

CLEARDEBT GROUP PLC

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

for the 18 months ended
30 June 2006

Company Registration No.02441375

CLEARDEBT GROUP PLC

CONTENTS

DIRECTORS, OFFICERS AND ADVISERS	2
CHAIRMAN'S STATEMENT	3
CHIEF EXECUTIVE'S STATEMENT	4
DIRECTORS' REPORT	6
CORPORATE GOVERNANCE STATEMENT	8
DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS	10
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLEARDEBT GROUP PLC	11
CONSOLIDATED PROFIT AND LOSS ACCOUNT	12
CONSOLIDATED BALANCE SHEET	13
COMPANY BALANCE SHEET	14
CONSOLIDATED CASH FLOW STATEMENT	15
RECONCILIATION OF SHAREHOLDERS' FUNDS	16
ACCOUNTING POLICIES	17
NOTES TO THE FINANCIAL STATEMENTS	19
NOTICE OF MEETING	28

CLEARDEBT GROUP PLC

DIRECTORS, OFFICERS AND ADVISERS

DIRECTORS

G Carey FCIB
J L S Mond (resigned 7 October 2005)
D E M Mond FCA FCCA
A F Smith (appointed 6 January 2006)
D M Shalom ACA (appointed 6 January 2006)

SECRETARY

D E M Mond

REGISTERED OFFICE

George House
48 George Street
Manchester
M1 4HF

AUDITORS

Baker Tilly
Chartered Accountants
Brazennose House
Lincoln Square
Manchester
M2 5BL

BROKERS AND NOMINATED ADVISORS

W H Ireland
11 St James's Square
Manchester
M2 6WH

REGISTRARS

Neville Registrars
Neville House
18 Laurel Lane
Halesowen
West Midlands

SOLICITORS

Halliwells LLP
St James's Court
Brown Street
Manchester
M2 2JF

BANKERS

Barclays Bank Plc
1 Bridge Street
Stockport
Cheshire
SK1 1XU

Anglo Irish Bank Corporation plc
10 Old Jewry
London
EC2R 8DN

CLEARDEBT GROUP PLC

CHAIRMAN'S STATEMENT

I reported to you on 27 March 2006, on presentation of the interim results for the 6 months ended 31 December 2005 that we had successfully concluded the acquisition of ClearDebt Limited.

I now present the Group's financial statements for the 18 months ended 30 June 2006.

The Group made an operating loss of £429,267 (2004:£22,353) after amortisation of goodwill and capitalised development costs of £173,277 (2004: Nil) which is a creditable performance considering this covers the start up position of ClearDebt Limited, the introduction of its different business model into the market place and finally the costs associated with the acquisition of ClearDebt Limited and the placing of new equity.

The Group's Balance Sheet shows net current assets of £878,549 including cash of £721,599 following the placing and re-admission to AIM which is sufficient to develop the Group's initial strategy.

Operationally, we have had an impressive start, with ClearDebt's business model proving both viable and successful. ClearDebt has now arranged 188 creditors agreed IVAs, an excellent performance since the commencement of trading.

Given the prevailing market conditions, and ClearDebt's capabilities, I have every confidence regarding the Group's future prospects.

Gerald Carey FCIB
Chairman
15 September 2006

CLEARDEBT GROUP PLC

CHIEF EXECUTIVE'S STATEMENT

The IVA Market

ClearDebt Group operates within the debt relief sector, a new sub-category of financial services, which has emerged to service the recent expansion in consumer debt and insolvency.

Consumer insolvencies are currently growing at a phenomenal rate. The number of insolvencies handled by the quoted companies in the sector is expected to double in 2006 compared to 2005 and to continue to grow strongly into 2007 and 2008. Demand is currently outstripping the capacity of IVA providers – thereby providing an ideal growth opportunity for ClearDebt.

The ClearDebt Model

Unlike many of its major competitors in the consumer IVA market, ClearDebt has developed a low overhead, high quality model, based on kaizen manufacturing principles and an intelligent internet interface – www.cleardebt.co.uk. This model allows the Group cost base to be kept to the minimum compatible with the higher level of service provided and facilitates efficient growth, as there is minimal need to hire new staff until customer number thresholds have been breached.

Due to this distinctive operating model, ClearDebt is able to offer a more effective IVA package than many of its rivals. The model allows ClearDebt to offer IVA's at lower cost not only to the debtor, but also the creditor – thereby increasing the chance that the IVA will be approved by the creditor and completed by the debtor, benefiting all involved in the proposal and ensuring that ClearDebt will gain the full level of income from the IVA.

It is significant that this provides us with a capacity to handle lower levels of debt than our major competitors. The Group believes that this advantage will prove highly valuable on the introduction of the proposed "SIVA" scheme, where it is believed there will be a rapid increase in lower level IVA cases.

