

The Amphion Group Limited

FINANCIAL STATEMENTS

for the year ended

31 December 2008

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COMPANIES HOUSE

The Amphion Group Limited
DIRECTORS, OFFICERS AND ADVISORS

DIRECTORS

Mr R A Usher (Chairman)
Mr P Young
Mr W S Morrison (Managing Director)
Mr R Slee (Non-executive)
Sir M Rifkind (Non-executive)

SECRETARY

Mr P Young

COMPANY NUMBER

5662199 (England and Wales)

REGISTERED OFFICE

3 Albert Embankment
London
SE1 7SP
United Kingdom

AUDITORS

Baker Tilly UK Audit LLP
1st Floor
46 Clarendon Road
Watford
Herts WD17 1JJ
United Kingdom

BANKERS

Allied Irish Bank Plc
City Branch
9-10 Angel Court
London
EC2R 7AB
United Kingdom

The Directors are pleased to present their Annual Report on the affairs of The Amphion Group Limited (hereafter "the Company"), together with the accounts and the auditors' report for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is as an investment holding company, as well as the raising of funds and the provision of loans and other financing activities to companies within the group.

REVIEW OF BUSINESS DEVELOPMENTS

Financial Results

The Company's operating loss for the year increased from £70k to £92k registering a decline of 31.2%. During the financial year under review no dividends (2007: £6,864,568) were received from its wholly-owned subsidiary, Adam Smith International Limited contributing to a total loss before taxation of £514k (2007: profit before taxation of £6,533k).

During the financial year under review the Company increased the term loan from the Alb Group (UK) plc to £5.1million (2007: £4 million) which contributed to an increase in interest payable to £422k against £261k in the previous year, registering an increase of 61%.

The Board uses a number of performance indicators to assess past and future performance. These relate principally to current and future cash flows and to Bank Covenants, and are intended to ensure the Group has adequate financial liquidity.

Future developments

The Company is optimistic about its future prospects and expects to enhance dividend income levels in the short to medium-term as the operations of its subsidiaries continue to expand.

People

Our success depends largely on the quality of our people. We continue to strive to recruit, retain and develop the best people. Training and development is a priority within the Company. We carry out annual appraisals from which a detailed staff development plan is produced.

In order to attract and retain the best people to the Company, we have in place a number of measures including equal opportunities, a structured bonus scheme, and an employee share option scheme. These are all linked to key performance indicators and a formal induction process.

INTERNAL CONTROL AND RISK MANAGEMENT

Introduction

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board regularly reviews the effectiveness of the Company's system of financial and non-financial internal controls, including operational and compliance controls and risk management.

The Board's monitoring is based principally on reviewing reports from management to consider whether significant risks have been identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. Risk is measured in terms of impact, inherent risk and residual risk, and takes account of management's control actions in mitigating against both external and internal risk events. The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Company's significant risks that:

- Has been in place for the year ended 31 December 2008 and up to the date of approval of the Annual Report and Accounts;
- Is regularly reviewed by the Board and complies with the internal control guidance for directors; and
- Necessary actions have been or are being taken to remedy any significant failings identified as part of the ongoing risk management process.

Financial Risk Management Objectives

The Board seeks to identify those financial risks which we believe the management of the business is better at managing than can be achieved by the procurement of hedging, insurance or other financial risk instruments. For example the company is better placed to assess debtor related risks, but will seek to hedge against currency or other risks which are outwith the companies' capacity to control. The Board takes steps to ensure we understand the potential impact of each risk and its likelihood of its occurrence. We then make an assessment of the best way to manage each risk based on the type of risk and our assessments of impact and likelihood.

Exposure to risks

The Board's policy on risk management encompasses all significant business risks to the company, including financial, operational and compliance risk, which could undermine the achievement of business objectives. There is clear accountability for risk management, which is a key performance area of line managers throughout the company. The requisite risk and control capability is assured through Board challenge and appropriate management selection and skills development. Continuous monitoring of risk and control processes, across headline risk areas and other business-specific risk areas, provides the basis for regular and exception reporting to the Audit Committee and the Board.

