

FAIRPOINT.

Fairpoint Group plc
Annual Report & Accounts 2008
Year ended 31 December 2008



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“Every confidence in our ability to perform over the coming year”

Overview

In my first reporting period as Chairman of your Board, I am pleased to report that Fairpoint has delivered a much improved set of results and has taken a number of significant steps in creating a growing and sustainable business.

The progress made, particularly in the second half of 2008 is marked in a number of respects and credit must go to the new management team who have been instrumental in improving the fortunes of this business. In particular, profit generation accelerated rapidly in the second half of the year and the business was strongly cash generative, having been heavily cash consumptive in the first half, leading to a significant reduction in cash borrowings.

The business is now more diversified following the Board's decision to bring Debt Management in house and the early signs from a broader cross sell programme are encouraging.

With reduced costs following our restructure of operations, our profit before tax from continuing activities has improved from a loss of £0.5 million to a profit of £1.1 million. Basic earnings per share stand at 1.51p compared to 0.49p for the prior period.

Operational Progress

The business entered 2008 faced with a new IVA fee protocol which effectively reduced fee levels by 19%, as well as facing a head wind in its mortgage broking business due to credit availability. It initially was slow to adapt to these market changes, however, following the creation of the new management team in May under the leadership of Chris Moat in May it quickly set about reviewing the business operating model.

The second half of the year has seen effective operational execution across a number of fronts. Firstly the Clearstart business was integrated and the Nottingham facility disposed of. Our marketing approach and in particular our client acquisition activity was overhauled leading to significantly reduced costs. Weaknesses in our operational processes

were addressed and conversion levels are now reaching historical highs. This combination of reduced costs, more selective client acquisition and enhanced operational efficiency have improved profitability in the core IVA business.

The launch of our in-house debt management solution took place in July 2008, and is now successfully established as a new business line. The first phase of this product launch has focused on improving operational effectiveness by leveraging existing marketing channels to good effect. This now allows us to offer debt solutions to a greater proportion of clients. We will continue to build our position as a leading provider of debt advice and solutions and to extend our range of products and services.

Your Board

I would like to welcome Christopher Moat who joined the board as Chief Executive Officer in May 2008, Andrew Heath who joined as Finance Director in September 2008 and John Allkins who joined as Non Executive Director, also in September 2008. Finally I joined the Board in June and became Chairman in September

Christopher, who was previously with RBS Insurance as Managing Director of UKI Partnerships and Direct Line, brings a wealth of experience in consumer financial services. Andrew has been with the Group since April 2007 having joined from Capital One Bank. John is also a Non-Executive Director of Renold plc, Molins plc and Intec Telecoms Systems and was previously Group Finance Director of My Travel Group plc. Alongside his financial skills, John brings strong risk management experience which will be of benefit in the delivery of the Group's current strategy.

I would like to thank Andrew Redmond who stepped down as an Executive in May 2008 and Michael Blackburn who retired from the Board in September 2008 for their contribution and leadership over many years.



Outlook

The momentum generated in the second half of 2008 provides a robust platform upon which to build. As we enter 2009 we can see improvements to our business performance and can expect this to continue. Our operational capability is delivering good efficiencies and market conditions lead us to expect growing demand for our products in the coming year. Managing issues around long term unemployment is important to the business but our progress in operational improvement leaves us confident in our ability to deal with this challenge.

We continue to pursue our strategy of extended product reach alongside a strong focus on cash management and we aim to reduce our existing borrowing levels further in the current year. As a consequence the Board has decided to recommend that no dividend be paid but it will reconsider future dividend policy in the light of results from the business going forward.

We have a strong pipeline of new business in the first two months of the new financial year. From this sound base, I have every confidence in our ability to perform over the coming year under the strong leadership of Chris Moat and his executive team.

Matthew R. Peacock
Chairman

“Return to profitability with strengthened cash generation”

Overview

2008 finished strongly and as reported in our January 2009 trading update our full year results were in line with expectations. I was particularly encouraged that these results were delivered as a consequence of operational improvement across the business and these improvements have allowed us to end the year with;

- A significant reduction in net bank borrowings (down from £10.9million at 30th June 2008 to £8.6million at 31 December 2008)
- A strong improvement in underlying profitability
- A more diversified product range following the introduction of Debt Management

These results were achieved following a good response by the new management team to the changes in our operating environment.

Market Review

2008 marked the first full financial period in which the new IVA fee charging regime was introduced leading to a 19% fall in the average revenue per new IVA case during the year.

This unprecedented fall created significant strain for all organisations with a business bias towards IVAs.

The year started poorly as Fairpoint felt the full impact of these market changes in the first half of 2008, which was characterised by:

- Weak operational performance
- Protracted integration of Clearstart
- High levels of cash consumption
- Lack of an in house Debt Management capability

The combination of the above factors mean that the Group delivered a first half profit before tax adjusted for exceptional restructuring costs and brand amortisation of £0.7million. In addition the Group incurred exceptional restructuring costs of £1.3million as it put in place its operational recovery programme. Net borrowings rose from £6.9million at 31st December 2007 to £10.9million at 30th June 2008.


In the second half of the year a new management team was assembled which set about addressing these problem areas. Targets were specifically set around:

- Implementation of an operational improvement programme
- Cash generation
- Realisation of cost savings by completing the Clearstart integration
- Launch of an in-house Debt Management product

From a financial perspective the goal was to deliver a full year profit before tax adjusted for exceptional restructuring costs and brand amortisation of £2.9million and bring cash borrowings down to £8.9million.

I am pleased to report that all of the key targets have been achieved, specifically:

- Our profit before exceptional restructuring, brand amortisation and tax reached £2.9 million compared to a loss of £0.3 million in the 8 months to 31 December 2007. More efficient marketing spend, increased conversion of leads and cost reductions led to gross margins rising from £6.7 million to £9.9 million
- Operational performance improvement was ahead of expectations as IVA conversion rates improved, the final quarter ahead by 36% compared to the first half.
- The ClearStart integration was completed contributing to a significant reduction in direct IVA costs and overheads. Total direct costs and overheads excluding depreciation and amortisation fell from £7.9million in the first half to £6.9million in the second.
- Profit before tax rose to £1.1 million compared to a loss of £0.5 million in the 8 months to 31 December 2007.
- 2,728 Debt Management plans were written in house giving us a book of live cases at year end totalling 3,566.
- Net borrowings at year end were lower than we had targeted at £8.6 million with £2.3 million of borrowings paid down in the second half of the year.



The improvement in IVA performance and the growing contribution from Debt Management compensated for lower Mortgage income as this section of the market suffered from lack of supply. Mortgage income fell 45% on an annualised basis to £1.3million. We have restructured our mortgage business to continue to operate at breakeven on these lower volumes.

The new protocol and fee charging levels have now been in place for over 12 months and during that period there has been no further creditor pressure on fee levels. Indeed our experience is that creditors are looking increasingly sympathetically at IVA proposals, in particular:

- Our approval rates of IVAs are improving
- We have a constructive dialogue with previously hostile creditors and are seeing IVA approvals now being granted
- Creditors with high dividend hurdle rates have recently reduced their rates for accredited IVA providers of which we are one

We have adapted our business model to successfully operate in this business with sustainable margins.

Customer management is a key area of operational focus for the business and remains under control. We continue to focus on the area of unemployment risk and to date have been successful in obtaining variations to IVA's whereby the plan stays in tact and payments are suspended for periods of unemployment lasting not more than 6 months. Operationally we have improved breakage levels in the first 6 months of an IVA.

Outlook

As we enter 2009 the business fundamentals are strong:

- Market conditions continue to support a growing need for consumer debt solutions and we would expect these conditions to persist for the foreseeable future.
- The business continues to be cash generative and as at end of February borrowings had fallen to below £7.8million.
- Operational performance has now stabilised at historically high conversion rates on the IVA business.
- The Debt Management business continues to make progress, although we are finding that clients who initially indicate a preference for a Debt Management plan, are subsequently showing a strong appetite for IVAs.

Our key areas of focus for 2009 will be:

- Growing Revenues - we expect to see a modest growth in total revenue, this will be reflected in a combination of growing customer numbers in IVA and debt management but with mortgage volumes falling significantly year on year. We are actively exploring further revenue streams which can compliment and enhance our existing customer proposition.
- Reducing our borrowings – our objective is to bring borrowing down with a view to ending the year with borrowings less than our annual adjusted PBT.
- Widening our range of financial services – we will continue to grow our debt management business and are actively exploring ancillary products suitable for our clients.
- Improving our ratio of costs to income - our operational improvement programme will continue to drive benefits across the business. This will come from the following core areas:
 - Marketing effectiveness, reducing the cost per IVA. This is achieved through a combination of growth in the Partnerships distribution channel and improving direct marketing capability
 - Improved conversion rates on core business.
 - Operational improvement initiatives geared around process improvement, reduction in customer hand offs and resulting in a further fall in supervisory costs

In summary, under its new management team the business has been very effective in the second half of the year and delivered robust financial performance. This provides us with a strong platform to meet increasing demands for our services and we look forward to the future with confidence.

Christopher Moat
Chief Executive Officer

FINANCE DIRECTOR'S **REVIEW**

Overview

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements of the parent company, Fairpoint Group plc, have been prepared under UK Generally Accepted Accounting Principles (UK GAAP) and are included on pages 74 to 79.

Continuing Operations

Revenue

The revenue from continuing operations was £26.5 million (8 months to 31 December 2007: £19.9 million). Revenues from IVA operations were negatively impacted during the period following the introduction of new fee arrangements in the final quarter of 2007. Debt Management revenues rose following the decision of the group to cease referring such products to third parties and open its own in-house operation in July 2008. Revenue from financial services fell during the year as the market for sub prime mortgage broking suffered from an acute fall in the number of providers.

IVA Services

Our IVA division wrote 7,300 new cases during the year (8 months to 31 December 2007: 5,327 cases) representing an estimated 20% market share. Revenue per new case fell from £2,796 to £2,278 as the new fee regime came into full effect but average approval rates at meeting of creditors rose from 84% to 89% as creditors ceased to directly oppose IVA's. The overall IVA market shrank by 7% during the year despite increased numbers of bankruptcies and consumers entering Debt Management plans, although recent Insolvency Service data has shown 6% growth in the final quarter of 2008.

Debt Management

In July 2008 following a successful trial period we entered the Debt Management market. The move allows us to meet consumer's needs directly whilst retaining an ongoing relationship. During the year we provided 6,456 consumers with new Debt Management Plans (2007: 2,583). Following the development of our own capability 4,093 of these were provided in-house and at the year end we had 3,566 ongoing cases contributing to plans. Overall revenue grew from £0.3 million to £2.3 million.

Financial Services

The year started well for our Financial Services division but from May onwards it became clear that the supply of finance for sub-prime mortgages was rapidly shrinking despite a strong volume of customers requesting the products. By the year end no significant sub-prime mortgage providers were active in the market and revenues had declined significantly. We have reduced our costs to reflect these volumes and retain a mortgage broking capacity which operates at break even.

During the second half of the year we have explored a number of trials for further value added services we can provide our customers, and these are beginning to generate revenues, although contribution to profits is still quite low.

In particular the introduction of our Card One Banking prepaid card and account has proven popular with clients helping them to mitigate accounts from existing providers quickly and in turn improving the time taken to complete an IVA where appropriate. By the end of December, 530 clients had taken up the new product in the trial.

Reclassification of comparative numbers

During the year the Group reconsidered the presentation of line items within the Income Statement to better reflect its activities. A number of items have been changed specifically the recognition of Finance Income from the unwinding of discounts on IVA Revenues bad debt expense and cost of sales. As a result several items in the prior year comparatives have been reclassified with no impact on profit. Details are provided in note 2 of the financial statements.

