Registered number 1108021

C L Finance Limited

Annual Report and Financial Statements

for the year ended 31 December 2009

C L Finance Limited

Annual Report and Financial Statements for the year ended 31 December 2009

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C L Finance Limited

Directors and advisers

Directors
D M Berry
Dr R W Lucas
E Kendray
M C Fairey
J R Drummond Smith
R D East

Company Secretary
R C W Todd

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Kingston House
Centre 27 Business Park
Woodhead Road
Birstall
Batley
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Registered in England and Wales
Registered number 1108021

Independent Auditors
Grant Thornton UK LLP
No 1 Whitehall Riverside
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C L Finance Limited

Directors' report for the year ended 31 December 2009

The Directors present their Annual Report together with the audited financial statements of the Company for the year ended 31 December 2009

Principal activities
The Company's principal activity is debt recovery

Business review
The loss for the year primarily reflects a £15 4 million downward revaluation of the loans and receivables portfolios as the Directors took a more cautious view of the outlook of the UK economy and housing market in particular However despite this, interest income grew by 13% during the year, reflecting the return on debt purchases in 2008

The Directors are satisfied with the Company's future prospects

Results and dividends
The loss for the year, after taxation, amounted to £3,499,690 (2008 loss of £5,399,983) The Directors have not declared a final dividend in respect of the year ended 31 December 2009 (2008 £nil) No interim dividend was paid (2008 £2,100,000)

Overview of events relating to the financial statements
On 10 March 2009, Cattles plc (Cattles), the Company's ultimate parent company, announced that, based on information received to that date, and subject to the completion of its external audit, it believed that a significant loss before tax had been incurred for the year ended 31 December 2008, and that it would be necessary to restate the Group's financial statements for the year ended 31 December 2007 Cattles also reported on 10 March 2009 that it believed it was in breach of covenants under its borrowing arrangements

On 25 November 2009, Cattles announced that it had agreed a formal Standstill and Equalisation Agreement (SEA) with its key financial creditors At the same time, Cattles also agreed certain modifications to the terms of its bank facilities, private placement notes and, subsequently, its bonds

The signing of the SEA and these modifications was expected to improve the likelihood of Cattles achieving its restructuring objectives, namely

- to stabilise the financial position of Cattles and its subsidiaries, and
- against this background, to continue discussions with Cattles' key financial creditors with a view to agreeing a consensual restructuring of the Group

The SEA was signed by Cattles, Welcome Financial Services Limited (WFS), certain other members of the Cattles group and, among others, lenders of certain syndicated and bilateral facilities to Cattles (Banks), certain guaranteed hedging counterparties (Guaranteed Hedging Counterparties), certain unguaranteed hedging counterparties (Unguaranteed Hedging Counterparties) and holders of certain private placement notes issued by Cattles (Noteholders)

The SEA became effective on 17 December 2009 (the Effective Date) following the formal approval of the amendments to the bonds by holders of Cattles 2014 and 2017 bonds (Bondholders)

Directors' report for the year ended 31 December 2009 (continued)

Overview of events relating to the financial statements (continued)
The key provisions of the SEA include

- **Standstill:** A formal agreement by the key financial creditors to "stand still" and therefore agree not to take enforcement action against Cattles, WFS or other members of the group for a limited period of time
- **Cash distributions:** Obligations on WFS to distribute the majority of cash generated by the group to the key financial creditors, subject to the right of WFS to forecast and retain a provision for working capital requirements and other contingencies The SEA expressly provides that this forecast will be prepared on a conservative basis to provide ongoing liquidity for the Cattles group
- **Cash management:** Obligations on Cattles, WFS and other members of the group to ensure that the majority of cash generated by the group, which is currently subject to rights of set off in favour of certain key financial creditors, continues to be maintained in bank accounts that are subject to such rights of set off in favour of such key financial creditors The SEA also caps on the amounts that certain members of the Group may hold in bank accounts and obligations to transfer any excess to WFS

The period of standstill is linked to the litigation process relating to whether certain intra-group loans are subordinated to the claims of some of the financial creditors (as set out in Cattles' announcement of 11 August 2009) (the Litigation) The Banks, the Noteholders and the Guaranteed Hedging Counterparties are required to stand still during an initial standstill period from (and including) the Effective Date and ending on the earlier of

