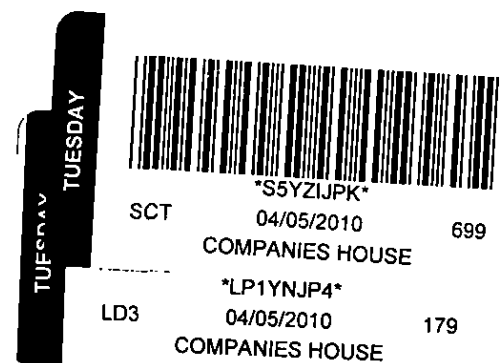


**AVANCE GROUP LIMITED**

**Report and Financial Statements**

**For the year ended 28 February 2009**



**AVANCE GROUP LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2009**

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# **AVANCE GROUP LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2009**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

I Carrel (appointed 31<sup>st</sup> March 2009)  
P S Mayho (appointed 31<sup>st</sup> March 2009)  
A P Bradshaw (resigned 31<sup>st</sup> May 2008)  
G Higgins (resigned 31<sup>st</sup> May 2009)  
C Mitchelson (resigned 31<sup>st</sup> March 2009)  
J Thomson (resigned 31<sup>st</sup> March 2009)

#### **SECRETARY**

P S Mayho (Appointed 23 April 2008)

#### **REGISTERED OFFICE**

16 Farmeloan Road  
Rutherglen  
Glasgow  
G73 1DL

#### **BANKERS**

The Royal Bank of Scotland  
7<sup>th</sup> Floor  
280 Bishopsgate  
London  
EC2M 4RB

#### **SOLICITORS**

Osborne Clarke  
2 Temple Back East  
Temple Quay  
Bristol  
BS1 6EG

#### **AUDITORS**

Deloitte LLP  
Reading, United Kingdom

# **AVANCE GROUP LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 28 February 2009.

### **PRINCIPAL ACTIVITIES**

The principal activity of the company during the year ended 28 February 2009 was business process outsourcing and credit management.

### **REVIEW OF THE BUSINESS, GOING CONCERN AND FUTURE DEVELOPMENTS**

Our objective for the year ahead is to continue to develop and expand our long term customer relationships. Opportunities will arise from a combination of organic growth, acquisitions and customer outsourcing. Management consider revenue to be the key KPI for the company which is monitored closely. Revenue in the year was £5.0m (2008: £6.2m).

The company is the main trading company of the group headed by Avance Holdings (No1) Limited. A new group CEO was appointed on the 5<sup>th</sup> January 2009 and an urgent assessment was made of the strategic and operational issues facing the group and the company. These were identified as:

- Difficult economic and market conditions led to a significant deterioration in operational performance and short term trading prospects continued to deteriorate;
- The group was carrying significant levels of debt primarily with the principal shareholder and the group's bankers which it could no longer expect to service or repay in full; and
- The group had breached its banking covenants in November 2008 and has not been making capital repayments since November 2008.

As a result of the breach in banking covenants, which remained in breach at the year end, all bank and loan notes were reclassified within Creditors amounts falling due within one year, as required by accounting standards. However, as outlined below, discussions are ongoing with our bank and loan note holders to waive a significant proportion of this debt. The Royal Bank of Scotland ("RBS"), the group's banker, and Sovereign Capital Limited Partnership II ("Sovereign"), our majority loan note holder, have remained supportive of the business during this time.

In light of these issues the group board decided to adopt the following strategies:

- Continue discussions with Sovereign Capital Limited Partnership II (Sovereign) and The Royal Bank of Scotland (RBS) to reach a consensual restructure of its balance sheet with the objective of leaving the group with debt levels, which could be realistically serviced and repaid in due course.
- Restructure management and Operations to meet the operational and market related issues facing the group.
- Undertake a significant cost reduction program to rationalise the cost base in line with operational, economic and market realities.