Adjusted Profit Before Tax

Profit before tax adjusted for brand amortisation of £0.4 million and exceptional items of £1.4 million for the year was £2.9 million (8 months to 31 December 2007: loss of £0.3 million). Gross margin improved to 37% (8 months to 31 December 2007: 32%) based on lower marketing expenditure and improved conversion in the second half of the year

despite lower IVA fees and mortgage volumes. Finance income and bad debts rose in the period principally as a result of the maturing of the IVA portfolio and an increase to the revenue discount rate from 15% to 20% to reflect higher risk premiums in the current economic environment.

Exceptional Restructuring Expense

During the year the Group closed its Nottingham operations and reorganised its management structure incurring one off costs of £1.4 million. The Nottingham office was successfully disposed of in the year and no recurring liabilities remain at the year end. The restructuring has allowed the Group to deliver significantly lower costs per product sold and monthly overheads in the last six months of the year.

Financial Costs

Interest costs rose to £0.8 million (8 months to 31 December 2007: £0.4 million) reflecting higher levels of borrowing incurred by the Group and higher average LIBOR borrowing rates in the period. Lower LIBOR rates and falling borrowings at year end have resulted in a lower run rate of finance costs. The Group benefits from a low margin at 150bps over LIBOR and at 31 December 2008 had entered swap arrangements over £5 million of its borrowings providing protection against interest rate volatility.

Discontinued Operations

The Groups Australian business was divested of in January 2008. The Group incurred losses in the year of £0.1 million (8 months to 31 December 2007: £1.3 million).

Taxation

The Group's expense for taxation was £0.5 million representing an effective tax rate of 43% (8 months to 31 December 2007: £0.7 million credit). Further detail is provided in note 7 to the financial statements.

Profit for the year

The Group achieved a retained profit for the year of £0.5 million (8 months to 31 December 2007: loss of £1.1 million).

Dividends

Dividends of £1.7 million were paid in the year relating to the previous financial year (8 months to 31 December 2007: £1.1 million). The Board is not proposing a dividend in respect of the current financial year.

Balance Sheet

Net assets at 31 December 2008 were £32.1 million (2007: £33.2 million).

Cashflow and Borrowings

Operating cash inflow from continuing operations was £1.8 million (8 months to 31 December 2007 £1.6 million outflow).

Payment for purchase of non-current assets was £1.0 million (2007: £1.0 million).

Net borrowings at 31 December excluding finance lease liabilities were £8.6 million (2007: £6.9 million). The Group signed a new credit facility during the year with The Royal Bank of Scotland plc for £16 million. The new facility is the Group's principal borrowing facility and extends to 31 December 2012 with £8 million repayable at 31 December 2011 and £8 million repayable at 31 December 2012.

Our KPI's	Year to	8 Months to
	31 December 2008	31 December 2007
Lead volumes	124,300	81,600
Total solutions sold	14,346	8,427
IVA solutions sold	7,300	5,327
Average fee per new IVA	£2,278	£2,796
Average fee per new non-IVA solution	£426	£594
Average number of ongoing cases	17,773	12,753
Revenue per ongoing case per month	£34	£32
Marketing as a % of revenue	28%	36%
Other cost of sales as a % of revenue	35%	32%
Monthly Overheads	£476,000	£484,000

Andrew Heath
Group Finance Director

OFFICERS AND PROFESSIONAL ADVISORS

Directors	Matthew Peacock	Andrew Heath
	Andrew Redmond	John Allkins
	Chris Moat	Charles Mindenhall
	Derek Oakley	Simon Gilbert

BOARD OF DIRECTORS

Chairman

Matthew Peacock (47) •

Matthew Roy Peacock is the Chairman of Renold plc, a non-executive director of STV Group plc and Cosalt plc. He is also the founding partner of Hanover Investors which is a significant shareholder of Fairpoint. Matthew was appointed to the board on 10 June 2008 and as Chairman on 5 September 2008. He is also Chairman of Singer Capital Markets a London Stock broking and Corporate Advisory firm.

Matthew has led investments for over eighteen years in, amongst other sectors, manufacturing, outsourced business services, chemicals, financial services, textiles and logistics. Prior to this, he ran the International M&A team in London at BZW, having started his career at Credit Suisse First Boston, in New York. He holds a Master degree in Law from Cambridge University.

Non-Executive Deputy Chairman

Andrew Redmond, FCA JIEB (46) •

Qualified as an Accountant at PricewaterhouseCoopers and joined Lathams, Chartered Accountants, as a partner in 1994. Following the acquisition of Lathams by Tenon Group plc in 2001, he was appointed Regional Chairman for the northern region. Appointed as CEO in January 2003 of Fairpoint Group plc he took on the position as Non-Executive Deputy Chairman on 6 May 2008.

Chief Executive Officer

Chris Moat (40) •

Chris Moat brings a wealth of experience from highly successful retail-focused, marketing led financial services businesses. Chris has held a number of senior general management

positions and has experience across a wide range of leading financial services companies. Before joining Fairpoint, Chris held a variety of general management roles for RBS Insurance. These included Managing Director of Direct Line, Managing Director of Motoring and Directorships of Churchill Insurance and Green Flag. Prior to that, Chris was Managing Director of UKI Partnerships division, where he helped grow key partners such as Tesco Insurance and Virgin Money's insurance offering. Chris's previous roles also include Director of Lending at GUS Home Shopping and Head of Consumer Direct at GE Capital Bank. Chris Moat was appointed CEO on 6 May 2008.

Insolvency Director

Derek Oakley, FCA, JIEB (43)

Qualified as a Chartered Accountant at Arthur Andersen & Co and later joined PricewaterhouseCoopers, where he qualified as an Insolvency Practitioner. Joined Lathams in 1994 and became a partner in 1995. Following the acquisition of Lathams by Tenon Group plc in 2001, he became head of Tenon's North West insolvency practice. Appointed Insolvency Director in June 2005.

Finance Director & Company Secretary

Andrew Heath, FCA (41)

Qualified as a Chartered Accountant with KPMG in 1991 and joined Clear Start UK Limited as Finance Director in April 2007. His previous roles include Vice President of Corporate Accounting at Capital One and senior positions at Vision Express, Nedbank and American Express South Africa. Appointed Company Secretary on 31 December 2007 and Finance Director in September 2008.

Senior Independent Non Executive Director

John Allkins, FCMA (59) * O •

John Allkins was appointed to the Board in September 2008 as Non Executive Director. John was previously Group Finance Director for MyTravel Group plc and is also a Non Executive Director of Renold plc, Intec Telecom Systems plc and Molins plc. He previously held a number of senior finance positions within BT, most recently as Director of Financial Controls for its Worldwide Networks Division. John is a fellow of the Chartered Institute of Management Accountants.

Non-executive Director

Charles Mindenhall, (37) * O •

Co-founder and Chairman of Agilisys, one of the UK's leading IT and Business Process services companies. He is also Managing Partner of Blenheim Chalcot, an investment management company that has created a portfolio of businesses in the financial services, tourism and media industries. Charles co-founded Clear Start UK Limited in 2005. Appointed to the board as a Non-Executive Director in August 2007.

Non-executive Director

Simon Gilbert, (38) * O •

An Investment Principal at Hanover Investors. A Mergers and Acquisition professional, he was previously a General Manager at Shell International and has a combination of transaction and operational experience in Consumer, Retail and Marketing businesses. Appointed to the Board as a Non-Executive Director in September 2007.

* Member of audit committee

O Member of remuneration committee

• Member of nomination committee

Auditors:

BDO Stoy Hayward LLP
Commercial Buildings
11-15 Cross Street
Manchester
M2 1WE

Solicitors:

Eversheds
Eversheds House
70 Great Bridgewater Street
Manchester
M1 5ES

Nominated Advisor and Broker:

Oriel Securities Limited
125 Wood Street
London
EC2V 7AN

Bankers:

Royal Bank of Scotland
St Ann Street
Manchester
M1 5ES

Company number: 4425339

Registered Office:

Eversheds House
70 Great Bridgewater Street
Manchester
M1 5ES

Principal place of business:

Fairclough House
Church Street
Adlington
Lancashire
PR7 4EX

DIRECTORS' REPORT

The directors present their report and the financial statements of the Group for the eight months ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the period was the provision of financial advice and appropriate solutions to individuals experiencing personal debt problems.

RESULTS AND DIVIDENDS

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

The Group made a profit for the year of £549,000 (8 months to 31st December 2007: Loss of £1,107,000). During the year dividends of £1,698,000 were paid (8 months to 31st December 2007: £1,129,000).

No final dividend (8 months to 31st December 2007: 4p) is proposed for approval at the forthcoming AGM on 27th April 2009.

The directors are satisfied with the return to profitability of the group.

The requirement to prepare an enhanced review of the business has been incorporated within the Business Review on pages 5-7 of the Chief Executive Officer's review and is also covered in the Finance Director's Review (pages 8-10).

THE DIRECTORS AND THEIR INTERESTS IN SHARES OF THE PARENT COMPANY

The directors who served the company during the year together with their interests in the shares of the company were as follows:

	Ordinary Shares of £0.01 each	
	At 31 December 2008	At 31 December 2007
A Redmond	2,440,922	2,178,410
J M Blackburn (Resigned 5th September 2008)	-	26,034
C S Mindenhall	1,909,074	1,753,703
S Gilbert	-	-
D J Oakley	817,324	817,324
C Moat (Appointed 6th May 2008)	184,864	-
M R Peacock (Appointed 10th June 2008) ¹	9,547,635	-
A J Heath (Appointed 5th September 2008)	21,000	-
J S Allkins (Appointed 5th September 2008)	-	-

¹ M R Peacock has an indirect interest in 180,000 shares through Hanover Investors Management (Cayman) Limited and in 9,367,635 shares through funds advised by Hanover Investors Management LLP.

SUBSTANTIAL SHAREHOLDINGS

Other than the directors' interests shown above, on 31 December 2008, the company was notified that the following were interested in 3% or more of the issued share capital of company:

Name	Number of ordinary shares	% of issued share capital
Hanover Investors ¹	9,547,635	22.28%
Capital Group	3,736,951	8.72%
Goldman Sachs	3,588,249	8.37%
J Reynard	2,720,876	6.35%
P Latham	2,649,319	6.18%
K Yirell	1,753,703	4.09%
K Seeley	1,744,167	4.07%
Invesco Asset Management	1,495,942	3.49%

¹ 180,000 shares held by Hanover Investors Management (Cayman) Limited and 9,367,635 shares held by Hanover I Master Fund.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with 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 performance of the Group. This is achieved through informal discussions between management and other employees at a local level.

FINANCIAL INSTRUMENTS

Full details of the Group's financial instruments, including consideration of the main risks to the Group and the policies adopted by the Directors to minimise their effects, are in Note 19 to the Financial Statements.

CREDITORS' PAYMENT POLICY

In the absence of dispute, amounts due to trade and other suppliers are settled as expeditiously as possible, within their terms of payment. The creditor effect of the Group's payment policy is that its trade creditors at the financial year end represented 21 days purchases (December 2007: 36 days).

CHARITABLE DONATIONS

	31 December 2008	30 December 2007
	£	£
Charitable donations	-	1,000

AUDITORS

The auditors, BDO Stoy Hayward LLP, will be proposed for reappointment at the Annual General Meeting in accordance with section 385 of the Companies Act 1985.

DIRECTORS' RESPONSIBILITIES

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with UK Generally Accepted Accounting Practice.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information of which the Group's auditors are unaware and we have taken all the steps that we ought to have taken as directors in order to make ourselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Signed by order of the directors on 16 March 2009.

A J Heath

Company Secretary

REPORT ON **REMUNERATION**

Directors' Remuneration

The Board submits its Directors' remuneration report for the year ended 31 December 2008.