The Amphion Group Limited

DIRECTORS' REPORT (continued)

- Liquidity risk

The Company is exposed to liquidity risk arising from the need to finance its ongoing operations and growth. If the company is unable to obtain sufficient credit due to banking and capital market conditions, the company may not be able to raise sufficient funds to develop new projects or meet the company's ongoing financing needs and as a result operating results, revenues, cash flows or financial condition may be adversely affected.

- Cash flow risk

The company has no current material risk in terms of cash flow. The company's assets are almost entirely held in currency which is highly liquid, so there is no realistic danger of not being able to raise any cash required in the short and medium term.

FINANCIAL INSTRUMENTS DISCLOSURES

The Company has an overdraft and loan facility with Allied Irish Bank plc (City Branch). A mortgage debenture exists giving the bank a floating charge over the assets of the UK Group as security for the overdraft and loan facilities provided to the Company in relation to the acquisition of all of of all of the issued share capital of Adam Smith International Limited. These facilities are reviewed annually alongside the business plans and budgets for the forthcoming year.

The Company does not enter into any other financial instruments bar short-term creditors and debtors on normal commercial terms.

In addition Mr P Young is a beneficiary of the deferred loan note repayment dependent on future earnings referred to in note 12.

RESULTS AND DIVIDENDS

The Company did not generate any turnover during the financial year under review, and realised operating losses of £92,423 (2007: £70,447). Loss on ordinary activities before taxation was £514,714 (2007: profit on ordinary activities before taxation of £6,533,089).

The Company declared and paid a dividend of £965,000 (2007: £28,667).

ACQUISITION OF OWN SHARES

On 19 August 2008, the Company provided financial assistance of £12,000 to effect a buy-back of 12,000 ordinary shares which were acquired from a former director. These shares were subsequently cancelled. These shares had a nominal value of £1 each, and represented 4.6% of the issued share capital of the Company at the time of purchase.

POST BALANCE SHEET EVENT

On 30 January 2009, the Company provided financial assistance of £500,000 to effect a buy-back of 21,000 ordinary shares which were acquired from Mr. Roger Usher. These shares were subsequently cancelled. These shares had a nominal value of £1 each, and represented 8.5% of the issued share capital of the Company at the time of purchase.

DIRECTORS

The directors in office during the financial year under review were as follows:

Mr R A Usher (Chairman)

Mr P Young

Mr W S Morrison (Managing Director)

Mr A D Ros

Mr R Terry (Non-executive)

Mr R Slee (Non-executive)

Sir M Rifkind (Non-executive)

(Resigned 8 August 2008)

(Resigned 4 September 2008)

(Appointed 17 June 2008)

The Amphion Group Limited
DIRECTORS' REPORT (continued)

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

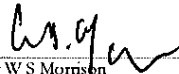
The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have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

AUDITORS

The auditor, Baker Tilly UK Audit LLP, Chartered Accountants has indicated its willingness to continue in office.

3 Albert Embankment
London
SE1 7SP
United Kingdom
(registered office)

By order of the Board


Mr W S Morrison
Managing Director

28 | 07 | 09
Date

The Amphion Group Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

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

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent; and
- c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the financial statements on pages 7 to 16.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

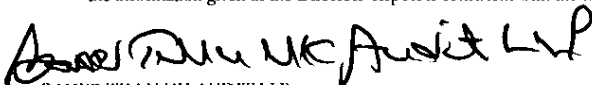
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 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 at 31 December 2008 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
1st Floor
46 Clarendon Road
Watford
Herts
WD17 1JJ

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The Amphion Group Limited
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2008