(i) 30 June 2011,

(ii) the date on which the relative entitlements of the creditors to Interim Distributions paid after the conclusion of the Litigation have been finally determined by the Entity Priority Accountant, and

(iii) the occurrence of the date on which the SEA is terminated,

unless before such time the Banks and the Guaranteed Hedging Counterparties whose claims against the Group represent at least 75% of the aggregate claims of the Banks and the Guaranteed Hedging Counterparties against the Group and the Noteholders whose claims against the Group represent at least 75% of the aggregate claims of the Noteholders against the Group decide that the standstill applicable to the Banks and the Guaranteed Hedging Counterparties and the Noteholders should be terminated Alternatively, in certain circumstances if the Banks and Guaranteed Hedging Counterparties and the Noteholders decide that WFS shall no longer fund the appeals process on behalf of Cattles and a representative Bondholder that is party to Litigation, the standstill will end

During the period after 30 June 2011 the standstill can be terminated (i) in the case of the standstill applicable to the Banks and Guaranteed Hedging Counterparties, by the Banks and Guaranteed Hedging Counterparties whose claims against the Group represent at least 75% of the aggregate claims of the Banks and Guaranteed Hedging Counterparties against the Group, and (ii) in the case of the Noteholders, by the Noteholders whose claims against the Group represent at least 75% of the aggregate claims of the Noteholders against the Group From the date on which the relative entitlements of creditors to interim distributions paid after the conclusion of the Litigation have been fully and finally determined by the entity priority model the standstill will be extended to the termination date of the SEA

With respect to the Bondholders and the Unguaranteed Hedging Counterparties, the initial standstill period (which began on the Effective Date) has been extended following the appeal of the first instance judgment to the Court of Appeal The Court of Appeal hearing was on 12 May 2010 There will be a further automatic extension of such standstill period following any appeal of the Court of Appeal judgment, provided that a relevant majority of the Banks, the Noteholders and the Guaranteed Hedging Counterparties do not decide that WFS shall not fund the legal costs of any appeal (up to a maximum amount of £1,500,000) The standstill period for the Bondholders and the Unguaranteed Hedging Counterparties shall terminate where (i) a relevant majority of the Banks, the Noteholders and the Guaranteed Hedging Counterparties determine that WFS shall not fund such costs, or (ii) the SEA is terminated

Directors' report for the year ended 31 December 2009 (continued)

Going concern

As detailed above, on 25 November 2009, the Company's ultimate parent company, Cattles, announced that it had agreed a Standstill and Equalisation Agreement (SEA) with its key financial creditors, and that this should improve the likelihood of Cattles achieving its restructuring objectives, namely:

- to stabilise the financial position of Cattles and its subsidiaries, and
- against this background, to continue discussions with Cattles' key financial creditors with a view to agreeing a consensual restructuring of the Cattles group

The Company, together with other members of the Group, has issued guarantees to its Banks and Noteholders creditors Cattles, the Company and other members of the Cattles group do not anticipate that the key financial creditors will demand repayment from Cattles, the Company or other members of the Cattles group because the key financial creditors have agreed in the SEA not to do so while the agreement continues

The Company is party to an unsecured multilateral bank guarantee together with other members of the Cattles group The Company does not currently anticipate that the bank guarantee will be called upon because Cattles is engaged in discussions with its key financial creditors and others in order to progress proposals for a consensual restructuring of the Cattles group These discussions are progressing satisfactorily However, a material uncertainty exists around the outcome of these discussions

Cattles and other members of the Cattles group are engaged in discussions with their key financial creditors and others in order to progress proposals for a consensual restructuring of the Group While these discussions are progressing, a material uncertainty exists as to their outcome The complexity and number of issues on which it is necessary to reach agreement, the interests which must be taken into account in doing so and the number of stakeholders with whom those agreements are necessary make achieving a consensual restructuring uncertain However, the Directors presently believe that a reasonable prospect of restructuring so as to avoid insolvent liquidation exists The Directors' belief is primarily based on the level of support that continues to be provided by the financial creditors of the Group and the progress being made with them and others in furtherance of the achievement of a consensual restructuring However, as these discussions are ongoing there is material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern

