

**Potential Finance Group PLC**

Potential House  
149-157 Kings Road  
Brentwood  
Essex CM14 4EG

potential

**Potential Finance Group PLC**

Report And Financial Statements  
30 September 2006



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## Chairman's Statement

Since we last reported in May 2006, a great deal of progress has been made in terms of the Group's strategy for growth.

In August, we completed on the sale of our office building, remaining as tenants on one floor. The sale realised a substantial profit on our original cost, but only £110,000 has been recognised in the profit and loss account for the year as £338,000 had already been transferred to reserves on revaluation.

In terms of cash flow, the sale released over £500,000 after repayment of the mortgage. These funds were made available to Potential Asset Finance Limited (PAF) to create further opportunity for the expansion of its portfolio, which stood at £10.8 million gross receivable in September 2006 (£9.4 million net investment) and is £12.3 million (£10.8 million net) at the present time. PAF has performed consistently well in the three years since it began trading, with a pre tax profit increase over 2005 in excess of 15%, despite taking on a much larger proportion of group overhead in the year. Over the past twelve months, PAF has successfully expanded its brokerage division, and new staff have been recruited to assist with sales, underwriting and credit control. This increase in sales and back office staff is important in the current climate for asset finance, where margins are being squeezed, following the increase in bank interest rates and the entry to the market of a number of major banks. However, our unique, personal "hands on" approach to underwriting means that we are better able to consider proposals, which are not sub-prime assets, and which are not appropriate to the larger lenders who use credit scoring methods.

The board continues to expend considerable time on the collection of outstanding debt relating to the factoring portfolio of Potential Finance Limited (PFL). Excellent progress has been made on several smaller cases, but the majority of the debtor balance (£1.4 million) relates to one transaction, secured on a substantial commercial land development in South Wales, which is the subject of a complex planning procedure. The board is optimistic that recovery will take place during the current financial year, which will make a significant difference to liquidity and

also to the availability of additional working capital. Clearly the growth and performance of the group is hampered both by the time spent by the board on these earlier recoveries, and the effect on gearing of the funds absorbed by them.

During the year the board has considered several possibilities for diversification by acquisition, and, following due diligence, reached the conclusion that vehicle hire would be an ideal, complementary area of activity for the group, but that rather than taking on an existing business with the inherent risks and costs, a new operation should be started. A detailed business plan was drawn up for the new subsidiary, Potential Vehicle Hire Limited (PVH) and the management team, now operational, was recruited. Highly competitive supply terms have been negotiated with all of our target manufacturers and credit lines have been agreed with a panel of major banks and funders.

PVH will concentrate on light commercial vehicles, and will look to supply new, top quality vans to companies with fleet requirements, on flexible rental terms. This is an area with considerable scope for expansion in the UK market, when compared with the vehicle hire sector in the USA, which is more mature but has shown substantial growth and profitability. With the group's current asset finance and vehicle remarketing activities, the possibility of retail rather than trade sales at the time of disposal of PVH's vehicles will enhance further the return anticipated by the business model, underlining the complementary nature of the companies within the Potential Finance Group structure.

This is a pivotal time for our group. We are almost free from the difficulties and constraints arising from our previous factoring activities and have a leasing portfolio which has continued to grow despite those constraints. In addition to this, we have negotiated competitive supplier terms and funding to support the significant growth potential within our new business sector.

I thank our staff for their hard work, and look forward to the coming year with enthusiasm.

**Peter Cordrey**  
Chairman

## Directors' Report

The directors submit their report and the audited financial statements of Potential Finance Group PLC for the year ended 30 September 2006.

### PRINCIPAL ACTIVITIES

The company is a non-trading parent company, with two trading subsidiaries, Potential Finance Limited and Potential Asset Finance Limited.

The principal activity of Potential Finance Limited throughout the year was working on the recovery of factoring assets still outstanding.

Potential Asset Finance Limited provided asset finance through finance leases and hire purchase agreements and also sourced and sold vehicles.

### REVIEW OF THE BUSINESS

There has been continued growth in the portfolio and activities of Potential Asset Finance Ltd (PAF) during the year. Its specialist broker unit has had an excellent start, since its inception in January 2006. A dedicated broker manager has now been appointed and some £5 million of new business has been placed with third party funders. PAF has also recruited additional back office staff, to ensure the maintenance of high service levels and tight system controls.

With a competitive market place in asset finance, the company is constantly looking for additional niche opportunities within the sector to provide specialist funding and has succeeded in identifying a number of new areas, with the result that average margins have improved over the past few months.

The properties held by Potential Finance Limited (PFL) both for own use and as an investment were sold during the year, generating cash and capital gains. There is only one major debt left to collect from the factoring portfolio, but it is hoped that the sale of the land on which it is secured, will complete this year.

### FUTURE DEVELOPMENTS

The board of Potential Finance Group plc has been examining opportunities for diversification and acquisition, and after a full strategic review carried out in conjunction with specialist advisers in the vehicle finance and hire market, we have identified short-term commercial vehicle rental as an ideal business opportunity which will complement the Group's current activities.

An experienced management team, with a demonstrated successful track record within this sector, has been recruited and Potential Vehicle Hire Limited (PVH) commenced trading in early February. We have had an excellent response, resulting in specific orders, from our target customer base and to satisfy this initial demand, we have placed purchase orders for over 250 vehicles, to be delivered to customers during our first quarter of trading.

