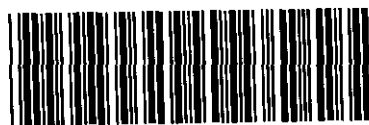


**compass**finance

*The way forward*

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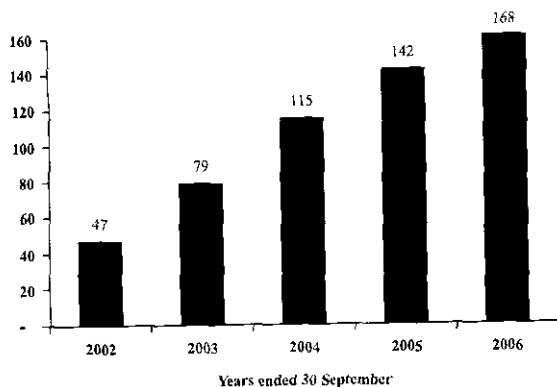
*Compass Finance Group plc  
Annual Report & Accounts  
2006*

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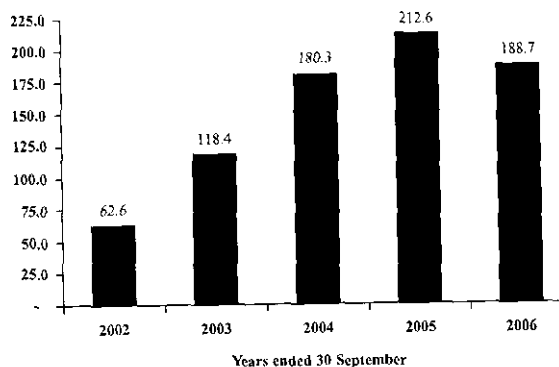
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## Pro forma financial information

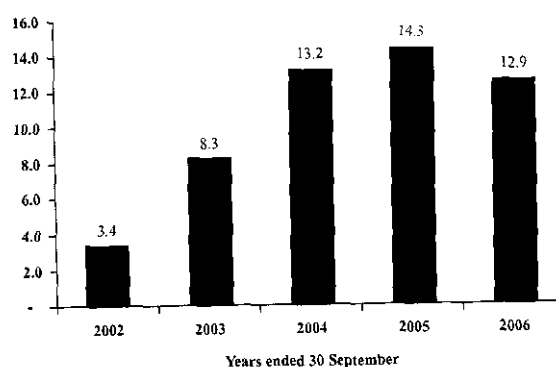
**Staff numbers**



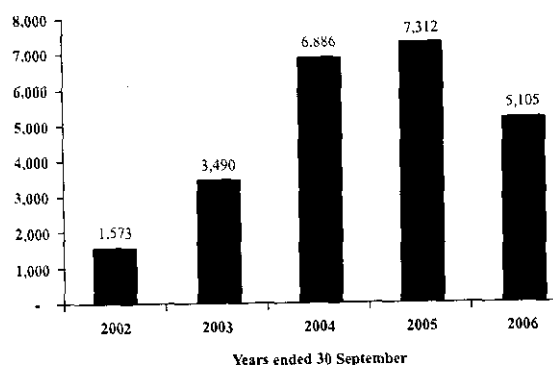
**Loans brokered £m**



**Turnover £m**



**Number of completions**



### Financial calendar

Annual General Meeting  
Interim announcement  
Preliminary announcement

23 February 2007  
June 2007  
December 2007

## Chairman's statement

### Introduction

The year under review has seen the Group continue to implement its chosen strategy of offering a complete set of financial solutions, creating greater efficiency by placing customers in the right product set, as well as delivering annuity earnings from future contracted IVA income.

The acquisition of Budsworth & Co was completed in June 2006 and the company was subsequently renamed The Debt Advisor. The acquisition gives the Group a presence in the growing IVA sector to complement our other financial products. As part of this acquisition, the Group has started to reposition its consumer branding and customer sourcing, moving more towards the IVA and debt management sectors.

The secured loans market saw a significant downturn as a combination of higher interest rates and nervousness surrounding house price inflation resulted in a stalling effect. This, combined with the directors' belief that the direct marketing channels had also come under increasing pressure, resulted in the Group implementing a comprehensive review and restructuring of the Consumer Loans division.

### Statutory results

For the year to 30 September 2006, the Group reported turnover of £12.9 million (2005: £14.3 million) and an EBITDA loss of £1.3 million before exceptional items (2005: profit of £0.3 million), which includes planned EBITDA losses of £0.4 million arising from investment in our newly formed Debt Advisory division. The following table presents the earnings before interest, taxation and depreciation (EBITDA) for the relevant periods:

	2006 £000	2005 £000
<b>Turnover</b>	<b>12,912</b>	<b>14,288</b>
Administrative costs	(14,256)	(13,968)
<b>EBITDA before exceptional items</b>	<b>(1,344)</b>	<b>320</b>
Depreciation/amortisation	(579)	(698)
<b>Loss before interest and taxation and exceptional items</b>	<b>(1,923)</b>	<b>(378)</b>
Exceptional items	(4,478)	—
<b>Loss before interest and taxation</b>	<b>(6,401)</b>	<b>(378)</b>
Interest	(188)	(223)
<b>Loss before taxation</b>	<b>(6,589)</b>	<b>(601)</b>

The basic and diluted loss per share for the year amounted to 10.15p (2005: loss per share of 0.82p). Losses, however, are significantly affected by the technical non-cash IITF17 charge in respect of share options which impacts negatively upon the disclosed basic loss per share. Adjusting for the effects of exceptional items, goodwill amortisation and the charge in respect of share options, the loss per share on an adjusted and diluted basis was 2.29p (2005: loss per share of 0.08p).

In the year to 30 September 2006, the Group received broking commission on funds of £189 million which were lent to customers by a number of lenders (2005: £213 million).

Net debt at 30 September 2006 was £0.76 million (2005: £2.96 million) resulting in gearing of 7% (2005: 48%). The net asset value of the Group as at 30 September 2006 was £10.35 million (2005: £6.09 million).

**Dividends**

In view of the financial performance for the year, the Board does not believe it is appropriate to declare a dividend to shareholders. However, the Board confirms its intention to implement a progressive dividend policy in the future, subject to the Group's performance.

**Current trading and prospects**

Our Debt Advisory division is performing at the top end of management's expectations and I would see this trend of growth continuing in 2007. Investment has been made in people and IT infrastructure to facilitate the planned growth in 2007 and beyond.

The recent restructuring undertaken in our Consumer Loans division has stabilised the performance of the division and, taking a prudent view, I see this division remaining stable throughout 2007 with our resources focused on growing our Debt Advisory division.

On behalf of the Board, I would like to take this opportunity of thanking all employees for their dedication and commitment to the Group in 2006, and look forward to seeing their achievements in 2007.

With a broader Group now operating across several sectors, as well as restructured operations streamlined to allow us to operate more efficiently in those sectors, the Board remains confident about the Group's long-term potential.

**Gren Folwell***Non-Executive Chairman*

6 December 2006

## Chief Executive's review

### Summary performance

The year under review has seen the completion of an acquisition, Budsworth & Co, the relocation and integration of that business to the Group's premises in Bury and the restructuring of the Consumer Loans division, following a shift in market forces and performance. The acquisition of Budsworth & Co has allowed the Group to reposition itself into the IVA and debt management sector, a diversification that realises a key strategic goal of the business. This acquisition creates exciting future prospects for the Group as we broaden our focus onto this dynamic and growing market. The IVA and debt management sector creates a natural strategic fit with the capabilities of the Group in marketing, processing and systems, as well as the growing overlap between applicants requiring a broader range of solutions.