	<i>Notes</i>	2008	2007
		£	£
TURNOVER	1	-	-
Cost of sales		-	-
GROSS PROFIT		-	-
Administration costs	2	92,423	70,447
OPERATING LOSS		(92,423)	(70,447)
Income from shares in group undertakings	3	-	6,864,568
		(92,423)	6,794,121
Interest payable and similar charges	4	(422,291)	(261,032)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(514,714)	6,533,089
Taxation	7	(147,290)	(99,444)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	14	(662,004)	6,433,645

The operating loss for the year arises from the Company's continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

The Amphion Group Limited


BALANCE SHEET

31 December 2008

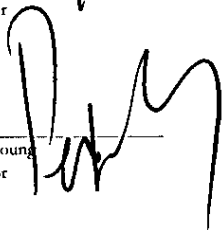
	Notes	2008 £	2007 £
FIXED ASSETS			
Investment in subsidiaries	8	12,362,227	12,014,406
CURRENT ASSETS			
Debtors due within one year	9	147,925	1,502,510
Cash at bank and in hand	10	217,332	5,279
		<u>365,257</u>	<u>1,507,789</u>
CREDITORS: Amounts falling due within one year	11	<u>(6,965,416)</u>	<u>(2,212,053)</u>
NET CURRENT LIABILITIES		<u>(6,600,159)</u>	<u>(704,264)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,762,068</u>	<u>11,310,142</u>
CREDITORS: Amounts falling due after one year	12	<u>(158,235)</u>	<u>(4,361,883)</u>
NET ASSETS		<u>5,603,835</u>	<u>6,948,259</u>
CAPITAL AND RESERVES			
Called up share capital	13	246,000	258,000
Capital redemption reserve	14	66,000	54,000
Profit and loss account	14	<u>5,291,835</u>	<u>6,636,259</u>
SHAREHOLDERS' FUNDS	15	<u>5,603,835</u>	<u>6,948,259</u>

The financial statements on pages 7 to 16 were approved by the board of directors and authorised for issue on and signed on its behalf by:

28 JULY 2009



 Mr W S Morrison
 Director



 Mr P Young
 Director

The Amphion Group Limited

CASH FLOW STATEMENT

for the year ended 31 December 2008

	Notes	2008	2007
		£	£
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	16	1,411,350	(4,420,625)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Dividends received		-	6,864,568
Interest paid	4	(422,291)	(261,932)
Net cash (outflow)/inflow for returns on investments and servicing of finance		(422,291)	6,603,536
TAXATION		147,290	99,444
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of fixed asset investments	8	4	(5)
Net cash inflow/(outflow) from capital expenditure and financial investment		4	(5)
Equity dividends paid	14	(965,000)	(28,667)
Net cash inflow before financing		171,353	2,253,683
FINANCING			
AIB Bank loans raised	12	2,990,000	-
AIB Bank loans repaid	12	(450,000)	(1,000,000)
Shareholder loans repaid	12	(2,447,298)	(1,337,381)
Redemption of ordinary share capital	13	(12,000)	-
		40,702	(2,337,381)
Increase/(decrease) in cash in the year		212,053	(83,698)

The Amphion Group Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

GROUP ACCOUNTS

The accounts present information about the individual undertaking and not about its group. The Company and its subsidiary undertakings comprise a medium-sized group. The Company has therefore taken advantage of the exemptions provided by Section 248 of the Companies Act 1985 not to prepare group accounts.

GOING-CONCERN

The Company has met its day-to-day working capital requirements through a loan from its subsidiary undertaking, Adam Smith International Limited, which is repayable on demand. The company funded its acquisition of Adam Smith International Limited, its subsidiary undertaking, with a Bank Loan from Allied Irish Bank.

The company is in breach of one of its loan covenants extant at 31 December 2008 and therefore in accordance with FRS25, the loan has been reclassified as a current liability as the bank could seek repayment within one year. The company has received confirmation that it is the banks' intention that they will continue to make the original facilities available to the company.

Continued support will be received from the subsidiary undertaking, and so the directors consider it appropriate to prepare the financial statements on the going-concern basis.

FINANCE COSTS

Finance costs include all interest, charges, and professional fees incurred in raising finance.

