

During the year, a group reconstruction was undertaken which led to Photobox Holdco Limited, a company with a Sterling functional currency, being inserted as the parent company of the group The previous parent company of the group, Photoways, Inc , had a presentation currency of Euro Following the reconstruction of the group and the acquisition of Moonpig com Limited, the majority of the group's revenues and expenses are now earned in Sterling and therefore the presentation currency of the group was changed from Euro to Sterling As this is a change in accounting policy, this has led to a restatement of the comparative figures at 31 December 2010 and 31 December 2009 The effect of this change is reflected in the comparatives

b) Changes in accounting estimates

The Photoways, Inc accounts for the year ended 31 December 2010, used a revenue-weighted average monthly rate to translate income and expenses into Euro, the Group's previous presentation currency For the period ended 30 April 2012, the estimate has changed and a monthly average rate has been used to translate income and expenses into Sterling, the Group's new presentation currency This change was made as it was deemed by management to be more accurate to translate each month's income and expenses by the average rate for the month rather than a weighted average for the year Although this change in estimate does not require a prior year restatement, the monthly rate, rather than a weighted average rate, has been used in the conversion of comparative figures into Sterling on changing presentation currency to Sterling

c) Business combinations and goodwill

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

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

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

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

d) Foreign currency translation

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

i) Transactions and balances

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

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

ii) Financial statements expressed in currency

The Group's consolidated accounts are presented in Sterling This is a change from prior year as explained in 1 4 paragraph (a)

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

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

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

e) Revenue

Revenue is recognised when it is probable that the future economic benefits will flow to the Group, and this income may be evaluated in a reliable fashion No revenue is posted to the accounts when there is significant uncertainty as to the possibility of recovering the consideration due Revenue from the sale of goods (Print, Indigo and Goodies) as well as the related shipping and handling expenses billed to customers are recognised upon shipment Revenue is shown net of Value Added Tax

Customers have an opt-out or objection period Upon closing, a provision for returns and re-makes is posted to the accounts to cover the risk, based on the history of such matters

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

f) Exceptional items

Exceptional items are those items the Group considers to be non-recurring or material in nature that should be brought to the reader's attention in understanding the Group's financial performance

g) Borrowing costs

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

h) Taxes

i) Current income tax

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

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

ii) Deferred tax

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

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

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

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

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

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

i) **Intangible fixed assets**

i) Goodwill

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

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

ii) Separately acquired intangible assets

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

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

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

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either ındıvıdually or at the cash-generatıng unıt level The assessment of ındefinıte lıfe ıs revıewed annually to determıne whether the ındefinıte lıve contınues to be supportable

iii) Research and development costs

Research costs are expensed as ıncurred Development expendıtures on an ındıvıdual project are recognısed as an ıntangıble asset when the Group can demonstrate

- technıcal feasıbılıty of completıng the ıntangıble assets so that ıt wıll be avaılable for use or sale,
- ıts ıntentıon to complete and ıts abılıty to use or sell the asset,
- how the asset wıll generate future economıc benefits,
- the avaılabılıty of resources to complete the assets, and
- the abılıty to measure relıably the expendıture durıng development

Followıng ınıtıal recognıtıon of the development expendıture as an asset, the asset ıs carrıed at cost less any accumulated amortısatıon and accumulated ımpaırment losses Amortısatıon of the asset begıns when development ıs complete and the asset ıs avaılable for use Durıng the perıod of development, the asset ıs tested for ımpaırment annually

	Useful lıves	*Amortısation method*	*Internally generated or acquired*
Goodwıll	Indefinıte	Not applıcable	Acquıred
Trademark	Indefinıte	Not applıcable	Acquıred
Trademark	Fınıte	Straıght-lıne basıs - 20 years	Acquıred
Development costs	Fınıte	Straıght-lıne basıs - 3 years	Internally generated
Patents and lıcenses	Fınıte	Straıght-lıne basıs - 3 to 10 years	Acquıred
Technology	Fınıte	Straıght-lıne basıs - 1 to 5 years	Acquıred
Customer relatıonshıps	Fınıte	Straıght-lıne basıs - 6 to 8 years	Acquıred
Other ıntangıbles	Fınıte	Straıght-lıne basıs - 2 to 3 years	Acquıred

The ındefinıte lıved trademark relates to the asset acquıred on the acquısıtıon of Moonpıg com Lımıted The asset ıs deemed to have an ındefinıte useful lıfe as the Dırectors currently plan to maıntaın at least hıstorıcal levels on ınvestment ın the Moonpıg brand

j) Impairment of non-financial assets

Assets that have an ındefinıte useful lıfe are not subject to amortısatıon and are tested annually for ımpaırment Assets that are subject to amortısatıon are revıewed for ımpaırment whenever events of changes ın cırcumstances ındıcate that the carryıng amount may not be recoverable An ımpaırment loss ıs recognısed for the amount by whıch the asset's carryıng amount exceeds ıts recoverable amount The recoverable amount ıs the hıgher of an asset's faır value less costs to sell and value ın use For the purposes of assessıng ımpaırment, assets are grouped at the lowest levels for whıch there are separately ıdentıfiable cash flows (cash-generatıng unıts) Non-financıal assets, other than goodwıll, that suffered an ımpaırment are revıewed for possıble reversal of the ımpaırment at each reportıng date

k) Property, plant and equipment

Property, plant and equıpment ıs stated at cost, net of accumulated deprecıatıon and/or accumulated ımpaırment losses, ıf any They are not subject to revaluatıon Subsequent expendıture (expendıture for replacement and expendıture for brıngıng up to standard) ıs capıtalısed and amortısed over the remaınıng useful lıfe of the fixed asset to whıch ıt ıs related All other servıcıng and maıntenance costs are expensed as ıncurred

Deprecıatıon ıs provıded on all tangıble fixed assets at rates calculated to wrıte each asset down to ıts estımated resıdual value evenly over ıts expected useful lıfe, as follows -

Freehold Property	-	4% on cost
Leasehold ımprovements	-	over the unexpıred term of the lease
Plant and machınery	-	20% - 25% on cost
Fıxtures, fittıngs and equıpment	-	25% - 33% on cost
Software development	-	3 years (commencıng when the assets are complete and ready for use)

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

l) **Leases**

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

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

m) **Inventories**

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

n) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with a maturity of three months or less

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts Overdrafts that are repayable on demand are an integral part of the management of the Group's cash position

o) **Financial instruments**

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

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

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

The Group's financial assets include cash and cash equivalents, and trade and other receivables

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

Financial assets at fair value through profit of loss

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

The Group evaluates its financial assets at fair value through profit and loss (held for trading) and whether the intent to sell them in the near term is still appropriate When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation The Group did not reclassify any financial assets in the current reporting period

Loans and receivables

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

Financial liabilities

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

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

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

Financial liabilities at fair value through profit or loss

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

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

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method

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

Offsetting of financial instruments

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

Derecognition of financial instruments

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

Fair value of financial instruments

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 10

p) **Provisions**

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

q) **Share-based payments**

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

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

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

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

The company has considered and accrued for social security costs on the potential future benefit to employees of all unapproved equity-settled awards

r) **Pensions and other post employment benefits**

The Group contributes to defined contribution pensions schemes Under these schemes, the Group pays defined contributions to an external pension fund or insurance company in return for services performed by employees