Turnover for the Group in the year was £12.9 million, down from £14.3 million in the year ended September 2005, generating a loss before interest, tax, depreciation, amortisation and exceptional items of £1.3 million, of which £0.9 million was attributable to the Consumer Loans division and £0.4 million to the newly formed Debt Advisory division. The reduction in turnover experienced in the Consumer Loans division has been the result of a downward shift in the secured loan market, resulting in a restructuring of the cost base as we progress into 2007.

Turnover in the Debt Advisory division was £0.3 million in the three and a half months following the acquisition, with new IVA case run rates ending the year at 60. The Debt Advisory division is performing at the top end of our expectations and I expect to see the increase in new IVA case run rates continue into 2007.

As a result of our performance in the Debt Advisory division, future contracted income has increased from £0.9 million to £1.3 million in the three and a half months following the acquisition, and active IVA cases under supervision have risen to 333 at the year end. The dynamics of a growing supervisory case book mean that as we further increase our new IVA case run rates we will quickly see higher levels of future contracted income, bringing about greater predictability and surety.

### Strategy

Following the acquisition of Budsworth & Co, the strategic business model for the Group is now complete, a great step forward for the business. The addition of IVA as a debt solution to sit at the forefront of our product range, consisting of IVA, debt management, mortgages, re-mortgages as well as secured and unsecured loans, means that the Group now offers a full in-house set of financial solutions. This business model completes one of our key stated strategic goals.

As we have continued to reposition the Group into the debt solutions market through IVA and debt management, clearly a growing marketplace, I anticipate seeing organic growth to the fore in 2007 in our Debt Advisory division. With the addition of IVA as a solution, we will now complete the repositioning of the Group by rebranding to The Debt Advisor Group plc, subject to shareholder approval at our AGM in February 2007. This repositioning of our consumer and corporate brands is in line with the shift in strategy to providing debt solutions to our customers. We will continue to focus on offering a full set of financial solutions; however, we see future investment and growth coming in the Debt Advisory division, with the Consumer Loans division remaining relatively static.

The Group is now repositioned as a provider of IVA and debt management solutions with the people, systems and lead sources in place to capitalise on a growing IVA market.

### Acquisition of Budsworth & Co

In July 2006, we completed the acquisition of Budsworth & Co, trading as The Debt Advisor and The Business Debt Advisor. This acquisition has been a key strategic step for the Group and has been the catalyst to our repositioning as an IVA and debt management provider.

Expansion into IVA and debt management has allowed us to achieve another of our key stated strategic goals, to diversify and desensitise our income streams from the cash generative nature of a finance brokerage to the more stable and predictive annuity income streams of an IVA and debt

## **Chief Executive's review**

management business. As our supervisory case book continues to build and our future contracted income increases, we can look forward to increasingly stable income lines from our Debt Advisory division.

Bev Budsworth, the founder of Budsworth & Co, joined the Group as Managing Director of our newly formed Debt Advisory division with responsibility for the growth of the IVA business. I am delighted to welcome Bev and her colleagues to the Group.

August 2006 saw the successful relocation of Budsworth & Co to the Group's premises in Bury, Lancashire. The relocation and integration is now fully complete and I am pleased to report that this was a seamless transition that has not impacted our forecast performance in the Debt Advisory division. Following the relocation of Budsworth & Co we have sufficient space in our existing premises to cater for the planned growth throughout the Group for the next three years.

To support our planned growth in the Debt Advisory division, we have invested in a new operating system designed to automate the workflow, customer and account management for IVAs and debt management cases. We have now completed the implementation and conversion to our new operating systems, a step that has brought significant efficiency gains and removed cumbersome manual processes from all stages of the case approval process and, equally importantly, has automated the complex cashiering functions associated with management of five year IVA plans where regular contributions are made by the debtor.

As the months since acquisition have passed, the Debt Advisory division is performing at the top end of my expectations. I anticipate that the growth in new IVA case run rates will continue in 2007, facilitated by the investment already made in new systems, relocation to our premises in Bury and investment in new lead generation.

### **Consumer Loans Division**

As commented on in my statement of 2 October 2006, there has been a significant downturn in the secured loans market, driven by higher interest rates and nervousness surrounding house price inflation, resulting in a stalling effect.

As a result of this downturn, a comprehensive restructuring of the Consumer Loans division has now been completed. This restructuring has resulted in the cost base being reduced through the cessation of certain marketing activities and a reduction in headcount costs, with the intention of enabling the division to return to profitability in 2007.

The remaining marketing channels, together with the restructured workforce, have created a more streamlined Consumer Loans division. This division is now well placed to deliver a stable result in 2007. Due to the slow nature of the secured loans market, growth expectations within the context of the Group remain prudent following the restructure, with investment in growth coming from the Debt Advisory division.

### **Marketing**

As mentioned previously, it is our intention to rebrand the Group to The Debt Advisor Group plc, subject to shareholder approval at our AGM in February 2007. This rebranding will allow us to reposition our consumer brand through our web presence and other marketing channels.

In 2006, we experienced a downturn in our main direct marketing channel of direct mail. As this channel became increasingly competitive, applicant response rates dropped causing the cost per lead to substantially increase to a point where the channel was no longer viable. As a result of this we have now exited direct mail as an acquisition channel and have streamlined all other acquisition channels, in both our Debt Advisory division and Consumer Loans division.

All future planned growth has been based on introducer and affinity partnerships, creating greater surety of success. It is our belief that competitive forces in direct marketing channels will continue to

drive up the cost per lead in these channels. By focusing our growth on a larger number of long-term partnerships, we dilute the risk of losing leads from a single source, creating more predictability over the cost of acquiring those leads through the contracts agreed with our partners. In line with this customer acquisition strategy, the Group has contractually completed its first major high street affinity partnership for the referral of mortgage and remortgage leads. The lead volumes from this partnership will build throughout 2007 as we bring more distribution centres on-line from our partner. Negotiations continue with other major high street lead providers and we would hope to add more of these relationships in due course.

#### **Employees**

I would like to take this opportunity to thank all of our employees for their hard work, dedication and commitment in 2006. In a year of change, it is our employees who have enabled us to complete, relocate and fully integrate an acquisition, convert to new systems, as well as restructure one of our operating divisions.

I would also like to welcome all of the new employees who have joined us through the acquisition of Budsworth & Co and wish them success in their future careers with the Group.

#### **2007 Outlook**

With our successful repositioning as a provider of IVA and debt management solutions, together with mortgages, re-mortgages, secured and unsecured loans, we look forward to the broader opportunities offered by this complete product range. As 2007 progresses, I look forward to seeing continued and progressive growth from our Debt Advisory division, the cornerstone of our future growth.

Our management efforts will be firmly aligned to the delivery of organic growth in our Debt Advisory division, through expanding our affinity partnerships and increasing our skilled resources in IVA processing, as well as maintaining the stability of our Consumer Loans division.



**Mike Sutcliffe**

*Chief Executive*

6 December 2006



## **Directors' biographies**

### **Gren Folwell**, 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 a number of acquisitions, including the successful £750 million hostile takeover of Birmingham Midshires Building Society. Gren's other current non-executive directorships include Network Data Holdings plc, SSP Holdings plc and, until September 2005, Debt Free Direct Group plc. In 1995 Gren was president of the Chartered Institute of Public Finance and Accountancy.