The Company owes an inter-company liability to Cattles of £5 0 million However, Cattles is also party to the standstill contained within the SEA and Cattles has agreed not to demand repayment of the inter-company liability while the SEA continues Therefore the position is as described for the guarantee beneficiaries above in that the Company does not currently anticipate that the inter-company liability will be demanded

After making enquiries regarding the circumstances outlined above, the Directors have concluded that there is a reasonable expectation that the Company can continue to pay its operational debts as they fall due for the foreseeable future (taking into account the expectations of the Company in relation to the guarantees and the inter-company liability, as well as the ongoing discussions with key financial creditors, as referred to above) Accordingly, they continue to adopt the going concern basis in preparing the financial statements The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern

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Directors' report for the year ended 31 December 2009 (continued)

Directors
The Directors of the Company who held office during the year and up to the date of signing the financial statements were

D M Berry
Dr R W Lucas
E Kendray
M C Fairey (appointed 6 May 2010)
J R Drummond Smith (appointed 21 April 2009)
R D East (appointed 3 July 2009)
G P Daly (resigned 4 June 2010)
D J Postings (resigned 30 June 2009)
M W G Collins (removed 3 July 2009)
J J Corr (removed 3 July 2009)

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, International Accounting Standard 1 requires that Directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 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

Directors' indemnities
Directors serving as Directors of the Company's ultimate parent, Cattles, are indemnified by the provisions made by Cattles

Directors' report for the year ended 31 December 2009 (continued)

Supplier payment policy and practice
It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers when a binding purchase contract is entered into, provided that all trading terms and conditions have been complied with The trade creditor days figure has not been stated as the measure is not considered to be appropriate to the business

Financial risk management
Information about the use of financial instruments by the Company and its financial risk management policies is provided in notes 12 and 13 to the financial statements

Auditor
Each of the persons who is a Director at the date of approval of this Annual 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/she ought to have taken as a Director in order to make himself/herself aware of any relevant 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 s418 of the Companies Act 2006

The Company has passed an elective resolution to dispense with the obligation to reappoint an auditor annually

By Order of the Board

RCW Todd

R C W Todd
Company Secretary
29 June 2010

Registered number 1108021

Independent Auditor's report to the members of C L Finance Limited

We have audited the financial statements of C L Finance Limited for the year ended 31 December 2009 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, the Statement of Accounting Policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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
As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/UKNP

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter - Going concern
In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in the Statement of accounting policies on page 14 concerning the Company's ability to continue as a going concern

As explained in the Statement of accounting policies on page 14 the Company is reliant on the continuing support of its key financial creditors and others to achieve a consensual restructuring of the Cattles group This condition, along with other matters disclosed in the Statement of accounting policies on page 14 indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent Auditor's report to the members of C L Finance Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Andrew Wood
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants
Leeds, United Kingdom

29 June 2010

C L Finance Limited

Income statement for the year ended 31 December 2009

	Notes	2009 £	2008 £
Interest income	1	**16,395,737**	14,456,716
Interest expense	2	**(9,481,671)**	(9,905,826)
Net interest income		**6,914,066**	4,550,890
Other operating expenses	3	**(11,774,747)**	(12,067,183)
Loss before taxation		**(4,860,681)**	(7,516,293)
Taxation	4	**1,360,991**	2,116,310
Loss for the year attributable to equity holders of the Company		**(3,499,690)**	(5,399,983)

Statement of comprehensive income for the year ended 31 December 2009

There were no items of other comprehensive income in either of the above years and therefore total comprehensive income for the year attributable to the equity holders of the Company amounted to a loss of £3,499,690 (2008 loss of £5,399,983)

