

compassfinance

FINANCIAL DIRECTION



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Compass Finance Group plc
Annual Report & Accounts
2004

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financial calendar

Annual General Meeting
Interim announcement
Preliminary announcement

23 February 2005
June 2005
December 2005

chairman's statement

Introduction

On behalf of the Board of Compass Finance Group plc ("Compass Finance" or "the Group"), I am pleased to present the results for the period ended 30 September 2004.

The Group was originally incorporated on 9 April 2003 and was formerly known as Sound Growth plc up until its acquisition of the entire issued share capital of Compass Finance Ltd (and its dormant subsidiary Compass Homeloans Ltd) and Compass Capital Planning Ltd (dormant) on 8 March 2004. On the same date the Company changed its name and commenced trading. The consolidated figures therefore only include the results for the Group for the period from 8 March 2004 to 30 September 2004. On 8 September 2004 the trading assets of Compass Finance Ltd were hived up into Compass Finance Group plc and is now the only trading company in the Group.

On 8 March 2004 and in conjunction with this acquisition the Group floated on AIM and commenced trading.

The Group is a finance broker and packager of re-mortgages, secured loans and unsecured loans for clients requiring debt consolidation and financial solutions. It should be noted that Compass Finance does not lend money to customers; the Group earns its income from commissions and fees received primarily from third party lenders.

Statutory Results

For the period from 9 April 2003 to 30 September 2004, the Group reported turnover of £8.57 million and a profit before tax of £1.52 million. For the same period earnings per share were 1.46p.

In the period 8 March 2004 to 30 September 2004, following the acquisition of Compass Finance Limited, the Group received broking commission on funds of £115 million which were lent to customers by a number of lenders. Net debt at 30 September 2004 was £2.21 million resulting in gearing at 30 September 2004 of 33%.

The net asset value of the Group as at 30 September 2004 was £6.64 million.

Pro-forma Results

The statutory results from 9 April 2003 to 30 September 2004 are contained in full in the financial statements from page 12. In order to understand the underlying trends on a year on year basis, the operating results presented and discussed here are pro-forma unaudited results for the 12 months to September 2004 and September 2003 unless otherwise stated.

	Pro-forma 12 months period ended 30 September 2004 £'000	Pro-forma 12 months period ended 30 September 2003 £'000	Percentage increase
Turnover	13,156	8,258	+ 59%
Administrative costs	(10,526)	(6,385)	
EBITDA**	2,630	1,873	+ 40%
Depreciation/amortisation	(443)	(116)	
Profit before interest and taxation	2,187	1,757	+ 24%
Interest	(131)	(8)	
Profit before taxation	2,056	1,749	+ 18%

** EBITDA being operating profit before the deduction of depreciation and amortisation.

Compass Finance includes the trading businesses of Compass Finance Ltd and Compass Homeloans Ltd for the 12 months periods ending 30 September each year. The trade and assets of Compass Homeloans Ltd were hived up into Compass Finance Ltd on 31 December 2002. The 2003 pro-forma figures include three months of Compass Homeloans Ltd's unaudited management accounts for 1 October 2002 to 31 December 2002. The results of Compass Finance Group plc are included from 8 March 2004.

Pro-forma turnover of the Group's companies for the 12 months to 30 September 2004 was £13.16 million which reflected record sales in the last six months of £7.54 million.

Pro-forma operating profit for the 12 months period to 30 September 2004 was £2.19 million (2003: £1.76 million). The 2004 profit before tax includes costs associated with the acquisition of Compass Finance Ltd from 8 March 2004 to 30 September 2004 totalling £524,000, including bank loan interest of £142,000 and amortisation of £278,000. Adding back the £524,000 the adjusted profit before tax and plc costs is £2.58 million, which is 48% up on 2003.

Dividends

In view of the sustained growth in profits, the Board has decided to pay a maiden final dividend of 0.15p per share for the period ended 30 September 2004. Subject to approval of shareholders at the Annual General Meeting to be held on 23 February 2005, the dividend will be paid on 6 April 2005 to those shareholders on the register at 18 February 2005.

Subject to the Group's results, the Board plans to implement a progressive dividend policy going forward.

Operating Highlights

On 17 September 2004 the Group received authorisation from the Financial Services Authority (FSA) to conduct mortgage and general insurance business following legislative changes.

To underline the Group's growth, I have summarised the last five year's sales history of the Group's companies on an annualised basis. This includes the trading businesses of Compass Finance Ltd and Compass Homeloans Ltd for the 12 months periods ending 30 September each year. From 8 March 2004 the results of Compass Finance Group plc are included.

£'000	2000	2001	2002	2003	2004
Turnover	469	1,109	3,446	8,258	13,156

The encouraging sales growth for the period ended 30 September 2004 reflects the commissions earned from increasing volumes of loans sold. As at 30 September 2004, £180 million of loans had been packaged compared to £118 million for the year ended 30 September 2003.

Staff numbers during the period have grown from 79 to 115 reflecting the growth in new business. I have summarised the last five years' employee numbers (as at the September year ends):

At 30 September	2000	2001	2002	2003	2004
Employee No.s	8	18	47	79	115

The Group attracts customers through target marketing and advertising. It then undertakes a comprehensive fact-find to ensure the needs and circumstances of the client are matched to one of a portfolio of lenders. To complement this, a service based approach with personal visits to customers by client account executives enables the Group to convert 18% of all enquiries received.