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to maintain the Group's position as a market leader and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary.

The Remuneration Committee has responsibility for setting the Group's general policy on remuneration and also specific packages for individual Directors. It carries out the policy on behalf of the Board. No Director has any involvement in setting their own remuneration.

The Remuneration Committee comprises J S Allkins, C S Mindenhall and S Gilbert. None of them have any personal financial interest in the matters to be decided, potential conflicts of interest arising from cross-directorship, nor any day-to-day involvement in running the business.

The Committee meets as required during the year. It takes into account the position of the Group relative to other companies and is aware of what these companies are paying, though comparisons are treated with caution to avoid an upward ratchet in remuneration. The Committee has access to professional advice within the Group and has the right to obtain its own independent professional advice from outside the Group.

Main Elements of Remuneration

The main elements of the Executive Directors' remuneration package are basic annual salary, bonuses, defined contribution pensions, health and car insurance and share option incentives.

Basic Annual Salary

Each Executive Director's basic salary is reviewed by the Committee. In deciding upon appropriate levels of remuneration, the Committee believes that the Group should offer median levels of base pay reflecting individual responsibilities compared to similar jobs in comparable companies.

Bonuses

The performance-related elements of remuneration form a significant proportion of total Executive Directors' potential remuneration. They are designed to align their interests with those of shareholders and to give Executive Directors keen incentives to perform at the highest levels. These are based on achieving profitability at least in line with market expectations.

Options

Options have been granted to Directors and employees. The granting of options ensures that the holders are incentivised to concentrate on growing shareholder value. The exercise of options for Directors and since January 2008 the exercise of all new options issued to employees are dependent upon performance criteria.

Summary of Directors' Remuneration

	Year to 31 December 2008	Year to 31 December 2008	Year to 31 December 2008	Year to 31 December 2008	Year to 31 December 2008	Year to 31 December 2008	8 Months to 31 December 2007	Current basic annual salary
	Basic Annual Salary £'000	Bonus £'000	Benefits £'000	Compensation for loss of office £'000	Pension £'000	Total £'000	Total £'000	Total £'000
Executive								
A Redmond ¹	137	-	7	210	40	394	346	-
P A Latham	-	-	-	-	-	-	350	-
D J Oakley	204	-	4	-	-	208	228	193
C Moat	156	-	1	-	24	181	-	235
A J Heath	43	-	6	-	-	49	-	140
	540	-	18	210	64	832	924	568
Non-executive								
M Peacock	29	-	-	-	-	29	-	63
J M Blackburn	19	-	-	-	-	19	37	-
A Redmond	5	-	-	-	-	5	-	8
J Allkins	10	-	-	-	-	10	-	32
C S Mindenhall	32	-	-	-	-	32	12	32
S Gilbert	32	-	-	-	-	32	11	32
Lord Hoyle	-	-	-	-	-	-	17	-
John Reynard	-	-	-	-	-	-	7	-
	127	-	-	-	-	127	84	167
Total	667	-	18	210	64	959	1,008	735

¹ A Redmond resigned as Chief Executive Officer on 1st May 2008 and moved to the role of Non-executive Deputy Chairman.

Non-Executive Directors

The remuneration of the Non-Executive Directors is determined by the Board.

Directors' Interests

The interests of the directors and their families in the ordinary shares of the Company are shown in the Directors' Report.

PRINCIPAL RISKS AND **UNCERTAINTIES**

Regulatory Change

Since our primary solution (IVA) is delivered under the regulation of the Insolvency Act, there is some level of exposure to any change to this, or associated, regulation.

As the largest commercial personal insolvency practice in the UK we have unrivalled relationships with the Insolvency Service, and we are actively involved in giving direction to the working parties as they arise. Derek Oakley is one of two insolvency practitioners elected to the IVA Working Committee.

We track, and contribute to, regulation such as the SIVA and the ERO. Currently there is no impending regulatory change that we have sight of that would jeopardise Fairpoint.

Customers Defaulting on Plans

Since fees on new IVA cases are based upon a percentage of cash realisations, our financial performance is now more sensitive to the rate of customers defaulting on their plans. We have budgeted for a level of defaults and arrears on our IVAs. There is a risk that, due to external factors, the rate of default is higher than planned. Key factors which may influence default rates include changes in unemployment levels and disposable incomes.

We have invested in, and continue to invest in our credit risk and credit control processes. Furthermore, our “bank” of existing supervisory cases is not as sensitive to this risk as the contracts were agreed on a fixed fee basis. We continue to work with creditors and their representatives to negotiate variations and revised payment plans on behalf of IVA customers to allow them to successfully manage financial disruptions and complete their plans.

Cash Requirements

Whereas the majority of our operational costs are in acquiring customers and setting up their plans the revenues are collected over a period of several years. This creates a considerable cash requirement.

Business forecasts identifying, in particular liquidity requirements for the Group are produced frequently. These are reviewed regularly by the Board to ensure that sufficient headroom exists for at least the forthcoming 12 month period. The Board maintains a close working relationship with its bankers and during the year has successfully concluded long term financing arrangements through 2012 (for further details see note 20).

Creditor Voting Policy

It is possible that creditors could choose to vote to reject our IVA proposals. There are a number of factors that mitigate this:

- Major banks are very aware of the requirement for them to Treat their Customers Fairly (TCF). They appreciate that there are valid circumstances for their customers to apply for voluntary insolvency, and they are careful not to deny their customers this right.
- The alternative to an IVA for a debtor is often Bankruptcy. Since creditors receive a distinctly lower dividend in Bankruptcy, they are careful not to force the customers in this direction.
- We have invested in our relationships with creditors, and they are at a stronger point than they have ever been in the history of the group. Nurturing these relationships builds mutual trust, and also gives us insight into their plans or intentions.
- We are broadening our product range into adjacent solutions, such as debt management plans. This gives us a mitigation against minor movements in policy.

IT Systems

The Group continues to invest in IT, most notably the ongoing upgrades of our Information Management Systems (IMS) and Best Advice Model (BAM). These extensive change programmes are continually subject to implementation risks. Failure to implement such changes effectively could result in unplanned costs or inefficiencies which could adversely our operations.

We have developed strong project management capabilities in our IT department and during the year have appointed experienced risk managers to direct this process.

CORPORATE GOVERNANCE

Marketplace

The level and profile of consumer indebtedness has risen considerably over the past year. This has made the debt solutions marketplace potentially more volatile and subject to change caused by further macro economic movements and specific media attention. Interventions by or sponsored by government may cause rapid shifts in the performance of our existing marketing channels.

We track marketing performance at channel and campaign level on a daily basis with all marketing expenditure committed under strict investment criteria. We continue to test and develop new marketing channels to allow us to respond in timely fashion to marketplace changes.

The requirements of the Combined Code of the principles of corporate governance set out in the listing rules of the Financial Services Authority are not mandatory for companies traded on AIM. However, the directors are committed to complying with best practice in this area. The directors consider that they have adopted those elements of the Combined Code that are relevant and appropriate to the Company.

The Board

The board comprises a non-executive Chairman, three executive directors and four non-executive directors. The board recognises that C S Mindenhall and A Redmond are not independent in view of their substantial shareholdings in the Company and that M R Peacock and S Gilbert are not independent in view of their representation of Hanover Investors Limited. However, as non-executive directors they bring experience to the board. The board consider that J S Allkins is independent.

J S Allkins was appointed during the period as the senior independent director. The role of senior independent director is to be available to shareholders if they have concerns which contact through the Chairman, Chief Executive or Finance Director have failed to resolve, or for which such contact is inappropriate. The non-executives will meet without the Chairman at least once a year and the senior independent director will lead this meeting.

The board is scheduled to meet 10 times each year, with additional meetings called if required.

There is a schedule of matters reserved to the board, which was adopted during the year, and this will be reviewed periodically. The board's main focus is on strategic and policy issues and also the regular review of objectives and performance. To enable them to carry out these responsibilities, all directors have full and timely access to all relevant information on matters before the board. The board has formally delegated specific responsibilities to board committees, including the audit, remuneration and nominations committee. Copies of the terms of reference of each of these committees can be accessed via the Company website at www.fairpoint.co.uk.

The posts of Chairman and Chief Executive are held by different individuals. Broadly, the Chairman is responsible for the effective working of the board and ensuring that all directors and, in particular, the non-executive directors, contribute effectively to the board. The Chief Executive has responsibility for all operational matters. The board considers that no one individual has unfettered power of decision.

The board does not currently consider that a full board evaluation is necessary but will review this matter on an annual basis.

The attendance of directors at the board and board committees during the period are detailed below:

Name of director	Board (12 meetings)	Audit Committee (4 meeting)	Remuneration Committee (2 meetings)
M R Peacock (appointed 10th June 2008)	6	-	1
J M Blackburn (resigned 5th September 2008)	9	-	2
A Redmond	12	-	2
C Moat (appointed 6 May 2008)	7	-	1
D J Oakley	11	-	-
A J Heath (appointed 5th September 2008)	5	2	-
CS Mindenhall	12	4	2
S Gilbert	12	4	2
J S Allkins (appointed 5th September 2008)	5	2	1

The board has adopted a procedure which allows for the directors to obtain independent professional advice, in certain circumstances at the expense of the Company. Further, the board will ensure that the Company provides sufficient resources to all the board committees in order to assist them in undertaking their duties. All directors have access to the advice and services of the Company Secretary.

All the directors are subject to election by shareholders at the first annual general meeting after their appointment. Thereafter all directors are then subject to retirement by rotation at intervals of no more than three years. M R Peacock, J S Allkins, C Moat and A J Heath are subject to election. Biographical details of these directors are set out on pages 12 and 13.

The Company maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors and this is reviewed annually.

CORPORATE **GOVERNANCE**

Nominations Committee

The Nominations Committee is chaired by M R Peacock and consists of J S Allkins, C Moat, S Gilbert, C S Mindenhall and A Redmond. The Committee evaluates the balance of skills, knowledge and experience on the board and is responsible for board appointments. Following such an evaluation, it will prepare a description of the role and capabilities required for a particular appointment.

There were no meetings of the Nomination Committee during the period and its responsibilities were assumed by the Board as a whole.

It is a requirement of the Combined Code that a majority of the members of a Nominations Committee should be independent non-executive directors and the Chairman of the Committee should either be the Chairman of the board or a non-executive director. It is acknowledged that the current membership is a deviation from the combined code but it is considered that the members of the Committee are the most suitable members of the board to deal with the appointment of successors to the board.

Remuneration Committee

The Remuneration Committee is chaired by C. S. Mindenhall and consists of S. Gilbert and J. S. Allkins.

The Remuneration Committee has delegated responsibility for setting the remuneration for all executive directors, including any compensation payments. Details of directors' remuneration are set out in the remuneration report. No director participates in the Committee when their own remuneration is discussed.

Audit Committee

The Audit Committee is chaired by J. S. Allkins and consists of S. Gilbert and C. S. Mindenhall.

The Committee reviews the Company's accounting policies and regular reports from senior management. In addition, it reviews the interim and full year financial statements and results announcements relating to the Company's financial statements, together with any formal announcements relating to the Company's financial performance.

The Audit Committee also has responsibility for making recommendations on the appointment, reappointment and removal of the external auditors, which the board then puts to the shareholders for approval in a general meeting. The Committee also reviews the annual and interim financial statements before they are submitted to the board and reviews the scope and effectiveness of the group's internal control functions.

There is currently no internal audit function, however, the Audit Committee review this on an annual basis and the current recommendation to the board is that such a function is not necessary, as the internal controls are currently effectively monitored. This will be reviewed again in the forthcoming year.

Accountability and Audit

The respective responsibilities of the directors and auditors in connection with the financial statements are explained in the statement of directors' responsibilities and the auditors' report. The board also seeks to present a clear and balanced assessment of the Company's position and prospects through the Chairman's statement and the Chief Executive's report.