Detailed discussions were entered into with RBS and Sovereign to reach a suitable restructure. The Group breached its banking covenants in November 2008. RBS have remained supportive of the business throughout discussions and remains so at the date of signing. In November 2009, RBS transferred the group from its mainstream banking to its Global Restructuring Group (GRG) with a view to achieving a successful restructure position as soon as possible.

The Directors prepared a business plan as part of this process which was reviewed and sensitised by independent professional advisors appointed by RBS. This led in March 2010 to RBS issuing heads of terms for the continuation of banking facilities.

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# **AVANCE GROUP LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **REVIEW OF THE BUSINESS, GOING CONCERN AND FUTURE DEVELOPMENTS (CONTINUED)**

The proposed facilities would require Sovereign to write down its investment fully, and RBS to convert a substantial part of its senior debt facility to equity. This will ensure the business is carrying a level of debt it can reasonably support. Sovereign have subsequently confirmed to the board in writing that they are willing to cooperate with this process, and subject to certain disclosures, will write off their investment and all accrued interest in full.

The board are continuing to discuss these terms whilst also considering other options. The board have regularly reviewed the financial position and the impact of proposals on key stakeholders, including employees and trade creditors.

The board have also taken the decision to write off all intercompany balances in the preparation of these accounts on the basis that amounts involved will never be either paid or recovered. Full provision for anticipated restructuring costs has been made in these accounts.

### **GOING CONCERN**

Having taken full account of all the issues and actions noted above the Directors have prepared the accounts on a going concern basis.

However, as the company receives funding from its parent (which in turn relies on bank and other borrowings) the ability of the company to continue as a going concern depends upon the following key issues;

- The ongoing support of RBS to achieve and execute a suitable restructured position for the group;
- The ongoing support of Sovereign Capital Limited Partnership II to facilitate the restructure; and
- The ability of the underlying company's operations to remain profitable in difficult trading conditions.

Company trading has been in line with the business plan presented to RBS and the Group has been successful in negotiating significant new contracts and the expected renewal of key existing ones. At the time of signing the Directors have a reasonable expectation that all these conditions will be met and they are therefore satisfied the company remains a going concern and have prepared the accounts on that basis.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The group's activities expose it to a number of financial risks including credit risk and liquidity risk. The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The group does not use derivative financial instruments for speculative purposes.

The group's principal financial assets are bank balances and cash, trade and other receivables. The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of long-term and short-term debt finance.

### **SUBSEQUENT EVENTS**

Following the year end the directors have received heads of terms from its bankers for a restructuring of the balance sheet which would allow the continuation of banking facilities. The directors have also received confirmation from Sovereign Capital Limited Partnership II that it will exit its shareholding and write off its investment and all accrued interest in full in order to support the bank in the proposed restructuring subject to certain disclosures. The board continues to explore all available options to achieve the best possible outcome for creditors, employees, and other stakeholders.

# **AVANCE GROUP LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

### **RESULTS AND DIVIDENDS**

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements.

The directors do not recommend the payment of a dividend (2008: £nil).

### **DIRECTORS**

The directors that served during the year and to the date of signing are disclosed on page 1.

### **POLICY ON THE PAYMENT OF CREDITORS**

The policy is to make payment on the terms agreed with suppliers when satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. There is no standard or code which deals specifically with the payment of suppliers.

At 28 February 2009 trade creditors represented approximately 43 days (2008: 40 days) purchases based on the average daily amount invoiced by suppliers during the year.

### **DISABLED EMPLOYEES**

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees where appropriate.

### **EMPLOYEE CONSULTATION**

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

### **AUDITORS**

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

On 1 December 2008 Deloitte & Touche LLP changed its name to Deloitte LLP. Accordingly, Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

P Mayho

Director

28 April 2010

REPRODUCED FROM THE ORIGINAL MANUSCRIPT OF THE JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION, PUBLISHED WEEKLY



## **AVANCE GROUP LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

United Kingdom company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

1. The first part of the document is a letter from the President of the United States to the Congress, dated January 3, 1801. It is a very important document, as it is the first time that the President has addressed the Congress since the establishment of the office.