### **Mike Sutcliffe**, Chief Executive Officer

Following a strategic review of the Group's business, Mike was appointed as Chief Executive in May 2005. Mike has extensive business management experience, and has enjoyed a career in the financial services sector for over 17 years, initially as a manager and regional manager. Mike was latterly a member of the Management Board of CitiFinancial Europe plc, a subsidiary of Citigroup Inc and prior to that had spent 8 years with Household International Inc, now a subsidiary of HSBC Bank. As Chief Executive, Mike has responsibility for all aspects of Corporate Strategy, Compliance, Sales and Marketing as well as Finance and IT.

### **Mark Walker**, Finance Director

Mark is a Chartered Accountant, having trained with Price Waterhouse, and has spent the last 10 years working with a number of venture capital companies and other stakeholders handling a variety of corporate transactions. He was finance director at a £30 million management buy-out of a speciality chemicals business which was sold to a quoted US business in 2001. After heading up the business integration process, he was headhunted to join an £85 million management buy-out of a global speciality paper manufacturer. Mark was appointed to the Compass Board in September 2005 and has specific responsibility for the Finance, IT and administrative functions of the business.

### **Richard Hughes**, Non-executive Director

Richard has over 18 years' experience of corporate activity including flotations, capital raisings and mergers and acquisitions for both public and private companies. Richard is a partner of Holyrood Partners LLP and a director of Zeus Capital Limited which is an FSA regulated company providing corporate finance advice and NOMAD and broking services. He was previously a managing director of Altium Capital Limited (formerly Apax Partners and Co. Corporate Finance Limited), having set up the Manchester office in 1996. He is also a director of a number of private and public companies.

### **Michael Fort**, Non-executive Director

Michael has financial and management experience in a number of corporate environments. He is currently Chief Executive of Synexus Clinical Research plc, an AIM quoted pharmaceutical services company. He has held a number of main board positions over recent years in both quoted and unquoted companies in financial and general management capacities. He is a fellow member of the Chartered Institute of Management Accountants.

### **Mike Hutchins**, Non-executive Deputy Chairman

Mike retired from the Royal Bank of Scotland Group ("RBS") in April 2004 after over 40 years' service. For the last 10 years, Mike concentrated on retail banking operations and latterly was Managing Director of Retail Banking for RBS, being responsible for the entire RBS and NatWest branch network, comprising 2,300 branches and 23,000 staff. Since his retirement from RBS, Mike has acted as a management consultant to a number of companies and organisations, including major high street banks and financial institutions, and had been working with the executive management at Compass Finance for the six months prior to his appointment. Mike holds current directorships with Royal Exchange Theatre Company Limited and Royal Exchange Theatre Catering Limited and is a partner in The Hutchins Partnership.

## **Directors' report**

The directors present their annual report and the audited financial statements for the year ended 30 September 2006.

### **Principal activities**

The principal activity of the Group is the provision of a complete range of debt advisory solutions through the brokering and packaging of mortgages, secured loans and unsecured loans as well as the provision of individual voluntary arrangements (IVAs) and debt management plans, for clients requiring debt consolidation or debt restructuring solutions.

### **Enhanced business review**

The Group recorded a loss after taxation for the year of £6,554,000 on a turnover of £12,912,000.

### **Performance and development during the year**

The Group monitors a number of key indicators in appraising the performance of the business throughout the year. These indicators include turnover, earnings before interest, taxation, depreciation and amortisation, the effectiveness of lead conversion to revenue, the value of loans brokered and the average value of loan transactions. These indicators are covered in more detail in the Chairman's and Chief Executive's reports above.

### **Position at the end of the year**

At the end of the year, the Group had net debt of £762,000, equivalent to a gearing level of 7.4%. The net debt comprised a bank term loan of £2,083,000 (of which £789,000 is due within one year and £1,294,000 is due after one year), amounts due under hire purchase contracts and finance lease obligations of £179,000 (of which £146,000 is due within one year and £33,000 is due after one year) and cash in hand of £1,500,000.

### **Risk and uncertainties facing the Group**

The Board has identified a number of factors that could impact on the future performance of the Group. These factors include the potential for further interest rate rises implemented by the Monetary Policy Committee of the Bank of England, with rises impacting the servicing of personal debt. Whilst this may lead to reduced demand for remortgage and secured loan products, it is likely to benefit the market for debt advisory products, including individual voluntary arrangements, as more people find themselves in a distressed debt position.

Similarly, house price deflation is also generally considered to have an impact on the markets for remortgage and secured loan products, as a reduction in the property equity affects the ability to secure debt against that equity.

The activities of the Group's Consumer Loans Division are registered with and operate to the principles and guidelines of various national regulators, including the Financial Services Authority and the Finance Industry Standards Association. Whilst the IVA activities of the Debt Advisory Division are regulated by an industry body, the Insolvency Practitioners' Association, its day-to-day operations are managed to the same exacting standards and principles as those of the Consumer Loans Division. The Board is conscious of recent market calls for increased and independent regulation of both IVA and debt management activities and confirms its support for an appropriate level of regulation to provide confidence to the market as a whole.

**Proposed dividend and results for the year**

The directors do not propose a final dividend for the year ended 30 September 2006.

**Directors and directors' interests**

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

**Executive**

MRH Sutcliffe

MH Walker

MD Snape

MW Butterwick (resigned 7 December 2005)

**Non-executive**

GJ Folwell (Chairman)

RI Hughes

MJ Fort

M Hutchins (appointed 14 March 2006)

CJ Smith (resigned 23 February 2006)

The beneficial interests of the directors holding office on 30 September 2006 in the issued share capital of the Company were as follows:

		30 September 2006	30 September 2005
	Class of share		
GJ Folwell (Chairman)	Ordinary 0.5p	441,667	416,667
MJ Fort	Ordinary 0.5p	3,025,019	3,000,019
RI Hughes	Ordinary 0.5p	6,036,010	6,011,010
MRH Sutcliffe	Ordinary 0.5p	25,000	—

On 7 December 2005, the Group's Employee Benefit Trust purchased 11,725,000 ordinary shares from Mark Butterwick, one of the original founders of the business and a director until his resignation on the same date, at a price of 2.5 pence per share.

On the same date, options were granted by the EBT to certain directors and senior management at an equivalent option price of 2.5 pence per share. The options granted to directors and outstanding as at 30 September 2006 are as follows (30 September 2005: nil):

		30 September 2006	Vesting period
	Class of share		
MRH Sutcliffe	Ordinary 0.5p	7,975,000	2005–2007
MD Snape	Ordinary 0.5p	2,000,000	2005–2007
MH Walker	Ordinary 0.5p	1,150,000	2005–2007

The options are exercisable over three years in equal amounts, commencing on 7 December 2005, subject to approval by the Board.

On 14 March 2006, Mike Hutchins was granted an option over 500,000 ordinary shares at an option price of 51.5 pence per share, the market price on the date of grant. The options are exercisable after 3 years following the date of grant.

**Corporate governance**

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

The Group has an audit committee, consisting of the chairman Richard Hughes and Gren Folwell, and a remuneration committee consisting of the chairman Gren Folwell and Richard Hughes. 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 Group.

**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, disabled 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 had 17 days purchases outstanding at 30 September 2006 (30 September 2005: 25 days)

**Political and charitable donations**

The Group's charitable donations for the year amounted to £220 (2005: £2,156). There were no political contributions.

**Auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

By order of the Board



**M Sutcliffe**  
Director

2nd Floor  
Warwick House  
Hollins Brook Way  
Pilsworth  
Bury  
BL9 8RR

6 December 2006

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

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 they have elected to prepare the Group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss for that period.