Internal Control

The board is responsible for the Company's internal control framework and for reviewing its effectiveness. Each year the board reviews all controls, including financial, operational and compliance controls and risk management procedures. The Directors are responsible for ensuring that the group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal financial control. On the basis that such a system can only provide reasonable but not absolute assurance against material misstatement or loss and that it relates only to the needs of the business at the time, the system as a whole was found by the Directors at the time of approving the accounts to be appropriate to the size of the business.

The key features of the internal control system are :

- A control environment with clearly defined organisation structures. The management of the Company and its subsidiaries is delegated to the Chief Executive Officer and authority is delegated to senior executives as appropriate.
- Comprehensive business planning, risk assessment and financial reporting procedures, including annual preparation of detailed budgets for the year ahead and projections for subsequent years.
- Comprehensive monthly financial reporting system, highlighting variances to budget and regularly updated forecasts.
- A review of financial and non-financial key performance indicators to assess progress towards objectives at each board meeting.

Going Concern

The Group's business activities together with the factors which may impact its activities are described on pages 5 to 7 and page 20. The financial position of the Group is described in the Finance Director's review on pages 8 to 11. In addition notes 19 and 20 to the financial statements describe fully the Group's policies and processes for managing financial risk including details of its financial assets, liabilities and hedging activity.

The Group has committed borrowing facilities until 2012 and long term receivables from IVA cases. After making due enquiry the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and they have therefore adopted a going concern basis in preparing the accounts.

Relations with Shareholders

The Company encourages a dialogue with both its institutional and private investors. The Chief Executive and Finance Director meet regularly with institutional shareholders and analysts. The results of these meetings and any analysts' reports are circulated to all directors.

The senior independent non-executive director and the other non-executive directors are available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, Chief Executive or Finance Director or for which such contact is inappropriate.

Annual General Meeting

The board intends to continue to use the Annual General Meeting to communicate with investors and to encourage their participation.

The annual and interim reports to shareholders are published on the investor relations section of the Company's website, together with the proxy voting figures.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

TO THE SHAREHOLDERS OF FAIRPOINT GROUP PLC

We have audited the group and parent company financial statements (the "financial statements") of Fairpoint Group plc for the year ended 31 December 2008, which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement, the company balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing the parent company 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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also 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 other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive Officer's Review, the Finance Director's Review, the Directors' Report, the Report on Remuneration, the Principle Risks and Uncertainties and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- 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.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
Manchester

16 March 2009

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2008 £'000	8 Months ended 31 December 2007 ² £'000
Continuing operations			
Revenue	5	26,459	19,887
Cost of sales		(16,606)	(13,518)
Gross profit		9,853	6,369
Administrative expenses		(11,788)	(8,879)
Finance income – unwinding of discount on IVA revenue	6	3,851	2,362
Finance income – other	6	23	69
Adjusted EBITDA ¹		4,534	2,317
Depreciation		(522)	(417)
Impairment of Intangibles		-	(1,147)
Amortisation		(744)	(901)
Exceptional restructuring costs	2	(1,352)	-
Finance income – other	6	23	69
Profit/(Loss) before finance costs	2	1,939	(79)
Finance costs	6	(815)	(422)
Profit/(Loss) before taxation		1,124	(501)
Tax (expense)/credit	7	(479)	703
Profit for the period from continuing operations		645	202
Discontinued operations			
Loss for the period from discontinued operations	18	(96)	(1,309)
Profit/(Loss) for the period		549	(1,107)
All of the profit/(loss) for the period is attributable to equity holders of the parent.			
Earnings per ordinary share			
Profit from continuing operations	8	1.51	0.49
Loss from discontinued operations		(0.23)	(3.20)
Total profit/(loss) from operations		1.28	(2.71)
Diluted earnings per ordinary share			
Profit from continuing operations	8	1.51	0.49
Loss from discontinued operations		(0.23)	(3.20)
Total profit/(loss) from operations		1.28	(2.71)

The notes on pages 31 to 73 form part of these financial statements.

1 Adjusted EBITDA represents EBITDA of £(669,000), (2007: £45,000) adjusted for finance income – unwinding of discount on IVA revenues and exceptional restructuring costs.

2 Certain comparative figures have been reclassified to better reflect their nature. Detail is provided in note 2.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

Notes	Year ended 31 December 2008 £'000	8 Months ended 31 December 2007 ² £'000
Exchange differences on translation of foreign operations	(4)	(50)
Net profit/(loss) recognised directly in equity Profit/(Loss) for the period	(4) 549	(50) (1,107)
Total recognised income and expense in the period	545	(1,157)

All of the above recognised income and expense is attributable to equity holders of the parent.

The notes on pages 31 to 73 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2008 £'000	As at 31 December 2007 £'000
ASSETS			
Non Current Assets			
Property, plant and equipment	10	1,807	2,216
Goodwill	11,12	11,343	11,318
Other intangible assets	11	5,701	5,722
Total Non Current Assets		18,851	19,256
Current Assets			
Trade receivables	14	23,150	22,657
Other current assets	14	1,632	2,177
Cash and cash equivalents		565	-
Current tax asset		-	275
Non current assets classified as held for sale	18	-	59
Total Current Assets		25,347	25,168
Total Assets		44,198	44,424
EQUITY			
Share capital	22	429	424
Share premium account	23	18	-
Merger reserve	23	11,842	11,842
Other reserves	23	254	254
Retained earnings	23	19,599	20,748
Translation reserve	23	-	(62)
Total equity attributable to equity holders of the parent		32,142	33,206
LIABILITIES			
Non Current Liabilities			
Long-term borrowings	17	8,944	402
Deferred tax liabilities	21	854	895
Total Non Current Liabilities		9,798	1,297
Current Liabilities			
Bank overdraft		-	5,636
Trade and other payables	15	1,774	2,958
Short-term borrowings	16	358	1,079
Provisions	28	-	107
Current tax liability		126	-
Liabilities directly associated with non-current assets classified as held for sale	18	-	141
Total Current Liabilities		2,258	9,921
Total Liabilities		12,056	11,218
Total Equity and Liabilities		44,198	44,424

The financial statements were approved by the Board of Directors on 16 March 2009 and were signed on its behalf by:

A J Heath
Director

The notes on pages 31 to 73 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Notes	12 Months Ended 31 December 2008 £'000	8 Months Ended 31 December 2007 £'000
Cash flows from continuing operating activities		
Profit/(Loss) on continuing operations before tax	1,124	(501)
Share based payments charge	66	38
Depreciation of property, plant and equipment	522	367
Amortisation of intangible assets and development expenditure	744	903
Impairment of intangible assets	-	1,147
Loss on sale of non current assets	165	52
Interest received	(23)	(227)
Interest expense	815	422
Foreign exchange translation	-	(54)
Increase/(Decrease) in trade and other receivables	111	(520)
(Decrease)/increase in trade and other payables	(1,630)	(1,916)
Cash flows from discontinued operations	(37)	(1,294)
Cash generated (absorbed by) from operations	1,857	(1,583)
Interest paid	(681)	(206)
Income taxes paid	(118)	(1,151)
Net cash generated from/(absorbed by) operating activities	1,058	(2,940)
Cash flows from investing activities		
Acquisition of subsidiaries, inclusive of costs and net of cash acquired	-	(538)
Purchase of property, plant and equipment (PPE)	(226)	(366)
Proceeds from sale of non current assets	11	2
Interest received	23	6
Purchase of intangible assets	(811)	(672)
Discontinued operations	-	(34)
Net cash absorbed by investing activities	(1,003)	(1,602)
Cash flows from financing activities		
Equity dividends paid	(1,698)	(1,129)
Proceeds from issue of share capital	23	236
Proceeds from long-term borrowings	8,900	-
Payment of short-term borrowings	(729)	-
Payment of long-term borrowings	(243)	(486)
Payment of finance lease liabilities	(107)	(88)
Net cash generated (absorbed by) from financing activities	6,146	(1,467)
Net change in cash and cash equivalents	6,201	(6,009)
Cash and cash equivalents at start of period	(5,636)	373
Cash and cash equivalents at end of period	565	(5,636)

The notes on pages 31 to 73 form part of these financial statements.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) as adopted by European Union ("adopted IFRS's"). Also, those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 72 to 77.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous period except as follows:
In preparing the Group financial statements for the current year the Group has adopted the following new International Financial Reporting Standards (IFRS), amendments to IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations, which have not had a significant effect on the results or net assets of the Group:

- **IFRIC 11 IFRS 2** – Group and Treasury Share Transactions;
- **IFRIC 14 IAS 19** – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

At the date of authorisation of these Group financial statements, the following Standards and Interpretations, which have not been applied in these Group financial statements, were in issue but not yet effective:

- **IFRS 1 (amended) IAS 27 (amended)** – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate;
- **IFRS 2 (amended) Share-based Payment** – Vesting Conditions and Cancellations;
- **IFRS 3 (revised 2008)** Business Combinations;
- **IFRS 8** Operating segments;
- **IAS 1 (revised 2007)** Presentation of Financial Statements;
- **IAS 23 (revised 2007)** Borrowing Costs;
- **IAS 27 (revised 2008)** Consolidated and Separate Financial Statements;
- **IAS 32 (amended) IAS 1 (amended)** – Puttable Financial Instruments and Obligations Arising on Liquidation;
- **IFRIC 12** Service Concession Arrangements;
- **IFRIC 13** Customer Loyalty Programmes;
- **IFRIC 15** Agreements for the Construction of Real Estate;
- **IFRIC 16** Hedges of a Net Investment in a Foreign Operation; and
- **IFRIC 17** Distributions of Non-cash Assets to Owners.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiaries ("the group") as if they formed a single entity. Inter-company transactions are therefore eliminated in full.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Business combinations that took place prior to 1 May 2006 have not been restated.

Goodwill

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated income statement on the acquisition date.

At the date of transition to IFRS, 1 May 2006, the goodwill carrying amount under UK GAAP was tested for impairment and based on the conditions existing at the transition date no impairment was identified. Thus, the carrying amount of goodwill in the Group's IFRS opening balance was equal to the goodwill carrying amount under UK GAAP. From the date of transition to IFRS, 1 May 2006, the Group discontinued the amortisation of goodwill and implemented annual impairment tests for goodwill.

Other Intangibles

Externally acquired intangible assets are initially recognised at cost and subsequently amortised over their useful economic lives. The amortisation expense is included within the administrative expenses line in the consolidated income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangibles recognised by the group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Trademarks	10 years	Cost
Brands	12 years	Discounted cash flow
Capitalised software	4 years	Cost
Exclusivity Arrangement	2 years	Cost

Impairment of non financial assets (excluding deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite lives are undertaken annually at the financial year end.

The Group considers at each reporting date whether there is any indication that other non-current assets are impaired. If there is such an indication, the Group carries out an impairment test by measuring an asset's recoverable amount, which is the higher of its fair value less costs to sell and its value in use (effectively the expected cash to be generated from using the asset in the business). The estimated 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 which the estimates of future cash flows have not been adjusted. If the recoverable amount is less than the carrying amount an impairment loss is recognised, and the asset is written down to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately. An impairment loss for goodwill is not reversed.

Revenue

The revenue shown in the Group Income Statement represents amounts in respect of the provision of financial solutions to individuals experiencing personal debt problems. Revenue is largely derived from IVA fees which result from individual voluntary arrangements (IVAs). These fees are recognised as follows:

IVA fees

Fees are recognised following approval at the Meeting of Creditors. Revenue is recorded to recognise gross income during the life of the IVA based on the cost of the work to date as a percentage of the total cost of services to be performed.