2. The second part of the document is a report from the Secretary of the Treasury, dated January 3, 1801. It is a very important document, as it is the first time that the Secretary of the Treasury has reported to the Congress since the establishment of the office.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVANCE GROUP LIMITED**

We have audited the financial statements of Avance Group Limited for the year ended 28 February 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 22. 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 s235 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 auditors' 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

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

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

We read the other Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 28 February 2009 and of its 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.

### **Emphasis of matter - Going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company incurred a net loss of £17.1m during the year ended 28 February 2009 and, as of that date, the company's current liabilities exceeded its total assets by £14.9m. In November 2008 the group headed by Avance Holdings (No1) Limited breached its covenants and missed capital repayments. This has continued to be the case to date.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVANCE GROUP LIMITED (CONTINUED)**

### **Emphasis of matter - Going concern (continued)**

The ability of the Company to continue as a going concern is contingent upon the success of the group which is dependent on the successful resolution of the following:

- The ongoing support of Sovereign Capital Limited Partnership II to facilitate the restructure;
- The ongoing support of Royal Bank of Scotland to achieve and execute a successful financial remedy; and
- The ability of the business to remain profitable in difficult trading conditions and for management to deliver/maintain their cost cutting programme.

These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty which may cast doubt over the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.



**Deloitte LLP**  
Chartered Accountants & Registered Auditors  
Reading  
28 April 2010

# AVANCE GROUP LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 28 February 2009

|  | Note | 2009<br>£    | 2008<br>£   |
|--|------|--------------|-------------|
| <b>TURNOVER</b>  | 2    | 5,029,268    | 6,243,070   |
| Exceptional items  | 5    | (15,552,470) | -           |
| Administrative expenses                                      |      | (6,621,671)  | (5,889,073) |
| <b>OPERATING (LOSS)/PROFIT</b>                               |      | (17,144,873) | 353,997     |
| Interest receivable and similar income                       |      | 28,759       | 65,742      |
| Interest payable and similar charges                         | 7    | (20,456)     | (22,528)    |
| <b>(LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b> | 3    | (17,136,571) | 397,211     |
| Taxation   | 8    | -            | 39,958      |
| <b>(LOSS)/ PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>  |      | (17,136,571) | 437,169     |
| <b>RETAINED (LOSS)/ PROFIT FOR THE FINANCIAL YEAR</b>        | 18   | (17,136,571) | 437,169     |

There have been no recognised gains and losses attributable to the shareholders other than the loss for the current year and preceeding financial period. Accordingly, no statement of total recognised gains and losses has been prepared.

All results relate to continuing operations.

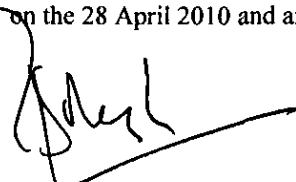
# AVANCE GROUP LIMITED

## Balance Sheet

28 February 2009

|   | Note | 2009<br>£           | 2008<br>£           |
|---|------|---------------------|---------------------|
| <b>FIXED ASSETS</b>                                   |      |                     |                     |
| Tangible assets                                       | 9    | 76,654              | 93,556              |
| <b>CURRENT ASSETS</b>                                 |      |                     |                     |
| Debtors   | 11   | 739,475             | 15,652,538          |
| Cash at bank and in hand                              |      | 714,626             | 676,150             |
|   |      | <u>1,454,101</u>    | <u>16,328,688</u>   |
| <b>CREDITORS: amounts falling due within one year</b> | 12   | <u>(16,449,303)</u> | <u>(14,204,221)</u> |
| <b>NET CURRENT (LIABILITIES)/ASSETS</b>               |      | <u>(14,995,202)</u> | <u>2,124,467</u>    |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |      | <u>(14,918,548)</u> | <u>2,218,023</u>    |
| <b>NET (LIABILITIES)/ASSETS</b>                       |      | <u>(14,918,548)</u> | <u>2,218,023</u>    |
| <b>CAPITAL AND RESERVES</b>                           |      |                     |                     |
| Called up share capital                               | 15   | 59,101              | 59,101              |
| Share premium account                                 | 16   | 13,007              | 13,007              |
| Other reserves  | 17   | 55,340              | 55,340              |
| Profit and loss account                               | 18   | <u>(15,045,996)</u> | <u>2,090,575</u>    |
| <b>SHAREHOLDER'S (DEFECIT)/FUNDS</b>                  | 19   | <u>(14,918,548)</u> | <u>2,218,023</u>    |

