Company Registration No. 5754978

Cabot Financial Group Limited

Report and Financial Statements

Year ended 31 October 2008

Cabot Financial Group Limited

Report and financial statements 2008

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Cabot Financial Group Limited

Report and financial statements 2008

Officers and professional advisers

Directors

K W Maynard
G P Crawford
J F Soden
D C E Geer
P J Norris
J D Randall

Secretary

J D Randall

Registered office

1 Kings Hill Avenue
Kings Hill
West Malling
Kent
ME19 4UA

Bankers

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

Solicitors

Clifford Chance
10 Upper Bank Street
London
E14 5JJ

Auditors

Deloitte LLP
London

Cabot Financial Group Limited

Directors' report

The directors present their annual report and financial statements of Cabot Financial Group Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 October 2008.

Principal activities

The principal activity of the Company is to act as a holding company of a group comprising the purchase and recovery of non-performing consumer loans in the UK and Europe.

The subsidiary and associated undertaking principally affecting the profits or net assets of the Group in the year are listed in note 11 to the financial statements.

Business review

The debt purchase marketplace in the UK, the principal area of business activity for the Group, has remained buoyant throughout the past year. During the year the Group has actively considered purchasing debt with a face value in excess of £4.5 billion. As at 31 October 2008 cumulative debt purchases were in line with the Directors expectations at the beginning of the year.

The prices paid for debt in the UK market have reduced significantly during the later part of the financial year as the economic environment declined. The Directors are confident that despite the worsening economic environment returns achieved on the portfolios acquired in the year to October 2008 will, in aggregate, be significantly ahead of the returns achieved in the last two or three years.

During the year the Group also acquired portfolios in Spain, Ireland and France although the UK remained the dominant market accounting for over 90% of the portfolio purchases.

On 31 October 2008 the Group sold it's 20% stake in the share capital of Gescobro for £720,052. The Group retains strong relationship with the Management of Gescobro who continue to act as the Group's debt collection agent in Spain.

Collections on portfolios for the year to 31 October 2008 fell short of expectations on the assets owned at the beginning of the financial year but were ahead of expectations on the assets acquired during the year. Collections on the assets owned at the beginning of the year were adversely affected by the "credit crunch" with the Group's customers finding it increasingly difficult to raise the funds in order to make lump sum payments to settle the obligations with the Group. The Group has always taken a long term approach to helping the customer deal with their debt obligations and the Directors believe that this approach should continue in the current difficult economic circumstances. Collections on the assets acquired in the year have exceeded expectations due to the decision to factor in significant reductions in expected customer settlements relative to the historic trend when forecasting the likely collections at the point of pricing. The Directors expect both the turnover and operating profits of the Group to grow in the coming years fuelled by cashflows from portfolios currently owned plus the weakening of the price of debt in the UK market place.

The Group currently has a deficit on net assets. This results from the acquisition made during the previous financial year. The deficit in net assets principally relates to goodwill amortisation and interest charges on loan notes that is not due until the loan notes are repaid.

Financial risk management objectives and policies

Cash flow and credit risk

The purchase and collection of non-performing consumer receivables carries a substantial amount of cash risk due to the underlying volatility in the collection characteristics of these assets.

To mitigate these risks the Group has developed, and continues to refine, detailed management reporting on individual portfolio performance and re-forecasts future collections on each portfolio on a monthly basis.

Due to the long-term nature of the Group's collection strategies, the Group will continue to be exposed to possible changes in legislation and economic trends.

Directors' report (continued)

Financial risk management objectives and policies (continued)

Cash flow and credit risk (continued)

To mitigate these risks, the Group's senior employees play an active role in trade and industry bodies to ensure that any changes in the legislative collections environment are monitored and assessed as soon as practically possible. To mitigate economic risk the Group does not generally enter into long-term fixed-price purchasing arrangements with a duration of more than one year.

Price risk

The market within which the Group operates is highly competitive with a large number of buyers tendering for portfolios that come to market. In order to mitigate this risk the Group continues to invest in pricing models and methodologies in order that segmented sub-portfolios can be accurately priced so that those parts of portfolios with the highest chance of meeting collections expectations are purchased. The directors consider that substantial ongoing investment in this area will be key to the success of the business.

Foreign exchange risk

As at 31 October 2008 the net foreign exchange risk is assessed by the directors to be immaterial with portfolios acquired in Euros being funded with senior debt drawn in Euros.

Interest rate risk

All decisions in relation to the hedging of interest rate risk are made by the Board of directors of the Group. The Group holds a £70 million interest rate cap as a hedge against adverse movements on the cost of its senior bank facility. This has been revalued in the balance sheet to fair value as required by FRS 26. The fair value of this derivative at 31 October 2008 was £nil (2007 - £88,719). In addition during the year the Group entered into a £20 million interest rate swap. The fair value of this swap at 31 October 2008 was a liability of £340,286.