Current Market Conditions

The housing market is not showing the significant rises it did earlier on in 2004. As Compass Finance rarely provides new mortgages, its fortunes are not directly aligned to the housing market. Any sustained reduction in house prices, along with continued interest rate rises, would impact on the mortgage market, and we believe that demand for the Group's services could feasibly increase, as debt servicing becomes more onerous.

Consumer debt now borders on £1trillion in the UK. With the Group's penetration into its chosen markets remaining minimal, organic growth continues to be the main strategy, although other expansion opportunities will be explored when appropriate.

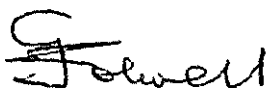
Customer borrowing has been at record levels, fuelled by historically low interest rates. Recent interest rate rises have shifted the opportunity to debt consolidation products as customers struggle to service existing debt.

The new FSA regulatory environment will further improve the perception of the mortgage industry and drive consolidation, providing the Group with the opportunity to consider acquiring businesses and to build market share.

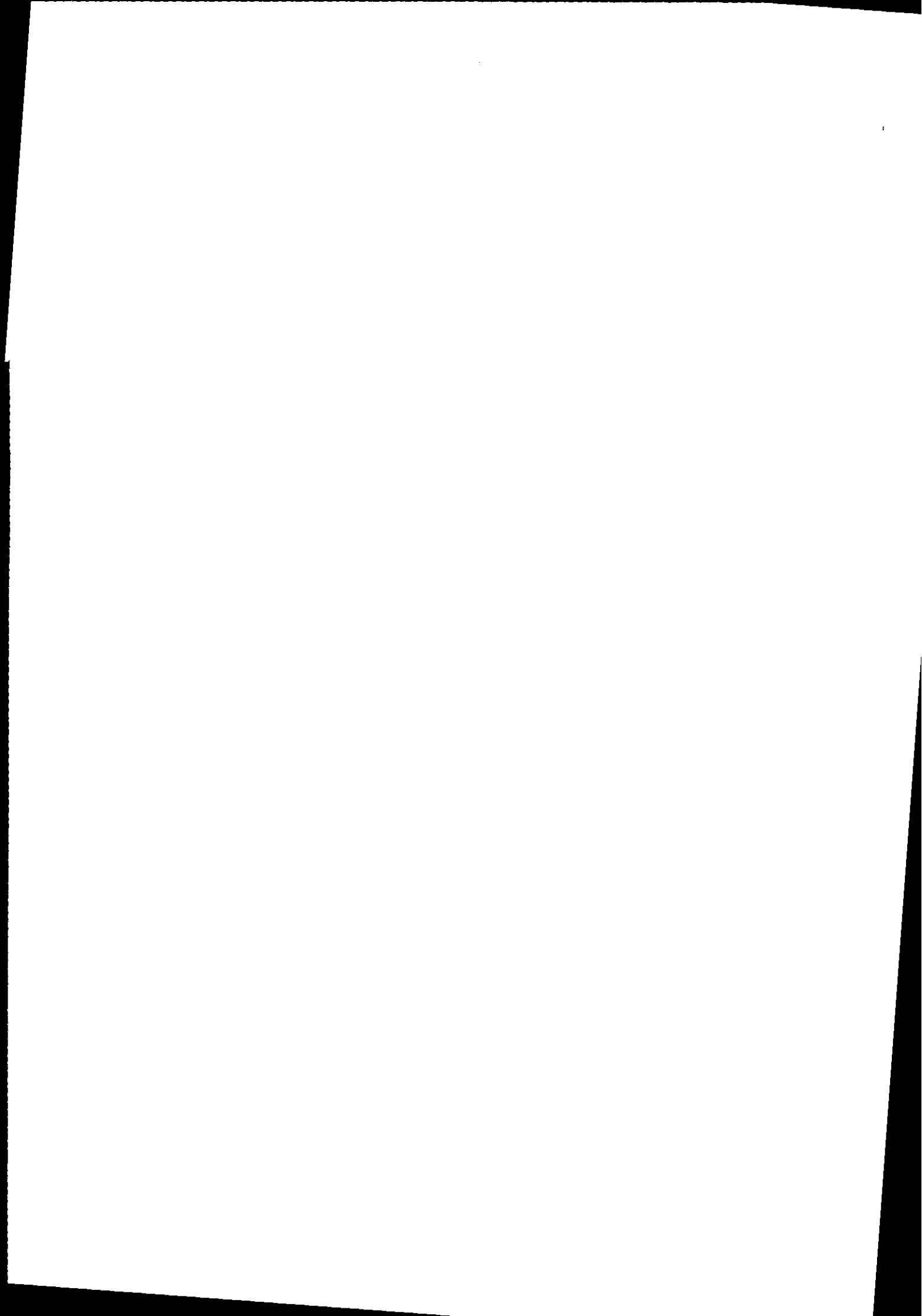
Current Trading and Prospects

The UK debt consolidation market has experienced significant growth in recent years and Compass Finance has established itself as a force within the mortgage and loans broking industry. A combination of tailored customer service, marketing specifically targeted at borrowers requiring debt consolidation and credit repair, and industry leading levels of conversion of new leads has produced strong growth and momentum.