C L Finance Limited

Balance sheet as at 31 December 2009

	Notes	2009 £	2008 £
ASSETS			
Non-current assets			
Loans and receivables	7	**98,056,564**	103,402,153
Deferred tax assets	8	**1,902,751**	1,443,063
		99,959,315	104,845,216
Current assets			
Loans and receivables	7	**47,182,833**	52,198,465
Current tax assets		**5,350,912**	-
		52,533,745	52,198,465
Total assets		**152,493,060**	157,043,681
LIABILITIES			
Current liabilities			
Borrowings	9	**17,248,400**	156,040,537
Financial instruments	12	**3,400,000**	1,640,000
Current tax liabilities		**-**	54,405
		20,648,400	157,734,942
Non-current liabilities			
Borrowings	9	**136,035,611**	-
		136,035,611	-
Total liabilities		**156,684,011**	157,734,942
Net liabilities		**(4,190,951)**	(691,261)
Shareholders' equity			
Share capital	10	**1,000**	1,000
Retained earnings		**(4,191,951)**	(692,261)
Total equity		**(4,190,951)**	(691,261)

The financial statements were approved by the Board of Directors on 29 June 2010 and were signed on its behalf by

J R Drummond Smith
Director

Registered number 1108021

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Statement of changes in equity for the year ended 31 December 2009

	Share capital	Retained earnings	Total equity
	£	£	£
At 1 January 2008	1,000	6,807,722	6,808,722
Total comprehensive income for the year	-	(5,399,983)	(5,399,983)
Ordinary dividend – interim (£2,100 per share)	-	(2,100,000)	(2,100,000)
At 1 January 2009	1,000	(692,261)	(691,261)
Total comprehensive income for the year	-	(3,499,690)	(3,499,690)
At 31 December 2009	**1,000**	**(4,191,951)**	**(4,190,951)**

Cash flow statement for the year ended 31 December 2009

	Notes	2009 £	2008 £
Cash flows from operating activities			
Cash inflow / (outflow) from operations	11	7,260,540	(28,520,969)
Tax paid		(4,504,014)	(1,331,542)
Net cash inflow / (outflow) from operating activities		2,756,526	(29,852,511)
Cash flows from financing activities			
(Repayment of) / issue of intra-group borrowings		(7,146,177)	22,192,561
Dividends paid		-	(3,800,000)
Net cash (outflow) / inflow from financing activities		(7,146,177)	18,392,561
Net decrease in cash and cash equivalents		(4,389,651)	(11,459,950)
Cash and cash equivalents at 1 January		(12,858,749)	(1,398,799)
Cash and cash equivalents at 31 December		(17,248,400)	(12,858,749)
For the purposes of the cash flow statement, cash and cash equivalents comprise:			
Bank overdrafts	9	(17,248,400)	(12,858,749)
		(17,248,400)	(12,858,749)

All loans and receivables acquired by the Company are paid for by the Company's fellow subsidiary undertaking, The Lewis Group Limited This results in a corresponding increase in the level of unsecured intra-group borrowings due to this group company Similarly, when loans and receivables are recovered by way of collecting cash on acquired debt portfolios, this cash is received by The Lewis Group Limited, with a corresponding decrease in the level of unsecured intra-group borrowings

C L Finance Limited

Statement of accounting policies

General information
C L Finance Limited (the Company) is a company domiciled in the UK

Statement of compliance
These financial statements have been prepared in accordance with EU endorsed IFRS These financial statements have also been prepared in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS

Basis of preparation
The Company is party to an unsecured multilateral bank guarantee together with other members of the Cattles group The Company does not currently anticipate that the bank guarantee will be called upon because Cattles is engaged in discussions with its key financial creditors and others in order to progress proposals for a consensual restructuring of the Cattles group These discussions are progressing satisfactorily However, a material uncertainty exists around the outcome of these discussions In addition, the Company owes an inter-company liability to Cattles of £5,000,000 (2008 £5,000,000) However, Cattles is also party to the standstill contained within the SEA and Cattles has agreed not to demand repayment of the inter-company liability while the SEA continues Therefore the position is as described for the guarantee beneficiaries above in that the Company does not currently anticipate that the inter-company liability will be demanded

After making enquiries regarding the circumstances outlined above, the Directors have concluded that there is a reasonable expectation that the Company can continue to pay its operational debts as they fall due for the foreseeable future (taking into account the expectations of the Company in relation to the bank guarantee and the inter-company liability, as well as the ongoing discussions with key financial creditors, as referred to above) Accordingly they continue to adopt the going concern basis in preparing the financial statements

The financial statements are prepared on the going concern basis under the historical cost convention, and are presented in Pounds Sterling, the Company's functional and presentational currency