In preparing these 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 Group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 Group 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**

We have audited the Group and parent company financial statements (the "financial statements") of Compass Finance Group plc for the year ended 30 September 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 11. 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. The information given in the Directors' Report includes that specific information presented in the Chairman's and Chief Executive's reports that is cross-referred from the Business review section of the Directors' Report.

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

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

#### ***Basis of audit opinion***

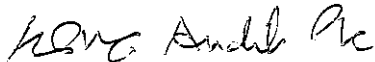
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 30 September 2006 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



**KPMG Audit Plc**

Chartered Accountants

Registered Auditor

6 December 2006

## Consolidated profit and loss account

for the year ended 30 September 2006

		2006		2005
		Before exceptional items and goodwill £000	Exceptional items and goodwill £000	After exceptional items and goodwill £000
	Note			£000
<b>Turnover</b>	2	12,912	—	12,912
— continuing operations		12,592	—	12,592
— acquisitions		320	—	320
Administrative expenses		(14,256)	—	(14,256)
(Loss)/earnings before interest, tax, depreciation, amortisation and exceptional items	2	(1,344)	—	(1,344)
Depreciation	3	(190)	—	(190)
Amortisation of goodwill	3	—	(389)	(389)
Exceptional items	3	—	(4,478)	(4,478)
<b>Operating loss</b>	3	(1,534)	(4,867)	(6,401)
— continuing operations		(1,103)	(4,766)	(5,869)
— acquisitions		(431)	(101)	(532)
Interest receivable and similar income	7	18	—	18
Interest payable and similar charges	8	(206)	—	(206)
Loss on ordinary activities before taxation		(1,722)	(4,867)	(6,589)
Tax on loss on ordinary activities	9	35	—	35
<b>Retained loss for the period</b>		(1,687)	(4,867)	(6,554)
Loss per share:				
— basic and diluted	10			(10.15p)

## Consolidated statement of total recognised gains and losses

for the year ended 30 September 2006

There were no other gains and losses in the current or prior year other than those reported in the consolidated profit and loss accounts above.



**Consolidated balance sheet**

as at 30 September 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
<b>Fixed assets</b>					
Intangible assets	11		9,945		9,134
Tangible assets	12		905		686
			<u>10,850</u>		<u>9,820</u>
<b>Current assets</b>					
Debtors	13	1,076		1,324	
Cash at bank and in hand		<u>1,500</u>		<u>240</u>	
		2,576		1,564	
<b>Creditors: amounts falling due within one year</b>	14	<u>(1,746)</u>		<u>(2,312)</u>	
<b>Net current assets/(liabilities)</b>			<u>830</u>		<u>(748)</u>
<b>Total assets less current liabilities</b>			<u>11,680</u>		<u>9,072</u>
<b>Creditors: amounts falling due after more than one year</b>	15		<u>(1,327)</u>		<u>(2,962)</u>
<b>Provision for liabilities and charges</b>	18		<u>—</u>		<u>(20)</u>
<b>Net assets</b>			<u>10,353</u>		<u>6,090</u>
<b>Capital and reserves</b>					
Called up share capital	19		430		335
Share premium	20		12,745		5,430
Own shares	20		(293)		—
Profit and loss account	20		<u>(2,529)</u>		<u>325</u>
<b>Shareholders' funds</b>	22		<u>10,353</u>		<u>6,090</u>

These financial statements were approved by the Board of directors on 6 December 2006 and were signed on its behalf by:



**M Sutcliffe**  
Director

## Parent company balance sheet

as at 30 September 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
<b>Fixed assets</b>					
Intangible assets	11		7,777		9,134
Tangible assets	12		534		686
			<u>8,311</u>		<u>9,820</u>
<b>Current assets</b>					
Debtors	13	4,114		1,324	
Cash at bank and in hand		1,382		240	
		<u>5,496</u>		<u>1,564</u>	
<b>Creditors: amounts falling due within one year</b>	14	<u>(1,595)</u>		<u>(2,312)</u>	
<b>Net current assets/(liabilities)</b>			<u>3,901</u>		<u>(748)</u>
<b>Total assets less current liabilities</b>			<u>12,212</u>		<u>9,072</u>
<b>Creditors: amounts falling due after more than one year</b>	15		<u>(1,327)</u>		<u>(2,962)</u>
<b>Provision for liabilities and charges</b>	18		<u>—</u>		<u>(20)</u>
<b>Net assets</b>			<u>10,885</u>		<u>6,090</u>
<b>Capital and reserves</b>					
Called up share capital	19		430		335
Share premium	20		12,745		5,430
Own shares	20		(293)		—
Profit and loss account	20		<u>(1,997)</u>		<u>325</u>
<b>Shareholders' funds</b>	22		<u>10,885</u>		<u>6,090</u>

These financial statements were approved by the Board of directors on 6 December 2006 and were signed on its behalf by:



**M Sutcliffe**

Director

## **Consolidated cash flow statement**

for the year ended 30 September 2006

	Note	2006 £000	2005 £000
<b>Net cash inflow from operating activities</b>	23	<b>(2,066)</b>	432
Return on investments and servicing of finance	24	(188)	(219)
Taxation		30	(339)
Capital expenditure	24	(417)	(67)
Acquisitions	24	(1,281)	—
Purchase of own shares	20	(293)	—
Dividends		—	(100)
<b>Net cash outflow before financing</b>		<b>(4,215)</b>	(293)
Financing	24	5,475	(917)
<b>Increase/(decrease) in cash in the year</b>		<b>1,260</b>	<b>(1,210)</b>

## **Reconciliation of net cash flow to movement in net debt**

for the year ended 30 September 2006

	2006 £000	2005 £000
Increase/(decrease) in cash in the period	1,260	(1,210)
Cash outflow/(inflow) from change in debt	936	917
<b>Changes in net debt resulting from cash flows</b>	<b>2,195</b>	<b>(293)</b>
Finance leases acquired with subsidiary	—	—
New finance leases	—	(453)
Net debt at beginning of period	(2,958)	(2,212)
<b>Net debt at end of year</b>	<b>(762)</b>	<b>(2,958)</b>

## **Net debt comprises:**

	30 September 2006 £000	30 September 2005 £000
Cash at bank and in hand	1,500	240
Bank term loan	(2,083)	(2,817)
Hire purchase contracts and finance leases	(179)	(381)
<b>Net debt at end of year</b>	<b>(762)</b>	<b>(2,958)</b>

## 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 subsidiary undertakings made up to 30 September 2006.

A separate profit and loss account dealing with the results of the Company alone 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
Leasehold additions	—	over the life of the lease

##### 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 together with nominee and supervisory fees arising in respect of individual voluntary arrangements.

*In respect of individual voluntary arrangements, fees are recognised as follows:*

<b>Nominee fees:</b>	These are only recognised on the formal approval by creditors of the voluntary arrangement.
<b>Supervisory fees:</b>	These are recognised on a monthly basis commencing one month after the formal approval by creditors of the voluntary arrangement.

##### 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.

##### Advertising and marketing expenditure

Advertising and marketing expenditure is generally expensed in the month following the date of promotion. This is to recognise the lead time between incurring the expense, the customer contacting the Company and the associated commission income recognised when the leads are completed.

##### 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 over the period from the date of the grant to the date when the employee becomes unconditionally entitled to the shares.