Contracts have already been signed with national breakdown and recovery companies and a servicing and repair supply agreement has been concluded with a major UK provider. Our business model differentiates itself from our competitors by utilising these outsourcing partnerships. This approach, which provides cost-effective nationwide coverage, has been welcomed by our customers, and we are now well placed to build on this excellent start and to capitalise on the positive customer feedback received to date.

All back office and accounting functions will initially be carried out at the Brentwood head office, and the use of a web-based, fully supported computer system for the hire agreements will help simplify integration between rental sites and provide flexibility when further locations are added.

PFL currently provides a central management service for PAF, which will in future include support for PVH. Although PVH will require working capital going forward, the level of support available from manufacturer-owned finance companies, means that we can achieve higher gearing levels than can be attained in either the factoring or asset finance industries and the board anticipates that as a result, the Group will in future, be able to generate a higher return on capital employed.

## Directors' Report (continued)

### DIVIDENDS

In view of the group's current and future requirements the directors do not recommend the payment of a dividend. The directors intend to pursue a future dividend policy when it becomes commercially prudent to do so, subject to the availability of sufficient distributable profits.

### DIRECTORS AND THEIR INTERESTS

The directors of the company are listed on page 5.

The directors' interests in the shares of the company, including family interests as required by the Companies Act 1985, were as follows:

	Ordinary shares of 25p each	
	30 September 2006 No.	1 October 2005 No.
Peter Cordrey (appointed 01.05.06)	–	–
Frank Lafford	2,139,100	1,750,400
Anthony Jacobs (resigned 26.01.07)	1,545,000	1,545,000
Vivien Ware	36,700	36,700
Colin Swanston	20,000	–
Adrian Rapazzini (resigned 30.04.06)	–	–

Details of Share Options granted to the directors are set out in the Remuneration Report on pages 9 and 10.

### SUBSTANTIAL SHAREHOLDINGS

Other than the directors' holdings as detailed above, the company has been notified of the following substantial interests in the company's share capital at the date of this report:

	Number of ordinary shares of 25p each	Percentage of issued share capital
Aberdeen Holdings Limited	2,552,500	24.37
Mark Abbot	315,994	3.02

### PAYMENT OF CREDITORS

The group does not follow any formal code or standard on payment practice. It is the group's policy to negotiate payment terms with its major suppliers, and to ensure that they know the terms on which payment will be made, when the business is agreed.

It is the directors' policy to abide by these terms.

Trade creditor days based on creditors at 30 September 2006 were 12 days (2005: 18 days).

### CORPORATE GOVERNANCE

The company is supportive of the principles embodied in the revised Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003. Although not required to, the directors have decided to provide corporate governance disclosures. Details concerning the group's arrangements in relation to corporate governance and internal controls are given in the Corporate Governance Report on pages 7 and 8.

### GOING CONCERN

The directors believe, after making appropriate enquiries that the group has adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing financial statements.

### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were in office on the date of approval of these financial statements have confirmed that, so far as they are each aware, there is no relevant audit information of which the auditors are 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.

### AUDITORS

A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

By order of the board

**Vivien Ware**  
Secretary

## Directors

### Chairman (non-executive)

**Peter Cordrey** joined the board in May 2006. He is a Chartered Accountant and a Fellow of the Chartered Institute of Management. He was Chairman of Hampshire Trust Plc from 1997 to 2006 and previously spent 25 years with the merchant bank, Singer & Friedlander Limited, the final 12 years as a director and head of banking.

Peter has extensive experience in all areas of banking and finance and will play a significant part in the group's expansion plans.

### Managing Director

**Colin Swanston** has over 25 years' experience in the asset finance business and was formerly a director of Singer and Friedlander Commercial Finance Limited.

### Finance Director

**Vivien Ware**, is a Chartered Certified Accountant, who having worked in both the accountancy profession and commercial environments, has many years experience in management accounting, auditing and strategic planning.

### Non-Executive Director

**Frank Lafford** brings extensive business experience to the board. Having been divisional managing director of The Meyer International Group PLC, he started his own business in the timber import and distribution industry, in the late 1970s. He has extended his interests over the past 20 years to include the founding and control of several distribution companies operating in varied fields.

Mr Lafford holds a number of directorships, including Forest Boards Limited and Hipkin Holdings Limited.

### Secretary

**Vivien Ware** FCCA

### Registered office

Potential House  
149-157 Kings Road  
Brentwood  
Essex CM14 4EG

## Advisers

### Nominated adviser and broker

#### **Charles Stanley Securities**

25 Luke Street  
London EC2A 4AR

### Solicitors

#### **Bermans**

City Wharf  
New Bailey Street  
Manchester M3 5ER

#### **Field, Fisher**

**Waterhouse LLP**  
35 Vine Street  
London EC3N 2AA

### Auditors

#### **Baker Tilly**

Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

### Registrars

#### **Capita IRG plc**

Bourne House  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### Bankers

#### **Bank of Scotland plc**

Level 8  
123 St Vincent Street  
Glasgow G2 5EA

## Corporate Governance

The company is supportive of the principles embodied in the revised Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003 and the directors have developed and continue to develop appropriate measures to comply so far as it is practicable with these principles.

### THE BOARD OF DIRECTORS

The board comprises two executive and two non-executive directors. The senior non-executive director is Peter Cordrey, who is the chairman.

The non-executive directors bring strong independent judgement and knowledge to the board deliberations. The interests of the non-executive directors in the shares of the company are set out on page 9, and although they do not participate in the company's employees share option schemes or any other incentive schemes, Peter Cordrey was granted an individual option over 580,000 shares during the year.