The amount charged to the profit and loss account in respect of pension costs and other post employment benefits is the contributions payable in the year Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

1.5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Judgements, estimates and assumptions:

a) Carrying value of goodwill

An impairment exists when the carrying value of a cash generating unit ("CGU") exceeds its recoverable amount which is the higher of its fair value less costs to sell and its value in use The value in use calculation is based on a discounted cash flow model The cash flows are based on budgets to 30 April 2013, together with a forecast for the year to 30 April 2014 and then projected forwards The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 8

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

The Group holds a number of intangible assets that were acquired either through business combinations or direct asset acquisition At each balance sheet date, management considers whether there are any indicators of impairment on each asset Where this is the case, impairment reviews are conducted using value in use calculations The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are further explained in Note 8

c) Recognition of intangible assets arising from business combinations

The Group has acquired a number of intangible assets following the acquisition of Moonpig com Limited The key assumptions are around the revenue forecasts at the time of acquisition, and the discount rate used to calculate the value of individual assets The estimated useful life assigned to each asset is also subject to management estimate Refer to Notes 8 and 21

d) Valuation of reverse contingent consideration

The acquisition of Moonpig com Limited includes consideration paid which is held in Escrow Following the removal of LVCR, the Group will be refunded a proportion of this consideration, which is to be treated as a reimbursement of contingent consideration The key assumption is the estimated sales on which VAT will now arise and which qualify for reclaim from Escrow This is further explained in Note 21

e) Recoverability of deferred tax asset

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

The total amount of tax losses that can be carried forward indefinitely totals £5,989,000 The Group recognised a deferred tax asset of £2,456,000 and a deferred tax liability of £15,394,000 (including a £119,000 liability acquired and a £16,560,000 liability arising upon the acquisition of Moonpig com Limited) The amount of deferred tax assets not recognised is £nil at 30 April 2012 See Note 7

f) Share based payment
Assumptions are made in relation to share awards where the Black-Scholes model is used to calculate the charge Key assumptions are volatility, risk free rate, the probability of non-vesting and the expected life of the option These key assumptions are set out by option type in Note 17

2 OPERATING LOSS

	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
This is stated after charging/(crediting)		
Depreciation and amounts written off tangible fixed assets		
- owned assets	4,336	2,324
- leased assets	1,046	393
Amortisation of intangible fixed assets	7,170	1,567
Operating lease rentals		
- land and buildings	775	661
- other	2,354	1,220
Auditor's remuneration		
- audit fees	155	115
- taxation services	23	5
- other services	117	-
Share based payment	1,236	1,292
Foreign exchange profit	(197)	(243)
Loss on disposal of tangible fixed assets	39	-

3 EXCEPTIONAL ITEMS

	Note	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Impairment of goodwill and intangible assets	8	(30,174)	-
Impairment of property	9	(770)	-
Reverse contingent consideration	21	8,000	-
Release of provision	15	2,727	-
Acquisition costs		(2,341)	-
		(22,558)	-

Exceptional items comprise

- Impairment charges – refer to Notes 8 and 9 for additional information
- Reverse contingent consideration – refer to Note 21
- Release of provision – refer to Note 15
- Acquisition costs – these are the costs arising on the acquisition of Moonpig

4 FINANCE INCOME

	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Bank interest	112	27

5 FINANCE COSTS

	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Interest payable on finance leases	93	64
Bank interest payable	2,015	-
Amortisation of issue costs on bank loan	812	-
Unrealised loss on interest rate swap	105	-
Amounts due in respect of interest rate swap	76	-
	3,101	64

6 STAFF COSTS

	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Wages and salaries	24,363	12,258
Social security costs	5,383	3,692
Pension costs	808	485
Employee share schemes	1,236	1,292
	31,790	17,727

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

	Period ended 30 April 2012 Number	Year ended 31 December 2010 Number
Management and administration	292	194
Production	278	182
	570	376

6 STAFF COSTS (continued)

	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Directors' emoluments		
Aggregate emoluments in respect of qualifying services	1,007	467
Pension costs	9	7
Health care costs	7	5
	1,023	479
The number of directors to whom retirement benefits are accruing under money purchase pension schemes was	1	1
The number of directors who exercised share options was	1	-

	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
The amounts in respect of the highest paid director are as follows		
Aggregate emoluments	811	309
Pension costs	9	7
Health care costs	3	2
	823	318

During the year, the highest paid director exercised share options

7 TAXATION

	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
(a) Tax on profit on ordinary activities		
The tax charge / (credit) is made up as follows		
Current tax		
UK corporation tax on profit for the year	3,809	560
Adjustment in respect of prior years	30	(5)
Total current tax	3,839	555
Deferred tax		
Origination and reversal of timing differences	(2,480)	(710)
Impact of changes in tax rates	(812)	(51)
Total deferred tax	(3,292)	(761)
Total tax charge / (credit) for year	547	(206)

7 TAXATION (continued)

(b) Factors affecting current tax charge for the year	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28 3% (2009 28 0%) The differences are explained below		
Loss on ordinary activities before tax	(21,455)	(50)
Loss on ordinary activities calculated at domestic tax rates applicable to profits in the respective countries 28 3% (2010 28 0%)	(6,072)	(14)
Effects of		
Expenses not deductible for tax purposes	10,262	450
Income not subject to tax	(2,064)	-
Capital allowances less than depreciation	158	(139)
Unutilised tax losses	1,056	-
Recognition of historic tax losses	-	(400)
Movement in deferred tax	(2,909)	(185)
Adjustment in respect of prior years	30	(5)
Other timing differences	86	87
Total tax charge / (credit) for the year	547	(206)

(c) Deferred tax asset	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Deferred tax asset at start of period	2,031	1,607
Deferred tax charge for the period	499	424
Change in tax rates	(74)	-
Deferred tax asset at end of period	2,456	2,031

(d) Deferred tax liability	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Deferred tax liability at start of period	(1,579)	(1,878)
Deferred tax asset acquired	(119)	-
Deferred tax charge for the period	1,977	299
Deferred tax arising on intangible assets recognised on acquisition of Moonpig	(16,560)	-
Change in tax rates	887	-
Deferred tax liability at end of period	(15,394)	(1,579)

7 TAXATION (continued)

e) The deferred tax asset above is represented by	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Decelerated capital allowances	383	533
Other timing differences	2,073	1,498
	2,456	2,031

f) The deferred tax liability above is represented by	Period ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Decelerated capital allowances	(108)	-
Other timing differences	(15,286)	(1,579)
	(15,394)	(1,579)