Going concern and liquidity risk

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in this report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements. The Group made an operating profit of £4,148,100 (2007: £18,782,190) and net cash outflow from operating activities reduced to £652,211 (2007: £4,487,070) However, the Group currently has a net current liabilities and deficit on shareholders' funds. This has resulted from the acquisition made during the previous financial year. The deficit in net assets principally relates to goodwill amortisation and interest charges on loan notes that is not due until the loan notes are repaid in 2016.

The Group meets its day to day working capital requirements through a £140m senior loan facility which is over due for renewal. The renewal date of the existing bank loan facility was extended to 30 September 2009 (see note 14). As of the balance sheet date the senior loan facility was drawn down to £131m, since the balance sheet date repayments made under the facility have reduced the balance drawn to £110m as at the date of approving the financial statements.

The negotiations for the replacement of this facility with a £125m senior loan facility are at a very advanced stage, and initial credit approval has been obtained by both of the funding institutions involved with the expectation that the new facility agreement will be signed in the near future.

The Group's latest forecasts and cash flow projections have been reviewed in comparison to the proposed new loan facility terms and covenants and this has not indicated any significant uncertainty over the group's ability to operate within the requirements of the renewed facility and therefore to continue as a going concern.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors' report (continued)

Results and dividends

The audited financial statements and related notes for the year ended 31 October 2008 are set out on pages 9 to 31. The Group's result for the year, after taxation, was a loss of £26,938,962 (2007 – loss £8,957,263). The directors do not recommend the payment of a dividend (2007: £nil).

Directors

The directors who held office during the year, except as noted otherwise, were as follows:

K W Maynard	
G P Crawford	
D C E Geer	
P Gissel	(resigned 12 May 2008)
J D Randall	
S Oakland	(resigned 15 May 2008)
A Farace	(appointed 24 June 2008) (resigned 24 February 2009)
J F Soden	(appointed 5 June 2008)
P J Norris	(appointed 15 March 2009)

Supplier payment policy

It is the Group's policy to abide by the terms of payment agreed with suppliers.

Charitable and political contributions

During the year the Group made charitable donations of £1,482 (2007 - £7,580). There were no political contributions during the year (2007 - £nil).

Disabled employees

Applications for employment from disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event that members of staff become disabled every effort is made to ensure that their employment with the Group continues. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

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 Group. This is achieved through formal and informal meetings and the company magazine. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests both informally and via the quarterly meetings of the "Communication and Consultative Committee".

Cabot Financial Group Limited

Directors' report (continued)

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 he ought to have taken as a director in order to make himself 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. 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.

Approved by the Board of Directors
and signed on behalf of the Board

J D Randall
Director
28 August 2009

Cabot Financial Group Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the Company and the Group in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepting Accounting Practice, of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group 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 the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Cabot Financial Group Limited

We have audited the Group and Parent Company financial statements (the "financial statements") of Cabot Financial Group Limited for the year ended 31 October 2008 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, and the related notes 1 to 27. 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 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 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 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 with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 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.

Independent auditors' report to the members of Cabot Financial Group Limited (continued)

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 Group's and the Parent Company's affairs as at 31 October 2008 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.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
28 August 2009

Cabot Financial Group Limited

Consolidated profit and loss account
Year ended 31 October 2008

	Notes	Year ended 31 October 2008 £	Year ended 31 October 2007 £
Turnover	2	87,639,985	79,477,302
Cost of sales		(49,128,079)	(31,713,386)
Gross profit		38,511,906	47,763,916
Administration expenses		(34,387,420)	(29,125,854)
Other operating income		23,614	144,128
Operating profit		4,148,100	18,782,190
Share of operating profit in associate	11	91,964	45,478
Loss on sale of fixed asset investment		(148,266)	-
Interest receivable and similar income	6	135,642	185,446
Interest payable and similar charges	7	(31,357,119)	(28,642,420)
Dividends receivable		37,229	4,165
Loss on ordinary activities before taxation	3	(27,092,450)	(9,625,141)
Tax on loss on ordinary activities	4	153,488	667,878
Loss on ordinary activities after taxation		(26,938,962)	(8,957,263)
Minority Interests		(5,062)	(10,993)
Loss for the financial year	19	(26,944,024)	(8,968,256)

All activities derive from continuing operations.

The accompanying notes are an integral part of this consolidated profit and loss account.

Cabot Financial Group Limited

Consolidated balance sheet
As at 31 October 2008

	Notes	2008 £	2007 £
Fixed assets			
Goodwill	9	162,692,559	172,414,444
Investments	11	-	776,353
Tangible assets	10	4,400,074	3,841,615
		167,092,633	177,032,412
Current assets			
Loan portfolios	12	177,827,659	159,904,505
Debtors: amounts falling due within one year	13	4,620,676	4,194,906
Cash at bank and in hand		5,699,295	6,669,373
		188,147,630	170,768,784
Creditors: amounts falling due within one year	14	(188,893,429)	(34,891,697)
Net current (liabilities)/assets		(795,799)	135,877,087
Total assets less current liabilities		166,346,834	312,909,499
Creditors: amounts falling due after more than one year	15	(202,346,416)	(322,184,213)
Provisions for liabilities and charges	16	(1,463,529)	(1,628,661)
Net liabilities		(37,463,111)	(10,903,375)
Capital and reserves			
Called up share capital	18	250,000	250,000
Profit and loss account	19	(37,729,922)	(11,163,599)
Equity shareholders' deficit	24	(37,479,922)	10,913,599
Minority interests		16,811	10,224
Total capital deficit		(37,463,111)	(10,903,375)

These financial statements were approved by the Board of Directors on 24 August 2009.