The financial statements of Avance Group Limited, registration number SC085954 were approved by the directors on the 28 April 2010 and are signed on their behalf by



P Mayho

Director



# AVANCE GROUP LIMITED

## NOTES TO THE ACCOUNTS Year ended 28 February 2009

### 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with appropriate United Kingdom accounting standards. The particular accounting policies adopted are described below. They have all been consistently applied during the current year and preceding year.

#### **Basis of preparation**

The financial statements have been prepared under the historical cost convention.

The directors are satisfied with the performance of the underlying operations in the light of difficult economic and market conditions. The operation remains profitable and the directors are confident that the company can grow with the right strategy and management.

#### **Going Concern**

Having taken full account of all the issues and actions noted in the Directors report, the Directors have prepared the accounts on a going concern basis.

The Group is currently facing the below issues:

- Historically, difficult economic and market conditions led to a significant deterioration in operational performance;
- The group was carrying significant levels of debt primarily with the principal shareholder and the group's bankers which it could no longer expect to service or repay in full; and
- The group had breached its banking covenants in November 2008 and has not been making capital repayments since November 2008.

The business are in talks with RBS to restructure the debt and continue trading. This is based on the fact that the business is profitable at the EBITDA level.

However, as the company receives funding from its parent (which in turn relies on bank and other borrowings) the ability of the company to continue as a going concern depends upon the following key issues;

- The ongoing support of RBS to achieve and execute a suitable restructured position for the group;
- The ongoing support of Sovereign Capital Limited Partnership II to facilitate the restructure; and
- The ability of the company's operations to remain profitable in difficult trading conditions.

Company trading has been in line with the business plan presented to RBS and the Group has been successful in negotiating significant new contracts and the expected renewal of key existing ones. At the time of signing the Directors have a reasonable expectation that all these conditions will be met and they are therefore satisfied the company remains a going concern and have prepared the accounts on that basis.

The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern. These would include adjustments to investments, intercompany balances and debtors.

#### **Turnover**

Turnover is recognised in the profit and loss account on an accruals basis and contractual billings are accrued or deferred as appropriate, exclusive of Value Added Tax.

#### **Tangible fixed assets**

Tangible fixed assets are included in the balance sheet at cost, net of depreciation and any provision for impairment.



There is a great deal of interest in the question of the possibility of a general theory of the structure of the universe, and it is one of the main objects of this paper to discuss the various theories which have been proposed in this connection.

# **AVANCE GROUP LIMITED**

## **NOTES TO THE ACCOUNTS**

**Year ended 28 February 2009**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **Depreciation**

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

|                       |   |                   |
|-----------------------|---|-------------------|
| Fixtures and fittings | - | 20% straight line |
| Computer equipment    | - | 20% straight line |

#### **Investments**

Fixed asset investments are shown at cost less provision for impairment.

#### **Hire purchase agreements**

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

#### **Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

#### **Pension costs**

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

#### **Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

#### **Group accounts and cashflow statement**

The company has taken advantage of the exemptions available and has not prepared group accounts or a cashflow statement on the basis that Avance Holdings (No1) Limited consolidated financial statements are publicly available from 1c, Station Parade, Beaconsfield, Buckinghamshire, HP9 2PB.