There are twelve regular board meetings a year. All directors receive written reports prior to each meeting, and the board has a formal schedule of matters specifically reserved to it for decisions including overall group strategy, major acquisitions, disposals and capital expenditure and determining financing matters and treasury policy.

Under the company's Articles of Association, one third of the company's directors must retire by rotation at each annual general meeting. All directors are subject to this Article and have entered into service agreements that are terminable by the company on 12 months' notice.

Individual directors may seek independent professional advice in any matter concerning them in the furtherance of the duties at the expense of the company.

### COMMITTEES

An audit committee has been established comprising the managing director, Colin Swanston, the finance director, Vivien Ware, and a non-executive director, Peter Cordrey who chairs the committee. The committee operates within clearly defined terms of reference and provides a forum through which the group's external auditors report to the board. All directors have a right to attend audit committee meetings and the minutes of these meetings are circulated to all directors.

The audit committee also undertakes an assessment of the auditors' independence each year which includes a review of non-audit services provided to the group and related fees, discussion with the auditors of a written report detailing all relationships with the company and any other parties that could affect independence or the perception of independence and obtaining written confirmation from the auditors that, in their professional judgment, they are independent.

A remuneration committee has also been established under the chairmanship of Peter Cordrey. The other member of the committee is Frank Lafford. Members of the remuneration committee review the performance of executive directors and recommend the scale and structure of their remuneration and review the basis of their service agreements with due regard to the interests of shareholders. No committee member participates in decisions concerning his own remuneration.

New appointments are regarded as a subject for the whole board to monitor and consider and a separate nomination committee has not therefore been established.

## Corporate Governance (continued)

### RELATIONS WITH SHAREHOLDERS

Communication with shareholders is given a high priority by the board, and all directors are available to enter into dialogue with shareholders. All shareholders are encouraged to attend and vote at the Annual General Meeting, during which the directors are available to discuss issues affecting the company.

Any shareholders who would like to lodge questions in advance of the AGM are invited to do so either on the reverse of the proxy form or in writing to the company secretary at the address detailed on page 5.

### INTERNAL CONTROL

The board is responsible for the company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve the business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The system of internal financial control is comprised of those controls established in order to provide reasonable assurance of:

- (i) the safeguarding of assets against unauthorised use or disposal and
- (ii) the maintenance of proper accounting records and the reliability of financial information used within the business and for publication.

Whilst acknowledging their responsibility for the system of internal financial control, the board are aware that such a system cannot provide an absolute assurance against material misstatement or loss.

The key procedures of internal financial control of the company are as follows:

- The board reviews and approves budgets and monitors the company performance against those budgets on a monthly basis. Variances from the expected outcome are fully investigated.
- The company has clearly defined reporting and authorisation procedures relating to the key financial areas.

The directors are continuing to develop appropriate measures to implement the principles embodied in the Combined Code regarding wider aspects of internal control and to enable them to extend their review to cover not just internal financial controls but all controls including operations, compliance and risk management.

The board has identified the major risks inherent in the company's business including risks relating to customer default and information technology systems. The key procedures and controls adopted to manage these risks include:

- on receipt of satisfactory new business proposal, the company undertakes an extensive review of the financial profile of the prospective customer, often combined with a site visit. For assets to be financed, an independent valuation is obtained using motor industry sources, or, where this is inappropriate an expert opinion is sought.
- all asset finance transactions are secured on the relevant assets, supported by customers' personal guarantees where appropriate.
- industry specific software is used, which provides detailed real-time reporting to assist the directors with analytical review and portfolio management.
- the portfolio is under constant review by the administration department and executive directors and is regularly audited by the providers of the asset finance block discount lines.

## Directors' Remuneration Report

### STRATEGY

The remuneration committee makes recommendations to the board concerning the company's policy on executive remuneration and the remuneration package for each executive director.

The remuneration of non-executive directors is determined by the full board.

### COMMITTEE COMPOSITION AND POLICY

The remuneration committee meets as necessary and at least once annually. No committee member participates in decisions concerning his own remuneration.

The committee's principal objective is to ensure that the executive directors receive salary and benefit packages which reflect their levels of responsibility and the effectiveness of their performance. These packages are designed to ensure that the company can attract, motivate and retain directors of the right calibre and qualification to meet its requirement.

### SUMMARY OF DIRECTORS' EMOLUMENTS

The emoluments of each director during the year to 30 September 2006 was as follows:

	Salaries and fees £'000	Benefits in kind £'000	Total remuneration £'000	Pension contributions £'000	Total emoluments £'000
<b>Executive directors</b>					
Colin Swanston	98	4	102	10	112
Vivien Ware	89	1	90	13	103
	187	5	192	23	215
<b>Non-executive directors</b>					
Peter Cordrey	13	–	13	–	13
Frank Lafford	25	–	25	–	25
Adrian Rapazzini	15	–	15	–	15
Anthony Jacobs	15	–	15	–	15
	68	–	68	–	68
<b>Total</b>	255	5	260	23	283

## Directors' Remuneration Report (continued)

The emoluments of each director during the year ended 30 September 2005 was as follows:

	Salaries and fees £'000	Benefits in kind £'000	Total remuneration £'000	Pension contributions £'000	Total emoluments £'000
<b>Executive directors</b>					
Hugh Craen	138	18	156	13	169
Colin Swanston	100	3	103	8	111
Vivien Ware	89	2	91	13	104
	327	23	350	34	384
<b>Non-executive directors</b>					
Frank Lafford	23	–	23	–	23
Adrian Rapazzini	25	–	25	–	25
Anthony Jacobs	13	–	13	–	13
	61	–	61	–	61
<b>Total</b>	388	23	411	34	445

### Share option schemes

The company believes that share ownership by executive directors and executives of the group is important and it links the personal interests of the executives with those of the shareholders.