IVA revenues are discounted to reflect the fair value of cash flows recoverable. Over the life of an IVA the actual cash flows of the case in excess of fair value at recognition are recognised through finance income using an effective interest rate which reflects a rate appropriate to its clients.

Within the consolidated cash flow statement, the gross cash flows arising from IVA's either as Revenue or as Finance Income are reflected as cash flow from continuing operations, as over time they will equate to all cash received under the IVA.

Commission

The Group also receives commission income from the referral of both Scottish and self employed clients who require IVAs to niche IVA providers and clients who wish to re-mortgage their property to specialised mortgage providers. The income is recognised as follows:

- IVA commission: IVA referral income is recognised once a contractual obligation is incurred by the IVA provider accepting the referral.
- Re-mortgaging commission: Re-mortgage commission is recorded at the date on which the mortgage contract is completed.

Debt management

Revenue is recognised by reference to the proportion of work performed. Initial fees are recognised when a customer makes their first contribution to the plan. Subsequent fees are recognised on receipt of funds into the plan.

Bad debt expense

Revenues and Finance Income relating to IVA cases are recognised gross in the income statement. Impairment provisions against trade receivables arising from the breakage of IVA payment plans are recognised through administrative expense when there is objective evidence (such as significant delay in payment) that the group will be unable to collect all of the amounts due under the terms receivable. The Group uses a portfolio approach with reference to historic data to identify cases.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. The Group considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management system are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Property, plant and equipment

The cost of items of property, plant and equipment is its purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off, on a reducing balance basis over the expected useful economic lives of the asset concerned, the cost of property, plant and equipment, less estimated residual values, which are adjusted, if appropriate, at each balance sheet date. The principal economic lives used for this purpose are:

- Fixtures and fittings 4 years
- Computer equipment 4 years

Provision is made against the carrying value of items of property, plant and equipment where impairment in value is deemed to have occurred.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the Group income statement on a straight line basis.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term.

Foreign currency

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated income statement.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "translation reserve").

On disposal of a foreign operation, the cumulative exchange differences recognised in the translation reserve relating to that operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal.

Segment reporting

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those components operating in other economic environments.

Financial instruments

Financial assets and financial liabilities are recognised at fair value on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as adjusted to reflect discounting for the time value of cash flows recoverable and are reduced by appropriate allowances for estimated irrecoverable amounts. Trade receivables are split between trade debtors, where the cases have been invoiced, and accrued income, where revenue has been recognised but the case has not yet been billed.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Finance charges are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when they are declared and paid to shareholders. In the case of final dividends this is when approved by the shareholders at the AGM.

Pension contributions

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. The Group has no defined benefit arrangements in place.

Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that actually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated income statement over the remaining vesting period.

Investment income

Investment income relates to interest income, which is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Marketing Costs

Marketing costs are recognised when service is received, save directory costs. For marketing costs incurred for annual directories a proportion of the cost is recognised at the point of distribution with the remainder recognised evenly over the following eleven months. This reflects the ongoing service received by the Group over the period.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- They are available for immediate sale;
- Management is committed to a plan to sell;
- It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- An active programme to locate a buyer has been initiated;
- The asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- A sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- Their carrying amount immediately prior to being classified as held for sale in accordance with the group's accounting policy; and
- Fair value less costs to sell.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or its subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the income statement (including the comparative period) as a single line which comprises the post tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets/disposal groups constituting discontinued operations.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Provisions are reviewed on a regular basis and released to profit and loss account where changes in circumstances indicate that a provision is no longer required.

NOTES FORMING PART OF THE **CONSOLIDATED FINANCIAL STATEMENTS**

Critical accounting judgements and key sources of estimation uncertainty

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 and 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 carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

Impairment of goodwill and other intangibles

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. An impairment review for goodwill has been performed at the year end and no impairment has been identified: (note 12). Any change in estimates could result in an adjustment to recorded amounts.

Carrying value of IVA trade receivables

IVA trade receivables are stated at their nominal value as adjusted to reflect discounting for the time value of cash flows recoverable and are reduced by appropriate allowances to £20,336,000 at the year end (2007: £19,689,000). The discount rate is that considered appropriate to the IVA clients. A rate of 20% is used for client in 2008 (2007: 15%) as risk premiums have risen in the year. The appropriate allowance for estimated irrecoverable amounts is based on historic trends in the portfolio of cases. The carrying value of IVA trade receivables is sensitive to the discount rate selected, the actual timing of subsequent cash flows and the risk that the portfolio impairment trend does not capture impairments which have arisen at the balance sheet date but have not yet been observed in the portfolio.

2 Profit/(loss) before finance costs from continuing operations

	Year ended 31 December 2008 £'000	8 Months ended 31 December 2007 £'000
This has been arrived at after charging:		
Staff costs (see note 3)	10,502	7,550
Depreciation of property, plant and equipment	522	417
Amortisation of intangible assets	744	901
Foreign exchange differences	-	45
Operating lease expense		
- Plant and machinery	135	98
- Property	463	474
Audit fees		
- Parent	78	37
- Subsidiary	8	8
Fees paid to the company's auditors for non-audit services		
- Tax services	51	45
- Corporate finance	25	90
- Other services	25	16
Loss on disposal of property, plant and equipment	-	52
Credit impairment of IVA revenues	3,455	2,546
Exceptional items		
Restructuring costs ¹	1,187	-
Loss on disposal of non current assets	165	-
	1,352	-

Reclassification of comparative figures ²

Following improvements made to the operating system it has been possible to reclassify a number of the comparative figures to reflect their nature.

	Revenue £'000	Finance Income - Unwinding of discount on IVA Revenues £'000	Cost of Sales £'000	Administrative Expenses £'000	Finance Income - Other £'000
As previously reported	19,545	-	(7,936)	(11,915)	227
Credit impairment of IVA revenues	2,546	-	-	(2,546)	-
Unwinding of discount on IVA revenues	(2,204)	2,362	-	-	(158)
Reallocation of direct costs ³	-	-	(5,582)	5,582	-
Reclassified	19,887	2,362	(13,518)	(8,879)	69

1 During the year the Group closed its Nottingham operations and restructured its management team.

2 Improvements in the revenue recording system during the current year have allowed a greater understanding of the expected cash receipt profile at inception of an agreement and the actual incidence of default. This has allowed a more accurate computation of impairments taking account of the effect of time value of money on the original gross revenue. As a consequence these improvements have been applied to the prior year numbers with the effect of grossing up revenue and administrative expenses no impact on profit.

3 Direct costs of providing debt solutions were previously classified as administrative expenses. The classification has been amended to better reflect their nature.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

3 Staff costs

	Year ended 31 December 2008	8 Months ended 31 December 2007
	£'000	£'000
Staff costs (including directors) comprise:	£'000	£'000
Wages and salaries	9,353	6,794
Defined contribution pension cost	103	38
Short-term non-monetary benefits	69	39
Share-based payment expense (see note 26)	66	38
Employer's national insurance contributions and similar taxes	911	641
	10,502	7,550

	Year ended 31 December 2008	8 Months ended 31 December 2007
The average number of employees during the period was:		
Directors	8	7
Management and administration	60	52
IVA Processing team	271	325
Mortgages	11	18
DMP	24	-
	374	402

4 Directors

	Year ended 31 December 2008	8 Months ended 31 December 2007
	£'000	£'000
Directors' remuneration consists of:		
Directors emoluments	685	916
Compensation on loss of office	210	53
Company contributions to money purchase pension schemes	64	39
	959	1,008
	Year ended 31 December 2008	8 Months ended 31 December 2007
	£'000	£'000
Remuneration in respect of the highest paid director:		
Salary and Bonuses	144	297
Compensation on loss of office	210	53
Pensions	40	-
Non executive fees	5	-
	399	350

There were no directors in a company defined benefit scheme (2007; nil) and three directors in the company's defined contribution pension scheme (2007; two).

Note that the directors' emoluments may include amounts attributed to benefits-in-kind on which directors are assessed for tax purposes. This may differ to the cost to the group of providing those benefits included in note 4.

Of the share based payment charge (see note 26) £12,313 relates to share-based payment to directors (2007: £8,000).

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

5 Segment information

The group's primary reporting format for reporting segment information is business segments.

For the year ended 31 December 2008

	IVA £'000	Business segments Financial Services £'000	Debt Management £'000	Unallocated £'000	Total £'000
Revenue					
Continuing	22,890	1,263	2,306	-	26,459
Discontinued	-	-	-	-	-
Total	22,890	1,263	2,306	-	26,459
Profit/(loss)					
Continuing operations	1,283	249	384	(792)	1,124
Discontinued operations	(96)	-	-	-	(96)
Profit/(loss) before tax	1,187	249	384	(792)	1,028
Taxation					(479)
Profit for the year					549
Balance sheet					
Assets	32,625	50	180	11,343	44,198
Liabilities	(1,772)	-	(2)	(10,282)	(12,056)
Net assets	30,853	50	178	1,061	32,142
Other					
Capital expenditure	979	1	57	-	1,037
Depreciation	498	12	12	-	522
Amortisation	744	-	-	-	744

5 Segment information (continued)

For the 8 month period to 31 December 2007 ¹

	IVA	Business segments		Unallocated	Total
	£'000	Financial Services £'000	Debt Management £'000	£'000	£'000
Revenue					
Continuing	18,046	1,547	294	-	19,887
Discontinued	302	-	-	-	302
Total	18,348	1,547	294	-	20,189
(Loss)/Profit					
Continuing operations	(733)	535	50	(353)	(501)
Discontinued operations	(1,169)	-	-	(140)	(1,309)
(Loss)/Profit before tax	(1,902)	535	50	(493)	(1,810)
Taxation					703
Loss before tax					(1,107)
Balance sheet					
Assets	32,709	122	-	11,593	44,424
Liabilities	(3,336)	130	-	(8,012)	(11,218)
Net assets	29,373	252	-	3,581	33,206
Other					
Capital expenditure	379	21	-	-	400
Depreciation	375	8	-	-	383
Amortisation	903	-	-	-	903
Other non cash expenses	1,255	-	-	-	1,255

¹ Certain comparative figures have been reclassified to better reflect their nature. Detail is provide in note 2.

In addition the Group established its own in-house Debt Management business during the year ended 31 December 2008. Revenues and profits attributable to the referral of debt management plans in the prior period have been separately reclassified to allow comparison.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

5 Segment information (continued)

The group's secondary reporting format for reporting segment information is geographic segments.

	External revenue by location of customers		Total assets by location of assets		Capital expenditure by location of assets	
	Year Ended 31 December 2008 £'000	8 Months Ended 31 December 2007 £'000	Year at 31 December 2008 £'000	8 Months at 31 December 2007 £'000	Year Ended 31 December 2008 £'000	8 Months Ended 31 December 2007 £'000
UK	26,459	19,887	44,198	44,365	1,037	366
Rest of world (discontinuing)	-	302	-	59	-	34
	26,459	20,189	44,198	44,424	1,037	400

The Group's Australian operation was divested of in January 2008.

Segment assets consist primarily of property, plant and equipment, intangible assets, trade and other receivables and cash. Unallocated assets comprise of goodwill and deferred taxation.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation, borrowings and finance leases.

Unallocated expenses comprise finance costs and finance income – other.