Signed on behalf of the Board of Directors

J D Randall

Director

Cabot Financial Group Limited

Company balance sheet
As at 31 October 2008

	Notes	2008 £	2007 £
Fixed assets			
Investments	11	250,000	250,000
Current assets			
Debtors	13	5,736	5,736
		5,736	5,736
Creditors: amounts falling due within one year	14	(11,750)	(11,750)
Net current liabilities		(6,014)	(6,014)
Total assets less current liabilities		243,986	243,986
Creditors: amounts falling due after more than one year	15	-	-
Net assets		243,986	243,986
Capital and reserves			
Called up share capital	18	250,000	250,000
Profit and loss account	19	(6,014)	(6,014)
Equity shareholders' funds		243,986	243,986

These financial statements were approved by the Board of Directors on 28 August 2009.

Signed on behalf of the Board of Directors

J D Randall

Director

Cabot Financial Group Limited

Consolidated statement of total recognised gains and losses
Year ended 31 October 2008

	Notes	2008 £	2007 £
Loss for the financial year		(26,944,024)	(8,968,256)
Currency translation differences	19	377,701	(134,856)
Total recognised losses relating to the year		(26,566,323)	(9,103,112)

Cabot Financial Group Limited

Consolidated cash flow statement
Year ended 31 October 2008

	Notes	2008 £	2007 £
Net cash outflow from operating activities	20	(652,211)	(4,487,070)
Returns on investments and servicing of finance	21	(8,748,853)	(7,972,537)
Taxation	21	(1,764,444)	(1,128,535)
Capital expenditure and financial investment	21	(1,791,271)	(3,147,761)
Acquisitions and disposals	21	720,052	(2,870,812)
Cash outflow before use of financing		(12,236,727)	(19,606,715)
Financing	21	11,266,649	22,273,738
(Decrease)/increase in cash in the year	23	(970,078)	2,667,023

The accompanying notes are an integral part of this consolidated cash flow statement.

1. Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below. These have been applied consistently throughout the current and preceding year.

Accounting convention

The financial statements have been prepared under the historical cost convention except for fair value of certain financial assets.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary and associated undertakings drawn up to 31 October 2008. Acquisitions are accounted for using the acquisition method and the results of companies acquired are included in the profit and loss account from the date of acquisition.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements. The Group made an operating profit of £4,148,100 (2007: £18,782,190) and net cash outflow from operating activities reduced to £652,211 (2007: £4,487,070) However, the Group currently has a net current liabilities and deficit on shareholders' funds. This has resulted from the acquisition made during the previous financial year. The deficit in net assets principally relates to goodwill amortisation and interest charges on loan notes that is not due until the loan notes are repaid in 2016.

The Group meets its day to day working capital requirements through a £140m senior loan facility which is over due for renewal. The renewal date of the existing bank loan facility was extended to 30 September 2009 (see note 14). As of the balance sheet date the senior loan facility was drawn down to £131m, since the balance sheet date repayments made under the facility have reduced the balance drawn to £110m as at the date of approving the financial statements.

The negotiations for the replacement of this facility with a £125m senior loan facility are at a very advanced stage, and initial credit approval has been obtained by both of the funding institutions involved with the expectation that the new facility agreement will be signed in the near future.

The Group's latest forecasts and cash flow projections have been reviewed in comparison to the proposed new loan facility terms and covenants and this has not indicated any significant uncertainty over the group's ability to operate within the requirements of the renewed facility and therefore to continue as a going concern.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Associates

In the Group financial statements investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associate's profit less losses while the Group's share of the net assets of the associates is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out in this note. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

1. Accounting policies (continued)

Financial assets

On initial recognition, FRS 26 requires that financial instruments be classified into the following categories; at fair value through profit and loss, loans and receivables, held-to-maturity investments or available for sale.

The loan portfolios are classified as fair value through profit and loss. Debtors are measured at amortised cost using the effective interest method, less any impairment.

Financial liabilities

Except for derivatives, which are classified as fair value through profit and loss on initial recognition, all financial liabilities are carried at amortised cost using the effective interest rate method.

Bank borrowings

Interest bearing loans are recorded at the proceeds received. Finance charges are accounted for on an accruals basis in the profit and loss account using the effective interest method and are added to the carrying amount of the instrument.

Turnover

Turnover represents amounts collected from customers and fees receivable from the servicing of loans on behalf of third parties.