Details of share options granted to directors as at 30 September 2006 are as follows:

Director	Date of grant	Options granted	Exercise price	Exercise dates
Colin Swanston	30 March 2004	75,000	25.5p	30 March 2007 to 30 March 2014
	31 March 2005	25,000	30.0p	31 March 2008 to 31 March 2015
	17 November 2005	600,000	47.0p	17 November 2008 to 17 November 2015
Vivien Ware	19 July 2002	50,000	59.0p	19 July 2005 to 19 July 2012
	17 November 2005	100,000	47.0p	17 November 2008 to 17 November 2015
Peter Cordrey	9 September 2006	580,000	46.5p	9 September 2009 to 9 September 2016

Vivien Ware has surrendered 51,968 options over ordinary shares, of which 24,000 were granted under the Approved Share Option Scheme 2000 and 27,968 options were granted under the unapproved Share Option Scheme. No gain was made on the surrender of these options.

During the year to 30 September 2006 the company's shares have traded at between 40.0p and 49.5p. At 30 September 2006 the share price was 46.5p (2005: 47.5p).

### SERVICE CONTRACTS

The company has entered into service contracts with its executive directors, and letters of appointment with its non-executive directors, which are terminable by the company upon twelve months' written notice.

## Directors' Responsibilities in the Preparation of Financial Statements

The directors are responsible for preparing the Annual 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). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. 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.

## Independent Auditors' Report to the Members of Potential Finance Group PLC

We have audited the financial statements on pages 13 to 33.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications of our report if we become aware of any apparent misstatements or material inconsistencies

with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

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

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

### Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 30 September 2006 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### Baker Tilly

Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

13 March 2007

## Group Profit and Loss Account

For the year ended 30 September 2006

	Notes	2006 £'000	2005 £'000
<b>Turnover</b>	1	<b>2,822</b>	3,049
Cost of sales	2	<b>(1,785)</b>	(724)
<b>Gross Profit</b>		<b>1,037</b>	2,325
Administrative expenses		<b>(1,115)</b>	(2,296)
		<b>(78)</b>	29
Other operating income	3	<b>112</b>	78
<b>Operating profit</b>		<b>34</b>	107
Exceptional items	4	<b>110</b>	528
		<b>144</b>	635
Interest receivable		<b>23</b>	24
		<b>167</b>	659
Interest payable	5	<b>(35)</b>	(68)
<b>Profit on ordinary activities before taxation</b>	6	<b>132</b>	591
Taxation	8	<b>(34)</b>	(513)
<b>Profit on ordinary activities after taxation</b>		<b>98</b>	78
<b>Earnings per share</b>			
Basic total	23	<b>0.94p</b>	0.74p
Fully diluted total	23	<b>0.93p</b>	0.74p

No separate Statement of Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account.

## Note of Historical Cost Profits and Losses

For the year ended 30 September 2006

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation	132	591
Realisation of property revaluation gains of previous years	338	–
Difference between an historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	–	8
Historical cost profits on ordinary activities before taxation	470	599
<b>Historical cost profit for the year retained after taxation</b>	<b>436</b>	<b>86</b>

**Group Balance Sheet**

30 September 2006

	Notes	2006 £'000	2005 £'000
<b>Fixed assets</b>			
Tangible assets	10	238	1,513
<b>Current assets</b>			
Investments: property for resale		–	679
Stocks – vehicles for resale		63	–
Debtors	12	2,143	1,742
Investment in finance leases and hire purchase contracts	13	3,577	1,959
Cash at bank and in hand		495	499
		<b>6,278</b>	4,879
<b>Debtors:</b> Amounts falling due after more than one year			
Investment in finance leases and hire purchase contracts	13	5,829	3,339
		<b>12,107</b>	8,218
<b>Creditors:</b> Amounts falling due within one year	14	<b>(3,239)</b>	(2,499)
<b>Net current assets</b>		<b>8,868</b>	5,719
<b>Total assets less current liabilities</b>		<b>9,106</b>	7,232
<b>Creditors:</b> Amounts falling due after more than one year	15	<b>(4,259)</b>	(2,483)
		<b>4,847</b>	4,749
<b>Capital and reserves</b>			
Called up share capital	16	2,618	2,618
Share premium account	17	3,329	3,329
Merger reserve	18	(51)	(51)
Revaluation reserve	19	–	338
Profit and loss account	20	(1,049)	(1,485)
<b>Shareholders' funds (all equity)</b>	21	<b>4,847</b>	4,749
Approved and authorised for issue by the board on 13 March 2007			
<b>Colin Swanston</b>			
Director			
<b>Vivien Ware</b>			
Director			

**Company Balance Sheet**

30 September 2006

	Notes	2006 £'000	2005 £'000
<b>Fixed assets</b>			
Investments	11	52	52
<b>Current assets</b>			
Debtors: Amounts falling due after more than one year	12	4,565	5,895
<b>Total assets less current liabilities</b>		<b>4,617</b>	5,947
<b>Capital and reserves</b>			
Called up share capital	16	2,618	2,618
Share premium account	17	3,329	3,329
Profit and loss account	20	(1,330)	-
<b>Shareholders' funds (all equity)</b>	21	<b>4,617</b>	5,947
Approved and authorised for issue by the board on 13 March 2007			
<b>Colin Swanston</b>			
Director			
<b>Vivien Ware</b>			
Director			