The accounting policies set out below have been applied consistently to all periods presented in these financial statements

Adoption of new and revised Standards
In the current year, the following new and revised Standards and interpretations have been adopted and have affected the amounts reported in these financial statements

Standards affecting presentation and disclosure
IAS 1 (revised 2007) has introduced a number of changes in the format and content of the financial statements In addition, the revised Standard requires presentation of a third balance sheet where the entity applies certain changes in accounting policies retrospectively As the effect of the adoption of Standards in the year has been presentational only, the opening comparative balance sheet has not been presented as the information is unchanged from that presented previously

IFRS 7 (amendments) has expanded the disclosures required in respect of fair value measurements and liquidity risk The Company has elected not to provide comparative information for these extended disclosures in the current year in accordance with the transitional reliefs offered in these amendments

Standards not affecting the reported results nor the financial position
The following new and revised Standards and Interpretations have been adopted in the current year Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements

IAS 39 (amendments)	Financial Instruments Disclosures
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers

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Statement of accounting policies (continued)

At the date of authonsation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

IFRS 3 (revised)	Business Combinations
IFRS 9	Financial Instruments – Classification and Measurement
IFRIC 17	Distributions of Non-cash assets to Owners
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The Directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Company

Critical estimates
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods

The Company's only critical estimates relate to its impairment / revaluation assessment of its loans and receivables portfolio The estimates relate to future cashflow projections and the time period to which they refer, which are monitored throughout the year by the Directors The impairment / revaluation calculation method is detailed in financial assets below

Financial assets
Management determines the classification of the Company's financial assets at initial recognition into one of the following categories loans and receivables, held-to-maturity financial assets, available-for-sale financial assets and financial assets at fair value through profit or loss, and re-evaluates this designation at each reporting date

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise when the Company acquires portfolios of consumer debt with no intention of trading the receivables

The Company has not held any held-to-maturity, available-for-sale financial assets or financial assets at fair value through profit or loss at any point during the year

Loans and receivables are recognised at the date of acquisition in respect of purchased debt These assets are initially recognised at fair value plus direct and incremental transaction costs, and subsequently are carried at amortised cost using the effective interest method At each reporting date the carrying value of each purchased debt portfolio of loans and receivables is assessed for impairment / revaluation To determine the level of impairment / revaluation required, the present value of the future cash flows estimated to be remaining on each portfolio is calculated This calculation takes account of actual collection experience and uses the portfolio's original effective interest rate The carrying value of each debt portfolio is then revalued to the recalculated present value with the resulting impairment / revaluation recognised within the interest income line in the income statement

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all the risks and rewards of ownership

Statement of accounting policies (continued)

Revenue recognition
Interest income from purchased debt portfolios is recognised in the income statement using the effective interest method The effective interest method is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows from the purchased debt portfolios through their expected life to their net carrying amount The EIR calculation also includes direct and incremental transaction costs, being initial court fees

Gains or losses arising from the impairment / revaluation review of purchased debt portfolios, loans and receivables are recognised within interest income

Impairment
The carrying amounts of the Company's assets, other than loans and receivables and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated

The recoverable amount of the Group's receivables is calculated as the present value of expected future cash flows, discounted at the original EIR inherent in the asset Receivables with a short duration are not discounted

The recoverable amount of other assets is the greater of their net selling price and value in use In assessing value in use, the expected future cash flows are discounted to their present value 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised in prior years

Tax
The charge for current tax is based on the taxable profit for the year as adjusted for items which are non-assessable or disallowed It is calculated using rates of tax that have been enacted or substantively enacted at the balance sheet date

Deferred tax is provided in full, using the liability method, on temporary timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents includes cash and bank balances and bank overdrafts Bank overdrafts are shown within borrowings from banks in the balance sheet

Borrowings from banks
Borrowings from banks comprise bank overdrafts and are initially recognised at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest rate method

Statement of accounting policies (continued)

Other borrowings
Other borrowings comprise intra-group borrowings Intra-group borrowings are recognised initially at fair value These borrowings are subsequently stated at amortised cost using the effective interest method

Financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis The effective interest method is a method of calculating the amortised cost of a financial liability and allocating interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments through the effective life of the financial liability, or, where appropriate a shorter period