#### **Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### **2. TURNOVER**

The turnover and profit before tax are attributable to the one principal activity of the company, and is all derived in the United Kingdom of Great Britain and Northern Ireland.

# AVANCE GROUP LIMITED

## NOTES TO THE ACCOUNTS Year ended 28 February 2009

### 3. (LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/ Profit on ordinary activities before taxation is stated after charging:

|                                      | 2009<br>£ | 2008<br>£ |
|--------------------------------------|-----------|-----------|
| Depreciation of owned fixed assets   | 29,439    | 21,007    |
| Auditor's remuneration - as auditors | 20,500    | 17,500    |
| - other services                     | 44,000    | 14,000    |
| Operating lease costs:               |           |           |
| Plant and machinery                  | 10,384    | 19,355    |
| Other                                | 98,732    | 11,281    |

### 4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

|  | 2009<br>No. | 2008<br>No. |
|--|-------------|-------------|
| Number of administrative staff             | 3           | 3           |
| Number of directors                        | 4           | 5           |
| Number of collection/tracing and BPO staff | 98          | 99          |
|  | 105         | 107         |

The aggregate payroll costs of the above were:

|                         | 2009<br>£ | 2008<br>£ |
|-------------------------|-----------|-----------|
| Wages and salaries      | 4,153,784 | 4,044,977 |
| Social security costs   | 437,242   | 413,550   |
| Other pension costs     | 70,910    | 87,238    |
| Directors pension costs | 26,971    | 12,895    |
|                         | 4,688,907 | 4,558,660 |

Pension contributions are paid by the company on behalf of certain employees. The charge to the profit and loss account of £97,881 (2008: £100,133) represents the amount paid during the year. Outstanding contributions as at 28 February 2009 are £11,370 (2008: £12,450).

### 5. EXCEPTIONAL ITEMS

Exceptional items relate to the provision of an intercompany debtor of £15.6m.

# AVANCE GROUP LIMITED

## NOTES TO THE ACCOUNTS Year ended 28 February 2009

### 6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

|   | 2009<br>£      | 2008<br>£      |
|---|----------------|----------------|
| Emoluments  | 720,771        | 643,733        |
| Company contributions to the money purchase pension schemes | 26,971         | 12,340         |
|   | <u>747,742</u> | <u>656,073</u> |

#### Remuneration of the highest paid director

|   |                |                |
|---|----------------|----------------|
| Emoluments  | 146,172        | 127,800        |
| Company contributions to money purchase pension schemes | 3,646          | -              |
|   | <u>149,818</u> | <u>127,800</u> |

#### The number of directors who accrued benefits under company pension schemes was as follows:

|                        | No       | No         |
|------------------------|----------|------------|
| Money purchase schemes | <u>5</u> | <u>- 4</u> |

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

|                                    | 2009<br>£     | 2008<br>£     |
|------------------------------------|---------------|---------------|
| Interest payable on bank borrowing | 12,414        | -             |
| Finance charges                    | -             | 8,000         |
| Other similar charges payable      | 8,042         | 14,528        |
|                                    | <u>20,456</u> | <u>22,528</u> |

# AVANCE GROUP LIMITED

## NOTES TO THE ACCOUNTS

Year ended 28 February 2009

### 8. TAXATION OF ORDINARY ACTIVITIES

#### a) Analysis for the tax credit for the year

|                                      | 2009<br>£ | 2008<br>£ |
|--------------------------------------|-----------|-----------|
| Current tax                          |           |           |
| UK Corporation tax                   | -         | -         |
| Adjustment in respect of prior year  | -         | (39,958)  |
| Total current tax credit (note 8(b)) | -         | (39,958)  |

#### b) Factors affecting current year tax charge:

The tax assessed on the (loss)/ profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28% (2008: 30%).