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

6 Finance income and expense

	Year Ended 31 December 2008 £'000	Year Ended 31 December 2008 £'000	8 Months Ended 31 December 2007 £'000	8 Months Ended 31 December 2007 £'000
Finance income –				
unwinding of discount on IVA revenues	3,851		2,362	
Other Finance income				
Bank interest received	23		5	
Exchange gains	-		64	
		3,874		2,431
Finance expense				
Bank borrowings	(707)		(292)	
Finance leases	(26)		(22)	
Other	(82)		(108)	
		(815)		(422)
		3,059		2,009

7 Tax (credit)/expense

	Year Ended 31 December 2008 £'000	Year Ended 31 December 2008 £'000	8 Months Ended 31 December 2007 £'000	8 Months Ended 31 December 2007 £'000
Current tax expense				
UK corporation tax and income tax of overseas operations on profits/(loss) for the year/period	315		(373)	
Adjustment for under/(over) provision	205		(44)	
		520		(417)
Deferred tax expense				
Origination and reversal of temporary differences	111		-	
Adjustment for over provision in prior periods	(152)		(286)	
		(41)		(286)
Total tax charge/(credit)		479		(703)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

	Year Ended 31 December 2008 £'000	8 Months Ended 31 December 2007 £'000
(Loss)/Profit before tax from continuing and discontinued operations	1,028	(1,810)
Expected tax credit based on the standard rate of corporation tax in the UK of 28.5% (2007 - 30%)	293	(543)
Expenses not deductible for tax purposes	127	113
Short term timing differences	-	(9)
Accelerated capital allowances	-	4
Different tax rates	-	27
Prior year deferred tax	(152)	(285)
Prior year current tax	205	(46)
Prior year adjustment	-	240
Share option relief	-	-
Other differences	6	(204)
Total tax charge/(credit)	479	(703)

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

8 Earnings per share

	Year Ended 31 December 2008 £'000	8 Months Ended 31 December 2007 £'000
Numerator		
Continuing operations		
Profit for the period – used in basic and diluted EPS	645	202
Discontinuing operations		
Loss for the period – used in basic and diluted EPS	(96)	(1,309)
Total operations		
Profit/(loss) for the period – used in basic and diluted EPS	549	(1,107)
Denominator		
Weighted average number of shares used in basic EPS	42,463,128	40,909,680
Effects of: - employee share options	132,878	-
Weighted average number of shares used in diluted EPS	42,596,006	40,909,680

Certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year (ie they are out-of-the-money) and therefore would not be advantageous for the holders to exercise those options.

9 Dividends

	Year Ended 31 December 2008 £'000	8 Months Ended 31 December 2007 £'000
Dividend of 4 pence (December 2007; 3 pence) per ordinary share proposed and paid during the year/period relating to the previous year's results	1,698	1,129
	1,698	1,129

The directors are proposing a final dividend of nil pence (2007; 4 pence) per share totalling £nil (2007; £1,698,000).

10 Property, plant and equipment

	Fixtures and fittings	Computer equipment	Total
	£'000	£'000	£'000
At 31 December 2007			
Cost	1,619	1,575	3,194
Accumulated depreciation	(430)	(548)	(978)
Net book value	1,189	1,027	2,216
At 31 December 2008			
Cost	1,390	1,912	3,302
Accumulated depreciation	(626)	(869)	(1,495)
Net book value	764	1,043	1,807
At 31 December 2007			
Opening net book value	1,047	1,106	2,153
Additions	352	234	586
Disposals	(29)	(111)	(140)
Depreciation charge for year	(181)	(202)	(383)
Closing net book value	1,189	1,027	2,216
Year ended 31 December 2008			
Opening net book value	1,189	1,027	2,216
Additions	30	196	226
Reclassification	(124)	124	-
Disposals	(97)	(16)	(113)
Depreciation charge for year	(234)	(288)	(522)
Closing net book value	764	1,043	1,807

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases (see note 24):

	Year Ended 31 December 2008	8 Months Ended 31 December 2007
	£'000	£'000
Fixtures and Fittings	25	63
Computer equipment	55	61
	80	124

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

11 Intangible assets

	Goodwill	Exclusivity Arrangements	Brands	Software Development	Trademarks	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2007						
Cost	11,318	1,721	4,530	1,698	40	19,307
Amortisation	-	(1,721)	(189)	(352)	(5)	(2,267)
Net book value	11,318	-	4,341	1,346	35	17,040
At 31 December 2008						
Cost	11,343	1,721	4,530	2,330	49	19,973
Amortisation	-	(1,721)	(566)	(632)	(10)	(2,929)
Net book value	11,343	-	3,964	1,698	39	17,044
8 months ended 31 December 2007						
Opening net book value	1,934	1,721	-	747	26	4,428
Additions						
- Internally developed	-	-	-	75	-	75
- Externally acquired	-	-	-	586	11	597
- Through business combinations	9,384	-	4,530	76	-	13,990
Amortisation	-	(574)	(189)	(138)	(2)	(903)
Impairment	-	(1,147)	-	-	-	(1,147)
Closing net book value	11,318	-	4,341	1,346	35	17,040
Year ended 31 December 2008						
Opening net book value	11,318	-	4,341	1,346	35	17,040
Additions						
- Internally developed	-	-	-	160	-	160
- Externally acquired	25	-	-	617	9	651
Disposals	-	-	-	(63)	-	(63)
Amortisation	-	-	(377)	(362)	(5)	(744)
Closing net book value	11,343	-	3,964	1,698	39	17,044

Trademarks are estimated to have a useful life of ten years, brands twelve years and software development four years. The asset groups have the following amortisation periods remaining; trademarks, three years; brands, eleven years and software development between two and three years. Exclusivity arrangements are amortised over the life of the asset.

11 Intangible assets (continued)

Brands comprise the capitalised Clear Start brand acquired on the acquisition of Clear Start UK Limited during the period. Software development relates to external and internal costs relating to the development of systems used by the Group. Trademarks are capitalised costs incurred developing and protecting Group registered trademarks.

For details on goodwill see note 12.

The net carrying amount of intangible assets includes the following amounts in respect of assets held under finance leases (see note 24)

	At 31 December 2008	At 31 December 2007
	£'000	£'000
Software development	9	70

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

12 Goodwill and impairment

Goodwill arises from the acquisition of trading subsidiaries as detailed below:

	Goodwill carrying amount	
	At 31 December 2008	At 31 December 2007
	£'000	£'000
Debt Free Direct Limited	1,934	1,934
Clear Start UK Limited	9,409	9,384
	11,343	11,318

The Group operates its business as an integrated entity from a single site. Trading brands are utilised for marketing activity but all operations are centrally controlled. The Group considers the consolidated entity to form one cash generating unit (CGU).

Goodwill has been tested for impairment at 31 December 2008 by reference to the recoverable amount of the CGU

The recoverable amounts of the CGU has been determined from value in use calculations based on cash the formally approved 2009 budget and from detailed forecasts covering a three year period to 31 December 2011 then extrapolated to 2013. Other major assumptions are as follows.

Conversion rate is the expected conversion from lead to Meeting of Creditors (MOC) pass and is based on past experience. Discount rates are based on the group's cost of funding adjusted to reflect management's assessment of specific risks related to the CGU. Growth rates beyond the first three years are based on economic data pertaining to the region concerned.

Wage inflation has been based on independent economic data published by the OECD.

	Year ended 31 December 2008	Year ended 31 December 2007
For the year to 31 December 2008	%	%
Discount rate	7	7
Conversion rate	4.7	5.4-7.0
Growth rate	2.5	2.5
Wage inflation	3	3

13 Subsidiaries

The principal subsidiaries of Fairpoint Group plc, all of which have been included in these consolidated financial statements and all of which operate wholly in the country of incorporation are as follows:

Name	Country of incorporation	Proportion of ownership interest and ordinary share capital held	Principal Activity
Debt Free Direct Limited	England	100%	Provision of financial advice and appropriate solutions
Clear Start UK Limited	England	100%	Provision of financial advice and appropriate solutions
Debt Free Direct (Investments) Limited	England	100%	Dormant
Lawrence Charlton Limited	England	100%	Debt management
DFD Mortgages Limited	England	100%	Provision of financial advice and appropriate solutions
Debt Advice and Money Solutions Limited	England	100%	Dormant
DFD Australia Pty	Australia	100%	Dormant
IVA Insurance Limited	Guernsey	100%	Offshore insurance company
Debt Free Direct (Australia) Limited	England	100%	Intermediary holding company
DFD Equity Release Limited	England	100%	Dormant
Debt Free Direct Group Plc	England	100%	Dormant
Up and Up Limited	England	100%	Dormant
Up and Up Group Plc	England	100%	Dormant
Clear Start Partnerships Limited	England	100%	Provision of leads to the Fairpoint Group
Allixium Limited	England	100%	Dormant

Debt Advice Trust Limited is consolidated as the group exercises control over the company through the board of directors. The principal activity of this business was the provision of financial advice and appropriate solutions to individuals experiencing personal

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

14 Trade and other receivables

	At 31 December 2008 £'000	At 31 December 2007 £'000
Trade receivables	2,814	2,968
Other receivables	563	608
Prepayments	1,069	1,569
Amounts recoverable on IVA services	20,336	19,689
	24,782	24,834

Included within trade and other receivables is £8,072,000 (December 2007: £5,022,000) due after more than one year.

15 Trade and other payables – current

	At 31 December 2008 £'000	At 31 December 2007 £'000
Trade payables	704	1,136
Other tax and social security taxes	173	424
Other payables	274	57
Accruals	623	1,341
	1,774	2,958

16 Short-term borrowings

	At 31 December 2008 £'000	At 31 December 2007 £'000
Bank loans		
- secured	243	972
Finance lease creditor (note 24)	115	107
	358	1,079

An analysis of the interest rate payable on financial liabilities and information about fair values is given in note 20.

17 Non-current financial liabilities

	At 31 December 2008 £'000	At 31 December 2007 £'000
Bank loans		
- secured	8,900	243
Finance lease creditor (note 24)	44	159
	8,944	402

An analysis of the interest rate payable on financial liabilities and information about fair values is given in note 20. The bank loan is secured by a fixed and floating charge over certain assets of Fairpoint Group plc and its subsidiaries.

18 Non-current assets held for sale and discontinued operations

After a strategic review the Group decided as at 24 December 2007 to cease all new business activity in Debt Free Direct Australia and dispose of the residual back book. The decision maximised shareholder value sooner rather than later given higher returns on investments available in the UK. Whilst the Australian business was making good progress it would have remained cash negative throughout 2008 and would not have generated significant profit for several years. The assets and liabilities relating to Debt Free Direct Australia Pty have hereby been presented as for sale and the loss from operations presented separately as discontinued in the Income Statement.

	At 31 December 2008	At 31 December 2007
	£'000	£'000
(a) Disposal group held for sale		
- Property, plant and equipment	-	94
- Other current assets	-	382
- Impairment of assets	-	(417)
	-	59
(b) Liabilities directly associated with non-current assets classified as held for sale		
Trade and other payables	-	55
Provision on costs of disposal	-	86
	-	141
	Year Ended 31 December 2008	8 Months Ended 31 December 2007
	£'000	£'000
(c) Discontinued operations		
Revenue	-	302
Expenses	(37)	(1,108)
Pre-tax loss on discontinued operations	(37)	(806)
Impairment losses	(59)	(503)
Loss on discontinued operations	(96)	(1,309)

Discontinued operations are reported in the IVA business segment in the segmental reporting in note 5.

The business was disposed of in the year and no further cost or liabilities will be incurred.

NOTES FORMING PART OF THE **CONSOLIDATED FINANCIAL STATEMENTS**

19 Financial instruments - Risk exposure and management

The group is exposed through its operations to one or more of the following financial risks that arise from its use of financial instruments:

- Market risk
- Liquidity risk
- Credit risk.

Policy for managing these risks is set by the Board following recommendations from the Finance Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below.

Market Risk

Market Risk arises from the Group's use of interest bearing tradable and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), and foreign exchange rates (currency risk).

Interest rate risk

The Group's external borrowings at the balance sheet date comprise of loan facilities and finance lease payables.

At 31 December 2008, if interest rates on floating rate loans had been 0.5% higher/lower with all other variables held constant, profit after tax for the year would have been £40,000 higher/lower, mainly as a result of higher/lower interest rate expense on floating rate borrowings.