Trading since the 30 September 2004 has been encouraging and in line with management's expectations, the Board expects further good progress in the current year and remains confident about the Group's long-term potential.



Grenville Folwell
Non-Executive Chairman
7 December 2004



chief executive's review

Summary performance

I am pleased to report that 2004 has been a very exciting year for Compass Finance Group plc, including flotation on AIM in March, a substantial increase in staff numbers and a 59% increase in pro-forma revenue from £8.26m in 2003 to £13.16m in 2004.

The statutory results generated £8.57m of sales revenue with the resultant profit before tax of £1.52m. Profit after tax was £977,000. I am particularly pleased that these excellent results have allowed the Board to announce a maiden final dividend of 0.15p per share, following which £877,000 of retained earnings will be transferred to reserves.

We have made significant progress in building a strong and experienced management team who I am confident can deliver the ambitious targets we have set ourselves for the coming year. Our investment in people has enabled us to continue to deliver market leading sales conversion rates, excellent customer service and a speedy and efficient completions process. We have also strengthened the infrastructure of the business through continued investment in state of the art IT solutions and systems.

All our business sectors experienced revenue growth in the year to 30th September 2004.

Sales Mix

Mortgage/re-mortgage

Our revenue from mortgage and re-mortgage broking activities grew £2.5m to £5.1m and now stands at 39% of total revenue compared with 34% in 2003. We plan to develop this division further and expand into areas of mortgage broking where we have limited or no presence.

Secured loans

Revenue from our second charge broking grew £2.7m to £7.4m. It is currently 57% of our business compared to 59% in 2003. We anticipate further strong revenue growth from the secured loans division during 2005.

Other sales

The balance of revenue comprised commissions from arranging unsecured loans, insurance sales and other activities.

New initiatives

We continue to generate a substantial amount of business from our expanding client base, a testament to the high quality service these customers have received in the past. We plan to offer a wider range of products and services to these clients during 2005 and we are also developing our presence in the business to business and affinity sectors.

We are scheduled to relocate to larger offices during 2005 and this should offer us a variety of opportunities to streamline systems and improve efficiencies further.

Financial Services Authority authorisation

On 17 September 2004 we received our authorisation from the Financial Services Authority (FSA) to conduct mortgage and general insurance business following legislative changes on 31 October 2004. This legislation should further complement our business as increased emphasis is placed on advice and a higher level of personal attention to customer needs.

Corporate governance

We are committed to good corporate governance with our plc Board comprising 3 executive and 2 non-executive directors, meeting monthly to discuss strategy, direction and future development of the Company. We have established Audit and Remuneration Committees which consist of the non-executive directors.

Prospects

Compass Finance Group plc is in a strong financial position and well placed to continue to grow. The Group's penetration into its chosen markets remains minimal and with the UK outstanding consumer debt now bordering £1trillion, organic growth remains the core strategy, although acquisitions will be considered where appropriate. The Group is focused on delivering strong earnings growth during 2005 and developing a progressive dividend policy.

Overall I am confident that we can continue the great success story that Compass has become since its formation and look forward to the new financial year with confidence.

In conclusion, I must thank all my colleagues for the hard work and dedication they have contributed during the year.



Christopher Smith
Chief Executive Officer
7 December 2004

directors' biographies

Grenville Folwell, age 61, Non-executive Chairman

Gren was Deputy Chief Executive of Halifax plc from 1996 to 1999, having joined the board as Group Finance Director in 1989. During his time on the board of Halifax plc he was involved in the merger and subsequent integration of the Halifax and Leeds Permanent Building Societies. He was also involved in the £18 billion flotation of Halifax plc, and negotiated on a number of acquisitions, including the successful £750 million hostile takeover of Birmingham Midshires Building Society. Gren's other current non-executive directorships include the Partnership UK plc, Debt Free Direct plc, Institute of Public Finance Limited and Software Solutions Partners Limited. In 1995 Gren was president of the Chartered Institute of Public Finance and Accountancy.

Christopher Smith, age 45, Chief Executive Officer

Chris has experience of mortgage broking and has enjoyed a career within the mortgage industry since 1985, initially as an adviser and manager, then subsequently as a sole trader and latterly as a joint founding director of Compass Finance. Within Compass Finance, he has specific responsibility for corporate strategy, business development, marketing and compliance. Chris has a number of property interests and is a director of Paramount Sterling Associates Limited, a property company.

Mark Butterwick, age 42, Chief Operating Officer

Mark has experience in both the financial and mortgage broking markets since 1987. He was employed initially as a regional sales manager for Royale Financial Services and subsequently formed his own business, Finance First, in 1990 which traded as a secured loan broker. As a founder shareholder and director of Compass Finance, Mark is principally concerned with operation functions, training, systems and administration.