8 INTANGIBLE FIXED ASSETS

	Goodwill	Trademark	Technology and capitalised development costs	Customer database	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
1 January 2011	17,194	13,959	3,575	3,374	1,293	39,395
Additions	-	-	1,296	-	308	1,604
Acquisitions	65,963	26,629	1,878	35,197	2,532	132,199
Disposals	-	-	-	-	(265)	(265)
Transfers	-	-	-	-	94	94
Foreign exchange	(550)	(477)	(11)	(114)	(79)	(1,231)
30 April 2012	**82,607**	**40,111**	**6,738**	**38,457**	**3,883**	**171,796**
Amortisation						
1 January 2011	1,721	8,590	2,542	2,721	1,158	16,732
Charge for year	-	999	1,175	3,917	1,079	7,170
Impairment	27,566	1,281	-	1,327	-	30,174
Disposal	-	-	-	-	(258)	(258)
Exchange	(96)	(477)	(4)	(116)	(77)	(770)
30 April 2012	**29,191**	**10,393**	**3,713**	**7,849**	**1,902**	**53,048**
Net book value						
30 April 2012	**53,416**	**29,718**	**3,025**	**30,608**	**1,981**	**118,748**
31 December 2010	15,473	5,369	1,033	653	135	22,663
31 December 2009	15,733	5,369	1,655	1,202	-	23,959

8 INTANGIBLE FIXED ASSETS (continued)

Impairment test
Goodwill and intangible assets acquired through business combinations have been allocated to two CGUs, which are also operating segments, for impairment testing as follows

- Photobox CGU
- Moonpig CGU

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

	Indefinite useful lives		Definite useful lives			
	Goodwill	Trademark	Technology and capitalised development costs	Customer database	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Photobox CGU	15,733	5,369	1,655	1,202	-	23,959
Moonpig CGU	-	-	-	-	-	-
1 January 2010	15,733	5,369	1,655	1,202	-	23,959
Photobox CGU	15,473	5,369	1,033	653	135	22,663
Moonpig CGU	-	-	-	-	-	-
31 December 2010	15,473	5,369	1,033	653	135	22,663
Photobox CGU	15,019	5,369	1,223	37	173	21,821
Moonpig CGU	38,397	24,349	1,802	30,571	1,808	96,927
30 April 2012	53,416	29,718	3,025	30,608	1,981	118,748

The Group performed its annual impairment test at 30 April 2012 over both the Photobox and Moonpig CGUs

Photobox CGU·
The recoverable amount of the Photobox CGU has been determined based on a value in use calculation using cash flow projections from financial budgets and forecasts approved by senior management The budgets were prepared to 30 April 2013, together with a forecast for the year to 30 April 2014 and then projected for a further 6 years A period of more than 5 years has been used in this impairment review given that the company is still growing rapidly and the Directors do not believe it will trend to a terminal growth rate within 5 years The discounted cash flow model is prepared after making assumptions around growth rate of turnover, operating margin rate, growth rate of other operating charges, variation in working capital requirements and the level of investment These assumptions are based on past experience of growth rates in both existing and new territories

The discount rate selected is 12 3% and the perpetual net income growth rate assumed is 3% The impairment review shows significant headroom and therefore significant changes in these assumptions would be needed before any impairment would be required In particular, the discount rate would need to move to more than 50% before any impairment would be required and revenue growth would need to fall to less than 2% The directors believe there are no such changes in assumptions expected which could lead to impairment

Moonpig CGU:
The Group also considers other aspects of trading and regulation which may have an impact on the Group In November 2011, HMRC announced the removal of the LVCR scheme, with respect to shipments made from the Channel Islands This has a direct impact on the profitability of Moonpig com Limited which produces and ships its goods from Guernsey This is an indicator of impairment and therefore any intangibles relating to Moonpig have also been considered for impairment as part of this review

8 INTANGIBLE FIXED ASSETS *(continued)*

The recoverable amount of the Moonpig CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management The budgets were prepared to 30 April 2013, together with a forecast for the year to 30 April 2014 and then projected for a further 7 years A period of more than 5 years has been used in this impairment review given that the company is still growing rapidly and the Directors do not believe it will trend to a terminal growth rate within 5 years This projection is consistent with the estimates made during the purchase price allocation exercise The discounted cash flow model is prepared after making assumptions around growth rate of turnover, operating margin rate, growth rate of other operating charges, variation in working capital requirements and the level of investment
The discount rate selected is 17 5% and the perpetual growth rate assumed is 2% Growth rates up to the perpetual rate are consistent with historical trends over revenues, volumes and operating expenses

The value in use calculation verified management's assumption that the loss of LVCR would lead to an impairment, and a total impairment of £30,174,000 was charged in the period, of which £2,608,000 related to the trademark and customer relationship intangibles, with the remaining £27,566,000 being charged against goodwill

9 TANGIBLE FIXED ASSETS

	Plant and machinery £'000	Fixtures and fittings £'000	Leasehold improvements £'000	Computer equipment £'000	Assets under construction £000	Total £'000
Cost						
1 January 2010	9,297	4,258	1,743	966	3	16,267
Additions	924	540	1,088	175	1,448	4,175
Acquisitions (note 21)	4,620	1,492	1,646	9	-	7,767
Disposals	(446)	(70)	(12)	-	-	(528)
Transfers	276	760	67	6	(1,202)	(93)
Foreign exchange	(428)	(305)	(95)	-	(28)	(856)
30 April 2012	**14,243**	**6,675**	**4,437**	**1,156**	**221**	**26,732**
Depreciation and impairment						
1 January 2010	4,719	2,710	855	874	-	9,158
Acquisitions (note 21)	1,679	995	413	7	-	3,094
Charge for year	2,399	1,506	603	104	-	4,612
Impairment	770	-	-	-	-	770
Disposals	(299)	(70)	(8)	-	-	(377)
Foreign exchange	(286)	(218)	(57)	-	-	(561)
30 April 2012	**8,982**	**4,923**	**1,806**	**985**	**-**	**16,696**
Net book value						
30 April 2012	**5,261**	**1,752**	**2,631**	**171**	**221**	**10,036**
31 December 2010	4,578	1,548	888	92	3	7,109
31 December 2009	4,468	1,300	719	47	53	6,587

The net book value of plant and machinery includes £1,806,000 (2010 £2,950,000) in respect of assets held under finance leases or hire purchase contracts

The impairment relates to the freehold property owned in Guernsey In November 2011, HMRC announced the removal of the LVCR scheme The Directors considered that the removal of this significant benefit to the Guernsey economy could lead to a reduction in the value of property on the island and consequently engaged a third party to value the property This valuation has resulted in an impairment of £770,000, based on the fair value less costs to sell, calculated with reference to an active market

10 FINANCIAL ASSETS AND LIABILITIES

	30 April 2012	31 December 2010	31 December 2009
Financial assets at fair value through profit or loss			
Reverse contingent consideration	8,000	-	-
Current	6,731	-	-
Non-current	1,269	-	-
Financial liabilities at fair value through profit or loss			
Interest rate swap	105	-	-
Current	105	-	-
Non-current	-	-	-

Reverse contingent consideration As part of the purchase agreement with the previous owners of Moonpig com Limited, reverse contingent consideration relating to any future changes to the LVCR scheme which adversely impact Moonpig com revenue, was agreed Consideration is due from the vendor, paid out of Escrow each month, dependent on monthly sales, and capped at a cumulative total of £8,000,000 The fair value at the date of the acquisition was £nil, as the Group did not envisage the loss of LVCR in its entirety and therefore the full amount was included in consideration (see Note 21) It is expected that the full amount of £8,000,000 will be refunded to the group during 2012 and 2013