|  | 2009<br>£    | 2008<br>£ |
|--|--------------|-----------|
| (Loss)/profit on ordinary activities before taxation     | (17,136,571) | 397,211   |
| Tax on profit on ordinary activities by rate of tax      | (4,798,240)  | 119,163   |
| Expenses not deductible for tax purposes                 | 4,361,691    | 12,147    |
| Short-term timing differences                            | (1,288)      | 4,495     |
| Capital allowances in (excess of)/less than depreciation | (6,789)      | (16,951)  |
| Adjustment in respect of previous periods                | -            | (39,958)  |
| Group relief   | 219,297      | (93,354)  |
| Trading losses not utilised in period                    | 225,329      | -         |
| Other  | -            | 25,500    |
| Total current tax credit (note 8(a))                     | -            | (39,958)  |

A deferred tax asset amounting to £261,437 (2008: £38,294) in relation losses has not been recognised because in the opinion of the directors there will be no liability payable in the foreseeable future.

# AVANCE GROUP LIMITED

## NOTES TO THE ACCOUNTS Year ended 28 February 2009

### 9. TANGIBLE FIXED ASSETS

|                       | Fixtures & fittings<br>£ | Computer equipment<br>£ | Total<br>£ |
|-----------------------|--------------------------|-------------------------|------------|
| <b>Cost</b>           |                          |                         |            |
| At 1 March 2008       | 41,194                   | 83,273                  | 124,467    |
| Additions             | 3,295                    | 9,242                   | 12,537     |
| At 28 February 2009   | 44,489                   | 92,515                  | 137,004    |
| <b>Depreciation</b>   |                          |                         |            |
| At 1 March 2008       | 7,965                    | 22,946                  | 30,911     |
| Charge for the year   | 11,497                   | 17,942                  | 29,439     |
| At 28 February 2009   | 19,462                   | 40,888                  | 60,350     |
| <b>Net book value</b> |                          |                         |            |
| At 28 February 2009   | 25,027                   | 51,627                  | 76,654     |
| At 28 February 2008   | 33,229                   | 60,327                  | 93,556     |

#### Hire purchase agreements

Included within the net book value of £76,654 (2008: £93,556) is £nil (2008: £nil) relating to assets held under hire purchase agreements. The depreciation charged to the accounts in the period in respect of such assets amounted to £nil (2008: £nil).