Operational Review

Since April 2005, the following numbers of IVAs have been arranged:

Number of IVAs

- 2005 Q3 - 23 IVA = 228.6% growth
- 2005 Q4 - 32 IVA = 39.1 % growth
- 2006 Q1 - 44 IVA = 37.5 % growth
- 2006 Q2 - 82 IVA = 86.4 % growth

As can be seen ClearDebt's web based model is attracting considerable interest and generating customers for our services. The increase in both web site hits and IVA's has been driven by an intelligent marketing mix. Natural search is augmented by search engine optimization, cost per click, recommendations and email newsletters in addition to highly targeted radio, television, full colour press advertisements and posters in the London Underground, overland railways and the Manchester Metro. This programme has established a strong brand awareness, especially with the introduction of the "Debt is a Monster – Tame it" campaign.

CLEARDEBT GROUP PLC

CHIEF EXECUTIVE'S STATEMENT

Future Outlook

The Group has had a promising start to its corporate life. Operational growth from ClearDebt has been matched by the successful reverse onto AIM, which has given the Group flexibility with regard to its future funding needs.

With the predicted growth in the consumer IVA market combined with the likely growth in lower level IVA's predicted following the introduction of "SIVA"s, I have every confidence in the future.

David Emanuel Merton Mond FCA FCCA
Chief Executive Officer
15 September 2006

CLEARDEBT GROUP PLC

DIRECTORS' REPORT

The directors submit their report and the group financial statements of ClearDebt Group Plc for the 18 months ended 30 June 2006.

PRINCIPAL ACTIVITIES

The Group re-commenced trading with the acquisition of ClearDebt Limited from 4 January 2006 when it changed its name from Carrwood Plc to ClearDebt Group Plc. The principal activity of the Group is the provision of financial advice and appropriate solutions to individuals experiencing personal debt problems.

RESULTS AND DIVIDENDS

The Group profit and loss account is set out on page 12 and shows the loss for the year. The directors do not recommend the payment of a dividend.

REVIEW OF THE BUSINESS

The results for the period are shown in the profit and loss account and are reviewed in the Chairman's and Chief Executive's respective Statements on pages 3 to 5.

FUTURE DEVELOPMENTS

The future developments for the business are discussed in the Chief Executive's Statement on page 5.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The group made no political contributions or donations to UK charities during the period (2004: £nil).

EMPLOYEE INVOLVEMENT

The group supports the employment of disabled persons wherever possible both in recruitment and by retention of those who become disabled during their employment.

Appropriate steps are taken to inform and consult employees regarding matters affecting them and the group.

The group's policy regarding Health and Safety is to ensure that, as far as is practicable there is a working environment which will minimise the risk to Health and Safety of employees and those persons who are authorised to be on its premises.

DIRECTORS

The following directors have held office during the period:

G Carey FCIB (Non-Executive Chairman)
JLS Mond (resigned 7 October 2005)
DEM Mond FCA FCCA
AF Smith (appointed 6 January 2006)
DM Shalom ACA (appointed 6 January 2006)

G Carey, A F Smith and D M Shalom retire by rotation and, being eligible, offer themselves for re-election.

CLEARDEBT GROUP PLC

DIRECTORS' REPORT

THE DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

	30 June 2006		31 December 2004
	Ordinary Shares	Warrants	Ordinary Shares
G Carey	1,020,000	100,000	20,000
D E M Mond	103,700,000	9,870,000	5,000,000
A F Smith	6,750,000	675,000	-
D M Shalom	3,750,000	375,000	-

SUBSTANTIAL SHAREHOLDING

At 30 June 2006 the following interests in three percent or more of the issued ordinary share capital had been notified to the company:

Sound Financial PLC* 11.44%

*D E M Mond is a director and substantial shareholder in Sound Financial Plc.

CORPORATE GOVERNANCE

A statement by the directors on corporate governance is given on page 8.

CREDITOR PAYMENT POLICY

The company does not follow a standard code of practice but operates a prompt payment policy in settling outstanding debts. It is company policy that payments to suppliers are made in accordance with the terms agreed, provided that these suppliers have also complied with applicable terms and conditions. Creditor days at 30 June 2006 were 30 (2004: nil).

AWARENESS OF RELEVANT AUDIT INFORMATION

At the date of approval of the financial statements, so far as each of the directors is aware, there is no relevant audit information of which the auditors are unaware. The directors have taken all the necessary steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

AUDITORS

A resolution re-appointing Baker Tilly for the ensuing year will be placed before the Annual General Meeting.

By Order of the Board.

D E M Mond
Secretary
15 September 2006

CLEARDEBT GROUP PLC

CORPORATE GOVERNANCE STATEMENT

PRINCIPLES OF CORPORATE GOVERNANCE

The Group is committed to applying the highest principles of corporate governance commensurate with its size.

BOARD STRUCTURE

The Group is managed by a board consisting of a chairman and two executive directors and one non-executive director who retain responsibility for the formulation of corporate strategy, approval of acquisitions, divestments and major capital expenditure and treasury policy. The appointment of new directors is a matter reserved for the board as a whole rather than for a separate nomination committee.

The board meets regularly and has a schedule of matters specifically referred to it for decision. All directors have access to advice from the company secretary and training is available for directors as necessary.

INTERNAL CONTROL

The directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the group's strategic objectives. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can only provide reasonable and not absolute assurance. The board has reviewed the operation and effectiveness of the system of internal control in operation during the period.