BORROWING COSTS

Borrowing costs are recognised in the profit and loss statement in the period in which they are incurred.

INVESTMENT IN SUBSIDIARIES

The Company's investment in subsidiaries are held at cost or provided against where the net worth of the investment falls below this balance. The consideration paid for the investment is contingent upon future earnings. Anticipated future earnings are assessed annually and where necessary the cost of the investment is adjusted through the balance sheet.

TAXATION

Taxable losses are sold to the profitable trading subsidiaries of the company at the appropriate tax rates paid by those companies.

DEFERRED TAXATION

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

EMPLOYEE SHARE OPTION SCHEME

The value of the share options issued to employees of the group are assessed annually with adjustments taken to profit and loss.

The Amphion Group Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

1 SEGMENTAL ANALYSIS

Segmental analysis does not apply as it only has a single business activity.

2 ADMINISTRATION COSTS

	2008	2007
	£	£
Administrative expenses	<u>92,423</u>	<u>70,447</u>

3 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2008	2007
	£	£
Dividends received from Adam Smith International Limited	<u>-</u>	<u>6,864,568</u>

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2008	2007
	£	£
Interest and bank charges on Allied Irish Bank loan	422,291	235,007
Interest on shareholder loan notes	-	26,025
	<u>422,291</u>	<u>261,032</u>

5 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	2008	2007
	£	£
Profit/(Loss) on ordinary activities before taxation is stated after charging: - Auditors' remuneration	<u>6,000</u>	<u>9,000</u>

6 EMPLOYEES

The Company has no employees (2007:Nil), and only the fees of the non-executive directors are paid by the Company. All other executive directors are remunerated through salaries which are paid for by the Company's wholly-owned subsidiaries.

	2008	2007
	£	£
DIRECTORS' REMUNERATION		
Emoluments for qualifying services	<u>43,499</u>	<u>7,388</u>
	43,499	7,388

7 TAXATION

	2008	2007
	£	£
Domestic current year tax		
U.K. corporation tax:		
Group relief payments received	(147,290)	(99,444)
Total current tax	<u>(147,290)</u>	<u>(99,444)</u>
Tax on profit on ordinary activities	<u>(147,290)</u>	<u>(99,444)</u>
Profit/(Loss) on ordinary activities before taxation	<u>(514,714)</u>	<u>6,533,089</u>
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.50% (2007:30.00%)	(146,693)	1,959,927
Effects of:		
Non deductible expenses	-	-
Dividends received	-	(2,059,371)
Group relief received not at standard rate	(597)	-
Current tax charge for the year	<u>(147,290)</u>	<u>(99,444)</u>

The Amphion Group Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2008

8 INVESTMENTS IN SUBSIDIARIES	2008	2007
	£	£
At beginning of year		
Cost	12,014,406	10,187,497
Movements		
Revaluation of deferred vendor loan notes	347,824	1,826,904
Additions: Acquisition of Adam Smith International India Limited	1	-
Additions: Acquisition of Adam Smith International Africa Limited	(4)	5
At end of year		
Cost	<u>12,362,227</u>	<u>12,014,406</u>

A list of group undertakings is set out in Note 22.

On 28th February 2006, the Company acquired all of the issued share capital of Adam Smith International Limited. Part of the consideration was paid in cash and the remainder deferred (see note 12). The deferred consideration is revalued annually resulting in changes to the cost of the investment in Adam Smith International Limited. The investment has been revalued in the current year to £12,362,227.

On 23rd July 2007, the Company acquired 1% of the issued share capital of Adam Smith International Africa Limited for a total consideration of £1. The remaining 99% of the issued share capital was acquired by the Company's subsidiary, Adam Smith International Limited.

On 28th January 2008, the Company acquired 1% of the issued share capital of Adam Smith International India Limited for a total consideration of £1. The remaining 99% of the issued share capital was acquired by the Company's subsidiary, Adam Smith International Limited.