Richard Hughes, age 36, Non-executive Director

Richard has over 15 years experience of corporate activity including flotations, capital raisings and mergers and acquisitions for both public and private companies. He was until recently a managing director of Altium Capital Limited (formerly Apax Partners & Co. Corporate Finance Limited) having set up the Manchester office in 1996. Richard is a partner of Zeus Partners and a director of Zeus Capital Limited which is a FSA regulated company providing corporate finance advice. He is also director of a number of private companies.

Michael Fort, age 45, Executive Director

Michael has financial and management experience in a number of corporate environments. He is currently chairman of Zi-Medical plc, an AIM quoted medical devices company, director of Synexus Limited, a venture capital backed clinical research company as well as holding directorships in a number of other medium sized enterprises. He was latterly director of Trinity Healthcare Limited until its sale to Chiesi Farmaceutical SpA. He is a fellow member of the Chartered Institute of Management Accountants. He has specific responsibility for the finance function of the Company.

directors' report

The directors present their annual report and the audited financial statements for the period ended 30 September 2004.

Principal activities

The principal activity of the Group in the period under review was that of finance broking.

Business review

The Group results for the period recorded a profit of £977,000 on a turnover of £8,568,000. The Company was formed on 9 April 2003 and subsequently changed its name to Sound Growth plc. On 8 March 2004 the Company listed on the Alternative Investment Market (AIM), acquired the share capital of Compass Finance Limited (trading) and Compass Capital Planning Limited (dormant) and changed its name to Compass Finance Group plc. On the 8 September 2004 the trade and assets of Compass Finance Limited were hived up to Compass Finance Group plc.

Proposed dividend and results for the year

The directors propose a final maiden dividend of 0.15p per ordinary share totalling £100,000. The retained profit of £877,000 has been transferred to reserves.

Directors and directors' interests

The directors who held office during the year were as follows:

Executive

MW Butterwick	(appointed 8 March 2004)
MJ Fort	(appointed 8 March 2004)
CJ Smith	(appointed 8 March 2004)

Non Executive

GJ Folwell (Chairman)	(appointed 8 March 2004)
RI Hughes	(appointed 9 April 2003)

The beneficial interests of the directors holding office on 30 September 2004 in the issued share capital of the company were as follows:

	Class of share	30 September 2004
MW Butterwick	Ordinary 0.5p	11,725,000
GJ Folwell (Chairman)	Ordinary 0.5p	416,667
MJ Fort	Ordinary 0.5p	3,000,019
RI Hughes	Ordinary 0.5p	6,001,010
CJ Smith	Ordinary 0.5p	11,725,000

Share options and employee share ownership

Employee involvement in the overall performance of the Group has been encouraged by employee share option schemes as detailed in note 20 on page 23.

EMI options have been granted over ordinary shares to an employee of the Group under the provisions of the Enterprise Management Incentives ("EMI") legislation contained in Schedule 5 ITEPA 2003. The EMI options take the form of a contract between the Company and the individual.

Unapproved share options have been granted over ordinary shares to an employee of the Group. These options are embodied in the contract between the Company and the individual. The Group intends to grant further EMI options and unapproved share options to directors and employees of the Group in future. These options will be subject to performance conditions set by the board of directors.

directors' report

Corporate governance

The Board of Directors fully supports the underlying principles of corporate governance recommended by the Combined Code, notwithstanding that the Company is not required to comply with such recommendations.

The Company has an audit committee and remuneration committee, each of which consists of the non-executive directors. The audit committee has unrestricted access to the Group's auditors.

The Board generally meets on a monthly basis. It considers all issues relating to the strategy, direction and future development of the Company.

Employment policy

It is the Group's policy that there should be no discrimination against any person on the grounds of race, sex, religion or otherwise.

In accordance with the Group's equal opportunities policy, disable people are given the same consideration as others when they apply for a job. Depending on their skills and abilities, they enjoy the same career prospects and scope for realising their potential as other employees. If an existing employee becomes disabled, reasonable steps are taken to retain him/her in employment.

Within the bounds of commercial confidentiality, staff are kept reasonably informed of matters that affect the progress of the Group and are of interest to them as employees.

Payments to suppliers

The Group does not have a standard creditor payment policy but seeks the best possible terms from suppliers appropriate to its business and, in placing orders, gives consideration to quality, price and terms of payment, which will be agreed with suppliers when the details of each transaction are settled. The Group will continue to honour its contractual and other legal obligations and to pay creditors on the dates agreed in contracts and purchase orders. The Group and the Company had 16 days purchases outstanding at 30 September 2004.

Political and charitable donations

The Group's charitable donations for the year amounted to £500. There were no political contributions.

Auditors

During the year Chadwicks Chartered Accountants were appointed as auditors of the company and subsequently resigned. KPMG Audit Plc were then appointed auditors.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



C Smith
Director

Compass House
New Hall Hey Road
Rawtenstall
Rossendale
Lancashire BB4 6HH

7 December 2004

statement of directors' responsibilities

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

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

The directors 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 Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

independent auditors' report



KPMG Audit Plc

Edward VII Quay
Navigation Way
Preston
PR2 2YF
United Kingdom

Independent auditors' report to the members of Compass Finance Group plc (formerly Sound Growth plc)

We have audited the financial statements on pages 12 to 27.