Valuation of consumer loan portfolios

Portfolios are accounted for using the "fair value through the profit and loss" designation in accordance with FRS 26. Fair value is determined in the manner described in note 12(a).

The carrying value of portfolios is shown in the balance sheet as "loan portfolios". The change in value of portfolios is shown in cost of sales. As described in note 12 the fair value of these "loan portfolios" is highly sensitive to the collections achieved and the forecast algorithm used to project forward collections.

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term.

Interest

Interest receivable and payable are recognised on an accruals basis.

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 substantially enacted by the balance sheet date.

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 or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

1. **Accounting policies (continued)**

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions

The Group operates a defined contribution pension scheme. Pension contributions are charged to the profit and loss account in the month that the liability for paying the contributions arises.

Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is estimated at twenty years. Provision is made for any impairment.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less any cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating united) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value on each asset on a straight line basis over their estimated useful lives as follows:

Office equipment	4 years
Computers and software	3 years
Fixtures and fittings	5 years
Short leasehold property	the minimum term of the lease
Motor vehicles	5 years

Fixed asset investments

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

Notes to the financial statements (continued)
Year ended 31 October 2008

1. Accounting policies (continued)

Derivatives

Derivatives are measured initially at fair value and subsequently re-measured to fair value. Fair values are obtained from quoted prices prevailing in active markets, including recent market transactions, and valuation techniques, included discounted cash flow models and option pricing models as appropriate. All derivatives are included as assets when their fair value is positive, and liabilities when their fair value is negative. The Group's only derivative holding is an interest rate hedge.

Foreign exchange

Transactions in foreign currencies are recorded at the rates of exchange for sterling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising on translations of the opening net assets and results of overseas operations are adjusted through reserves. All other exchange differences are recognised as income or expense in the year in which the difference arose.

2. Turnover

Turnover predominantly arises in the UK.

	2008 £	2007 £
Collections	85,776,369	78,128,430
Servicing	1,863,616	1,348,872
	87,639,985	79,477,302

3. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2008 £	2007 £
Auditors' remuneration	173,681	146,875
Depreciation of tangible fixed assets	923,200	678,872
Amortisation of goodwill	9,721,885	9,676,430
Operating lease rentals - land and buildings	1,029,390	809,170

The result for the year dealt with in the financial statements of the Company was a loss of £nil (2007 – £ nil). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the Company.

Notes to the financial statements (continued)
Year ended 31 October 2008

3. Loss on ordinary activities before taxation (continued)

The analysis of auditors' remuneration is as follows:

	2008 £	2007 £
Fees payable to the Company's auditors for the audit of the Company's annual accounts	12,848	9,664
Fees payable to the Company's auditors and their associates for other services to the Group		
The audit of the Company's subsidiary pursuant to legislation	160,833	137,211
Total audit fees	173,681	146,875
Other services pursuant to legislation	59,349	10,015
Total non-audit fees	59,439	10,015

4. Tax on loss on ordinary activities

The tax charge comprises:

	2008 £	2007 £
Current tax		
UK corporation tax	-	1,003,256
Foreign tax	190,212	109,977
Adjustments in respect of prior periods	(155,110)	(1,975,054)
Total current tax	35,102	(861,821)
Deferred tax		
Origination and reversal of timing differences	(188,590)	193,943
Total deferred tax	(188,590)	193,943
Total tax on loss on ordinary activities	(153,488)	(667,878)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

Notes to the financial statements (continued)
Year ended 31 October 2008

4. Tax on loss on ordinary activities (continued)

	2008 £	2007 £
Loss on ordinary activities before tax	(27,092,450)	(9,625,141)
Tax on loss on ordinary activities at standard UK corporation tax rate of 28% (2007 – 30%)	7,585,886	2,887,542
Effects of:		
Expenses not deductible for tax purposes	(4,258,879)	(3,953,112)
Non utilisation of losses	(3,525,758)	-
Capital allowances in excess of depreciation	136,959	146,691
Movement in short term timing differences	(85,781)	(175,743)
Tax on overseas earnings	(42,639)	(18,611)
Adjustments to tax charge in respect of previous periods	155,110	1,975,054
Group current tax charge for the year	(35,102)	861,821

5. Information regarding directors and employees

	2008 No. £	2007 No. £
Average number of employees during the year (including executive directors)		
Administration	92	65
Collections	281	242
	373	307

	2008 £	2007 £
Staff costs including directors		
Wages and salaries	10,380,991	7,961,078
Social security costs	1,021,621	794,874
Pension contributions	271,702	230,969
	11,674,314	8,986,821

There are three directors for whom retirement benefits are accruing in respect of defined contribution pension schemes (2007 - 3).