## Group Cash Flow Statement

For the year ended 30 September 2006

	Notes	2006 £'000	2005 £'000
Cash flow from operating activities	22a	<b>(4,410)</b>	6,689
Returns on investments and servicing of finance	22b	<b>(12)</b>	(44)
Taxation		<b>(260)</b>	(86)
Capital expenditure and financial investment	22b	<b>1,964</b>	(56)
<b>Cash inflow/(outflow) before financing</b>		<b>(2,718)</b>	6,503
Financing	22b	<b>2,714</b>	1,271
<b>(Decrease)/increase in cash in the period</b>		<b>(4)</b>	7,774
<b>Reconciliation of net cash flow to movement in debt</b>			
(Decrease)/increase in cash in the period	22c	<b>(4)</b>	7,774
Cash inflow from increase in debt and lease financing	22c	<b>(2,714)</b>	(1,271)
Changes in net debt resulting from cash flows		<b>(2,718)</b>	6,503
Opening net debt		<b>(3,943)</b>	(10,446)
<b>Net debt at 30 September 2006</b>	22c	<b>(6,661)</b>	(3,943)

## Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

### **BASIS OF ACCOUNTING**

The financial statements have been prepared under the historical cost convention. The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP), "Accounting issues in the asset finance and leasing industry" published in April 2000 and applicable accounting standards.

### **BASIS OF CONSOLIDATION**

The group financial statements consolidate the financial statements of Potential Finance Group PLC and all of its subsidiary companies made up to 30 September 2006.

No profit and loss account is presented for Potential Finance Group PLC as provided by Section 230 (3) of the Companies Act 1985.

### **FIXED ASSETS**

Fixed assets are stated at historical cost with the exception of freehold land and buildings carried at valuation.

Depreciation and amortisation is provided on all fixed assets other than freehold land at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Freehold buildings	over 50 years
Fixtures, fittings and equipment	between 2 and 4 years
Motor vehicles and daily rental fleet	over 4 years
Operating lease/contract hire fleet	cost less residual value over 12 months

### **STOCK**

Stock in hand at the balance sheet date is valued at the lower of cost and net realisable value.

### **LEASED ASSETS AND OBLIGATIONS**

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to the profit and loss account on a straight line basis over the lease term.

### **INVESTMENT IN FINANCE LEASES AND HIRE PURCHASE CONTRACTS**

Finance leases and hire purchase contracts transfer substantially all of the risks and rewards of ownership of an asset to the customer. All other forms of lease are defined as operating leases.

The investment in finance leases and hire purchase contracts is the future instalments receivable from the customer net of finance charge allocated to future periods.

The total gross earnings under a finance lease or hire purchase contract are allocated to accounting periods to give a constant periodic rate of return on the net investment in the lease in each period.

## Accounting Policies (continued)

### BLOCK DISCOUNT LOANS

Amounts received in respect of the sale of future receivables from the group's investment in finance lease and hire purchase contracts under block discount arrangements are treated as loans, which are repaid over the lives of the finance lease and hire purchase contracts.

The total amounts repayable under block discount arrangements are allocated to accounting periods to give a constant periodic rate of interest charge on the amount of the loan in each period.

### DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised in the Statement of Total Recognised Gains and Losses on revaluations where at the balance sheet date there is an agreement to sell the asset.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that the assets will be recovered.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

### INVESTMENTS

Fixed asset investments are stated at cost, less any provision for diminution in value.

Current asset investments are stated at the lower of cost and net realisable value.

### PENSION CONTRIBUTIONS

A subsidiary company operates a defined contribution pension scheme for certain employees. The costs of the contributions are charged to the profit and loss account as incurred.

### TURNOVER

Turnover represents gross earnings under finance leases and hire purchase contracts, sourcing and sale of vehicles and amounts receivable in respect of the provision of invoice discounting and debt factoring services net of Value Added Tax.



**Notes to the financial statements** (continued)

For the year ended 30 September 2006

<b>5</b>	<b>Interest payable</b>	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
	Bank loans and overdrafts	35	67
	Finance leases	–	1
		<b>35</b>	<b>68</b>
<b>6</b>	<b>Profit on ordinary activities before taxation</b>	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
	Profit on ordinary activities before taxation is stated after charging/(crediting):		
	Depreciation and amounts written off tangible fixed assets:		
	Charge for the period:		
	owned assets	45	90
	leased assets	–	18
	Directors' emoluments	283	445
	Auditors' remuneration – audit services	33	37
	Rentals receivable in relation to finance leases and hire purchase contracts	(979)	(544)
	Operating lease rentals: land and buildings	2	–
<b>7</b>	<b>Employees</b>	<b>2006</b> <b>No.</b>	<b>2005</b> <b>No.</b>
	The average monthly number of persons (including directors) employed by the company during the period was:		
	Management	5	5
	Sales and administration	6	12
		<b>11</b>	<b>17</b>
		<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
	Staff costs for the above persons:		
	Wages and salaries	419	732
	Social security costs	41	68
	Other pension costs	29	60
		<b>489</b>	<b>860</b>
	Full details of directors' emoluments and their service contracts are given in the Directors' Remuneration Report on pages 9 and 10.		