### 10. INVESTMENTS

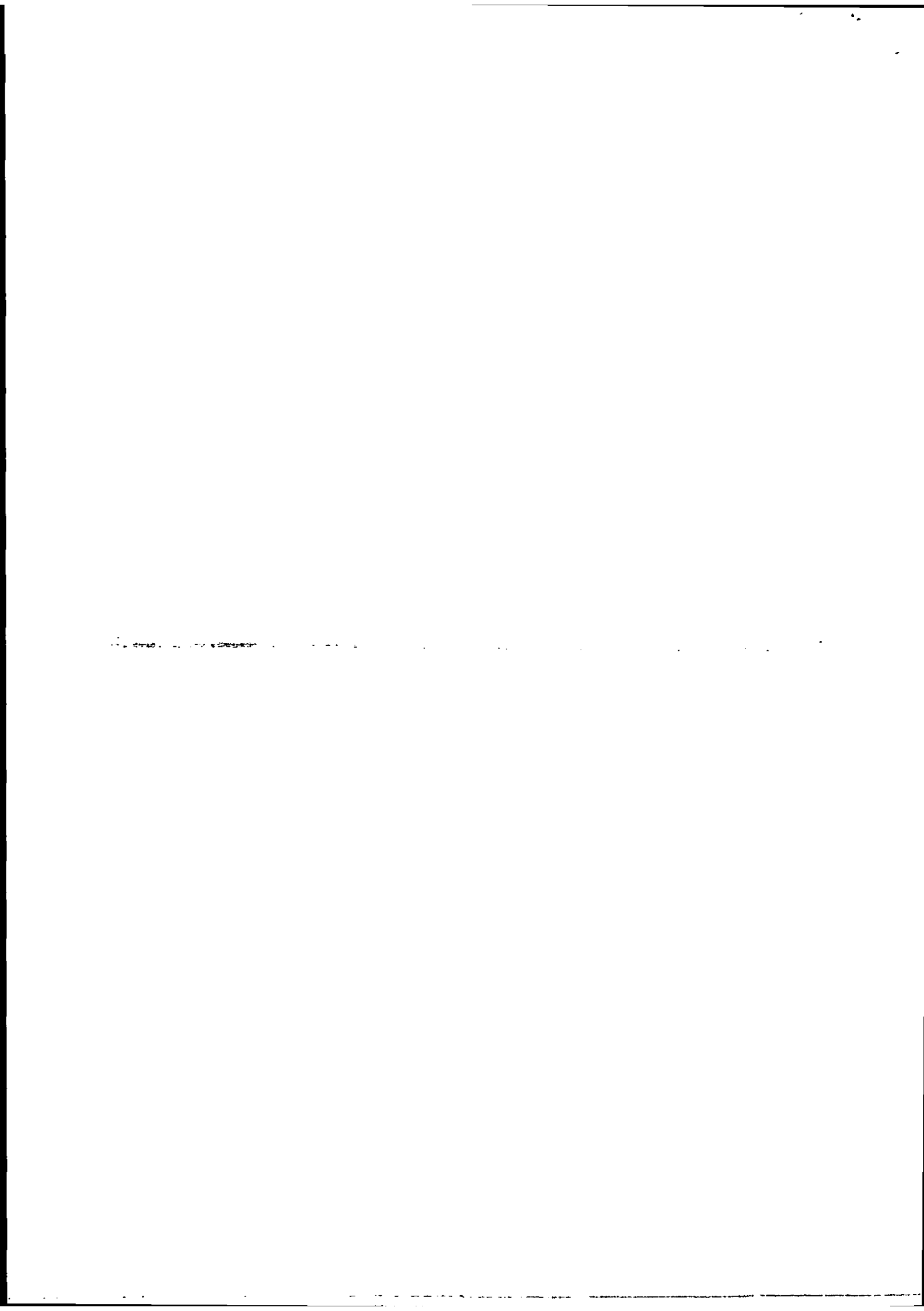
At the year end the investment was fully written off (2008: nil).

Subsidiary companies

| Subsidiary company        | Holding | Class of share | Country of incorporation |
|---------------------------|---------|----------------|--------------------------|
| Avance Rutherglen Limited | 100%    | Ordinary       | Scotland                 |

### 11. DEBTORS

|                                    | 2009<br>£      | 2008<br>£         |
|------------------------------------|----------------|-------------------|
| Trade debtors                      | 561,070        | 872,176           |
| Amounts owed by group undertakings | -              | 14,407,690        |
| Corporation Tax                    | 40,678         | 40,675            |
| Prepayments and accrued income     | 137,727        | 331,997           |
|                                    | <u>739,475</u> | <u>15,652,538</u> |



# AVANCE GROUP LIMITED

## NOTES TO THE ACCOUNTS

Year ended 28 February 2009

### 12. CREDITORS: amounts falling due within one year

|                                    | 2009<br>£         | 2008<br>£         |
|------------------------------------|-------------------|-------------------|
| Trade creditors                    | 19,101            | 29,988            |
| Amounts owed to group undertakings | 14,615,879        | 13,321,064        |
| Other taxation and social security | 725,282           | 598,911           |
| Other creditors                    | 689,447           | 41,567            |
| Accruals and deferred income       | 399,594           | 212,691           |
|                                    | <u>16,449,303</u> | <u>14,204,221</u> |