C L Finance Limited

Notes to the financial statements for the year ended 31 December 2009

1 Interest income

	2009 £	2008 £
Interest income	**31,799,488**	28,528,505
Loss on revaluation of loans and receivables	**(15,403,751)**	(14,071,789)
	16,395,737	14,456,716

2 Interest expense

	2009 £	2008 £
Inter-company finance charge	**7,699,004**	8,265,826
Fair value movement on derivative instruments	**1,760,000**	1,640,000
Other interest paid	**22,667**	-
	9,481,671	9,905,826

3 Other operating expenses

	2009 £	2008 £
Collection commission	**9,336,145**	9,490,324
Legal and tracing costs	**1,871,097**	2,111,448
Enforcement costs	**567,505**	465,411
	11,774,747	12,067,183

C L Finance Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

4 Taxation

Analysis of credit in the year	2009 £	2008 £
Current tax		
UK corporation tax at 28% (2008 28 5%)	**(901,303)**	(673,247)
Total current tax credit	**(901,303)**	(673,247)
Deferred tax		
Origination and reversal of temporary differences	**(459,688)**	(1,468,691)
Change in tax rate	-	25,628
Total deferred tax credit (note 8)	**(459,688)**	(1,443,063)
Total tax credit in the income statement	**(1,360,991)**	(2,116,310)

The rate of tax for the year is 28% (2008 28 5%) The rate for 2008 represents a blended tax rate following the reduction in the rate of corporation tax from 30% to 28% which was effective from 1 April 2008 Deferred tax has been recognised at 28%

The tax credit for the year is the same as (2008 greater than) the tax on loss on ordinary activities at the standard rate for the reasons set out in the following reconciliation

	2009 £	2008 £
Loss on ordinary activities before tax	**(4,860,681)**	(7,516,293)
Tax on profit on ordinary activities at 28% (2008 28 5%)	**(1,360,991)**	(2,141,938)
Factors affecting charge for the year		
Change in tax rate	-	25,628
Total tax credit for the year	**(1,360,991)**	(2,116,310)

Notes to the financial statements for the year ended 31 December 2009 (continued)

5 Auditor's remuneration

The remuneration charged by the Auditor for audit and non-audit services for the year ended 31 December 2009 and 2008 was borne by a fellow subsidiary undertaking

6 Staff costs and Directors' emoluments

The Company has no employees, consequently the Company did not incur any staff costs during the year (2008 £nil)

The Directors receive no emoluments in respect of their services to the Company (2008 £nil)

7 Loans and receivables

	2009 £	2008 £
Purchased debt portfolios	**145,229,914**	155,591,135
Intra-group receivables	**9,483**	9,483
	145,239,397	155,600,618
Comprising:		
Non-current assets	**98,056,564**	103,402,153
Current assets	**47,182,833**	52,198,465
	145,239,397	155,600,618

Loans and receivables are shown net of impairment made in the year of £15,403,751 (2008 £14,071,789)

All intra-group receivables are due within one year and included in current assets

Maximum exposure to credit risk
The maximum exposure to credit risk of the Company's purchased debt portfolios is £145 2 million (2008 £155 6 million) Following a further downward revaluation of portfolios in 2009 as the Directors maintained their cautious view of the outlook of the UK economy and housing market in particular, these portfolios are now performing in line with the Company's expectations, but are in default relative to the original contractual terms between the debtor and the third-party from whom the Company acquired the debt

The Company's policies and procedures in place to manage its exposure to credit risk are explained in note 13

C L Finance Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

8 Deferred tax assets

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008 28%)

Deferred tax assets have been recognised in respect of temporary timing differences giving rise to deferred tax assets where it is probable that these assets will be recovered All of the deferred tax liability is available for offset against deferred tax assets and hence the deferred tax asset at each balance sheet date is shown net

The movements in the deferred tax account are shown below

	Losses £	Total £
At 1 January 2008	-	-
Recognised in income	1,443,063	1,443,063
At 1 January 2009	1,443,063	1,443,063
Recognised in income	459,688	459,688
At 31 December 2009	**1,902,751**	**1,902,751**