Interest rate swap In July 2011, the Group entered into an interest rate swap on the bank loan At the balance sheet date, the notional amount of the debt to which the swap is applied is £31,920,000 The Group receives a fixed rate of 1 29% on the notional amount and pays a variable rate based on LIBOR The fair value of this interest rate swap has been calculated as £105,000 and has been booked in its entirety in the year Any future change in the value of this interest rate swap will be taken to the income statement

Fair values

	Carrying amount			Fair value		
	30 April 2012	31 December 2010	31 December 2009	30 April 2012	31 December 2010	31 December 2009
Financial assets						
Trade and other receivables	11,316	4,494	2,594	11,316	4,494	2,594
Reverse contingent consideration	8,000	-	-	8,000	-	-
Cash	20,420	22,660	16,052	20,420	22,660	16,052
	39,736	27,154	18,646	39,736	27,154	18,646
Financial liabilities						
Trade and other payables	16,105	19,724	14,739	16,105	19,724	14,739
Interest-bearing loans and borrowings						
Obligations under finance leases	1,794	2,789	1,844	1,794	2,789	1,844
Floating rate borrowings	45,722	-	-	45,119	-	-
Other borrowings	-	48	-	-	48	-
Bank overdrafts	16	-	4	16	-	4
Interest rate swap	105	-	-	105	-	-
	63,742	22,561	16,587	63,139	22,561	16,587

Carrying values are assumed to approximate their fair values where discounting is not material The fair value of floating rate borrowings has been calculated by discounting the expected future cash flows at prevailing market interest rates

10 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Fair value hierarchy

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

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

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

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

At 30 April 2012, the Group held the following financial instruments carried at fair value in the statement of financial position

	30 April 2012 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Reverse contingent consideration	8,000	-	8,000	-
	8,000	-	8,000	-
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Interest rate swaps	105	-	105	-
	105	-	105	-

11 INVENTORY

	30 April 2012	Acquisition	Movement	31 December 2010	Movement	31 December 2009
Gross values						
Raw materials and consumables	2,516	383	518	1,615	635	980
	2,516	383	518	1,615	635	980
Write down						
Raw materials and consumables	(100)	-	(41)	(59)	(59)	-
	(100)	-	(41)	(59)	(59)	-
Net values						
Raw materials and consumables	2,416	383	477	1,556	576	980
	2,416	383	477	1,556	576	980

The cost of inventories recognised as an expense and included in cost of sales amounted to £23,605,000 (year ended 31 December 2010 £13,138,000)

12 TRADE AND OTHER RECEIVABLES

	At 30 April 2012 £'000	At 31 December 2010 £'000	At 31 December 2009 £'000
Due within one year:			
Trade receivables	1,448	1,558	1,236
Less provision for impairment of trade receivables	(52)	(12)	(27)
Trade receivables - net	1,396	1,546	1,209
Other receivables	7,904	1,270	50
Prepayments	2,016	1,678	1,335
	11,316	4,494	2,594
Due after more than one year:			
Other receivables	1,773	253	263

13 TRADE AND OTHER PAYABLES

	At 30 April 2012 £'000	At 31 December 2010 £'000	At 31 December 2009 £'000
Trade payables	5,618	6,656	4,479
Other payables	1,173	275	36
Other taxation and social security	2,203	2,693	2,961
Accruals	7,216	10,100	7,263
	16,210	19,724	14,739

14 BORROWINGS

	At 30 April 2012 £'000	At 31 December 2010 £'000	At 31 December 2009 £'000
Current			
Obligations under finance leases - current	692	666	564
Bank overdraft	16	-	4
Bank loan	5,714	-	-
Other borrowings	-	48	-
	6,422	714	568
Non-current			
Obligations under finance leases – non-current	1,102	2,123	1,280
Bank loan	40,008	-	-
	41,110	2,123	1,280
Total borrowings	47,532	2,837	1,848

Included in the bank loans is an amount of £24,380,000 (gross of costs relating to the raising of the debt), which is payable in instalments commencing in February 2012 and ending in July 2015, and carries interest of LIBOR plus 4% The balance of £23,500,000 (gross of costs relating to the raising of the debt) carries interest of LIBOR plus 4 25%, and is repayable in a single instalment in July 2016 The remainder of the balance comprises costs related to the establishment of the debt of £2,586,000 (which are being amortised over the life of the loan) and interest accrued at the year end of £428,000

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

15 PROVISIONS

	Warranty provision	Restructuring provision	Other provisions	Total
At 1 January 2010	211	-	1,733	1,944
Additions to provisions	381	-	1,196	1,577
Use of provision in the year	(211)	-	-	(211)
At 1 January 2011	381	-	2,929	3,310
Additions to provisions	165	98	153	416
Use of provision in the year	(366)	-	(115)	(481)
Release of provision in the year	-	-	(2,727)	(2,727)
Other movements	-	-	(59)	(59)
Foreign exchange	-	-	(10)	(10)
	180	98	171	449

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

Restructuring provision relates to the expected cost of redundancies announced in Guernsey in April 2012 The restructuring is expected to be complete in the next financial year

Other provisions related to various litigation matters and dilapidation provisions The timing of settlement for litigation matters is unknown but not anticipated in the next financial year

16 SHARE CAPITAL AND RESERVES

	At 30 April 2012 £'000	At 31 December 2010 £'000	At 31 December 2009 £'000
Allotted, issued and fully paid:			
24,997,916 ordinary shares of 0 1p each*	25	21	21
31,350,187 "A" Preference shares of 0 1p each	31	31	31
7,077,781 "B" Preference shares of 0 1p each	7	7	7
36,758,342 "C" Preference shares of 0 1p each	37	-	-
	100	59	59

*including 4,334 Non-voting Ordinary Shares

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

The issued share capital of the Company is divided into the following classes of shares (i) Ordinary Shares, (ii) Non-voting Ordinary shares, (iii) Class A Preference Shares, (iv) Class B Preference Shares, and (v) Class C Preference Shares

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

16 SHARE CAPITAL AND RESERVES (continued)

Subject to applicable laws and the Articles of association, holders of Class A Preference Shares, Class B Preference Shares and Class C Preference Shares shall vote together with the holders of Ordinary Shares as a single class

Class A preference shares
Class A preference shares carry a dividend US$0 09229 per annum plus all dividend previously accrued on the shares of Series A Preferred Stock pursuant to the Photoways Inc articles of association Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company

Class B preference shares
Class B preference shares carry a dividend US$0 15256 per annum plus all dividend previously accrued on the shares of Series B Preferred Stock pursuant to the Photoways Inc articles of association Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company Class B preference shares rank in preference to the holders of any other class or series of shares (other than the holders of Class C Preference Shares) and on a pari passu basis with the holders of Class C Preference Shares