9 DEBTORS DUE WITHIN ONE YEAR	2008	2007
	£	£
Loans to subsidiaries	147,925	1,500,731
Other debtors	-	1,779
	<u>147,925</u>	<u>1,502,510</u>

The Company has loaned £147,433 (2007: £1,500,731) to its subsidiary Adam Smith International Limited. The loan bears no interest and the Company expects this loan to be repaid during the next year.

10 CASH AT BANK AND IN HAND

	1 January 2008	Cash flow	Other non-cash changes	31 December 2008
	£	£	£	£
Net cash:				
Cash at bank and in hand	5,279	212,053	-	217,332
Net funds	<u>5,279</u>	<u>212,053</u>	<u>-</u>	<u>217,332</u>

11 CREDITORS: Amounts falling due within one year	2008	2007
	£	£
Allied Irish Bank Loan	5,100,000	800,000
Shareholder Loan Notes	1,646,797	1,342,622
Loans from subsidiaries	109,465	40,904
Corporation tax	-	-
Accruals	109,154	28,527
	<u>6,965,416</u>	<u>2,212,053</u>

The Amphion Group Limited
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2008

12 CREDITORS: Amounts falling due after one year

	Allied Irish Bank Loan £	Shareholder Loan Notes £	Total £
1 January 2008	1,800,000	2,561,883	4,361,883
Transfer to amounts falling due within one year	(4,300,000)	(304,175)	(4,604,175)
Drawdown/repayments	2,500,000	(2,447,298)	52,702
Loan revaluation	-	347,824	347,824
31 December 2008	-	158,235	158,235

On 28 February 2006 the Company took out a term loan from the AIB Group (UK) plc in the amount of £4 million. This facility was increased to £5.1 million on 13 March 2008 bearing interest at LIBOR plus a margin of 2% per annum and repayable over a 5-year period with quarterly repayments of £283,500.

As a result of a breach of loan covenant extant at 31 December 2008, The Allied Irish Bank loan has been reclassified as due within one year at the balance sheet date, as the Bank could request repayment of the loan at any time. The Bank have not amended the terms of the loan and have confirmed that they will not seek immediate repayment of the loan.

In addition, the bank has provided the Company with an overdraft facility of £1,000,000 bearing interest at the bank's base rate plus a margin of 3% per annum and repayable on demand and subject to annual review.

The bank has a mortgage debenture dated 28 February 2006 providing security over all the Company's and its subsidiaries' assets

On 28 February 2006 the Company agreed to issue, as part of the consideration for the acquisition of all of the issued share capital of Adam Smith International Limited, variable rate loan notes to the former shareholders of this company. There are two forms of loan notes: (i) the minimum deferred earn-out loan notes; and (ii) the variable deferred earn-out loan notes.

The first type of loan notes were issued on 28 February 2006 and are redeemable between 2007 and 2010.

The second type of loan notes will be issued annually 6 months after the signing of the Company's accounts for each of the years 2006 through 2009. The repayment date, and interest terms of these loan notes are fixed but their value are contingent in nature.

These earn-out loan notes are repayable on the date they are issued. However, if they are not repaid immediately they become interest-bearing at the AIB Group (UK) plc's base rate.

There is a pre-agreed formula in place to calculate the value of these earn-out loan notes which is dependent on future profit levels. The notes are revalued annually with differences taken through the balance sheet. As at 31 December 2008, the directors have used a best estimate of future profit levels to determine the value of the contingent consideration. The current year estimate used a discount rate of 3.7% (2007: 8%).