# 1 Accounting policies continued

## 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 Segmental analysis

Following the acquisition of the IVA business Budsworth & Co, the Group is organised into two business divisions, a Consumer Loans division and a Debt Advisory division. The Consumer Loans division incorporates the finance broking of re-mortgages and loans for clients and the Debt Advisory division includes the provision of debt management plans and individual voluntary arrangements to clients requiring debt restructuring solutions.

Analysis of turnover, loss before interest, tax, depreciation and amortisation and of operating loss, both before exceptional items, by business segment for the year:

## Operating (loss)/profit is stated after charging:

	Consumer Loans £000	Debt Advisory £000	Group £000
Turnover	12,592	320	12,912
Loss before interest, tax, depreciation, amortisation and exceptional items	(913)	(431)	(1,344)
Operating loss before exceptional items	(1,103)	(431)	(1,534)

Business activity in the prior year all arose from the Consumer Loans division.

# 3 Operating loss

## The operating loss is stated after charging:

	2006 £000	2005 £000
Depreciation	190	202
Amortisation	389	496
Exceptional costs	4,478	—
Auditors' remuneration:		
— audit (of which Company: £15,000)	25	18
— non-audit	6	11
Operating leases		
— plant and machinery	70	79
— land and buildings	408	408
Exceptional costs comprise:		
	2006 £000	2005 £000
Restructuring costs	35	202
Marketing due diligence and testing costs incurred in connection with the expansion into the IVA market	674	—
Business integration costs incurred following the acquisition of Budsworth & Co	69	—
Charge in respect of share options	3,700	—
	4,478	—

The marketing due diligence and testing costs relate to expenditure incurred prior to the acquisition of Budsworth & Co on research of the market for individual voluntary arrangements and other financial solutions for over indebted consumers. These costs have been expensed to the profit and loss account rather than being capitalised into the cost of acquisition.

The business integration costs relate to third party expenditure incurred in integrating systems, processes and people following the acquisition of Budsworth & Co and have not been capitalised but have been expensed to the profit and loss account in line with FRS 7.

### 3 Operating loss continued

The charge in respect of share options arises in respect of the issue of shares by the Group's Employee Benefit Trust. On 7 December 2005, the EBT purchased 11,725,000 ordinary shares from one of the original founders of the business at a price of 2.5 pence per share and issued share options to certain directors and employees at an equivalent exercise price. Notwithstanding that the options are granted over existing shares owned by the EBT, UITF 17 requires a technical accounting charge to be recognised in the Group's profit and loss account equivalent to the difference between the total exercise price and the market price at the date of grant. The accounting charge totals £4,998,750 and this is required to be charged evenly against earnings over the period during which the options vest. The charge for the period to 30 September 2006 amounts to £3,699,988. This does not, however, represent a cash cost to the Group and the charge is reversed in the profit and loss account reserves.

### 4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of Employees 2006	Number of Employees 2005
Management	24	19
Sales	136	114
Administration	8	9
	<u>168</u>	<u>142</u>

The aggregate payroll costs of these persons were as follows:

	2006 £000	2005 £000
Wages and salaries	4,920	4,402
Social security costs	542	489
Other pension costs	116	52
	<u>5,578</u>	<u>4,943</u>

### 5 Remuneration of directors

	2006 £000	2005 £000
Emoluments payable to directors	579	405
Fees payable to related parties	56	51
Pension costs	39	—
	<u>674</u>	<u>456</u>

The Group makes pension contributions to individual money purchase pension schemes maintained by each of the executive directors. Contributions payable during the year amounted to £39,000 (2005: nil). Amounts outstanding at the year end were £nil (2005: nil).

### 6 Pensions

The Company operates a defined contribution pension scheme for 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 payable by the Company and amounted to £77,000 (2005: £52,000). Amounts outstanding at the year end were £nil (2005: nil).

**7 Interest receivable and similar income**

	2006 £000	2005 £000
Bank interest	<u>18</u>	<u>29</u>

**8 Interest payable and similar charges**

	2006 £000	2005 £000
On bank loans and overdrafts	179	227
Finance charges payable in respect of finance leases and hire purchase contracts	<u>27</u>	<u>25</u>
	<u>206</u>	<u>252</u>

**9 Taxation on loss on ordinary activities**

	2006 £000	2005 £000
UK corporation tax at 30%	<u>(35)</u>	<u>(49)</u>

**Tax reconciliation**

	2006 £000	2005 £000
Loss on ordinary activities before taxation	<u>(6,589)</u>	<u>(601)</u>
Loss on ordinary activities multiplied by the rate of corporation tax in the UK at 30%	(1,977)	(180)
Prior year adjustment	(35)	(45)
Effects of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	312	165
Depreciation for period in excess of capital allowances	58	11
Tax losses not provided	690	—
Other timing differences	<u>917</u>	<u>—</u>
	<u>(35)</u>	<u>(49)</u>

**10 Loss per share**

The calculation of basic loss per share has been calculated using the loss for the year and a weighted average number of shares in issue during the year of 64,575,475 (2005: 66,949,792). The weighted average number of shares in issue during the year to 31 March 2006 excludes shares held in the Group's Employee Benefit Trust as required by UITF38.

The diluted earnings per share takes the weighted average number of ordinary shares in issue during the period to 31 March 2006, excluding shares held in the company's EBT, and adjusts this for dilutive share options existing at the period end. This results in a diluted weighted average number of shares of 73,591,261. The share options in issue at 31 March 2006 would, however, decrease the loss per share and are therefore anti-dilutive.

The diluted and adjusted earnings per share figure uses the diluted weighted average number of shares but the loss for the period is adjusted to add back exceptional items, goodwill amortisation and the charge in respect of share options.

Losses per share are as follows:

	2006	2005
— basic and diluted	(10.15p)	(0.82p)
— diluted and adjusted	(2.29p)	(0.82p)

## 11 Intangible fixed assets

	<b>Goodwill £000</b>
<b>Group</b>	
Cost at 1 October 2005	9,921
Release of deferred consideration	(1,000)
Acquisition during the year (see note 21)	2,200
	<u>11,121</u>
<b>Cost at 30 September 2006</b>	<u>11,121</u>
Amortisation at 1 October 2005	787
Charged in period	389
	<u>1,176</u>
<b>Amortisation at 30 September 2006</b>	<u>1,176</u>
<b>Net book value</b>	
<b>At 30 September 2006</b>	<u><b>9,945</b></u>
At 1 October 2005	<u>9,134</u>
	<u><b>Goodwill £000</b></u>
<b>Company</b>	
Cost at 1 October 2005	9,673
Release of deferred consideration	(1,000)
	<u>8,673</u>
<b>Cost at 30 September 2006</b>	<u>8,673</u>
Amortisation at 1 October 2005	539
Charged in period	357
	<u>896</u>
<b>Amortisation at 30 September 2006</b>	<u>896</u>
<b>Net book value</b>	
<b>At 30 September 2006</b>	<u><b>7,777</b></u>
At 1 October 2005	<u>9,134</u>



## 12 Tangible fixed assets

	Plant & Machinery £000	Leasehold improvements £000	Total £000
<b>Group</b>			
Cost at 1 October 2005	423	411	834
Additions	320	155	475
Disposals	(150)	—	(150)
<b>At 30 September 2006</b>	<b>593</b>	<b>566</b>	<b>1,159</b>
Depreciation at 1 October 2005	123	25	148
Charge for year	138	52	190
Released on disposal	(84)	—	(84)
<b>At 30 September 2006</b>	<b>177</b>	<b>77</b>	<b>254</b>
<b>Net book value</b>			
<b>At 30 September 2006</b>	<b>416</b>	<b>489</b>	<b>905</b>
At 1 October 2005	300	386	686
	Plant & Machinery £000	Leasehold improvements £000	Total £000
<b>Company</b>			
Cost at 1 October 2005	423	411	834
Additions	104	—	104
Disposals	(150)	—	(150)
<b>At 30 September 2006</b>	<b>377</b>	<b>411</b>	<b>788</b>
Depreciation at 1 October 2005	123	25	148
Charge for year	138	52	190
Released on disposal	(84)	—	(84)
<b>At 30 September 2006</b>	<b>177</b>	<b>77</b>	<b>254</b>
<b>Net book value</b>			
<b>At 30 September 2006</b>	<b>200</b>	<b>334</b>	<b>534</b>
At 1 October 2005	300	386	686

The net book value of tangible fixed assets includes £333,000 (2005: £503,000) in respect of assets held under finance leases or hire purchase contracts. The depreciation charge in respect of such assets amounted to £74,000 (2005: £111,000).