Class C preference shares
Class C preference shares carry a dividend of 8 0% per annum plus all dividend previously accrued on the shares of Series C Preferred Stock pursuant to the Photoways Inc articles of association Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company Class C preference shares rank in preference to the holders of any other class or series of shares (other than the holders of Class B Preference Shares) and on a pari passu basis with the holders of Class B Preference Shares

Ordinary shares·
On 19 July 2011, 20,525,655 £0 001 ordinary shares were issued as part of a share for share exchange with the former shareholders of Photoways Inc for cash consideration of £nil

On 22 July 2011, 1,327,842 £0 001 ordinary shares were converted into 1,327,842 £0 001 "C" Preference shares for cash consideration of £nil

On 26 July 2011, 5,618,414 £0 001 ordinary shares were issued for in exchange for 5,618,414 convertible loan notes in Photobox Alpha Limited (which were converted into ordinary share capital in Photobox Holdco Alpha Limited immediately after this swap)

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

On 30 August 2011, 81,687 £0 001 ordinary shares were issued for cash consideration

"A" Preference shares:

On 19 July 2011, 31,369,641 £0 001 "A" Preference shares were issued as part of a share for share exchange with the former shareholders of Photoways Inc for cash consideration of £nil

On 22 July 2011, 19,454 £0 001 "A" Preference shares were converted into 19,454 £0 001 "C" Preference shares for cash consideration of £nil

"B" Preference shares:

On 19 July 2011, 7,077,781 £0 001 "B" Preference shares were issued as part of a share for share exchange with the former shareholders of Photoways Inc for cash consideration of £nil

16 SHARE CAPITAL AND RESERVES (contınued)

"C" Preference shares·

On 22 July 2011, 27,430,906 £0 001 "C" Preference shares were ıssued for cash consıderatıon of £48,123,546

On 22 July 2011, 1,347,296 £0 001 "C" Preference shares were ıssued ın respect of the conversıon of 1,327,842 ordınary shares and 19,454 "C" Preference shares referred to above

On 26 July 2011, 7,980,140 £0 001 "C" Preference shares were ıssued ın exchange for 7,980,140 convertıble loan notes ın Photobox Holdco Alpha Lımıted (whıch were converted ınto ordınary share capıtal ın Photobox Holdco Alpha Lımıted ımmedıately after thıs swap)

The merger reserve arose on the group reconstructıon when Photobox Holdco Lımıted was ınserted as the ultımate parent of the group and purchased the share capıtal of the prevıous parent, Photoways, Inc

The foreıgn exchange reserve represents the exchange dıfference arısıng on the retranslatıon of foreıgn currency denomınated group companıes ınto the group's Sterlıng presentatıon currency

17 SHARE OPTIONS

Followıng a group reconstructıon, the Group's ultımate parent company changed from Photoways, Inc to Photobox Holdco Lımıted Up untıl 22 July 2011, all optıons were granted by the Photoways, Inc Board of Dırectors under the 2005 Stock Optıon and Grant Plan Photoways, Inc (together wıth varıous Amendments and Addendums) All optıons ıssued sınce 22 July 2011 have been granted under the Long Term Incentıve Plan of Photobox Holdco Lımıted

Except as determıned at the sole dıscretıon of the Board of Dırectors (of Photoways Inc for optıons granted prıor to 22 July 2011, and Photobox Holdco Lımıted for optıons granted sınce 22 July 2011), the vestıng perıod of the optıons starts on the 1st annıversary of the grant date (where 25% of the optıons vest), and contınues wıth monthly vestıng over a perıod of 36 months The maxımum term of an optıon ıs 10 years from the date the optıon ıs granted

Followıng the reconstructıon, all optıon holders entered ınto eıther a swap agreement or a put and call agreement whereby the optıons remaın under the rules of Photoways Inc plan Where a swap agreement ıs ın place, the only modıficatıon to thıs scheme ıs that upon exercıse, the holder receıves an ordınary share ın Photobox Holdco Lımıted rather than a share of common stock ın Photoways, Inc Where a put and call agreement ıs ın place, when optıon holders exercıse theır optıon, they receıve a share of common stock ın Photoways, Inc Immedıately upon ıssue, Photobox Holdco Lımıted wıll exercıse a call optıon to acquıre thıs share of common stock ın Photoways, Inc for an ordınary share ın Photobox Holdco Lımıted Under both arrangements, the change to the settlement of the optıon reflects a modıficatıon but does not result ın any change ın the faır value of the optıons orıgınally ıssued under the 2005 plan

	16 month perıod to 30 Aprıl 2012		Year ended 31 December 2010	
	Number	Weıghted average exercıse prıce	Number	Weıghted average exercıse prıce
At start of perıod	12,852,488	£0 82	11,050,158	£0 74
Granted	4,643,000	£0 88	4,620,031	£0 89
Forfeıted	(947,259)	£0 86	(2,817,701)	£0 76
Exercısed	(623,938)	£0 72	-	-
At end of perıod	15,924,291	£0 82	12,852,488	£0 82

The weıghted average remaınıng contractual lıfe for the share optıons outstandıng as at 30 Aprıl 2012 ıs 6 89 years (at 31 December 2010 7 21 years)

The weıghted average faır value of optıons granted durıng the perıod was £0 45 (year ended 31 December 2010 £0 51)

17 SHARE OPTIONS (continued)

The following table illustrates the number of options granted, their vesting start and end dates, their exercise prices, movements during the period to 30 April 2012 and the numbers of share options remaining to vest at the end of April 2012