**Notes to the financial statements** (continued)

For the year ended 30 September 2006

8	<b>Taxation</b>	2006 £'000	2005 £'000
	Current tax:		
	UK corporation tax on profits of the period	64	259
	Underprovision in earlier years	1	–
	Deferred taxation:		
	Origination and reversal of timing differences	(31)	254
	<b>Tax on profit on ordinary activities</b>	<b>34</b>	<b>513</b>
	Factors affecting tax charge for period:		
	The tax assessed for the period differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:		
	Profit on ordinary activities before tax	132	591
	Profit on ordinary activities multiplied by standard rate of corporation tax in the UK (30%)	40	177
	Effects of:		
	Expenses not deductible for tax purposes	1	8
	Depreciation in excess of/(less than) capital allowances	24	88
	Adjustment for gain on freehold property sale	21	–
	Other timing differences	(8)	3
	Small companies rate adjustment	(14)	(17)
	<b>Current tax charge for period</b>	<b>64</b>	<b>259</b>
9	<b>Result of the parent company</b>		
	The parent company's loss for the year to 30 September 2006 amounted to £(1,330) (2005: £Nil)		

**Notes to the financial statements** (continued)

For the year ended 30 September 2006

	Freehold land and buildings £'000	Fixtures fittings and equipment £'000	Daily rental fleet £'000	Operating lease/contract hire fleet £'000	Motor vehicles £'000	Total £'000
<b>10 Tangible fixed assets</b>						
<b>Group</b>						
Cost or valuation						
1 October 2005	1,531	457	–	–	46	<b>2,034</b>
Additions	–	20	109	94	25	<b>248</b>
Disposals	(1,531)	(445)	–	–	(46)	<b>(2,022)</b>
<b>30 September 2006</b>	–	32	109	94	25	<b>260</b>
Depreciation						
1 October 2005	76	405	–	–	40	<b>521</b>
Charged in the year	18	14	5	4	4	<b>45</b>
Disposals	(94)	(407)	–	–	(43)	<b>(544)</b>
<b>30 September 2006</b>	–	12	5	4	1	<b>22</b>
Net book value						
30 September 2006	–	20	104	90	24	<b>238</b>
<b>30 September 2005</b>	1,455	52	–	–	6	<b>1,513</b>
The net book value includes £Nil (2005: £6,000) in respect of assets held under finance leases.						
<b>11 Fixed asset investments</b>					Subsidiary undertakings £'000	
<b>Company</b>						
1 October 2005 and 30 September 2006						52
The Group holds more than 20% of the equity of the following companies:						
Name of company	Holding	Proportion held	Nature of business			
<b>Potential Finance Limited</b>	4,328 Ordinary shares of 25p each	100%	Collection of debt factoring services			
<b>Potential Asset Finance Limited</b>	2 ordinary shares of £1 each	100%	Provision of asset finance through finance leases and hire purchase contracts			
Both subsidiary companies are incorporated in the United Kingdom.						



**Notes to the financial statements** (continued)

For the year ended 30 September 2006

<b>13</b>	<b>Investment in finance leases and hire purchase contracts</b>	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
	Amounts falling due within one year:		
	Finance leases	<b>2,034</b>	1,128
	Hire purchase contracts	<b>1,543</b>	831
		<b>3,577</b>	1,959
	Amounts falling due after more than one year:		
	Finance leases	<b>3,495</b>	1,966
	Hire purchase contracts	<b>2,334</b>	1,373
		<b>5,829</b>	3,339
	Net investment in finance lease and hire purchase contracts	<b>9,406</b>	5,298
	<b>Cost of assets acquired during the year for use in finance lease and hire purchase contracts</b>	<b>9,510</b>	5,100
	The group's investment in finance lease and hire purchase contracts includes amounts receivable under contracts that have been assigned to financiers under block discount arrangements (see Note 15).		
	<b>Maturity analysis</b>	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
	Net investment on finance lease and hire purchase contracts are receivable by instalments as follows:		
	Within one year	<b>3,577</b>	1,959
	In more than one year but not more than two years	<b>2,713</b>	1,705
	In more than two years but not more than five years	<b>2,749</b>	1,584
	In five years or more	<b>367</b>	50
		<b>9,406</b>	5,298
<b>14</b>	<b>Creditors</b>	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
	Amounts falling due within one year:		
	<b>Group</b>		
	Block discount loans	<b>2,897</b>	1,659
	Trade creditors	<b>91</b>	101
	Corporation tax	<b>83</b>	259
	Other taxation and social security costs	<b>14</b>	56
	Other creditors	<b>15</b>	304
	Accruals	<b>139</b>	120
		<b>3,239</b>	2,499

**Notes to the financial statements** (continued)

For the year ended 30 September 2006

	2006 £'000	2005 £'000
<b>15 Creditors</b>		
<b>Group</b>		
Amounts falling due after more than one year:		
Block discount loans	3,859	2,083
Other loans	400	400
	<b>4,259</b>	<b>2,483</b>
Block discount loans above and in Note 14 represent amounts received from financiers as proceeds for the sale of future receivables from the group's investment in certain finance lease and hire purchase contracts. These receipts are treated as loans that are effectively secured on both future receivables and the underlying assets.		
	2006 £'000	2005 £'000
<b>Group</b>		
Block discount loans are repayable by instalments as follows:		
Within one year	2,897	1,659
In more than one year but not more than two years	2,379	1,283
In more than two years but not more than five years	1,480	800
In five years or more	-	-
	<b>6,756</b>	<b>3,742</b>
Other loans represent amounts received from a director for the sale of future receivables from the group's investment in certain finance lease and hire purchase contracts that is treated as a loan that is effectively secured on both future receivables and the underlying assets. Further details of this loan are given in Note 24.		
<b>16 Share capital</b>	2006 £'000	2005 £'000
Authorised:		
40,000,000 ordinary shares of 25p each	10,000	10,000
Allotted, issued and fully paid:		
10,473,600 ordinary shares of 25p each	2,618	2,618