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 are responsible for preparing the directors' report and, as described on page 10, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 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 of the state of the affairs of the Company and the Group as at 30 September 2004 and of the profit of the Group for the period from 9 April 2003 (date of incorporation) to 30 September 2004 and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

7 December 2004

consolidated profit and loss account

for the period from 9 April 2003 to 30 September 2004

		9 April 2003 to 30 September 2004* £000
	Note	
Turnover	1	8,568
Administrative expenses		(6,909)
Operating profit	2-5	1,659
Interest receivable and similar income	6	14
Interest payable and similar charges	7	(149)
Profit on ordinary activities before taxation		1,524
Tax on profit on ordinary activities	8	(547)
Profit on ordinary activities after taxation		977
Dividends	9	(100)
Retained profit for the period		877
Earnings per share - basic and diluted	10	1.46p

*Represents the trading period from 8 March 2004 to 30 September 2004 (see note 1)

All of the above transactions relate to acquisitions (see note 1).

consolidated statement of total recognised gains and losses

for the period from 9 April 2003 to 30 September 2004

There were no other gains and losses in the period other than those reported in the consolidated profit and loss account above.

group and parent company balance sheet

as at 30 September 2004

	Note	2004 £000	2004 £000
Fixed assets			
Intangible assets	11		9,631
Tangible assets	12		377
Investments	13		—
			10,008
Current assets			
Debtors	14	1,311	
Cash at bank and in hand		1,450	
		2,761	
Creditors: amounts falling due within one year	15	(2,520)	
Net current assets			241
Total assets less current liabilities			10,249
Creditors: amounts falling due after more than one year	16		(3,598)
Provisions for liabilities and charges	19		(9)
			6,642
Capital and reserves			
Called up share capital	20		335
Share premium	21		5,430
Profit and loss account	21		877
Shareholders' funds	23		6,642

As the balance sheet figures for the Group and the Company are identical, a separate balance sheet for the Company has not been shown.

These financial statements were approved by the board of directors on 7 December 2004 and were signed on its behalf by:



C Smith
Director

consolidated cash flow statement**for the period 9 April 2003 to 30 September 2004**

	Note	2004 £000
Net cash inflow from operating activities	24	1,768
Return on investments and servicing of finance	25	(114)
Taxation		(757)
Capital expenditure	25	29
Acquisitions	25	(6,125)
Net cash outflow before financing		(5,199)
Financing	25	6,649
Increase in cash in the period		1,450

**reconciliation of net cash flow to movement
in net debt****for the period 9 April 2003 to 30 September 2004**

	2004 £000
Increase in cash in the period	1,450
Cash inflow from change in debt	(3,385)
Changes in net debt resulting from cash flows	(1,935)
Finance leases acquired with subsidiary	(193)
New finance leases	(84)
Net debt at beginning of period	-
Net debt at end of period	(2,212)

notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its material subsidiary undertaking made up to 30 September 2004. The acquisition method of accounting has been used.

The Company was incorporated on 9 April 2003 and re-registered as a public limited company on 9 December 2003. On 8 March 2004 the company acquired the entire issued share capital of Compass Finance Limited (trading) and Compass Capital Planning Limited (dormant). Under the acquisition method of accounting the results of subsidiary undertakings acquired are included in the consolidated profit and loss account from the date of acquisition, being 8 March 2004, to the year end, being 30 September 2004. The results on page 12 therefore represent six months and 23 days trade.

On 8 September 2004 the Company acquired the trade and assets of Compass Finance Limited.

A separate profit and loss account dealing with the results of the Company alone for the period 9 April 2003 to 30 September 2004 has not been presented as permitted by section 230 of the Companies Act 1985.

Related party transactions

The directors have taken advantage of the exemption in Financial Reporting Standard Number 8, paragraph 3(c) and have not disclosed transactions with entities that are part of the Compass Finance plc group.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the net assets acquired) arising on business combinations in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of twenty years.

Fixed assets and depreciation

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Computer equipment	–	33% on straight line balance
Motor vehicles	–	33%/25% on reducing balance
Fixtures and fittings	–	33% on straight line balance

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made in full for deferred tax liabilities in accordance with FRS 19. Deferred tax assets are recognised to the extent that, on the basis of all available evidence it is more likely than not that all amounts are recoverable.

Turnover

Turnover represents commissions and fees due on loan contracts completed and signed during the year, excluding value added tax.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Employee share option schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares.

Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions payable for the year are charged in the profit and loss account.

2 Operating profit

	Period 9 April 2003 to 30 September 2004 £000
The operating profit is stated after charging:	
Depreciation - plant and machinery	97
Amortisation	277
Auditors remuneration:	
Audit (including £2,000 for the parent company audit)	24
Non audit (in addition £4,000 of fees have been capitalised as part of the goodwill on acquisition)	10
Operating leases - plant and machinery	16
	<hr/> <hr/>

3 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the period 8 March 2004 to 30 September 2004, analysed by category, was as follows:

	Number of Employees 2004
Management	12
Sales	88
Administration	7
	<hr/> <hr/> 107

The aggregate payroll costs of these persons were as follows:

	Period 9 April 2003 to 30 September 2004 £000
Wages and salaries	1,917
Social security costs	217
Other pension costs	23
	<hr/> <hr/> 2,157

4 Remuneration of directors

Period 9 April 2003
to 30 September 2004
£000

Emoluments payable to directors	158
Fees payable to related parties	28
	<hr/>
	186
	<hr/>

There are no retirement benefits accruing to directors.