The Group manages its cashflow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

Under the interest rate swaps, the Group agrees with other parties to exchange at specified intervals (primarily monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts.

Foreign currency risk

Foreign exchange risk arises because the group has operations located in Australia whose functional currency is not the same as the group's primary functional currency (sterling). The net assets from the overseas operations are exposed to currency risk giving rise to gains or losses on retranslation into sterling. Only in exceptional circumstances will the group consider hedging its net investments in overseas operations as generally it does not consider that the cash flow risk created from such hedging techniques warrants the reduction in volatility in consolidated net assets.

The Group has disposed of the Australia operation during the year, therefore future foreign currency risk is minimal.

19 Financial instruments - Risk exposure and management (continued)

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Details of the Group's facilities are given in note 20.

The liquidity risk of each group entity is managed centrally by the group finance function. Each operation has a facility with group treasury, the amount of the facility being based on budgets. The budgets are set locally and agreed by the board annually in advance, enabling the group's cash requirements to be anticipated. Where facilities of group entities need to be increased, approval must be sought from the group finance director. Where the amount of the facility is above a certain level agreement of the board is needed.

All surplus cash is held centrally to maximise the returns on deposits through economies of scale. The type of cash instrument used and its maturity date will depend on the group's forecast cash requirements. The group maintains a draw down facility with a major banking corporation to manage any unexpected short-term cash shortfalls.

Credit risk

The group is mainly exposed to credit risk from IVA case revenues. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. Counterparties are low quality, however credit risk is reduced as the debtor is diversified across a large number of small balances. Maximum credit risk is £23,150,000, £2,814,000 of trade receivables, where counterparties have been invoiced but funds not received, and £20,336,000 of accrued income, where revenue has been recognised but the case has not yet been billed.

On inception of an IVA case the group recognises income discounted to its fair value. Bad debt is taken to the income statement through administrative expenses, when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms of the receivable. In addition the Group considers its impairment provisions using a portfolio approach with reference to historic data to identify cases where an impairment may have arisen but objective evidence has yet to emerge. The charge for bad debt amounted to £3,455,000 (8 months to 31 December 2007: £2,456,000).

The group consider all IVA cases to exhibit a similar level of risk with the exception of acquired portfolios which are separately assessed.

The group manages credit risk through its IVA nominee processes where incomes, expenditures and assets are verified in accordance with industry protocol.

Non-IVA receivables are assessed individually and impairments raised where necessary.

The group does not enter into complex derivatives to manage credit risk

	As at 31 December 2008			As at 31 December 2007		
	Gross receivables	Provision against future recovery	Carrying value	Gross receivables	Provision against future recovery	Carrying value
	£'000	£'000	£'000	£'000	£'000	£'000
Trade receivables	3,391	577	2,814	3,642	674	2,968
Other receivables	563	-	563	608	-	608
Prepayments	1,069	-	1,069	1,569	-	1,569
Amounts recoverable on IVA services	20,336	-	20,336	19,689	-	19,689
	25,359	577	24,782	25,508	674	24,834

The group does not hold any collateral as security

Capital Disclosures

The group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders commensurate with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

20 Financial assets and liabilities – Numerical information

Maturity of financial liabilities

The following table illustrates the contractual maturity of the Group's financial liabilities excluding bank borrowing and finance leases that must be settled gross based, where relevant, on balance sheet interest rates and exchange rates prevailing at the balance sheet date.

	At 31 December 2008 £'000	At 31 December 2007 £'000
In less than one year		
Trade payables	704	1,136
Other payables	274	57
Accruals	623	1,341
	1,601	2,534

Maturity analysis of bank borrowings is shown below and for finance leases see note 24.

Bank borrowing

The group has undrawn committed borrowing facilities available at 31 December 2008 in which all conditions have been met. The borrowings are secured by a floating charge in favour of the Group's bankers.

The group maintains a long term revolving credit facility with Royal Bank of Scotland. Under the terms of the facility the Group may borrow up to a maximum of £16,000,000. The facility expires over £8,000,000 on 31 December 2011 and over the remaining £8,000,000 on 31 December 2012.

The facility is utilised by the drawing down of fixed tranches of borrowings over short term periods typically one to three months. Whilst the conditions of the facility have been met, these borrowings may be rolled over until the expiry of the facility. Accordingly the borrowings have been shown in the financial statements as long term.

	Floating rate £'000	Fixed rate £'000	At 31 December 2008 £'000	At 31 December 2007 £'000
Expiry within 1 year	243	-	243	6,608
Expiry within 1 and 2 years	-	-	-	243
Expiry in more than 2 years	8,900	-	8,900	-
	9,143	-	9,143	6,851

Interest will be payable on the outstanding capital balance at variable rates dependent on LIBOR borrowing rates. Based on the interest rates charged at the year end on the outstanding balance, the interest charge would be approximately £350,000 per annum.

Interest rate risk

All financial assets and liabilities are denominated in sterling

The rate at which sterling floating liabilities are payable is 1.50% (2007 – 1.25%) above LIBOR.

Sterling floating rate assets attracted interest of 1% at the year-end (2007– 6.5%).

Fair values

To the extent financial assets and liabilities are not carried at fair value in the consolidated balance sheet, book value approximates to fair value at 31 December 2008 and 2007.

Interest Swaps

As at 31 December 2008 the group had entered into one (31 December 2007: nil) interest rate derivative financial instruments which swap variable rate sterling debt into fixed rate sterling debt thereby fixing the interest cash flows of the group.

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows.

The group did not seek to obtain hedge accounting for these instruments. The fair value at 31 December 2008 was not material (31 December 2007: nil).

21 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007: 30%).

The movement on the deferred tax account is as shown below:

	At 31 December 2008	At 31 December 2007
	£'000	£'000
At beginning of the period	895	97
Acquisition	-	(275)
Profit and loss charge/(credit)	(41)	(84)
Deferred tax asset in respect of tax/(losses)	-	(202)
Deferred tax liability on Intangible fixed asset (Brands)	-	1,359
At end of the period	854	895

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS12) during the period are shown below.

Details of the deferred tax liability, amounts charged/(credited) to the consolidated income statement and amounts charged/(credited) to reserves are as follows:

Year ended 31 December 2008

	(Asset)/ Liability	Charged/ (credited) to income
	£'000	£'000
Accelerated capital allowances	72	20
Available losses	(274)	(319)
Intangible fixed asset (Brand)	1,123	153
Provisions	(67)	105
	854	(41)

8 Months ended 31 December 2007

	(Asset)/ Liability	Charged/ (credited) to income
	£'000	£'000
Accelerated capital allowances	14	(84)
Available losses	(478)	(202)
Intangible fixed asset (Brand)	1,359	-
	895	(286)

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

22 Share capital

	At 31 December 2008	At 31 December 2008	Authorised 31 December 2007	At 31 December 2007
	Number	£'000	Number	£'000
Ordinary shares of 1p each	60,000,000	600	60,000,000	600
Issued and fully paid				
	At 31 December 2008	At 31 December 2008	At 31 December 2007	At 31 December 2007
	Number	£'000	Number	£'000
Ordinary shares of 1p each				
At beginning of the year/period	42,411,379	424	37,599,453	376
Employee share options exercised	68,349	1	152,694	2
Acquisition of subsidiary	-	-	4,659,232	46
Issued to the Employee Benefit Trust	390,850	4	-	-
At end of the year/period	42,870,578	429	42,411,379	424

All shares have equal voting rights and there are no restrictions on the distribution of dividends or repayment of capital.

See note 7 of the Fairpoint Group plc company financial statements for a complete disclosure of shares and share options issued.

23 Reserves

	Share Premium	Shares to be issued	Merger reserve	Exchange reserve	Retained earnings
	£'000	£'000	£'000	£'000	£'000
As at 1 January 2008	-	254	11,842	(62)	20,748
Options exercised	18	-	-	-	-
Translation differences on overseas operations	-	-	-	(4)	-
Realisation on disposal	-	-	-	66	(66)
Profit for the year	-	-	-	-	549
Dividends paid	-	-	-	-	(1,698)
Share based payment expense	-	-	-	-	66
At 31 December 2008	18	254	11,842	-	19,599

	Share Premium	Shares to be issued	Merger reserve	Exchange reserve	Retained earnings
	£'000	£'000	£'000	£'000	£'000
As at 1 May 2007	13,777	-	-	(12)	8,977
Share options issued on acquisition of subsidiary	-	254	-	-	-
Share-based payment expense	-	-	-	-	36
Options exercised	194	-	-	-	-
Shares issued on acquisition of subsidiary	-	-	11,842	-	-
Translation differences on overseas operations	-	-	-	(50)	-
(Loss) for the period	-	-	-	-	(1,107)
Dividends paid	-	-	-	-	(1,129)
Cancellation of share premium reserve	(13,971)	-	-	-	13,971
At 31 December 2007	-	254	11,842	(62)	20,748

The following describes the nature and purpose of each reserve within owners' equity

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value. On 11 October 2007 the Company applied to the High Court to cancel the Share Premium Account. On cancellation the balance of this account was transferred to distributable reserves.
Translation reserve	Gains/losses arising on retranslating the net assets of overseas operations into sterling.
Retained earnings	Cumulative net gains and losses recognised in the consolidated Income Statement.
Merger reserve	Amount subscribed for share capital in excess of nominal value on acquisition of another company.

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

24 Leases

Finance leases

The group leases certain fixtures and fittings and computer equipment (net carrying value see page 52) and software developments (net carrying value see page 54). Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Future lease payments are due as follows:

At 31 December 2008

	Minimum lease payments	Interest	Present value
	£'000	£'000	£'000
Not later than one year	129	14	115
Later than one year and not later than five years	45	1	44
	174	15	159

At 31 December 2007

	Minimum lease payments	Interest	Present value
	£'000	£'000	£'000
Not later than one year	130	23	107
Later than one year and not later than five years	174	15	159
	304	38	266

Present value of future lease payments are analysed as

	At 31 December 2008	At 31 December 2007
	£'000	£'000
Current liabilities	115	107
Non current liabilities	44	159
	159	266

Operating leases – lessee

The Group leases its properties. The terms of property leases vary from location to location, although they all tend to be tenant repairing with rent reviews every 2 to 5 years and many have break clauses.

The total future payments are due as follows

	At 31 December 2008	At 31 December 2007
	£'000	£'000
Not later than one year	643	689
Later than one year and not later than five years	2,245	2,374
Later than five years	3,942	4,446
	6,830	7,509

25 Bank balances held on behalf of individuals

Total bank balances of £50,597,320 (2007; £29,876,647) were held by the Group in trustee accounts on behalf of individuals who have entered into IVA's at 31 December 2008. These bank balances are not recognised on the Group or Company balance sheets as the Group does not have control of the risks and rewards to these assets

26 Share-based payment

The Group operates six share schemes for employees. At 31 December 2007 the Group operated four shares schemes for employees; an Executive Share Option Scheme (ESOS) for certain senior management including executive directors, an Enterprise Management Incentive Scheme (EMI), a Company Share Option Plan (CSOP) and an Unapproved Scheme.

Under the option types excluding ESOS, the options vest based on vesting periods.

- The EMI options are subject to the employee having completed two years from date of grant
- The CSOP options are subject to the employee having completed three years from date of grant
- The approved options are subject to the employee having completed one year from date of grant

During the year the Group closed four existing schemes to new entrants and introduced two new share schemes, an Unapproved 2008 Scheme and the Performance Share Plan (PSP) for senior management.

The Unapproved 2008 Scheme options vest between three and ten years subject to achievement of earnings growth targets in the period to 31 December 2011.

The Performance Share Plan options vest exclusively on 31 December 2011 subject to achievement of growth targets similar to the Unapproved 2008 Scheme.