	2008 £	2007 £
Directors' remuneration		
Salary and benefits in kind	911,129	718,672
Pension contributions	71,600	68,250
	982,729	786,922

Notes to the financial statements (continued)
Year ended 31 October 2008

5. Information regarding directors and employees (continued)

	2008 £	2007 £
Highest paid director		
Salaries and benefits in kind	346,877	276,061
Pension contributions	27,300	26,250
	374,177	302,311

6. Interest receivable and similar income

	2008 £	2007 £
Bank deposits	135,642	185,446

7. Interest payable and similar charges

	2008 £	2007 £
Bank loans	8,966,273	8,276,214
Loan notes	12,895,847	11,951,757
M notes	9,494,999	8,414,449
	31,357,119	28,642,420

'M' Notes are repayable in 2016 and bear an interest rate of 13%. The 'M' Notes rank ahead of the 'A' and 'B' loan notes in the event of a winding up of the company (see note 15).

8. Financial commitments

The Group's annual commitments under non-cancellable operating leases are as follows:

	Land and buildings 2008 £	Land and buildings 2007 £
Expiry date:		
- within one year	-	-
- after five years	924,615	924,615

At 31 October 2008, the Group was committed to further purchases of portfolios of non performing consumer loans with a total cost of £1,468,984 (2007: £1,196,416) under non-cancellable agreements.

Notes to the financial statements (continued)
Year ended 31 October 2008

9. Intangible assets - goodwill

	2008 £	2007 £
Cost		
At 31 October	187,562,578	183,335,156
Additions during the year	-	4,227,422
At 31 October	187,562,578	187,562,578
Accumulated amortisation		
At 31 October	15,148,134	5,471,704
Charge for the year	9,721,885	9,676,430
At 31 October	24,870,019	15,148,134
Net book value		
At 31 October	162,692,559	172,414,444

10. Tangible fixed assets

	Motor vehicles £	Office equipment £	Computers and software £	Furniture and fittings £	Short leasehold property £	Total £
Cost						
At 31 October 2007	30,464	681,932	863,424	765,588	2,265,131	4,606,539
Additions	32,779	17,083	1,199,712	47,632	169,118	1,466,324
Disposals	(28,689)	(14,893)	-	-	-	(43,582)
At 31 October 2008	34,554	684,122	2,063,136	813,220	2,434,249	6,029,281
Depreciation						
At 31 October 2007	12,549	271,742	366,354	83,727	30,552	764,924
Charge for the year	9,522	186,103	430,247	152,563	144,765	923,200
Disposals	(18,344)	(40,573)	-	-	-	(58,917)
At 31 October 2008	3,727	417,272	796,601	236,290	175,317	1,629,207
Net book value						
At 31 October 2008	30,827	266,850	1,266,535	576,930	2,258,932	4,400,074
At 31 October 2007	17,915	410,190	497,070	681,861	2,234,579	3,841,615

Notes to the financial statements (continued)
Year ended 31 October 2008

11. Fixed asset investments and acquisitions

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Subsidiary undertakings				
Cost and net book value	-	-	250,000	250,000

	Group £	Company £
Associates		
Share of net assets		
At 1 November 2007	776,353	-
Share of operating profit	124,494	-
Amortised in the year	(32,530)	-
Net share of operating profit	91,964	-
Disposals	(868,317)	-
At 31 October 2008	-	-
Net book value at 31 October 2008	-	-
Net book value of 31 October 2007	776,353	-

On 31 October 2008 the 20% share of the share capital of Gescobro was sold for £720,052 (net of costs).

Notes to the financial statements (continued)
Year ended 31 October 2008

11. Fixed asset investments and acquisitions (continued)

Principal group investments

The Parent Company and the Group have unlisted investments in the following subsidiary undertakings which principally affect the financial statements of the Group:

Subsidiary undertakings	Date of acquisition	Country of incorporation and operation or principal business address	Principal activity	Ordinary shares held	% shares held
Cabot Financial Limited	7 April 2006	Great Britain	Holding company	250,000	100*
Cabot Financial Holdings Group Limited	7 April 2006	Great Britain	Holding company	251,256	100
Cabot Financial Holdings Limited	7 April 2006	Great Britain	Holding company	19,814,190	100
Cabot Financial Debt Recovery Services Limited	7 April 2006	Great Britain	Consumer debt purchase and recovery in UK and Europe	924,001	100
Cabot Financial (Europe) Limited	7 April 2006	Great Britain	Collection of UK consumer debt	12,104,790	100
Cabot Financial (UK) Limited	7 April 2006	Great Britain	UK consumer debt purchase and recovery	10,000,000	100
Cabot Services (Europe) SAS	7 April 2006	France	French consumer debt purchase and recovery	2,500	100
Financial Investigations and Recoveries (Europe) Limited	7 April 2006	Great Britain	Servicing of UK consumer debt	1	100
Kings Hill Capital Ltd	7 April 2006	Great Britain	Dormant	1	100
Morley Limited	7 April 2006	Great Britain	Dormant	2	100
Morley Funding Limited	7 April 2006	Great Britain	Dormant	2	100
Kings Hill (No. 4) Limited	7 April 2006	Great Britain	Dormant	2	100
Cabot Financial International Limited	7 April 2006	Great Britain	Dormant	2	100
Kings Hill (No. 1) Limited	7 April 2006	Great Britain	Dormant	2	100
Cabot Consumer Services Limited	7 April 2006	Great Britain	Dormant	1	100
Cabot Financial (Ireland) Limited	17 January 2007	Ireland	Irish debt collection	369,114	93
Cabot Spain SL	27 December 2006	Spain	Spanish consumer debt purchase and recover	3,000	100
Cabot Financial Asset Purchases (Ireland) Limited	26 April 2007	Ireland	Dormant	100	100

* *Directly held subsidiary of Cabot Financial Group Limited*

The Group has 100% voting rights on shares held in each of the subsidiary undertakings.