**Notes to the financial statements** (continued)

For the year ended 30 September 2006

**16 Share options**

The following options to subscribe for the company's shares have been granted to directors and eligible employees and have not lapsed at 30 September 2006:

Date of options	Number of shares	Percentage of Company's issued share capital	First exercisable	Expiry date	Exercise price
19 July 2002	50,000	0.5%	19 July 2005	19 July 2012	59.0p
30 March 2004	75,000	0.7%	30 March 2007	30 March 2014	25.5p
31 March 2005	25,000	0.2%	31 March 2008	31 March 2015	35.0p
17 November 2005	750,000	7.2%	17 November 2008	17 November 2017	47.0p
6 September 2006	580,000	5.5%	6 September 2009	6 September 2016	46.5p

**Share price**

During the year to September 2006 the company's shares have traded at between 40.5p and 49.5p. At 30 September 2006 the share price was 46.5p (2005: 47.5p).

**17 Share premium**

	2006 £'000	2005 £'000
1 October 2005 and 30 September 2006	<b>3,329</b>	3,329

**18 Merger reserve**

	2006 £'000	2005 £'000
Reserve on acquisition of subsidiary	<b>(51)</b>	(51)

**19 Revaluation reserve**

	2006 £'000	2005 £'000
<b>Group</b>		
1 October 2005	<b>338</b>	346
Depreciation on revalued element of freehold land and buildings	–	(8)
Realised on sale of freehold land and buildings	<b>(338)</b>	–
<b>30 September 2006</b>	–	338

**Notes to the financial statements** (continued)

For the year ended 30 September 2006

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
<b>20 Profit and loss account</b>				
<b>Group</b>				
1 October 2005	(1,485)	(1,571)	-	-
(Loss)/profit for the year	98	78	(1,330)	-
Depreciation on revalued element of freehold land and buildings	-	8	-	-
Transfer from revaluation reserve	338	-	-	-
<b>30 September 2006</b>	<b>(1,049)</b>	<b>(1,485)</b>	<b>(1,330)</b>	<b>-</b>
The company loss for the year reflects the write-down of an element of the intercompany loan to subsidiary Potential Finance Limited, in line with retained losses at 30 September 2006. The consolidated results are unaffected.				
<b>21 Reconciliation of movement in shareholders' funds</b>				
1 October 2005	4,749	4,671	5,947	5,947
Profit/(loss) for the year	98	78	(1,330)	-
<b>30 September 2006</b>	<b>4,847</b>	<b>4,749</b>	<b>4,617</b>	<b>5,947</b>
<b>22 Cash flows</b>			2006 £'000	2005 £'000
<b>a</b>				
Reconciliation of operating profit to net cash inflow from operating activities:				
Operating profit			34	107
Depreciation			45	108
Surplus on sale of part of factoring portfolio			-	528
Increase in stock			(63)	-
(Increase)/decrease in debtors			(296)	8,050
Increase/(decrease) in creditors			(22)	119
Increase in finance lease balances receivable			(4,108)	(2,223)
<b>Net cash flow from operating activities</b>			<b>(4,410)</b>	<b>6,689</b>

**Notes to the financial statements** (continued)

For the year ended 30 September 2006

22	<b>Cash flows</b> (continued)	2006 £'000	2005 £'000
b	Analysis of cash flows for headings netted in the cash flow		
	<b>Returns on investments and servicing of finance</b>		
	Interest received	23	24
	Interest paid	(35)	(68)
	<b>Net cash outflow for returns on investment and servicing of finance</b>	<b>(12)</b>	<b>(44)</b>
	<b>Capital expenditure and financial investment</b>		
	Purchase of tangible fixed assets	(248)	(56)
	Proceeds from sale of freehold and investment property	2,212	-
	<b>Net cash outflow for capital expenditure and financial investment</b>	<b>1,964</b>	<b>(56)</b>
	<b>Financing</b>		
	Cash inflow from new loans	1,000	700
	Cash inflow from block discount loans	5,251	3,074
	Capital element of finance lease repayments	-	(9)
	Capital element of loan repayments	(1,300)	(1,164)
	Capital element of block discount loan repayments	(2,237)	(1,330)
	<b>Net cash inflow from financing</b>	<b>2,714</b>	<b>1,271</b>
22		1 October 2005 £'000	30 September 2006 £'000
c	Analysis of net debt		
	Year to 30 September 2006		
	Cash in hand	499	(4)
	Overdrafts	-	-
		499	(4)
	Debt due within 1 year	(1,959)	(938)
	Debt due after 1 year	(2,483)	(1,776)
		(4,442)	(2,714)
		(3,943)	(2,718)
		(4,442)	(2,714)
		(3,943)	(2,718)
		(4,442)	(2,714)
		(3,943)	(2,718)

## Notes to the financial statements (continued)

For the year ended 30 September 2006

### 23 Earnings per share

Basic earnings per share for the year to 30 September 2006 has been calculated on a profit on ordinary activities after taxation of £98,000 and on a weighted average of 10,473,600 ordinary shares in issue during the year.