	Date of grant	Date of expiry	Options at 31/12/10	Grants in period	Forfeitures in period	Exercised	Options at 30/4/12	No of options exercisable at 30 April 2012	Exercise price
Plan 1	09/07/2005	09/07/2015	-	-	-	-	-	-	$1 15
Plan 2 1	23/11/2005	23/11/2015	288,010	-	-	-	288,010	288,010	$1 15
Plan 2 2	23/11/2005	23/11/2015	667,003	-	-	-	667,003	667,003	$1 15
Plan 2 3	23/11/2005	23/11/2015	200,101	-	-	-	200,101	200,101	$1 15
Plan 2 3 bis	23/11/2005	23/11/2015	-	-	-	-	-	-	$1 15
Plan 3 1	05/04/2006	04/04/2016	-	-	-	-	-	-	$1 15
Plan 3 1 bis	05/04/2006	04/04/2016	52,209	-	-	-	52,209	52,209	$1 15
Plan 3 2	05/04/2006	04/04/2016	-	-	-	-	-	-	$1 15
Plan 4	06/10/2006	05/10/2016	3,185,000	-	-	(500,438)	2,684,562	2,684,562	$1 15
Plan 5 1	06/12/2006	05/12/2016	242,000	-	(1,000)	(100,000)	141,000	141,000	$1 15
Plan 5 2	06/12/2006	05/12/2016	242,000	-	(23,000)	(20,000)	199,000	199,000	$1 15
Plan 5 3	06/12/2006	05/12/2016	901,940	-	-	-	901,940	901,940	$1 15
Plan 5 3 bis	06/12/2006	05/12/2016	342,334	-	-	-	342,334	342,334	$1 15
Plan 6	03/10/2007	02/10/2017	500,000	-	-	-	500,000	500,000	$1 15
Plan 7 1	23/05/2007	22/05/2017	14,000	-	(3,000)	-	11,000	11,000	$1 15
Plan 7 2	23/05/2007	22/05/2017	2,000	-	(1,000)	-	1,000	1,000	$1 15
Plan 8 1	19/12/2007	18/12/2017	500,000	-	(58,356)	-	441,644	441,644	$1 39
Plan 8 2	19/12/2007	18/12/2017	68,000	-	-	-	68,000	68,000	$1 39
Plan 8 3	19/12/2007	18/12/2017	209,000	-	(67,000)	-	142,000	142,000	$1 39
Plan 9 1	09/04/2008	09/04/2018	30,000	-	-	-	30,000	30,000	$1 39
Plan 9 2	19/11/2008	19/11/2018	556,413	-	(258,000)	-	298,413	267,153	$1 39
Plan 10 1	26/01/2009	26/01/2019	84,000	-	(12,000)	-	72,000	59,944	$1 39
Plan 10 2	26/01/2009	26/01/2019	140,000	-	(42,500)	(3,500)	94,000	77,764	$1 39
Plan 10 3	03/09/2009	03/09/2019	117,000	-	(30,000)	-	87,000	56,102	$1 39
Plan 10 4	03/09/2009	03/09/2019	144,000	-	(19,000)	-	125,000	80,612	$1 39
Plan 10 5	03/09/2009	03/09/2019	40,000	-	-	-	40,000	32,896	$1 39
Plan 11 1	17/02/2010	17/02/2020	152,000	-	-	-	152,000	82,310	$1 39
Plan 11 2	17/02/2010	17/02/2020	102,000	-	(5,000)	-	97,000	52,488	$1 39
Plan 11 3 - 1	25/03/2010	24/03/2020	2,000	-	(1,000)	-	1,000	510	$1 39
Plan 11 3 - 2	25/03/2010	24/03/2020	758,806	-	(379,403)	-	379,403	197,602	$1 39
Plan 11 3 - 3	25/03/2010	24/03/2020	2,655,822	-	-	-	2,655,822	1,383,231	$1 39
Plan 11 3 - 4	25/03/2010	24/03/2020	94,850	-	-	-	94,850	94,850	$1 39
Plan 11 4 - 1	23/09/2010	22/09/2020	124,000	-	-	-	124,000	49,067	$1 39
Plan 11 4 - 2	23/09/2010	22/09/2020	38,000	-	-	-	38,000	15,030	$1 39
Plan 11 4 - 3	23/09/2010	22/09/2020	380,000	-	-	-	380,000	150,412	$1 39
Plan 11 4 - 4	23/09/2010	22/09/2020	20,000	-	-	-	20,000	7,912	$1 39
Plan 12 1	10/02/2011	09/02/2021	-	399,000	(23,000)	-	376,000	109,630	$1 39
Plan 12 2	10/02/2011	09/02/2021	-	160,000	-	-	160,000	46,666	$1 39
Plan 12 3	10/02/2011	09/02/2021	-	177,000	(24,000)	-	153,000	44,612	$1 39
Plan 12 4	10/02/2011	09/02/2021	-	250,000	-	-	250,000	72,916	$1 39
Plan 12 5	10/02/2011	09/02/2021	-	16,000	-	-	16,000	4,664	$1 39
Plan 12 6	20/09/2011	19/09/2021	-	693,000	-	-	693,000	-	£0 89
Plan 12 7	20/09/2011	19/09/2021	-	400,000	-	-	400,000	-	£0 89
Plan 12 8	15/12/2011	14/12/2021	-	1,500,000	-	-	1,500,000	-	£0 89
Plan 12 9	15/12/2011	14/12/2021	-	1,000,000	-	-	1,000,000	-	£0 89
Plan 13 1	02/02/2012	01/02/2022	-	48,000	-	-	48,000	-	£0 89
			12,852,488	4,643,000	(947,259)	(623,938)	15,924,291	9,556,174	

17 SHARE OPTIONS (contınued)

The followıng table lısts the ınputs used

	Grant date	Strike price	Risk free rate	Volatility	Expected lıfe	Faır value
Plan 1	09/07/05	$1 15	3 70%	65 42%	5 68	$0 70
Plan 2 1	23/11/05	$1 15	3 70%	65 42%	5 77	$0 70
Plan 2 2	23/11/05	$1 15	3 70%	65 42%	5 58	$0 70
Plan 2 3	23/11/05	$1 15	3 70%	65 42%	5 89	$0 70
Plan 2 3 bıs	23/11/05	$1 15	3 70%	65 42%	5 89	$0 00
Plan 3 1	05/04/06	$1 15	3 70%	56 77%	6 08	$0 65
Plan 3 1 bıs	05/04/06	$1 15	3 70%	56 77%	6 08	$0 65
Plan 3 2	05/04/06	$1 15	3 70%	56 77%	6 00	$0 65
Plan 4	06/10/06	$1 15	3 70%	56 77%	5 88	$0 65
Plan 5 1	06/12/06	$1 15	3 70%	56 77%	5 58	$0 63
Plan 5 2	06/12/06	$1 15	3 70%	56 77%	6 08	$0 65
Plan 5 3	06/12/06	$1 15	3 70%	56 77%	6 08	$0 65
Plan 5 3 bıs	06/12/06	$1 15	3 70%	56 77%	6 08	$0 65
Plan 6	03/10/07	$1 15	4 50%	100 00%	6 00	$0 93
Plan 7 1	23/05/07	$1 15	4 50%	100 00%	6 00	$0 93
Plan 7 2	23/05/07	$1 15	4 50%	100 00%	6 00	$0 93
Plan 8 1	19/12/07	$1 39	4 50%	100 00%	6 00	$1 12
Plan 8 2	19/12/07	$1 39	4 50%	100 00%	6 00	$1 12
Plan 8 3	19/12/07	$1 39	4 50%	100 00%	6 00	$1 12
Plan 9 1	09/04/08	$1 39	4 00%	100 00%	6 08	$1 12
Plan 9 2	19/11/08	$1 39	4 00%	100 00%	6 08	$1 12
Plan 10 1	26/01/09	$1 39	2 50%	100 00%	6 08	$1 11
Plan 10 2	26/01/09	$1 39	2 50%	100 00%	6 08	$1 11
Plan 10 3	03/09/09	$1 39	2 10%	100 00%	6 08	$1 11
Plan 10 4	03/09/09	$1 39	2 10%	100 00%	6 08	$1 11
Plan 10 5	03/09/09	$1 39	2 10%	100 00%	6 08	$1 11
Plan 11 1	17/02/10	$1 39	1 93%	60 00%	6 08	$0 79
Plan 11 2	17/02/10	$1 39	1 93%	60 00%	6 08	$0 79
Plan 11 3 - 1	25/03/10	$1 39	1 83%	60 00%	6 08	$0 79
Plan 11 3 - 2	25/03/10	$1 39	1 83%	60 00%	6 08	$0 79
Plan 11 3 - 3	25/03/10	$1 39	1 83%	60 00%	6 08	$0 79
Plan 11 3 - 4	25/03/10	$1 39	1 83%	60 00%	6 08	$0 79
Plan 11 4 - 1	23/09/10	$1 39	1 27%	60 00%	6 08	$0 78
Plan 11 4 - 2	23/09/10	$1 39	1 27%	60 00%	6 08	$0 78
Plan 11 4 - 3	23/09/10	$1 39	1 27%	60 00%	6 08	$0 78
Plan 11 4 - 4	23/09/10	$1 39	1 27%	60 00%	6 08	$0 78
Plan 12 1	10/02/11	$1 39	2 80%	57 00%	6 00	$0 77
Plan 12 2	10/02/11	$1 39	2 80%	57 00%	6 00	$0 77
Plan 12 3	10/02/11	$1 39	2 80%	57 00%	6 00	$0 77
Plan 12 4	10/02/11	$1 39	2 80%	57 00%	6 00	$0 77
Plan 12 5	10/02/11	$1 39	2 80%	57 00%	6 00	$0 77
Plan 12 6	20/09/11	£0 89	1 3196%	57 00%	6 00	£0 45
Plan 12 7	20/09/11	£0 89	1 3196%	57 00%	6 00	£0 45
Plan 12 8	15/12/11	£0 89	1 0345%	57 00%	6 00	£0 45
Plan 12 9	15/12/11	£0 89	1 0345%	57 00%	6 00	£0 45
Plan 13 1	02/02/12	£0 89	1 0468%	57 00%	6 00	£0 45