**13 Debtors**

	2006 £000	2005 £000	2006 £000	2005 £000
<b>Group and Company</b>				
Trade debtors	210	503	210	503
Corporation tax	—	15	—	15
Prepayments and accrued income	751	806	403	806
Taxation and social security	115	—	—	—
Inter-company	—	—	3,501	—
	<u>1,076</u>	<u>1,324</u>	<u>4,114</u>	<u>1,324</u>

**14 Creditors: amounts falling due within one year**

	2006 £000	2005 £000	2006 £000	2005 £000
<b>Group and Company</b>				
Bank loan	789	738	789	738
Obligations under hire purchase contracts and finance leases	146	165	146	165
Trade creditors	417	563	266	563
Taxation and social security	154	189	154	189
Corporation tax	—	—	—	—
Accruals and deferred income	240	324	240	324
Deferred consideration	—	333	—	333
	<u>1,746</u>	<u>2,312</u>	<u>1,595</u>	<u>2,312</u>

**15 Creditors: amounts falling due after more than one year**

	2006 £000	2005 £000	2006 £000	2005 £000
<b>Group and Company</b>				
Bank loan	1,294	2,079	1,294	2,079
Obligations under hire purchase contracts and finance leases	33	216	33	216
Deferred consideration	—	667	—	667
	<u>1,327</u>	<u>2,962</u>	<u>1,327</u>	<u>2,962</u>
<b>Bank loans</b>	<b>2006 £000</b>	<b>2005 £000</b>	<b>2006 £000</b>	<b>2005 £000</b>
<b>Group and Company</b>				
Within one year	789	738	789	738
Within one to two years	850	788	850	788
Within two to five years	444	1,291	444	1,291
	<u>2,083</u>	<u>2,817</u>	<u>2,083</u>	<u>2,817</u>

**15 Creditors: amounts falling due after more than one year continued****Term loan**

The Group and Company have a bank loan of £2,083,000. The loan is repayable over five years and will be fully paid by 8 March 2009. 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:

	2006 £000	2005 £000
<b>Group and Company</b>		
Within one year	146	165
Between one and two years	33	216
	<u>179</u>	<u>381</u>

**16 Financial instruments**

The Group's financial instruments at the year end comprised cash, bank borrowing, 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 borrowing and hire purchase arrangements.

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

	2006 £000	2005 £000
<b>Financial liabilities:</b>		
Fixed rate	179	381
Floating rate	2,083	2,817
	<u>2,262</u>	<u>3,198</u>
Fixed rate weighted average interest rate at 30 September	<u>7.0%</u>	<u>7.0%</u>

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 2006 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.

The maturity profile of financial liabilities is as follows:

	2006 £000	2005 £000
Due within one year	935	903
Due between one and two years	883	968
Due between two and five years	444	1,327
	<u>2,262</u>	<u>3,198</u>

**17 Commitments**

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

	<b>Land and buildings</b>		<b>Other</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Group and Company</b>				
Expiring:				
Within one year	—	—	30	33
2 to 5 years	—	—	—	44
Over 5 years	320	302	—	—
	<u>320</u>	<u>302</u>	<u>—</u>	<u>—</u>

There are no capital commitments at 30 September 2006 in either the Company or the Group.

**18 Provision for liabilities and charges**

	<b>2006</b>
	<b>Deferred tax</b>
	<b>£000</b>
<b>Group and Company</b>	
Brought forward at 1 October 2005	20
Released to profit and loss	(20)
	<u>—</u>
<b>Balance at 30 September 2006</b>	<u>—</u>
At 30 September 2006, the Group had an unrecognised deferred tax asset as follows:	
	<b>£000</b>
Capital allowances in excess of depreciation	31
Other timing differences	917
Tax losses	690
	<u>1,638</u>

**19 Called up share capital**

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
<b>Group and Company</b>		
<b>Authorised</b>		
100,000,000 ordinary shares of 0.5p each	<u>500</u>	<u>500</u>
<b>Allotted, called up and fully paid</b>		
85,946,983 ordinary shares of 0.5p each		
(2005: 66,949,792 ordinary shares)	<u>430</u>	<u>335</u>

On 23 February 2006, 5,500,000 ordinary shares of 0.5 pence each were issued via a placing at a price of 40p per share.

On 12 June 2006, 11,250,000 ordinary shares of 0.5p each were issued via a placing at a price of 40p per share.

On 12 June 2006, 2,247,191 ordinary shares of 0.5p each were issued in connection with the acquisition of Budsworth & Co at a price of 44.5p per share.

**20 Reserves**

	Own Shares £000	Share premium £000	Profit and loss account £000
<b>Group</b>			
At 1 October 2005	—	5,430	325
Issue of shares during the year (see note 19)	—	7,315	—
Purchase of own shares (see below)	(293)	—	—
Retained loss for the year	—	—	(6,554)
Reversal of technical profit and loss account charge in respect of share options (see note 3)	—	—	3,700
<b>At 30 September 2006</b>	<b>(293)</b>	<b>12,745</b>	<b>(2,529)</b>
<b>Company</b>			
At 1 October 2005	—	5,430	325
Issue of shares during the year (see note 19)	—	7,315	—
Purchase of own shares (see below)	(293)	—	—
Retained loss for the year	—	—	(6,022)
Reversal of technical profit and loss account charge in respect of share options (see note 3)	—	—	3,700
<b>At 30 September 2006</b>	<b>(293)</b>	<b>12,745</b>	<b>(1,997)</b>

On 7 December 2005, the Group's Employee Benefit Trust purchased 11,725,000 ordinary shares from one of the original founders of the business at a price of 2.5 pence per share. In accordance with UITF 38, this shareholding has been shown as a deduction from shareholder funds.

**21 Acquisition of Business**

On 12 June 2006, the Group's subsidiary undertaking The Debt Advisor Limited acquired the trade, assets and certain liabilities of Budsworth & Co. The consideration of £2 million was satisfied by the allotment of 2,247,191 ordinary shares of 0.5p each at a price of 44.5p per share together with a cash payment of £1 million.

The acquisition has been accounted for using the acquisition method of accounting and goodwill arising on acquisition has been capitalised and will be amortised over a period of 20 years, which is its expected life.