Analysis of repayments:	Allied Irish Bank Loan £	Shareholder Loan Notes £	Loans from subsidiaries £	Total £
Due in 1 year or less	5,100,000	1,646,797	109,465	6,856,262
Due after 1 year but not more than 2 years	-	158,235	-	158,235
	<u>5,100,000</u>	<u>1,805,032</u>	<u>109,465</u>	<u>7,014,497</u>

13 SHARE CAPITAL

	2008 £	2007 £
Authorised		
300,000 ordinary shares of £1 each	<u>300,000</u>	<u>300,000</u>
Allotted, issued and fully paid		
246,000 ordinary shares of £1 each (2007: 258,000)	<u>246,000</u>	<u>258,000</u>

On 19 August 2008, the Company provided financial assistance of £12,000 to effect a buy-back of 12,000 ordinary shares which were acquired from a former director. These shares were subsequently cancelled. These shares had a nominal value of £1 each, and represented 4.6% of the issued share capital of the Company at the time of purchase.

On 3 October 2006, the Company issued 42,000 share options of £1 each to employees as part of an employee share incentive scheme. These share options can be exercised only if either (i) the business is sold; (ii) the business is listed; or (iii) the scheme administrator otherwise permits it. At present management believe that the likelihood of any of these events occurring is remote.

The Amphion Group Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2008

14 STATEMENT OF MOVEMENT ON RESERVES

	Capital redemption reserve £	Profit and loss account £	Total £
1 January 2008	54,000	6,636,259	6,690,259
Retained loss for the year	-	(367,424)	(367,424)
Shares bought by company	12,000	(12,000)	-
Dividends paid	-	(965,000)	(965,000)
31 December 2008	<u>66,000</u>	<u>5,291,835</u>	<u>5,357,835</u>

2008	2007
£	£

The Company declared and paid dividends during the course of the year:

Ordinary:

First interim paid of 48.45 pence (2007: 11.11 pence) per share
Second interim paid of 700.00 pence per share

125,000	28,667
840,000	-
<u>965,000</u>	<u>28,667</u>

On 28 March 2008 a dividend of 48.45 pence (2007: 11.11 pence) per share was paid to shareholders.

On 14 October 2008 a dividend of 700.00 pence per share was paid to two shareholders. Shareholders holding 126,000 shares waived their rights to receive dividends payable in respect of the second interim dividend in the year ended 31 December 2008.

Shareholders holding 120,000 shares waived their rights to receive dividends payable in respect of the year ended 31 December 2009.

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2008 £	2007 £
Opening shareholders' funds	6,948,259	344,393
Redemption of shares	(12,000)	-
Dividends paid	(965,000)	(28,667)
Loss for the financial year	(367,424)	6,632,533
Closing shareholders' funds	<u>5,603,835</u>	<u>6,948,259</u>

16 CASH FLOWS

a. Reconciliation of operating loss to net cash inflow from operating activities

	2008 £	2007 £
Operating loss	(92,423)	(70,447)
(Increase)/Decrease in debtors due within one year	1,354,585	(1,502,510)
Increase/(Decrease) in creditors falling due within one year	149,188	(2,847,668)
Net cash inflow/(outflow) from operating activities	<u>1,411,350</u>	<u>(4,420,625)</u>

b. Reconciliation of net cash flow to movement in net debt

Increase in cash in the year	212,053	(83,698)
Increase in bank loans	(2,990,000)	-
Repayment of bank loans	490,000	1,000,000
Repayment of shareholders loans	2,447,298	1,337,381
Revaluation of shareholders loans	(147,824)	(1,826,904)
Change in net debt resulting from cash flows	(188,473)	426,779
Net debt at 1 January 2008	(6,499,226)	(6,926,005)
Net debt at 31 December 2008	<u>(6,687,700)</u>	<u>(6,499,226)</u>

The Amphion Group Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2008

c. Analysis of net debt

	1 January 2008 £	Cash Flow £	Non cash changes	31 December 2008 £
Cash in hand, at bank	5,279	212,053	-	217,332
Net funds	5,279	212,053	-	217,332
Bank loans				
Due within one year	(800,000)	490,000	(4,790,000)	(5,100,000)
Due in more more than one year	(1,800,000)	-	1,800,000	-
Shareholder loan notes				
Due within one year	(1,342,622)	1,342,622	(1,646,797)	(1,646,797)
Due in more more than one year	(2,561,883)	1,104,676	1,298,972	(158,235)
Net debt	(6,499,226)	3,149,351	(3,337,825)	(6,687,700)