All of the Company's deferred tax balance at 31 December 2009 is expected to be realised in more than one year on the basis of forecast future profits

9 Borrowings

Financial liabilities measured at amortised cost	2009 £	2008 £
Current		
Bank overdrafts	**17,248,400**	12,858,749
Intra-group borrowings	-	143,181,788
	17,248,400	156,040,537
Non Current		
Intra-group borrowings	**136,035,611**	-
	153,284,011	156,040,537

The bank overdraft is repayable on demand As detailed in the Directors' Report, the Company and certain other members of the Cattles group entered into the SEA, which was signed on the 25 November 2009 and became effective on 17 December 2009 As a result all intra-group borrowings at the 31 December 2009 are regarded as non-current following the signing of the SEA The Lewis Group Limited and Cattles have agreed not to demand repayment of the inter-company liability while the SEA continues

Notes to the financial statements for the year ended 31 December 2009 (continued)

10 Share capital

	Authorised, allotted, called up and fully paid			
	2009		2008	
	Number	£	Number	£
Ordinary shares of £1 each	**1,000**	**1,000**	1,000	1,000

The rights attached to the ordinary shares are as follows

Voting
On a show of hands every ordinary shareholder who is present in person at a general meeting of the Company and every proxy appointed by an ordinary shareholder and present at a general meeting of the Company shall have one vote and on a poll every ordinary shareholder who is present in person or by proxy shall have one vote for every share held

Dividends
Ordinary shareholders shall be entitled to receive such dividend as the Company by ordinary resolution may from time to time declare as a final dividend (such dividend not to exceed the amount recommended by the board) or as the board may from time to time declare as an interim dividend

Return of capital on a winding-up
Ordinary shareholders are entitled to participate in any surplus assets on the winding-up of the Company in proportion to their shareholdings

11 Reconciliation of loss before taxation to cash inflow / (outflow) from operations

	2009	2008
	£	£
Loss before taxation	**(4,860,681)**	(7,516,293)
Adjustments for		
Decrease/(increase) in loans and receivables	**10,361,221**	(22,644,676)
Increase in financial instruments classified as liabilities	**1,760,000**	1,640,000
Cash inflow/(outflow) from operations	**7,260,540**	(28,520,969)

C L Finance Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

12 Financial instruments

The Company has identified a derivative within a contract, the effect of which is detailed in note 2 The Company holds no other derivatives The fair value of this financial instrument is classified within level 2 of the IFRS 7 fair value hierarchy Derivatives are classified as fair value through the income statement under IAS 39

The net present value of the derivative has been calculated by estimating the future projected cash flows of the expected future debt purchases, based on the performance of purchased portfolios The cash flows have been discounted using a pre-tax discount rate of 5 90% (2008 5 90%)

Fair values of non-derivative financial instruments
The carrying value of the Company's financial instruments (being loans and receivables, cash and cash equivalents, bank overdrafts, and intra-group borrowings and receivables) approximate to their fair value

13 Financial risk management

Credit risk
The Lewis Group, which includes the Company, has an established and experienced risk team, responsible for performing the detailed analytical work needed to segment and value portfolios The pricing models used have evolved over time and are capable of performing multi-dimensional analysis of very large portfolios

The risk team works under the supervision of the board and submits draft bids to the pricing committee, comprising the Directors and the head of risk, for consideration and approval. Any bids, which exceed the committee's mandate, are subject to approval by the Cattles group board

After the operations team have established collection targets at an individual collector level, the risk team is also responsible for monitoring collections performance post-acquisition A suite of reports has been developed to assist in this monitoring process The performance of each portfolio is monitored and reported on a monthly basis with major portfolios being subject to additional formal review meetings on a quarterly basis Data from actual collections is fed back into the valuation models as appropriate

Interest rate risk
Unsecured intra-group borrowings are subject to an interest charge based on the average cost of borrowing borne by the Company's ultimate parent undertaking, Cattles Cattles' facilities are a mixture of fixed and floating rate funding Floating rate borrowings are exposed to the risk of rising interest rates, which, throughout 2008, Cattles managed by using appropriate hedging instruments, primarily interest rate swaps As a result, Cattles, and consequently the Company, had a relatively low risk to changes in market interest rates