	Year Ended 31 December 2008		8 Months Ended 31 December 2007	
	Weighted average exercise price	Number	Weighted average exercise price	Number
Outstanding at beginning of the year	1.56	4,518,177	1.47	4,523,338
Granted during the year	0.38	1,567,581	2.13	852,631
Exercised during the year	1.06	(68,349)	1.21	(161,284)
Lapsed during the year	1.68	(1,923,037)	1.79	(696,508)
Outstanding at the end of the year	1.06	4,094,372	1.56	4,518,177

The exercise price of options outstanding at the end of the year ranged between 1p and 442p (2007 - 1p and 442p) and their weighted average contractual life was 7.03 years (2007 - 7.67 years).

The range of exercise prices of options outstanding is summarised as:

Range	As at 31 December 2008		As at 31 December 2007	
	Number	Average life Years	Number	Average life Years
1-100p	2,386,678	7.13	1,560,394	6.44
101-200p	1,359,003	6.64	1,702,055	7.64
Greater than 200p	348,691	7.86	1,255,728	8.86
	4,094,372	7.03	4,518,177	7.67

NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

26 Share-based payment (continued)

Of the total number of options outstanding at the end of the year, 2,533,191 (2007; 310,213) had vested and were exercisable at the end of the year.

The weighted average share price (at the date of exercise) of options exercised during the year was 106 p (2007 – 121p).

The weighted average fair value of each option granted during the year was 37p (2007; 213p).

The following information is relevant in the determination of the fair value of options granted during the period under the equity schemes operated by the Group.

	2008 £'000	2007 £'000
Equity-settled		
Option pricing model used	Black Scholes	Black Scholes
Weighted average share price at grant date	2.63	2.13
Weighted average exercise price	1.08	1.56
Weighted average contractual life	7.03	7.67
Weighted average expected volatility	43.6%	25.0%
Weighted average expected dividend growth	0.00%	0.0%
Weighted risk free interest rate	4.76%	5.70%

The volatility is based on an average weekly share price over the last year.

	2008 £'000	2007 £'000
The share-based remuneration expense (note 3) comprises:		
Equity-settled schemes	66	36

The group did not enter into any share-based payment transactions with parties other than employees during the current or previous period.

27 Related party transactions

Details of directors remuneration are given in note 4. The directors are considered to be the only key management personnel.

The directors do not consider any one party to exercise ultimate control over the Group.

Related party transactions are as follows:

Trading transactions

Related party relationship	Type of transaction	Transaction amount		Balance owed/(owing)	
		31 December 2008	31 December 2007	31 December 2008	31 December 2007
		£'000	£'000	£'000	£'000
Companies in which directors or their immediate family have an interest	Sales to group	77	219	-	145

Services are purchased from entities in which a director has an interest on normal commercial terms and conditions. Mr C S Mindenhall has an interest in two entities which form the basis of the related party transactions.

The group has not made any provision for bad or doubtful debts in respect of related party debtors nor has any guarantee been given or received during 2008 regarding related party transactions.

28 Provisions

	Other provisions
	£'000
At 31 December 2007	107
Charged to profit or loss	(107)
At 31 December 2008	-

Provision for costs expected to be incurred in restructuring of operations following the integration of Clear Start (UK) Limited.

29 Events after the balance sheet date

There are no material events after the balance sheet date.

NOTES FORMING PART OF THE **CONSOLIDATED FINANCIAL STATEMENTS**

30 Notes supporting cash flow statement

Cash and cash equivalents comprises:

		31 December 2008	31 December 2007
		£'000	£'000
Cash available on demand		565	-
Overdrafts		-	(5,636)
	565	(5,636)	
Net increase/(decrease) in cash and cash equivalents	6,201	(6,009)	
Cash and cash equivalents at beginning of period/year	(5,636)	373	
Cash and cash equivalents at end of year/(period)	565	(5,636)	

COMPANY **BALANCE SHEET**

	Note	At 31 December 2008 £'000	At 31 December 2007 £'000
FIXED ASSETS			
Investments	3	16,015	15,986
CURRENT ASSETS			
Debtors (all due after more than one year)	4	10,538	11,322
Cash at bank		85	7
		10,623	11,329
CREDITORS: Amounts falling due within 1 year	5	-	(697)
NET CURRENT ASSETS		10,623	10,632
TOTAL ASSETS LESS CURRENT LIABILITIES	26,638	26,618	
CAPITAL AND RESERVES			
Called-up share capital	6	429	424
Share premium account	7	18	-
Other reserve	7	254	254
Merger reserve	7	11,842	11,842
Profit and loss account	8	14,095	14,098
SHAREHOLDERS' FUNDS		26,638	26,618

These financial statements were approved and authorised for issue by the directors on 16 March 2009 and are signed on their behalf by:

C Moat
Director

The notes on pages 75 to 79 form part of these financial statements.

NOTES FORMING PART OF THE **COMPANY FINANCIAL STATEMENTS**

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards. The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group loss for the year includes a company loss after tax of £3,000 (December 2007: Loss of £65,000).

Cash flow statement

As permitted by FRS1 the financial statements do not contain a cashflow statement as the financial statements of the Group, which are publicly available, contain a cashflow statement.

Investments and impairment

Fixed asset investments are stated at cost except where in the opinion of the Directors, there has been a permanent diminution in the value of the investments, in which case an appropriate adjustment is made.

The need for any fixed asset impairment write down is assessed by comparison of the carrying value of the assets against the higher of realisable value and value in use.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Financial Instruments

Financial instruments are measured initially and subsequently at cost.

2. STAFF COSTS

Staff costs were nil (2007: £nil) and the company employed no staff during the year (2007: nil).

3. INVESTMENTS

Company	2008 £'000
COST:	
At 1 January 2008	15,986
Additions	29
At 31 December 2008	16,015
NET BOOK VALUE:	
At 31 December 2008	16,015
At 31 December 2007	15,986

Details of subsidiary undertakings at the balance sheet date are as follows:

Name of company	Country of Incorporation	Class of Share	Nature of Business	Proportion of voting rights
Debt Free Direct Limited	England	100% Ordinary 100% "A" Preference 100% "B" Preference 100% "C" Preference 100% "D" Preference	Provision of financial advice and appropriate solutions	100%
Debt Free Direct (Investments) Limited	England	100% Ordinary	Dormant	100%
Lawrence Charlton Limited	England	100% Ordinary	Debt management	100%
DFD Mortgages Limited (formerly known as DFD Equity Release Limited)	England	100% Ordinary	Provision of financial advice and appropriate solutions	100%
IVA Insurance Limited	Guernsey	100% Ordinary	Offshore insurance company	100%
Debt Free Direct Australia	England	100% Ordinary	Intermediate holding company	100%
Debt Advice and Money Solutions Group	England	100% Ordinary	Dormant	100%
Clear Start Partnerships Limited	England	100% Ordinary	Provision of leads to the Fairpoint Group plc	100%
Allixium Limited	England	100% Ordinary	Dormant	100%

During the year the company increased the cost of investment in Clear Start UK Limited by £25,000. The Company formed and invested in Clear Start Partnerships Limited and Allixium Limited.

NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS

3. INVESTMENTS (continued)

Name of company	Country of Incorporation	Class of Share	Nature of Business	Proportion of voting rights
Debt Free Direct Australia Pty	Australia	100% Ordinary	Provision of financial advice and appropriate solutions	100%
Clear Start UK Limited	England	100% Ordinary	Provision of financial advice and appropriate solutions	100%
DFD Equity Release Limited	England	100% Ordinary	Dormant	100%
Debt Free Direct Group PLC	England	100% Ordinary	Dormant	100%
Up and Up Limited	England	100% Ordinary	Dormant	100%
Up and Up Group PLC	England	100% Ordinary	Dormant	100%
DFD Employee Benefit Trust	England	100% Ordinary	Employee Trust Scheme	100%

During the 8 months to 31 December 2007 the Company acquired 100% of the issued share capital of Clear Start UK for a consideration of £12,143,639.

4. DEBTORS

	31 December 2008	31 December 2007
	£'000	£'000
Amounts owed by Group undertakings	10,538	11,322
	10,538	11,322

Amounts owed by Group undertakings include £10,538,000 (December 2007: £11,322,000) due after more than one year.

5. CREDITORS: Amounts falling due within one year

	31 December 2008	31 December 2007
	£'000	£'000
Amounts owed to Group undertakings	-	697
Corporation tax	-	-
	-	697

6. SHARE CAPITAL

Authorised share capital:

	31 December 2008	31 December 2007
	£'000	£'000
60,000,000 (December 2007: 60,000,000) ordinary shares of 1p each	600	600

Allotted, called up and fully paid:

	31 December 2008	31 December 2007
	£'000	£'000
Ordinary shares of 1p each	429	424

During the year to 31st December 2008 the company issued 459,199 shares of 1p from the exercise of share options and the issue of shares to the Fairpoint Employee Benefit Trust. The aggregate nominal value was £4,592 and the total consideration received was £23,000. During the 8 months to 31 December 2007 the company issued 4,811,926 ordinary shares of 1p each from the exercise of share options and acquisition of Clear Start UK Limited. The aggregate nominal value was £48,119 and the total consideration received was £12,038.

Under the terms of the acquisition a further 2,363,940 shares may be issued dependent on the performance of Fairpoint Group plc shares in the period from 27th June 2007 to 26th June 2009. At the balance sheet date no further consideration had been incurred and it is not possible to reliably estimate any future consideration. The shares prices attached to the earn-out shares range from £3.19 to £5.44.

Share option scheme

Details of options issued under the Company's share option schemes is given in note 26 to the Group Financial Statements.

Options have been granted to subscribe for ordinary shares of the Company under various share option and award schemes as shown below:

Scheme	Year	Number of Share Options under option	Price Per Share	Exercise Period
EMI	2004	36,303	£0.68	Between 2007 and 2017
EMI	2004	67,857	£0.70	Between 2007 and 2017
EMI	2004	14,194	£0.81	Between 2007 and 2017
Exec	2004	607,143	£0.72	Between 2011 and 2021
Exec	2004	100,000	£0.66	Between 2011 and 2021
EMI	2005	56,361	£1.32	Between 2008 and 2018
EMI	2005	54,794	£1.46	Between 2008 and 2018
EMI	2005	12,343	£1.89	Between 2008 and 2018
EMI	2005	25,000	£2.00	Between 2008 and 2018
EMI	2005	50,505	£1.98	Between 2008 and 2018
Exec	2005	360,000	£1.46	Between 2008 and 2018
Exec	2005	600,000	£1.60	Between 2008 and 2018
Exec	2005	200,000	£2.00	Between 2008 and 2018
EMI	2006	85,405	£3.09	Between 2009 and 2019
EMI	2006	3,086	£4.32	Between 2009 and 2019
CSOP	2007	199,200	£2.67	Between 2010 and 2020
CSOP	2007	61,000	£2.37	Between 2010 and 2020
EBT	2008	390,850	£0.01	3 Years
Unapp	2008	1,144,062	£0.50	Between 2011 and 2021
Unapp	2008	26,269	£0.81	Between 2011 and 2021

NOTES FORMING PART OF THE COMPANY FINANCIAL STATEMENTS

7. RESERVES

Company	Share Premium Account £'000	Shares to be issued £,000	Merger Reserve £'000	Profit and Loss Account £'000	Total £'000
At beginning of period	-	254	11,842	14,098	26,194
Share options issued on acquisition of subsidiary	-	-	-	-	-
Shares issued on acquisition of subsidiary	-	-	-	-	-
Share options exercised	18	-	-	-	18
Loss for the period	-	-	-	(3)	(3)
	18	254	11,842	14,095	26,209

On 11 October 2007 the Company applied to the High Court to cancel the Share Premium Account. On cancellation the balance of this account was transferred to distributable reserves.

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