5 Pensions

The Company operates a defined contribution scheme covering certain employees. The assets of the scheme are separately held from those of the company in independently operated funds. The pension costs charged represent the contributions paid by the Company and amounted to £23,000. Amounts outstanding at the year end were £nil.

6 Interest receivable and similar income

Period 9 April 2003
to 30 September 2004
£000

Bank account interest	14
	<hr/>

7 Interest payable and similar charges

Period 9 April 2003
to 30 September 2004
£000

On bank loans and overdrafts	142
Finance charges payable in respect of finance leases and hire purchase contracts	7
	<hr/>
	149
	<hr/>

8 Taxation on profit on ordinary activities

Period 9 April 2003
to 30 September 2004
£000

UK corporation tax at 30 % 547

Tax reconciliation

Period 9 April 2003
to 30 September 2004
£000

Profit on ordinary activities before taxation 1,524

Profit on ordinary activities multiplied by the rate of corporation tax in the UK at 30% 457

Effects of :

Expenses not deductible for tax purposes (including goodwill amortisation) 87

Depreciation for period in excess of capital allowances 2

Fixed asset disposal (5)

Other 6

547

9 Dividends

Period 9 April 2003
to 30 September 2004
£000

Ordinary shares:

Proposed dividend of 0.15p per share 100

10 Earnings per share

The calculation of earnings per share is based on earnings of £977,000. The calculation of basic earnings per share is based on a weighted average number of ordinary shares in issue during the period from 8 March 2004 to 30 September 2004 of 66,949,792. Diluted earnings per share has been calculated, on the same basis as above, except that the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (arising from the Group's share option scheme) into Ordinary shares has been added to the denominator. There has been no changes to the profit as a result of the dilutive calculation.

No.s of shares
'000

Weighted average number of 0.5p ordinary shares in issue 66,950

Effect of dilutive potential ordinary shares 73

Weighted average number of 0.5p ordinary shares in issue plus assumed conversion 67,023

11 Intangible fixed assets

	Goodwill £000
Group	
Cost	
Additions	9,908
	<u> </u>
<i>Amortisation</i>	
Charged in period	277
	<u> </u>
<i>Net book value</i>	
At 30 September 2004	<u><u>9,631</u></u>

Additions in the year relate to the purchase of the entire issued share capital of Compass Finance Limited and Compass Capital Planning Limited on 8 March 2004.

	Goodwill £000
Company	
Cost	
Additions	9,660
	<u> </u>
<i>Amortisation</i>	
Charged in period	29
	<u> </u>
<i>Net book value</i>	
At 30 September 2004	<u><u>9,631</u></u>

Additions relate to the purchase of the trade and assets of Compass Finance Limited on 8 September 2004.

12 Tangible fixed assets

	Plant and machinery Group £000	Company £000
Group and Company		
Cost		
On acquisition of subsidiary undertaking	418	–
On acquisition of trade and assets	–	379
Additions	153	9
Disposals	(169)	–
	<u> </u>	<u> </u>
At 30 September 2004	<u><u>402</u></u>	<u><u>388</u></u>
<i>Depreciation</i>		
Charge for year	97	11
Eliminated on disposal	(72)	–
	<u> </u>	<u> </u>
At 30 September 2004	<u><u>25</u></u>	<u><u>11</u></u>
<i>Net book value</i>		
At 30 September 2004	<u><u>377</u></u>	<u><u>377</u></u>

The net book value of tangible fixed assets includes £179,000 in respect of assets held under finance leases or hire purchase contracts. The depreciation charge in respect of such assets amounted to £40,000.

13 Fixed asset investments

The trading companies listed below are those which principally affected the amount of profit during the period and assets of the Group. Unless otherwise stated, companies are registered in England and Wales. A full list of subsidiaries will be annexed to the next Annual Return of the company to be filed with the Registrar of Companies.

Subsidiary undertakings	Principal Activity	Class and percentage of shares held and voting rights
Compass Finance Limited	Finance broking	100% ordinary

On 8 March 2004 the Group acquired Compass Finance Limited for £11,225,000, including acquisition costs.

Details of the net assets acquired by category and the composition of the consideration of the newly acquired subsidiary is set out in note 22 on page 24.

14 Debtors: amounts falling due within one year

	2004 £000
Group and Company	
Trade debtors	345
Prepayments and accrued income	966
	1,311

15 Creditors: amounts falling due within one year

	2004 £000
Group and Company	
Bank loan	682
Hire purchase contracts and finance leases	49
Trade creditors	495
Taxation and social security	142
Corporation tax	386
Accruals and deferred income	433
Deferred consideration	333
	2,520

16 Creditors: amounts falling due after more than one year

	2004 £000
Group and Company	
Bank loan	2,818
Other creditors	113
Deferred consideration	667
	<u>3,598</u>
	2004 £000
Bank loans	
Group and Company	
Within one year	682
Within one to two years	734
Within two to five years	2,084
	<u>3,500</u>

Term loans

The Group and Company has a bank loan of £3,500,000. The loan is repayable over five years and will be fully paid by 8 March 2009. The loans was granted on the acquisition of the entire share capital of Compass Finance Limited and enjoyed a six month capital payment holiday. The first capital repayment was made on 8 October 2004. Interest on the loan is charged at 2.5% over bank base rate. The loan is secured via certain corporate guarantees and debentures over the assets of the Company.