12. Market risk analysis

The Group is subject to price, credit and cashflow risk in the value of loan portfolios and interest rate risk in relation to its bank loans and related hedging. The directors consider that the net exposure to foreign exchange risk in the Groups balance sheet is immaterial. The financial risk management objectives and policies were discussed within the Directors' report on page 2 and 3.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 14 and 15, cash and equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed in notes 18 to 24.

Notes to the financial statements (continued)
Year ended 31 October 2008

12. Market risk analysis (continued)

(a) Price and cashflow risk sensitivity analysis in fair value of loan portfolios

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Loan portfolios				
Fair value	177,827,659	159,904,505	-	-

The Group uses a Revaluation Model to calculate the fair value of loan portfolios. The Revaluation Model is a cashflow model developed at a portfolio level based on projected cashflows over the forecast cash collection period for each individual portfolio ("the forecast period"). Cashflows are discounted using the yields calculated for each portfolio. The initial yield is calculated at the time of purchase and subsequently compared with yields observed in current market transactions in similar loan portfolios and adjusted if necessary. Significant volatility in yields for similar purchased loan portfolios is not anticipated in the absence of fundamental changes in the economic or legislative environment.

The weighted average forecast period used in the Revaluation Model was 72 months (2007: 67 months) and the weighted average yield used for discounting cashflows was 40.5% (2007: 44.5%). The weighted average initial yield of new acquisitions in the year to October 2008 was consistent with that of the prior year and the Directors do not consider that this is likely to vary significantly.

The Revaluation Model is updated with the collections experience on a monthly basis and a new collections forecast is generated using a combination of the actual collections seen over the immediately preceding months and long term trend analysis of how collections on the Group's loan portfolios decay on a monthly basis over several years.

The fair value of the portfolios is therefore highly dependent on the collections achieved on the loan portfolios in the past as these determine the initial starting point of the projection and the long term gradient used to decay the forecast collections. The fair value is also dependent on the yield assumptions

The effect of a 10% reduction in cash collection statistics used in the Revaluation Model is illustrated below. The directors believe that a 10% reduction is a reasonable sensitivity as this correlates with the largest adverse variance in cash collections against forecast cashflows observed since the Revaluation model was introduced in its current form.

The effect of changes to the assumptions feeding the Revaluation Model are illustrated below.

Group	Opening balance sheet £	Change in fair value recorded in cost of sales £	Closing balance sheet £
Reduction in cash collections experience used in forecast by 10%			
<u>Year ended 31 October 2007</u>			
Per financial statements	128,895,518		159,904,505
Reduction due to change of assumption	(12,760,033)	2,851,526	(15,611,559)
	116,135,485		144,292,946

Notes to the financial statements (continued)
Year ended 31 October 2008

12. Market risk analysis (continued)

Group	Opening balance sheet £	Change in fair value recorded in cost of sales £	Closing balance sheet £
<u>Year ended 31 October 2008</u>			
Per financial statements	159,904,505		177,827,659
Reduction due to change of assumption	(15,611,559)	1,474,365	(17,085,924)
	144,292,946		160,741,735
Reduction in the long term gradient used in forecast by 10%			
<u>Year ended 31 October 2007</u>			
Per financial statements	128,895,518		159,904,505
Reduction due to change of assumption	(3,024,090)	1,365,034	(4,389,124)
	125,871,428		155,515,381
<u>Year ended 31 October 2008</u>			
Per financial statements	159,904,505		177,827,659
Reduction due to change of assumption	(4,389,124)	1,072,340	(5,461,464)
	155,515,381		172,366,195

An increase of 10% in cash collections experience and long term gradient used in forecast will have the exact opposite effect in the loan portfolios amount at balance sheet date.

(b) Interest rate risk sensitivity analysis

The fair value of the Group's £70 million interest rate cap is zero. The Directors do not consider a scenario which changes this fair valuation to be material.

The fair value of the Group's £20 million interest swap is £340,286 and is included in the liabilities in note 11. The fair value was calculated with reference to the yield curve at the balance sheet date when 1-month LIBOR rates were 5.6%. Since the balance sheet date, 1-month LIBOR has reduced to under 2%. If the fair value is recalculated with reference to the yield curve mid January 2009 the year end liability would be £606,471.

The Group's senior debt facility is linked to the monthly LIBOR so the balance sheet value is the fair value.