During 2009, all of the Cattles group's interest rate risk financial hedging instruments were closed out at their market values and converted into on-demand loans with the bank counterparties As a result, Cattles, and the Company, at the balance sheet date are exposed to the risks relating to changes in interest rates

The Company is exposed to interest rate risk arising from its intra-group borrowings, for which interest is charged based on prevailing market rates A 1% increase/decrease in interest rates would increase/decrease interest expense by £1 4 million

13 Financial risk management (continued)

Liquidity risk
Liquidity risk is the risk to earnings or capital arising from an inability to meet obligations when they become due, without incurring unexpected or unacceptable losses It includes the risk of inability to manage unplanned decreases or changes in funding sources and also any failure to recognise and address changes in market conditions that could affect the Company's ability to liquidate assets quickly, with minimum value loss, if necessary

The Company's borrowings include intra-group borrowings, from Cattles, the Company's ultimate parent company Whilst Cattles has no current intention of demanding repayment of these borrowings, the liquidity risk considerations, which are relevant to the Cattles group, are also relevant to the Company and are set out below The Company also has bank overdrafts which are repayable on demand

On 25 November 2009, the Company's ultimate parent company, Cattles, announced that it had agreed a SEA with its key financial creditors, and that this should improve the likelihood of Cattles achieving its restructuring objectives, namely

- to stabilise the financial position of Cattles and its subsidiaries, and
- against this background, to continue discussions with Cattles' key financial creditors with a view to agreeing a consensual restructuring of the Cattles group

Under this agreement, which became effective on 17 December 2009, cash balances in excess of £10 million held by the Company and its sister company The Lewis Group Limited (in aggregate), must be transferred to other group companies This is currently being accounted for as a reduction in the intra-group borrowings due to Cattles

Capital risk
The Company's objective in managing capital is to maintain a strong capital base to support current operations and planned growth and to provide an appropriate level of dividend payout to shareholders

Concentration risk
The risk from the concentration of debtor credit risk is limited due to the relatively low value of each of the individual debtor's debts and to the Company's increasingly broadening client base from whom portfolios are purchased

Collateral
The Company does not hold any collateral in respect of its receivables

14 Contingent liabilities

The Company, together with other companies in the Cattles group, has entered into an unsecured multilateral bank guarantee There are no fair values attached to the guarantee

The Company is an obligor of the Cattles Standstill and Equalisation Agreement (SEA) with the Cattles group key financial creditors The Company has a contingent liability, as the Company may be required, along with other participating companies, to contribute to any settlement to the lenders of certain syndicated and bilateral bank facilities to Cattles, certain guaranteed hedging counterparties, certain unguaranteed hedging counterparties and holders of certain private placement notes and bonds issued by Cattles

15 Related party transactions

Related party transactions
The Company entered into a number of related party transactions during the year as outlined below

- The Company received borrowing facilities from a fellow subsidiary undertaking, for which a financing charge was levied each month The charge was calculated on a cost incurred basis
- The Company employed the debt collection services of a fellow subsidiary undertaking for which a fee was levied This fee was derived on an arm's length basis

	2009 £	2008 £
Borrowings of funds	**(7,146,177)**	22,856,254
Inter-company finance charge (note 2)	**7,699,004**	8,265,826
Debt collection fees	**8,701,535**	9,257,577
Promissory notes	**-**	2,100,000

Receivables due from and payables to the ultimate and immediate parent companies and fellow subsidiary undertakings are disclosed in notes 7 and 9 respectively

There is no key management compensation since the Company has no employees and the Directors do not receive any emoluments in respect of their services to this company

Ultimate parent undertaking
The ultimate parent undertaking and controlling party of this company is Cattles, registered in England and Wales

The largest group in which the results of the Company are consolidated is that headed by Cattles The consolidated financial statements of this group will be available to the public and may be obtained from the Registered Office, Kingston House, Centre 27 Business Park, Woodhead Road, Birstall, Batley, West Yorkshire, WF17 9TD

The smallest group in which the results of the Company will be consolidated is that headed by Lewis Group (Holdings) Limited The consolidated financial statements of this group will be available to the public and may be obtained from the Registered Office, Rowan House, 70 Buchanan Street, Glasgow, G1 3JF