The maturity of obligations under finance lease and hire purchase contracts is as follows:

	2004 £000
Group and Company	
Within one year	49
Within two to five years	113
	<u>162</u>

17 Financial instruments

The Group's financial instruments at the year end comprised cash, bank borrowings, hire purchase finance and various non derivative financial instruments such as trade debtors and trade creditors. As permitted by Financial Reporting Standard 13 short term debtors and creditors have been excluded from the disclosures in this note.

The Group uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so. The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk.

Interest rate risk

The Group finances its operations by a mixture of retained profits, bank borrowings and hire purchase arrangements.

The interest rate risk profile of the Group's financial liabilities is as follows:

	2004 Sterling £000
Financial liabilities:	
Fixed rate	162
Floating rate	3,500
	<hr/> 3,662 <hr/>
Fixed rate weighted average interest rate at 30 September	<hr/> 7.1% <hr/>

Interest on floating rate financial liabilities is based on the relevant bank base rate plus 2.5%.

The Group has no derivative financial instruments at 30 September 2004 and in the opinion of the Board the fair value of the Group's financial assets and liabilities is equal to book value.

Liquidity risk

Throughout the year the Group's policy has been to ensure the continuity of funding through loan and hire purchase funding. Short term flexibility is achieved by overdraft facilities. The maturity profile of financial liabilities is as follows:

	2004 £000
Due within one year	731
Due between one and two years	781
Due between two and five years	2,150
	<hr/> 3,662 <hr/>

18 Commitments

The following operating lease payments are committed to be paid within one year:

	2004 £000
Group and Company	
Expiring:	
Within one year	—
2 to 5 years	42
	<hr/> 42 <hr/>

There are no capital commitments at 30 September 2004 in either the Company or the Group.

19 Provisions for liabilities and charges

	2004 Deferred tax £000
Group and Company	
Acquired with subsidiary/trade and assets	9
Charged to profit and loss	-
	<hr/>
Balance at 30 September 2004	9
	<hr/>

The liability is analysed as follows:

	2004 £000
Accelerated capital allowances	9
	<hr/>

20 Called up share capital

	2004 £000
Group and Company	
<i>Authorised</i>	
100,000,000 ordinary shares of 0.5p each	500
	<hr/>
<i>Allotted, called up and fully paid</i>	
66,949,792 ordinary shares of 0.5p each issued during the period	335
	<hr/>

The following options arrangements (all granted during the year) exist over the company's shares:

	2004 Number	Date of Grant	Exercise price	Exercise period
Unapproved share option scheme	370,968	31 Aug 04	50.0p	31/8/06-31/8/14
Enterprise management incentive scheme	129,032	31 Aug 04	50.0p	31/8/06-31/8/14
	<hr/>			
	500,000			
	<hr/>			

21 Reserves

	Share premium £000	Profit and loss account 2004 £000
Group and Company		
On issue of shares	5,430	-
Retained profit for the period	-	877
	<hr/>	<hr/>
At 30 September 2004	5,430	877
	<hr/>	<hr/>

22 Purchase of business

On 8 March 2004 the Company acquired the entire issued share capital of Compass Finance Limited. The transaction is summarised below:

	Book value £000	Fair value adjustment £000	Fair value £000
Group			
Tangible fixed assets	418	–	418
Intangible fixed assets	214	(214)	–
Debtors	813	–	813
Cash	1,600	–	1,600
Creditors	(1,514)	–	(1,514)
Net assets acquired	1,531	(214)	1,317
Goodwill			9,908
Total purchase price			11,225
Satisfied by:			
Cash consideration			7,000
Shares			2,500
Deferred consideration (see below)			1,000
Acquisition costs			725
			11,225

The deferred consideration is payable to the previous owners of Compass Finance Limited, Mr C Smith and Mr M Butterwick, both of which are directors of Compass Finance Group plc. The amounts become due upon the Group achieving certain performance based targets over a three year period. It is the directors' current opinion that the targets will be achieved, hence the full amount has been included in the purchase consideration.

On 8 September 2004, the company acquired the trade and assets of Compass Finance Limited. The transaction is summarised below:

	Book value £000	Fair value adjustment £000	Fair value £000
Company			
Tangible fixed assets	379	–	379
Intangible fixed assets	208	(208)	–
Debtors	666	–	666
Cash	2,649	–	2,649
Creditors	(1,298)	–	(1,298)
Net assets acquired	2,604	(208)	2,396
Goodwill			9,660
Total purchase price			12,056
Cash			12,056

The only fair value adjustment in both acquisitions was to adjust for the goodwill that arose in Compass Finance Limited on the acquisition of Compass Homeloans Limited in October 2002.