17 PENSION COMMITMENTS

The Company does not have any employees, and therefore there are no pension commitments

18 RELATED PARTY TRANSACTIONS

	2008 £	2007 £
Dividends received from subsidiary undertaking, Adam Smith International Limited	-	6,864,568
Loans to/(from) subsidiary undertaking, Adam Smith International Limited	147,433	1,500,239
Loans to/(from) subsidiary undertaking, Adam Smith International Africa Limited	492	492
Loans to/(from) subsidiary undertaking, Adam Smith International India Limited	(1)	-
Amounts billed by subsidiary undertaking, Adam Smith Services Limited	43,201	46,212
Amounts due to subsidiary undertaking, Adam Smith Services Limited	109,464	40,904
Mr P Young is a beneficiary of the shareholder loan notes that are dependent upon future earnings referred to in note 12.		
Dividends declared and paid to directors		
- Peter Young	21,802	5,000
- William Morrison	449,070	6,667
- Roger Usher	10,174	2,333
- Andrew Ros	5,814	1,333
	486,860	15,333

On 19 August 2008, the Company provided financial assistance of £12,000 to effect a buy-back of 12,000 ordinary shares which were acquired from Mr A Ros, a former director. These shares were subsequently cancelled. These shares had a nominal value of £1 each, and represented 4.6% of the issued share capital of the Company at the time of purchase.

19 POST BALANCE SHEET EVENTS

On 30 January 2009, the Company provided financial assistance of £500,000 to effect a buy-back of 21,000 ordinary shares which were acquired from Mr. Roger Usher. These shares were subsequently cancelled. These shares had a nominal value of £1 each, and represented 8.5% of the issued share capital of the Company at the time of purchase.

20 CONTINGENT LIABILITIES

The company is party to cross guarantees securing the borrowings of other group companies. At the year end these borrowings amounted to £nil (2007: £nil).

21 CONTROL

There is no ultimate controlling party.

The Amphion Group Limited
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 for the year ended 31 December 2008

22 LIST OF GROUP UNDERTAKINGS

Name	Nature of Business	Country of incorporation	Description of shares	Ownership		Profit/(Loss) after taxation		Capital and reserves	
				2008 %	2007 %	2008 £	2007 £	2008 £	2007 £
Adam Smith International Limited	International development consultancy	England and Wales	Ordinary shares	100	100	£4,216,642	£3,177,844	£7,274,178	£3,057,557
Adam Smith Services Limited ¹	Provision of business services	England and Wales	Ordinary shares	100	100	£77,210	£92,711	£81,843	£4,633
Adam Smith International Africa Limited ^{2,4}	International development consultancy	Kenya	Ordinary shares	100	100	(£17,666)	(£29,688)	(£48,158)	(£29,681)
Adam Smith International India Limited ^{5,6}	International development consultancy	India	Ordinary shares	100	n/a	(£4,184)	n/a	(£3,421)	n/a

On 28 February 2006, the Company acquired all of the issued share capital of Adam Smith International Limited. Part of the consideration was paid in cash and the remainder deferred (see note 12).

¹ Adam Smith Services Limited is classified as a subsidiary as all shares are held by Adam Smith International Limited.

² The prior year comparative numbers for "Capital and Reserves" have been restated.

³ The prior year comparative numbers for "Profit/(Loss) after taxation" have been restated.

⁴ The Company holds 1% of the issued ordinary shares of Adam Smith International Africa Limited directly. The remaining 99% are held indirectly via its subsidiary, Adam Smith International Limited.

⁵ The Company holds 1% of the issued ordinary shares of Adam Smith International India Limited directly. The remaining 99% are held indirectly via its subsidiary, Adam Smith International Limited.

⁶ The current year numbers for "Profit after taxation" relate to a 11-month period rather than a full year.