The fully diluted earnings per share for the year to 30 September 2006 has been calculated on a profit on ordinary activities after taxation of £98,000 and on a weighted average of 10,528,600 ordinary shares during the year. These figures assume that options will be exercised if the exercise price is less than the average market price of the shares during the year. Where the option price exceeds the market price the options are considered not to have a diluting effect.

Basic earnings per share for the year to 30 September 2005 has been calculated on a profit on ordinary activities after taxation of £78,000 and on a weighted average of 10,473,600 ordinary shares in issue during the year.

The fully diluted earnings per share for the year to 30 September 2005 has been calculated on a profit on ordinary activities after taxation of £78,000 and on a weighted average of 10,532,600 ordinary shares during the year. These figures assume that options will be exercised if the exercise price is less than the average market price of the shares during the year. Where the option price exceeds the market price the options are considered not to have a diluting effect.

### 24 Related party transactions

During 2005 a group company received a loan of £300,000 from Forest Boards Limited, a company in which Frank Lafford, a director, has an interest. This loan was unsecured and was repaid in November 2005. Fees paid during the year to 30 September 2006 in respect of the loan amounted to £5,000 (2005: £5,000).

During 2005 a group company also received £400,000 from Frank Lafford for the sale of future receivables from the group's investment in certain finance lease and hire purchase contracts. This receipt is treated as a loan that is effectively secured on both future receivables and the underlying assets. The loan is automatically renewed after 364 days unless notice is given by the company or Mr Lafford. The loan is subject to a flat charge and the fees payable by the company in respect of the loan during the year to 30 September 2006 amounted to £40,000 (2005: £39,000).

During the year payroll processing and accounting services were provided to the group by Newlyn Ware, an accountancy practice in which Vivien Ware, a director of the company, is a partner. The total amount payable by the company for these services during the year to 30 September 2006 was £1,000 (2005: £1,000).

### 25 Financial instruments

The group's financial instruments comprise investments in finance leases and hire purchase contracts, block discount arrangements, other loans, cash and short and medium term deposits. The group has various other financial instruments, including factored debts receivable, client advances, trade debtors and trade creditors, that arise directly from its operations which have not been included in the following disclosures.

The main risks arising from the group's financial instruments are interest rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the board. It is and has been throughout the period under review the group's policy that no trading in financial instruments shall be undertaken.

**Notes to the financial statements** (continued)

For the year ended 30 September 2006

**25 Financial instruments** (continued)**Interest rate risk**

The group's investment in finance leases and hire purchase contracts comprises financial instruments at rates of interest that are fixed at the start of the contract. The board regularly reviews and monitors the interest rates applying to new contracts and the interest rates being charged by its lenders to ensure that the group's exposure to interest rate risk is kept at an acceptable level.

The group's debt represented by financial instruments comprises block discount and other loans.

**Liquidity risk**

It is the group's policy to finance its business by means of internally generated funds and equity share capital, supported by facilities from its bankers and other lenders. The facilities are regularly reviewed by the board.

**Foreign currency risk**

The principal country of operation of the company and all of its subsidiaries is the United Kingdom and substantially all of the group's financial assets and liabilities are denominated in Sterling so that foreign currency risk is therefore minimal.

**Interest rate and maturity profiles**

The interest rate profile of the financial assets of the group at 30 September 2006 was:

	2006		2005	
	Fixed rate financial assets £'000	Weighted average interest rate %	Fixed rate financial assets £'000	Weighted average interest rate %
Investment in finance leases and hire purchase contracts	9,406	9.10	5,298	9.03

The interest rate profile of the financial liabilities of the group at 30 September 2006 was:

	Total £'000	Fixed rate financial liabilities £'000	Weighted average interest rate %
Block discount loans	6,756	6,756	7.28
Other loans	700	400	10.00
	7,156	7,156	

**Notes to the financial statements** (continued)

For the year ended 30 September 2006

**25 Financial instruments** (continued)

The interest rate profile of the financial liabilities of the group at 30 September 2005 was:

	Total £'000	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Weighted average interest rate %
Block discount loans	3,742	–	3,742	7.40
Other loans	700	300	400	10.00
	4,442	300	4,142	

The maturity profile of the group's financial assets was:

	2006 £'000	2005 £'000
In one year or less	3,577	1,959
In more than one year, but not more than two years	2,713	1,705
In more than two years, but not more than five years	2,974	1,626
In five years or more	142	8
	9,406	5,298

The maturity profile of the group's financial liabilities was:

	2006 £'000	2005 £'000
In one year or less, or on demand	2,897	1,959
In more than one year, but not more than two years	2,779	1,683
In more than two years, but not more than five years	1,480	800
	7,156	4,442

**Borrowing facilities**

The group had undrawn borrowing facilities under block discount arrangements at 30 September 2006 amounting to £3,494,000. Funds drawn are secured by way of an assignment of contract rights over certain agreements and bear interest at varying rates, agreed at the time of drawing funds. The weighted average interest rate paid during the year to 30 September 2006 was 7.3% (2005: 7.4%).

**Fair value of financial assets and liabilities**

All financial assets and liabilities are disclosed in the balance sheet at fair value.

**Notes to the financial statements** (continued)

For the year ended 30 September 2006

**26 Operating lease commitments**

At 30 September 2006, the group had commitments under non-cancellable operating leases as follows:

	2006 £'000	2005 £'000
Land and buildings: Expiring between two to five years	<b>28,000</b>	–