The Group has in issue £59.2 million of 8% Loan notes and £60.0 million of 13% M notes. These loan notes are purely "pay if you can" liabilities and are inherently linked to the Group's equity structure. As such it is not possible to determine the fair value of these liabilities as it is not possible to refer to an equivalent market price nor it is not practical to either calculate the underlying cash flow associated with the Loan notes with any degree of accuracy.

Notes to the financial statements (continued)
Year ended 31 October 2008

12. Market risk analysis (continued)

(c) Credit risk sensitivity analysis

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. As the Group's business is the purchase and recovery of non-performing consumer loans it is exposed to a significant credit risk so, as disclosed in the Directors Report, continues to develop, and continues to refine, detailed management reporting on individual portfolio performance and re-forecasts future collections on each portfolio on a monthly basis. This information is in turn fed into complex pricing models used to assess the purchase price of each portfolio. Underlying the amount included in Loan Portfolios in the balance sheet is the underlying receivables from the Groups customers who, although all have suffered issues with personal credit, are highly diverse in nature spread across all of the geographical regions of the UK (with a small proportion amounting to less than 5% of the customer base across in France, Spain and Ireland) and from all socio-economic groups. The Group does not therefore have a significant risk to any single counterparties. The underlying credit risk associated this the aggregated customer base is, in essence identical to the cashflow risk associated with forecasting the future cash flows from the portfolio disclosed in (a) above.

(d) Liquidity risk analysis

As at 31 October 2008 the Group's revaluation model indicates that £467 million will be received on the Group's loan portfolios over a ten year period. The exact timing of this cashflow is highly dependant on the economic circumstances prevailing at that time.

13. Debtors – amounts falling due within one year

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Amounts owed by group undertakings	-	-	5,042	5,042
Deferred tax asset (note 17)	-	47,217	-	-
Trade debtors	121,717	345,177	-	-
Corporation tax	1,785,907	-		
Other debtors and prepayments	2,713,052	3,802,512	694	694
	4,620,676	4,194,906	5,736	5,736

The Directors believe the fair value of these assets is not materially different to the balance sheet value.

Notes to the financial statements (continued)
Year ended 31 October 2008

14. Creditors – amounts falling due within one year

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Bank loans and overdrafts	131,060,276	-	-	-
Accrued M Notes interest	22,333,009	12,838,010	-	-
Accrued loan notes interest	31,305,842	18,409,995	-	-
Trade creditors	375,634	1,000,036	-	-
Corporation tax	34,439	48,549	-	-
Other tax and social security	269,310	263,833	-	-
Other creditors	1,082,979	687,160	-	-
Accruals and deferred income	2,431,940	1,644,114	11,750	11,750
	188,893,429	34,891,697	11,750	11,750

The Group has granted a fixed and floating charge over the majority of the non-performing loan assets as security for the bank loan. The bank loans were repayable on 7 April 2009 and the interest rate is variable and fluctuates in accordance with LIBOR. The renewal date of the existing bank loan facility was extended to 30 September 2009.

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

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Debenture loans, loan stock and other loans	202,346,416	202,346,416	-	-
Bank loans and overdrafts	-	119,837,797	-	-
	-	322,184,213	-	-
Analysis of loan repayments:				
In more than 5 years	202,346,416	322,184,213	-	-

There were three classes of loan notes in issue in the year.

Class 'A' totalled a nominal value of £12,603,706 (2007 - £12,603,706) and class 'B' totalled £129,742,710 (2007 - £129,742,710). Both are repayable in 2016 and bear an interest rate of 8%.

'M' notes totalled a nominal value of £60,000,000. These are repayable in 2016 and bear an interest rate of 13%. The 'M' notes rank ahead of the 'A' and 'B' loan notes in the event of a winding up of the Group company issuing the notes, Cabot Financial Limited.

Notes to the financial statements (continued)
Year ended 31 October 2008

16. Provisions for liabilities and charges

	Group £	Company £
At 31 October 2007	1,628,661	-
Current period timing adjustment	(165,132)	-
At 31 October 2008	1,463,529	-

The deferred tax liability relates to the timing difference between the tax and the increase in brought forward reserves at 1 November 2006 in respect of the cumulative effect on adoption of FRS 26. The remaining provision is anticipated to be released to the profit and loss account over the period to 31 October 2016.

17. Deferred tax asset

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Accelerated capital allowances	329,119	564,558		
Tax losses not recognised	3,525,757	-	-	-
Other timing differences	-	(517,341)		
Deferred tax not recognised	(3,854,876)	-	-	-
	-	47,217	-	-

A deferred tax asset has not been recognised in respect of unutilised tax losses as the current expectation is there will not be sufficient taxable profits from which the losses could be deducted. The potential deferred tax asset currently amounts to £3,854,876 (2007: nil).