The expected volatılıty ıs based on the hıstorıcal volatılıty of comparator lısted companıes for a perıod of at least 4 years from the date of grant

18 CASH GENERATED FROM OPERATIONS

	At 30 Apnl 2012 £'000	At 31 December 2010 £'000
Loss before taxation	(21,455)	(50)
Adjustments for		
- Depreciation	4,612	2,720
- Amortisation	7,170	1,573
- Goodwill impairment charge	27,566	-
- Intangible fixed asset impairment charge	2,608	-
- Tangible fixed asset impairment charge	770	-
- Loss on disposal of property plant and equipment	158	-
- Share based payment charge	1,236	1,292
- Net finance costs / (income)	2,989	(37)
- Unrealised foreign exchange gain on operating activities	(601)	(363)
Changes in working capital		
- Inventories	(520)	(599)
- Trade and other receivables	(7,877)	(773)
- Trade and other payables	(9,241)	5,483
	7,415	9,246

19 COMMITMENTS AND CONTINGENCIES

a) ***Contingencies***

All group companies, excluding Photobox Holdco Limited, have given a guarantee in respect of the bank borrowings of another group company, which amounted to £47,880,000 at 30 April 2012

The Group is involved in litigation with unions concerning the French Collective Bargaining Agreement The Group's position was ratified by a recent court decision, but the claimants have lodged an appeal, which is pending

b) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is £nil (31 December 2011 £nil)

c) Operating lease commitments

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

	At 30 Apnl 2012 £'000	At 31 December 2010 £'000
No later than 1 year	2,421	1,381
Later than 1 year and no later than 5 years	4,503	2,747
Later than 5 years	951	-
	7,875	4,128

19 COMMITMENTS AND CONTINGENCIES (continued)

d) Finance lease commitments

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

	At 30 April 2012		At 31 December 2010	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
No later than 1 year	702	658	990	895
Later than 1 year and no later than 5 years	1,182	1,136	1,995	1,894
Total minimum lease payments	1,884	1,794	2,985	2,789
Less amounts representing finance charges	(90)	-	(196)	-
Present value of minimum lease payments	1,794	1,794	2,789	2,789

20 RELATED PARTY TRANSACTIONS

Insight Venture Management LLC
During the period, the Group paid £37,000 to Insight Venture Management LLC ("Insight") for consultancy services

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

Key Management
During the year, I S Martin (a member of Key Management) became a trustee of a registered charity Moonpig Foundation (registered no 7171262), which is a separate legal entity from Moonpig com Ltd There were financial transactions between the two entities during the year to the value of £32,000, of which £1,000 was received by Moonpig com Ltd for the re-imbursement of fundraising expenses and £31,000 was paid to the Foundation as a charitable donation

Compensation of Key Management personnel of the Group

	16 months ended 30 April 2012 £'000	Year ended 31 December 2010 £'000
Short-term employee benefits	2,460	1,081
Post-employment pension and medical benefits	40	17
Share-based payment transactions	1,033	1,080
Total compensation relating to Key Management personnel	3,533	2,178

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

20 RELATED PARTY TRANSACTIONS (continued)

Interests in long term incentive plans

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

			30 April 2012	31 December 2010
	Expiry date	Exercise price	Number outstanding	Number outstanding
Issue date				
2005	2015	$1 15	200,101	200,101
2006	2016	$1 15	3,440,335	3,940,773
2007	2017	$1 15	1,153,501	1,153,501
2008	2018	$1 39	250,000	250,000
2009	2019	$1 39	15,000	15,000
2010	2020	$1 39	3,525,225	3,525,225
2011	2021	£0 89	3,710,000	-
			12,294,162	9,084,600

21 BUSINESS COMBINATIONS

Acquisition of Moonpig.com Limited

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

Assets acquired and liabilities assumed

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

	Note	Fair value recognised on acquisition £'000
Cash		84,807
Cash held in Escrow		12,000
Share capital		23,856
Deferred consideration		100
Total consideration		**120,763**
Net assets acquired		
Assets		
Tangible and intangible fixed assets	8,9	4,763
Cash and cash equivalents		8,125
Trade and other receivables		748
Inventories		383
		14,019
Liabilities		
Trade and other payables		8,776
Deferred tax liability	7	119
Total identifiable net assets at fair value		**5,124**
Goodwill and intangibles arising on acquisition	8	**115,639**
Analysed as follows		
Intangible assets	8	66,236
Deferred tax arising on intangible assets	7	(16,560)
Remaining goodwill	8	65,963

21 BUSINESS COMBINATIONS (continued)

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

From the date of acquisition, Moonpig com Limited has contributed £35,279,000 of revenue and £9,187,000 to the net profit before tax of the Group

The Group issued 5,700,101 ordinary shares and 7,980,140 "C" Preference Shares as part consideration for the 100% interest in Moonpig com Limited

Transactions costs of £2,341,000 have been expensed and included in exceptional items Costs attributable to the issuance of the shares of £475,000 have been charged directly to equity as a reduction in share premium

Of the total goodwill and intangibles arising of £115,639,000, intangible assets to the value of £66,236,000 have been recognised on acquisition, primarily in terms of the trademark and customer relationships The remaining goodwill represents the value derived from future incremental profitability over and above that which existed at the time of the acquisition, including synergies and cost savings through economies of scale

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

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss for that period

In preparing these financial statements, the directors are required to

a select suitable accounting policies and then apply them consistently,

b make judgements and estimates that are reasonable and prudent,

c state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,

d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

We have audited the financial statements of Photobox Holdco Limited for the period ended 30 April 2012 which comprise the Balance Sheet and the related notes 1 to 8 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 April 2012 and of its profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