22 Purchase of business (continued)

Compass Finance Limited's most recent statutory year end was to 30 September 2003. Its summarised profit and loss account for that year was as follows:

	Year ended 30 September 2003 £000
Turnover	7,848
Operating profit	1,503
Profit before tax	1,495
Profit after tax	1,034

The acquired undertaking made a profit after tax of £220,000 prior to fair value and other adjustments from the beginning of its financial year to the date of acquisition.

23 Reconciliation of movements in shareholders' funds

	2004 £000
Group and Company	
Opening shareholders' funds	—
Share capital	335
Share premium	5,430
Profit for the financial year	977
Dividend payable	(100)
Closing shareholders' funds	6,642

24 Reconciliation of operating profit to net cash flow from operating activities

	2004 £000
Group	
Operating profit	1,659
Depreciation	97
Amortisation of goodwill	277
Increase in debtors	(496)
Increase in creditors	231
Net cash flow from operating activities	1,768

25 Analysis of cash flows for headings summarised in the cash flow statement

	2004
	£000
Group	
Returns on investments and servicing of finance	
Interest received	14
Interest paid	(121)
Interest element of hire purchase payments	(7)
	<hr/>
Net cash outflow from returns on investment and Servicing of finance	(114)
	<hr/>
Capital expenditure	
Payments to acquire tangible fixed assets	(68)
Receipts from sales of tangible fixed assets	97
	<hr/>
Net cash inflow from capital expenditure	29
	<hr/>
Acquisitions	
Purchase of subsidiary	(7,725)
Net cash acquired with subsidiary	1,600
	<hr/>
	(6,125)
	<hr/>
Financing	
New loans received	3,500
Capital element of hire purchase payments	(116)
Issue of ordinary share capital	3,265
	<hr/>
Net cash outflow from financing	6,649
	<hr/>

26 Reconciliation of net debt to the amounts shown in the balance sheet

	At 8 March 2004 £000	Cash flow £000	Acquisition (excluding cash and overdrafts) £000	Non cash movement £000	At 30 September 2004 £000
Group					
Cash at bank and in hand	–	1,450	–	–	1,450
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Debt due within 1 year	–	(682)	–	–	(682)
Debt due after 1 year	–	(2,818)	–	–	(2,818)
Hire purchase	–	115	(193)	(84)	(162)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	–	(3,385)	(193)	(84)	(3,662)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net debt	–	(1,935)	(193)	(84)	(2,212)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

27 Related party disclosures

During the year, the Company acquired the entire share capital of Compass Finance Limited from the directors of Compass Finance Limited, who each owned 50%.

The deferred consideration of £1million on the purchase of Compass Finance Limited is payable to the previous owners of Compass Finance Limited, Mr CJ Smith and Mr MW Butterwick, both of whom are directors of Compass Finance Group plc. The amounts become due upon the Group achieving certain performance based targets over a three year period. It is the director's current opinion that the targets will be achieved, hence the full amount has been included in the purchase consideration.

On 10 August 2004, Compass Finance Group plc sold a motor vehicle that was surplus to the Company's requirements to Mr MW Butterwick for £14,500. The net book value of the car was £12,000 thus realising a profit for the Group of £2,500.

Mr RI Hughes, a director of the Company, is also a partner of Zeus Capital, who acted as Sponsors for the Company's floatation. Fees paid to Zeus Partners in the period in relation to Mr RI Hughes services as a director totalled £12,000. Fees paid in the period to Zeus Partners in respect of their services on the Company's acquisition of Compass Finance Limited totalled £273,000.

During the period £28,000 was paid to MJF Associates in respect of Mr MJ Fort's services as a director of the Company.

As at 30 September 2004 the Company owed £11,000 to Mr GJ Folwell in accrued emoluments for his services as Chairman of the Company.

28 Company results

The Company has taken advantage of Section 230 of the Companies Act 1985 and has not presented its own profit and loss account for the period from 9 April 2003 to 30 September 2004. The profit after tax for the period dealt with in the accounts of Compass Finance Group plc was £977,000.

29 Principal subsidiary undertakings

The Company has the following consolidated subsidiary undertakings:

Trading	Nature of business
Compass Finance Limited	Finance Broker

The trade and assets of Compass Finance Limited were acquired on 8 September 2004. The company has been dormant since this date.

Dormant
Compass Homeloans Limited
Compass Capital Planning Limited

advisers and contacts

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Registered Office	Compass House New Hall Hey Road Rawtenstall Rossendale BB4 6HH
Registered number	4728183
Financial Adviser	Zeus Capital Limited 3 Ralli Courts West Riverside Manchester M3 5FT
Nominated Adviser and broker	W.H. Ireland Limited 11 St James's Square Manchester M2 6WH
Principal Bankers	Bank of Scotland 19/21 Spring Gardens Manchester M2 1FB
Public relations consultants	Beattie Financial 37/39 Lime Street London EC3A 7AY
Auditors	KPMG Audit Plc Edward VII Quay Navigation Way Preston PR2 2YF
Registrars	Neville Registrars limited Neville House 18 laurel Lane Halesowen West Midlands B63 3DA
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