The assets and liabilities acquired are set out below:

	Book Value and Fair Value £000
Fixed assets	—
Debtors and accrued income	117
Creditors, accruals and taxes	(36)
Net assets acquired	81
Consideration:	
Shares	1,000
Cash	1,000
Professional fees	281
Total consideration	2,281
<b>Goodwill arising on acquisition</b>	<b>2,200</b>

**22 Reconciliation of movements in shareholders' funds**

	2006 £000	2005 £000
<b>Group</b>		
Opening shareholders' funds	6,090	6,642
Share capital	95	—
Share premium	7,315	—
Purchase of own shares	(293)	—
Loss for the financial year	(6,554)	(552)
Reversal of non-cash share option	3,700	—
Closing shareholders' funds	<u>10,353</u>	<u>6,090</u>
	2006 £000	2005 £000
<b>Company</b>		
Opening shareholders' funds	6,090	6,642
Share capital	95	—
Share premium	7,315	—
Purchase of own shares	(293)	—
Loss for the financial year	(5,348)	(552)
Reversal of non-cash share option	3,700	—
Closing shareholders' funds	<u>11,559</u>	<u>6,090</u>

**23 Reconciliation of operating profit to net cash flow from operating activities**

	2006 £000	2005 £000
<b>Group</b>		
Operating loss	(6,401)	(378)
Depreciation	190	202
Amortisation of goodwill	389	496
Loss on disposal of fixed assets	6	—
Non cash charge in respect of share options	3,700	—
Decrease in debtors	350	2
(Decrease)/increase in creditors	(300)	110
Net cash flow from operating activities	<u>(2,066)</u>	<u>432</u>

## 24 Analysis of cash flows for headings summarised in the cash flow statement

	2006 £000	2005 £000
<b>Group</b>		
<b>Returns on investments and servicing of finance</b>		
Interest received	17	29
Interest paid	(178)	(223)
Interest element of hire purchase payments	(27)	(25)
<b>Net cash outflow from returns on investment and servicing of finance</b>	<u>(188)</u>	<u>(219)</u>
<b>Capital expenditure</b>		
Payments to acquire tangible fixed assets	(477)	(114)
Receipts from sales of tangible fixed assets	60	47
<b>Net cash outflow from capital expenditure</b>	<u>(417)</u>	<u>(67)</u>
<b>Acquisitions</b>		
Purchase of subsidiary	(1,281)	—
Net cash acquired with subsidiary	—	—
<b>Net cash flow from acquisitions</b>	<u>(1,281)</u>	<u>—</u>
<b>Financing</b>		
Repayment of bank loans	(734)	(683)
Capital element of hire purchase payments	(202)	(234)
Issue of ordinary share capital	6,410	—
<b>Net cash inflow/(outflow) from financing</b>	<u>5,475</u>	<u>(917)</u>

## 25 Reconciliation of net debt to the amounts shown in the balance sheet

	At 30 September 2005 £000	Cash flow £000	Non-cash movement £000	At 30 September 2006 £000
<b>Group</b>				
Cash at bank and in hand	240	1,260	—	1,500
Debt due within 1 year	(738)	734	(785)	(789)
Debt due after 1 year	(2,079)	—	785	(1,294)
Hire purchase	(381)	202	—	(179)
	<u>(3,198)</u>	<u>936</u>	<u>—</u>	<u>(2,262)</u>
<b>Net debt</b>	<u>(2,958)</u>	<u>2,196</u>	<u>—</u>	<u>(762)</u>

**26 Related party disclosures**

On 7 December 2005, the Group's Employee Benefit Trust purchased 11,725,000 ordinary shares from Mark Butterwick, one of the original founders of the business and a director until his resignation on the same date, at a price of 2.5 pence per share. This represented consideration of £293,125.

Richard Hughes, a director of the Company, is also a partner of Holyrood Partners LLP and a director of Zeus Capital Limited. Fees paid to Holyrood Partners in the year in relation to Mr Hughes' services as a director totalled £21,150 (2005: £16,000). Fees paid to Zeus Capital in 2006 amounted to £81,330 in respect of financial advice relating to the acquisition of Budsworth & Co, £105,000 in respect of commissions received relating to share placings and £4,406 in respect of general financial advice (2005: £6,606).

During the year £23,500 was paid to MJF Associates in respect of Michael Fort's services as a director of the Company (2005: £35,000).

Accrued amounts owing in respect of non-executive directors at 30 September 2006 are Holyrood Partners LLP £Nil (2005: £4,525) and MJF Associates £11,750 (2005: £3,917).

**27 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 year ended 30 September 2006. The loss after tax for the period dealt with in the accounts of Compass Finance Group plc was £6,022,000 (2005 loss: £552,000).

**28 Principal subsidiary undertakings**

The company has the following consolidated subsidiary undertakings:

**Trading**

The Debt Advisor Limited

**Dormant**

Compass Finance Limited

Compass Homeloans Limited

Compass Debt Management Limited

**Trustee of the Employee Benefit Trust**

Compass Finance Trustees Limited



## ***Advisers and contacts***

<b>Registered office</b>	2nd Floor Warwick House Hollins Brook Way Pilsworth Bury BL9 8RR
<b>Company secretary</b>	Mark Walker
<b>Solicitors</b>	Berg Legal Scottish Mutual House 35 Peter Street Manchester M2 5BG
<b>Registered number</b>	4728183
<b>Financial adviser</b>	Zeus Capital 3 Ralli Courts West Riverside Manchester M2 6WH
<b>Nominated adviser and broker</b>	W.H. Ireland Limited 11 St James's Square Manchester M2 6WH
<b>Principal bankers</b>	Bank of Scotland 19/21 Spring Gardens Manchester M2 1FB
<b>Public relations consultants</b>	Redleaf Communications 9-13 St Andrew Street London EC4A 3AF
<b>Auditors</b>	KPMG Audit Plc Edward VII Quay Navigation Way Preston PR2 2YF
<b>Registrars</b>	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
<b>Website</b>	<a href="http://www.compassfinancegroupplc.co.uk">www.compassfinancegroupplc.co.uk</a>

## ***Notice of annual general meeting***

**NOTICE IS HEREBY GIVEN** that the third annual general meeting (the "Meeting") of Compass Finance Group plc (the "Company") will be held at 2nd Floor, Warwick House, Hollins Brook Way, Pilsworth, Bury, BL9 8RR on the 23rd day of February 2007 at 2.00 pm for the following purposes:

### **Ordinary Business**

1. To receive and approve the report of the directors and the Company's accounts for the year ended 30 September 2006 and the report of the auditors thereon.
2. To accept the resignation of Michael John Patrick Hutchins as a director of the Company (with effect from the date of the Meeting), whose appointment as a director on 14 March 2006 would otherwise require ratification.
3. To reappoint KPMG Audit Plc as auditors of the Company to hold office from the conclusion of the meeting until the next general meeting of the Company at which accounts are laid and to authorise the directors to fix their remuneration.
4. To re-elect Richard Hughes as a director of the Company, who retires by rotation in accordance with the Company's articles of association.

### **Ordinary Resolution**

To consider and, if thought fit, pass the following resolution, which will be proposed as an ordinary resolution.

5. THAT, in substitution for all existing authorities and powers relating to the allotment of relevant securities (as defined in section 80(2) of the Companies Act 1985 (the "Act")), save to the extent that the same may already have been exercised, the directors of the Company be and they are hereby generally and unconditionally authorised and empowered pursuant to section 80 of the Act to exercise all powers of the Company to allot relevant securities up to an aggregate nominal amount of £70,265.09 provided that this authority shall (unless renewed, varied or revoked) expire on the date which is fifteen months after the date on which this resolution is passed or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2008 save that the Company may before such expiry make an offer, agreement or arrangement which would or might require relevant securities to be allotted after such expiry, and the directors of the Company may allot relevant securities pursuant to any such offer, agreement or arrangement as if the authority hereby conferred had not expired.