### 13. COMMITMENTS UNDER OPERATING LEASES

At 28 February the company had annual commitments under non-cancellable operating leases as set out below:

|  | 2009                       | 2008                       |
|--|----------------------------|----------------------------|
|  | Land and<br>buildings<br>£ | Land and<br>buildings<br>£ |
| Operating leases which expire<br>Within 2 to 5 years | 155,670                    | 155,670                    |
|  | <u>155,670</u>             | <u>155,670</u>             |

### 14. CONTINGENCIES

RBS hold a cross guarantee between Avance Group Limited, Avance Rutherglen Limited, Avance Holdings (No1) Limited and Avance Holdings (No2) Limited.

### 15. SHARE CAPITAL

|   | 2009<br>£      | 2008<br>£      |
|---|----------------|----------------|
| <b>Authorised</b>                             |                |                |
| 106,000 Ordinary shares of £1 each            | 106,000        | 106,000        |
| 10,000 Employee B shares of £0.10<br>each     | 1,000          | 1,000          |
| 10,000 Employee C shares of £0.10<br>each     | 1,000          | 1,000          |
|   | <u>108,000</u> | <u>108,000</u> |
| <br><b>Allotted, called up and fully paid</b> |                |                |
| Ordinary shares of £1 each                    | 59,101         | 59,101         |
|   | <u>59,101</u>  | <u>59,101</u>  |



## AVANCE GROUP LIMITED

### NOTES TO THE ACCOUNTS

Year ended 28 February 2009

#### 16. SHARE PREMIUM ACCOUNT

There was no movement on the share premium account during the financial year (2008: £nil).

#### 17. OTHER RESERVES

There was no movement on the capital redemption reserve during the financial year (2008: £nil).

#### 18. PROFIT AND LOSS ACCOUNT

|  | 2009<br>£           | 2008<br>£        |
|--|---------------------|------------------|
| At 28 February 2008                            | 2,090,575           | 1,653,406        |
| Retained (loss)/ profit for the financial year | (17,136,571)        | 437,169          |
| At 28 February 2009                            | <u>(15,045,996)</u> | <u>2,090,575</u> |

#### 19. RECONCILIATION OF MOVEMENT ON SHAREHOLDER'S (DEFECIT)/ FUNDS

|  | 2009<br>£           | 2008<br>£        |
|--|---------------------|------------------|
| (Loss)/profit for the financial year                   | <u>(17,136,571)</u> | <u>437,169</u>   |
| Net (reduction)/addition to shareholder's equity funds | (17,136,571)        | 437,16           |
| Opening shareholder's equity funds                     | <u>2,218,023</u>    | <u>1,780,854</u> |
| Closing shareholder's (defecit)/ funds                 | <u>(14,918,548)</u> | <u>2,218,023</u> |

#### 20. RELATED PARTY TRANSACTIONS

Avance Group Limited is a wholly owned subsidiary of Avance Holdings (No1) Limited. The company is therefore exempt from the requirements of Financial Reporting Standard No8 "Related Party Disclosures" to disclose transactions with other members of the group headed by Avance Holdings (No1) Limited.

#### 21. SUBSEQUENT EVENTS

Following the year end the directors have received heads of terms from its bankers for a restructuring of the balance sheet which would allow the continuation of banking facilities. The directors have also received confirmation from Sovereign Capital Limited Partnership II that it will exit its shareholding and write off its investment and all accrued interest in full in order to support the bank in the proposed restructuring subject to certain disclosures. The board continues to explore all available options to achieve the best possible outcome for creditors, employees, and other stakeholders.

#### 22. ULTIMATE PARENT COMPANY

The directors consider that the immediate parent undertaking is Avance Holdings (No2) Limited which in turn is controlled by the ultimate parent undertaking, Avance Holdings (No1) Limited, a company incorporated in the United Kingdom.

Avance Holdings (No1) Limited is the parent of the only group of undertakings for which group accounts are drawn up and of which the company is a member.