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
At 31 October 2007	47,217	246,071		-
Current period timing adjustments	(47,217)	(198,854)		-
At end of year	-	47,217		-

18. Called up share capital

	2008 £	2007 £
Authorised:		
52,500 class "A" ordinary shares of £1 each	52,500	52,500
197,500 class "B" ordinary shares of £1 each	197,500	197,500
100 class "C" ordinary shares of £1 each	100	100
	250,100	250,100

Notes to the financial statements (continued)
Year ended 31 October 2008

18. Called up share capital (continued)

Called up, allotted and fully paid:		
52,500 class "A" ordinary shares of £1 each	52,500	52,500
197,500 class "B" ordinary shares of £1 each	197,500	197,500
	250,000	250,000

19. Profit and loss account

	Group £	Company £
At 31 October 2007	(11,163,599)	(6,014)
Loss for the year	(26,944,024)	-
Exchange differences on consolidation	377,701	-
At 31 October 2008	(37,729,922)	(6,014)

20. Reconciliation of operating profit to net cash outflow from operating activities

	2008 £	2007 £
Operating profit	4,148,100	18,782,190
Depreciation	923,300	678,872
Loss on disposal of fixed assets	19,603	5,123
Amortisation of goodwill	9,721,885	9,676,430
Foreign exchange loss on consolidation	377,701	(135,625)
Increase in loan portfolios	(17,923,154)	(31,008,998)
Decrease/(increase) in debtors	1,224,201	(1,714,832)
Increase/(decrease) in creditors	856,153	(770,230)
	(652,211)	(4,487,070)

21. Analysis of cash flows

	2008 £	2007 £
Returns on investments and servicing of finance		
Interest received	135,642	185,446
Interest paid	(8,921,724)	(8,162,148)
Dividends received	37,229	4,165
Net cash outflow	(8,748,853)	(7,972,537)
Taxation		
French corporation tax paid	(57,333)	(84,196)
UK corporation tax paid	(1,707,111)	(1,044,339)
Net cash outflow	(1,764,444)	(1,128,535)

Notes to the financial statements (continued)
Year ended 31 October 2008

21. Analysis of cash flows (continued)

Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,791,271)	(3,147,761)
Net cash outflow	(1,791,271)	(3,147,761)
Acquisitions and disposals		
Cost acquisition of Cabot Financial (Ireland) Limited, formerly Kelly Systems Limited	-	(2,346,800)
Cash acquired	-	206,863
Cost of acquisition of Gescobro	-	(730,875)
Sales of Gescobro	720,052	-
Net cash inflow/(outflow)	720,052	(2,870,812)
Financing		
Bank loans	11,266,649	22,273,738
Net cash inflow	11,266,649	22,273,738

22. Analysis of changes in net debt

	2007 £	Cash flow £	Other non-cash charges £	2008 £
Cash in hand and at bank	6,669,373	(970,078)	-	5,699,295
Debt due within one year	(119,837,797)	(11,266,649)	44,170	(131,060,276)
Debt due after one year	(202,346,416)	-	-	(202,346,416)
Total	(315,514,840)	(12,236,727)	44,170	(327,707,397)

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

	2008 £	2007 £
(Decrease)/increase in cash in the year	(970,078)	2,667,023
Cash inflow from increase in debt	(11,222,479)	(22,432,528)
Movement in net debt	(12,192,557)	(19,765,505)
Net debt at start of year	(315,514,840)	(295,749,335)
Net debt at end of year	(327,707,397)	(315,514,840)

24. Reconciliation of movement in shareholders' (deficit)/funds

	Group 2008 £	Company 2008 £
Loss for the financial year	(26,944,024)	-
Prior period cumulative effect on adoption of FRS 26 (note 19)	-	-
Other recognised losses relating to the year	377,701	-
	(26,566,323)	-
New shares issued	-	-
Net (reduction in)/addition to shareholders' funds	(26,566,323)	-
Opening shareholders' (deficit)/funds	(10,913,599)	243,986
Closing shareholders' (deficit)/funds	(37,479,922)	243,986

25. Contingent liabilities

The Company and the Group is party to a guarantee in favour of the Group's bankers in relation to loans drawn down by other Group companies. Amounts outstanding at 31 October 2008 were £128,074,527 (2007 - £117,330,293). The expectation is that any liability under these guarantees will not be crystallised in the foreseeable future.

26. Related party transactions

During the year the Group purchased services of £76,774 (2007: £128,169) from companies controlled by NPIL Hold Co Limited. During the year the Group purchased £521,341 of consumer loan portfolios from companies controlled by Citigroup Inc. As at the balance sheet date £55,983,882 (2007: £51,155,318) of the Group's loan facility is drawn from entities controlled by Citigroup Inc.

27. Ultimate parent company

The Company's immediate parent company is Pall Mall finance Limited. The ultimate UK parent undertaking of Cabot Financial Group Limited and its Group is NPIL Hold Co Limited and the directors believe that consolidated financial statements will be prepared by this company. The ultimate parent undertaking is Citigroup Inc, a company listed on the New York Stock Exchange in the United States, making it the largest group of which the company is a member. Copies of the financial statements are available from Citigroup Inc. 399 Park Avenue, New York, NY 10043.