### **Special Business**

To consider and, if thought fit, pass the following resolutions, which will be proposed as special resolutions.

### **Special Resolutions**

6. To approve the change of name of the Company to The Debt Advisor Group plc (with effect from the conclusion of the Meeting).
7. THAT, subject to the passing of resolution 5 above, the directors of the Company be and they are hereby authorised and empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94(2) of the Act) pursuant to the general authority conferred by resolution 5 above, as if section 89(1) of the Act did not apply to such allotment, provided that such power shall be limited to the allotment of equity securities:
  - (a) in connection with a rights issue or other issue in favour of the holders of ordinary shares where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held or deemed to be held by them, subject only to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional

entitlements, legal or practical problems arising in any overseas territory or by virtue of shares being represented by depositary receipts, the requirements of any regulatory body or stock exchange, or any other matter whatsoever;

- (b) (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal amount of the greater of £42,973.49 or 10% of the Company's current issued ordinary share capital

and shall (unless renewed, varied or revoked) expire on the date which is fifteen months after the date on which this resolution is passed or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2008 save that the directors shall be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require equity securities to be allotted after such expiry.

8. THAT, in accordance with Chapter VII of Part V of the Act, the Company be generally and unconditionally authorised (pursuant to section 166 of the Act) to make one or more market purchases (as defined in section 163(3) of the Act) of its own ordinary shares of 0.5p ("Ordinary Shares") from such person(s) and upon such terms and conditions, as the directors may, from time to time, determine (subject always to the articles of association of the Company), provided that:
- (a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 21,486,745 (representing 25% of the Company's current issued ordinary share capital);
  - (b) the minimum price which may be paid for an Ordinary Share is 0.5p;
  - (c) the maximum price which may be paid for an Ordinary Share shall not be more than 10% above the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days (being a day other than a Saturday or Sunday or public holiday in England) immediately preceding the day on which the share is contracted to be purchased; and
  - (d) the authority hereby conferred shall (unless previously revoked, varied or renewed) expire on the date which is fifteen months after the date on which this resolution is passed or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2008, but a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter and a purchase of shares may be made in pursuance of any such contract.

**Registered office:**

2nd Floor  
Warwick House  
Hollins Brook Way  
Pilsworth  
Bury  
BL9 8RR  
Dated: 24 January 2007

**By Order of the Board**

**Mark Walker**  
Company Secretary

**Notes:**

1. A member entitled to attend and vote at the above Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member.
2. In accordance with Regulation 41(1) of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders registered in the Company's register of members at 2.00 pm on 21 February 2007 (or in the case of an adjournment, no later than 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the Meeting and that the number of votes which any such shareholder may cast will be determined by reference to the number of shares registered in such shareholder's name at that time. Changes to entries in the share register after 2.00 pm on 21 February 2007 shall be disregarded in determining the rights of any person(s) to attend and/or vote at the above Meeting.
3. To be effective, a proxy card must be deposited at the offices of the Company's registrars, Neville Registrars Limited of Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA not less than 48 hours before the time fixed for the Meeting. A proxy card is enclosed. Completion of the proxy card does not preclude a member from subsequently attending and voting at the Meeting in person if he or she so wishes.
4. Any corporation which is a member of the Company may authorise a person (who need not be a member of the Company) to act as its representative to attend, speak and vote (on a show of hands or a poll) on its behalf.
5. In the case of joint holders of a share the vote of the senior who tenders the vote whether in person or proxy shall be accepted to the exclusion of the votes of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names appear in the Company's register of members in respect of the share in question.

## Form of proxy

**Proxy Form for use by Ordinary Shareholders at the Annual General Meeting of Compass Finance Group plc (the "Company"), to be held at 2nd Floor, Warwick House, Hollins Brook Way, Pilsworth, Bury, BL9 8RR on 23 February 2007 at 2.00 pm**

I/We (name(s) in full)

.....(in BLOCK CAPITALS please)

of (address)

being (a) holder(s) [delete as appropriate] of Ordinary Shares of 0.5p each in the capital of the Company, hereby appoint the Chairman of the Meeting or ..... [please see note 6 below] to act as my/our [delete as appropriate] proxy at the Annual General Meeting of the Company to be held on 23 February 2007 and at any adjournment thereof.

Please indicate with an "X" in the appropriate space opposite each resolution how you wish your vote to be cast. On receipt of this form of proxy duly signed and in the absence of any specific directions, your proxy may vote or abstain as he/she thinks fit on the resolution before the meeting and on any other business which properly comes before the meeting.

### THIRD ANNUAL GENERAL MEETING

RESOLUTIONS	FOR	AGAINST
1. To receive and approve the report of the directors and the Company's accounts for the year ended 30 September 2006 and the report of the auditors thereon.		
2. To accept the resignation of Michael John Patrick Hutchins as a director of the Company.		
3. To reappoint KPMG Audit plc as auditors of the Company to hold office until the conclusion of the next general meeting of the Company at which accounts are laid and to authorise the directors to fix their remuneration.		
4. To re-elect Richard Hughes as a director of the Company, who retires by rotation in accordance with the Company's articles of association.		
5. To authorise the directors of the Company to allot relevant securities (for the purposes of and pursuant to section 80(1) of the Companies Act 1985) up to an aggregate nominal amount of £70,265.09.		
6. To approve the change of name of the Company to The Debt Advisor Group plc.		
7. To authorise the directors of the Company to allot equity securities for otherwise than on a pre-emptive basis in the circumstances set out in the accompanying notice.		
8. To authorise the Company to purchase its own shares.		

Signature(s) .....

.....Dated .....2007

Joint holders (if any) — please see note 2 below.

#### Notes:

- 1 A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
- 2 In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s). For this purpose seniority is determined by the order in which the names stand in the Register of Members in respect of the joint holding.
- 3 In the case of a corporation this form of proxy must be given under its common seal or be signed on its behalf by an attorney or officer duly authorised or, if it is subject to the Companies Act 1985 (as amended), in accordance with section 36A thereof.
- 4 To be valid and effective, this form of proxy must be deposited at the offices of the Company's registrars, Neville Registrars Limited of Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA not less than 48 hours before the time fixed for the Meeting, or any adjournment thereof, together, if appropriate, with the power of attorney or other authority under which it is signed or a notarially certified copy of such power or, where the form has been signed by an officer on behalf of a corporation, a notarially certified copy of the authority under which it is signed.
- 5 Any alterations made in this form of proxy should be initialled by the person in whose hand it is signed or executed.
- 6 If it is desired to appoint as proxy any person other than the named proxies/the Chairman of the Meeting, his/her name and address should be inserted in the relevant place, reference to the named proxy/the Chairman deleted and the alteration initialled.
- 7 The completion and return of this form of proxy will not prevent you from attending in person and voting at the Meeting should you subsequently decide to do so.
- 8 In accordance with Regulation 41 (1) of the Uncertificated Securities Regulations 2001 the Company specifies that only those shareholders registered in the Company's register of members at 12.30 pm on 21 February 2007 (or in the case of an adjournment, no later than 48 hours before the time of the adjourned meeting) will be entitled to attend or vote at the Meeting and that the number of votes which any such shareholder may cast will be determined by reference to the number of shares registered in such shareholder's name at that time.



Second fold

PLEASE  
AFFIX  
STAMP  
HERE

**Neville Registrars Limited  
Neville House  
18 Laurel Lane  
Halesowen  
West Midlands  
B63 3DA**

First fold

Third fold  
and tuck in flap opposite