Memorandum — BANK OF SCOTLAND CORPORATE BANKING

To: Tom Angus

From: Fraser Kelly

cc: Andrew Scott

Date: 26th April 2007

Re: Clode Retail Finance Limited ("CRF")

Purpose – To seek a further extension of the term of the facilities we provide to CRF until 31/5/2007 pending the submission of a proposal by CRF to refinance or reduce our exposure.

Region:	Corporate Banking	**App'n. For:**	* Short-term Extension
Connection Name:	Clode Retail Finance Limited		
Date Facility Approved:	January 2006		

EXPOSURE POSITION, LIMIT & PRICING DETAILS (£000's)

Facilities	Current Facilities*	Inc/ (Dec)	Proposed Facilities	Present Position	Expiry Date	Present Margin	Proposed Margin	Fees/ Com.
Overdraft	15,800	0	15,800	15,376	31/5/07	175bps	175bps	
Total Primary Risk	15,800	0	15,800	15,376				
Secondary Risk								
BoSCF	5,000	0	5,000	4,911	31/5/07	175bps	175bps	
Asset Finance								
Bond/Guarantees								
BACS								
Total Pot. Exposure	20,800	0	20,800	20,287				20k

* Facilities per unsigned credit application dated 5 January 2006

Security:
All sums debentures from Clode Holdings Limited, Clode Retail Finance Limited, Sidney Clode Finance Limited and Clode Funding Limited. All bar Clode Funding Limited are first ranking securities.

Barclays Bank Plc has a first ranking debenture over Clode Funding Limited and second ranking debentures over the other secured companies.

Corporate cross guarantee between the parties listed above.

Intercreditor Agreement BOS and Barclays Bank Plc.

In course – Debentures and upstream Guarantees from V-12 Holdings Limited and V-12 Finance Limited

Financial Summary	y/e 31/03/05	Y/e 31/03/06	F'cast y/e 31/3/07
Turnover	2877	4322	6150
Gross Profit			
Gross Profit %			

EBTDA (Interest treated as cost of sales)	624	551	1000

Cover and RR trends	31/1/07	
Risk Rating	7	
Discounted Asset Cover		

At the end of March we agreed to mark facilities forward to 20th April to allow the business time to continue parallel discussions with:

1) RBS around a new £25m package of facilities; and
2) Potential new equity providers around an injection of up to £5m of equity.

The process appears to be gaining momentum but there is as yet no full credit or investment approval from either party. We have been promised evidence of RBS's intentions by the end of this week.

The process is likely to take some time to reach a conclusion and we propose to mark our limits forward to the end of May to facilitate progress towards a deal.

Loan Book

We have continued to analyse the key elements of the CRF loan book. An updated schedule is attached. This remains Work in Progress but some important observations need to be made:

1) The Sandstone Organisation Limited ("SOL") is the largest borrower with total debt of c£1.72m. The business is a holding company for a number of our High Risk cases including Corporate Jet and Bradman Lake. David Mills of Quayside is the principal Director and it is owned in turn by an outfit called Devonshire Registrars Limited. As a pure holding company SOL appears to be totally dependent upon revenue upstreamed from subsidiaries. As this income source has now effectively been cut off, the debt owed to Clode must be considered doubtful. The latest loan book analysis suggests that the debt is now impaired given that recent scheduled repayments have not been made;

2) Strand Magazines Limited ("SML") is the second largest borrower at c£915,000. Strand publishes a magazine called "What's on in London". This title was acquired for c£530,000 by Strand in 2006 from BoS High Risk case Remnant Media. The business, which has no accounts or direct debt with the Bank, is owned by Sandstone. Strand is loss making and, until recently, has been funded entirely out of the Smollensky's restaurant business to the tune of around £300,000 over and above Clode top up funding. Further payments from Smollensky's have been prohibited. We have been advised that David Mills has refused to fund the business and that it is likely to be placed into Administration very shortly;

3) The Magenta Studios debt of £108,000 is irrecoverable following the recent collapse of the business.

With a Group net worth of only £2.4m, the collapse of all of these entities would wipe this out and that is before we factor in other cases we have detailed knowledge of including First Vending, Bradman Lake and Simon Jay.

With a net book debt of around £15m and BoS exposure of over £20m we are already significantly under secured. The possible collapse of a number of the borrowers raises the prospect of the loss of half of our exposure and possibly more.

The harsh reality of the loan book begins to make the prospects for a successful new equity and debt raising look fairly gloomy but we need to let that process work itself through before we can take any steps to enforce our position.

Barclays

In the event of there being no immediate proposal to address our concerns then we will almost certainly need to engage directly with Barclays.

As we know Barclays has a £35m facility to Clode Funding Limited ("CFL") with security of around £40m.

It is difficult to be sure about how Barclays would react in the event of their becoming aware of material issues in the CRF book, in other words would they opt for a gradual workout of the book or would they have an appetite to continue funding their ring-fenced part of the business? Despite their strong appetite for this sector, the former may be a more likely and realistic scenario.

We understand that CRF handles all of the administration, account management, marketing and sales for CFL and it is unclear at this stage what impact the collapse of CRF may have on CFL's ability to continue operating.

The Intercreditor Agreement between BoS and Barclays allows us the right to appoint Receivers or Administrators to CRF without consultation with Barclays. However, we would have to give three months' notice of our intention to make demand against CFL under our second ranking Debenture with a further 30 day period between making a demand and enforcing. Barclays has mirror rights.

Conclusions and recommendations

The Bank remains materially under secured with a deteriorating loan book aggravating the position.

A debt and equity package may yet deliver some prospect of debt reduction for the Bank but it is hard to see new and existing lenders leaving themselves vulnerable to the collapse of the CRF business.

Nevertheless, we do not wish to raise the temperature until we know the outcome of the current negotiations and recommend renewal of the current facilities to 31/5/2007 to allow the negotiations to reach some conclusion.

Fraser Kelly
26 April 2006

Director Additional Comments:	
Head Additional Comments:	Supported 26/4/07
MD Additional Comments:	Agreed. 30/4/07.