NICK POWELL (Senior Statutory Auditor)
For and on behalf of ERNST & YOUNG LLP, Statutory Auditor
1 More London Place
London SE1 2AF
17/08/2012

Photobox Holdco Limited (Company)

Company balance sheet
As at 30 Apnl 2012

	Notes	30 Apnl 2012 £'000
Fixed assets		
Investments in group companies	*3*	112,252
Current liabilities		
Creditors amounts falling due within one year	*4*	(103)
NET CURRENT LIABILITIES		(103)
TOTAL ASSETS LESS CURRENT LIABILITIES		112,149
NET ASSETS		**112,149**
Capital and reserves		
Ordinary share capital	*5*	25
"A" Preference share capital	*5*	31
"B" Preference share capital	*5*	7
"C" Preference share capital	*5*	37
Share premium	*6*	71,160
Merger reserve	*6*	40,875
Retained earnings	*6*	14
TOTAL SHAREHOLDERS' FUNDS	*7*	**112,149**

The financial statements on pages 47 to 52 were approved by the board of directors and authorised for issue on 17 August 2012 and are signed on its behalf by

S Laurent
Director

1. PRINCIPAL ACCOUNTING POLICIES

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

Basis of accounting

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

Going concern

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

Investments in subsidiaries

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

Cash flow statement

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

Foreign currency

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

Taxation

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

Financial instruments

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

2. PROFIT FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements The parent company's profit after taxation was £14,000 The Company has no employees Emoluments for the company directors were born by a fellow group company Audit fees are disclosed in note 2 to the consolidated financial statements The company has paid no dividends in the period

3 INVESTMENTS IN GROUP COMPANIES

	2012 £'000
Cost and net book value	
Additions in the year	112,252
	112,252

The company was incorporated in the year and following a group reorganisation, the company became the new parent of the group

Interests in group undertakings
Details of subsidiary undertakings are as follows

Name of Company	Country of incorporation	Holding	Proportion of voting rights and shares directly held	Proportion of voting rights and shares indirectly held	Nature of business
Photobox Holdco Gamma Ltd	UK	Ordinary shares	100 0%	-	Holding company
Photobox Holdco Alpha Ltd	UK	Ordinary shares	-	100 0%	Holding company
Photobox Holdco Beta Ltd	UK	Ordinary shares	-	100 0%	Holding company
Photobox Ltd	UK	Ordinary shares	-	100 0%	Trading company
Moonpig com Ltd	UK	Ordinary shares	-	100 0%	Trading company
Photobox SAS	France	Share capital	-	100 0%	Trading company
Photoways Inc	USA	Common stock Preference stock	-	100 0%	Holding company
Photobox GmbH	Germany	Share capital	-	100 0%	Service company
Online Photo Sverige AB	Sweden	Share capital	-	100 0%	Service company

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

4 CREDITORS: Amounts falling due within one year

	30 April 2012 £'000
Amounts owed to group undertakings	103

5 SHARE CAPITAL

	30 April 2012 £'000
Allotted, issued and fully paid:	
24,997,920 ordinary shares of 0 1p each	25
31,350,187 "A" Preference shares of 0 1p each	31
7,077,781 "B" Preference shares of 0 1p each	7
36,758,342 "C" Preference shares of 0 1p each	37

*including 4,334 Non-voting Ordinary Shares

The issued share capital of the Company is divided into the following classes of shares (i) Ordinary Shares, (ii) Non-voting Ordinary shares, (iii) Class A Preference Shares, (iv) Class B Preference Shares, and (v) Class C Preference Shares

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

Subject to applicable laws and the Articles of association, holders of Class A Preference Shares, Class B Preference Shares and Class C Preference Shares shall vote together with the holders of Ordinary Shares as a single class

Class A preference shares
Class A preference shares carry a dividend US$0 09229 per annum plus all dividend previously accrued on the shares of Series A Preferred Stock pursuant to the Photoways Inc articles of association Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company

Class B preference shares
Class B preference shares carry a dividend US$0 15256 per annum plus all dividend previously accrued on the shares of Series B Preferred Stock pursuant to the Photoways Inc articles of association Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company Class B preference shares rank in preference to the holders of any other class or series of shares (other than the holders of Class C Preference Shares) and on a pari passu basis with the holders of Class C Preference Shares

Class C preference shares
Class C preference shares carry a dividend of 8 0% per annum plus all dividend previously accrued on the shares of Series C Preferred Stock pursuant to the Photoways Inc articles of association Accrued dividends are payable when and as declared by the Board or the Company, or upon liquidation, dissolution or winding up of the Company Class C preference shares rank in preference to the holders of any other class or series of shares (other than the holders of Class B Preference Shares) and on a pari passu basis with the holders of Class B Preference Shares

5 SHARE CAPITAL (continued)

Ordinary shares:

On 19 July 2011, 20,525,655 £0 001 ordinary shares were issued as part of a share for share exchange with the former shareholders of Photoways Inc for cash consideration of £nil

On 22 July 2011, 1,327,842 £0 001 ordinary shares were converted into 1,327,842 £0 001 "C" Preference shares for cash consideration of £nil

On 26 July 2011, 5,618,414 £0 001 ordinary shares were issued for in exchange for 5,618,414 convertible loan notes in Photobox Alpha Limited (which were converted into ordinary share capital in Photobox Holdco Alpha Limited immediately after this swap)

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

On 30 August 2011, 81,687 £0 001 ordinary shares were issued for cash consideration

"A" Preference shares:

On 19 July 2011, 31,369,641 £0 001 "A" Preference shares were issued as part of a share for share exchange with the former shareholders of Photoways Inc for cash consideration of £nil

On 22 July 2011, 19,454 £0 001 "A" Preference shares were converted into 19,454 £0 001 "C" Preference shares for cash consideration of £nil

"B" Preference shares:

On 19th July 2011, 7,077,781 £0 001 "B" Preference shares were issued as part of a share for share exchange with the former shareholders of Photoways Inc for cash consideration of £nil

"C" Preference shares·

On 22nd July 2011, 27,430,906 £0 001 "C" Preference shares were issued for cash consideration of £48,123,546

On 22 July 2011, 1,347,296 £0 001 "C" Preference shares were issued in respect of the conversion of 1,327,842 ordinary shares and 19,454 "C" Preference shares referred to above

On 26th July 2011, 7,980,140 £0 001 "C" Preference shares were issued in exchange for 7,980,140 convertible loan notes in Photobox Holdco Alpha Limited (which were converted into ordinary share capital in Photobox Holdco Alpha Limited immediately after this swap)

6 STATEMENT OF MOVEMENT ON RESERVES

	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
Profit for the year	-	-	14
Issue of share capital (net of costs)	71,160	-	-
Merger reserve	-	40,875	-
At 30 April 2012	71,160	40,875	14

7 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£'000
Opening shareholders' funds/(deficit)	-
Profit for the financial year	14
Issue of share capital (net of costs)	71,260
Merger reserve	40,875
Closing shareholders' funds	112,149

8 RELATED PARTY TRANSACTIONS

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