The trading company is managed locally with a clearly defined responsibility for the operation of the business to meet standards required by both the Group and appropriate regulatory authorities. In addition, annual plans and longer term overviews of objectives are prepared by the business management team and reviewed at minuted meetings attended by at least one group director.

Management is also responsible for assessing and minimising all business risks. The Group board has ultimate responsibility for ensuring the group's business and financial risks are minimised and provides support to management in matters relating to regulatory compliance, health and safety, environment, quality systems and insurance cover for property and liability risks.

Monthly accounts with commentary on current period performance compared with planned performance, together with key ratio analysis and working capital information, are prepared in accordance with Group accounting policies and principles. They are consolidated and reviewed by the board to monitor overall performance and appropriate management intervention.

Management monitors the funding requirements of, and the banking facilities provided to the Group in addition to the management of investment and treasury procedures. Capital and significant investment expenditure is approved against performance criteria through a structure of authority limits.

During the period the board has reviewed the procedures necessary to implement the main principles embodied in the guidance "Internal Control: Guidance for Directors on the Combined Code". This has resulted in the following actions:

The board performed a formal risk review to identify the main business risks and to identify appropriate actions to mitigate those risks. There is now an ongoing process for identifying, evaluating and managing the significant risks faced by the group.

CLEARDEBT GROUP PLC

CORPORATE GOVERNANCE STATEMENT

INTERNAL CONTROL (continued)

The board has reviewed the effectiveness of the internal controls of the group. The processes used in this review include:

- Reviewing reports from external auditors on the system of internal control, which highlights any material control weaknesses.
- Discussions with executive management regarding the actions taken on problem areas identified by board members or in the external audit reports.

Management control of the Group's operations is delegated to executive directors who exercise this control through an organisational structure with clearly defined levels of responsibility, authority and reporting.

Financial performance, on a company and consolidated basis, is reported regularly throughout the period. Significant variances from budget and forecasts are investigated. Group financial policies are operated by the trading subsidiary. The group finance director supplemented by external audit reviews monitors compliance with these policies. The results of such reviews are reported to the audit committee.

The board has considered the need for an internal audit function but has concluded that the size and complexity of the group does not justify the expense at present. The need for an internal audit function will continue to be reviewed periodically.

RELATIONS WITH SHAREHOLDERS

The board attaches great importance to maintaining good relationships with shareholders. The board regards the Annual General Meeting as an opportunity to communicate directly with investors, who are encouraged to participate.

GOING CONCERN

The directors confirm that they are satisfied that the company and group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

CLEARDEBT GROUP PLC

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF 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 the group and of the profit and loss for that period. In preparing those financial statements, the directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CLEARDEBT GROUP PLC

We have audited the financial statements of ClearDebt Group Plc for the 18 months ended 30 June 2006 which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, consolidated cash flow statement and reconciliation of shareholders' funds and related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you, in our opinion, if the directors' report is not consistent with the financial statements, or if the company has not kept proper accounting records, or 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 Chairman and Chief Executive's Statements, the Directors' Report and 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.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and the group at 30 June 2006 and of the group's loss for the 18 months then ended and have been properly prepared in accordance with the Companies Act 1985.

BAKER TILLY
Registered Auditor
Brazenose House
Lincoln Square
Manchester, M2 5BL

15 September 2006

CLEARDEBT GROUP PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

	Notes	18 Months to 30 June 2006	12 Months to 31 Dec 2004
		£	£
TURNOVER	1	174,796	-
Cost of sales		(284,289)	-
GROSS LOSS		(109,493)	-
Administrative expenses excluding amortisation		(146,497)	(22,353)
Goodwill and capitalised development cost amortisation		(173,277)	-
Total administrative expenses		(319,774)	(22,353)
OPERATING LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION	2	(429,267)	(22,353)
Interest receivable		16,151	-
Interest payable and similar charges	5	(89,512)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(502,628)	(22,353)
Taxation on loss on ordinary activities	6	-	-
RETAINED LOSS FOR THE FINANCIAL PERIOD/YEAR	15	(502,628)	(22,353)
Loss per share (basic and diluted)	7	(0.55)p	(0.18)p

The group has no recognised gains or losses other than the results for the 18 months as set out above.

No note of historical cost profits and losses has been prepared as the historical cost profits and losses are the same as detailed in the above profit and loss account.

All items above from turnover to operating loss are derived from acquired continuing operations.

CLEARDEBT GROUP PLC

CONSOLIDATED BALANCE SHEET AT 30 JUNE 2006

	<i>Notes</i>	30 June 2006	31 Dec 2004
		£	£
FIXED ASSETS			
Intangible assets	9	3,137,545	-
Tangible assets	10	116,404	-
		<u>3,253,949</u>	<u>-</u>
CURRENT ASSETS			
Debtors	12	443,387	16,828
Cash at bank and in hand		721,599	11,906
		<u>1,164,986</u>	<u>28,734</u>
CREDITORS: Amounts falling due within one year	13	(286,437)	(1,087)
NET CURRENT ASSETS		<u>878,549</u>	<u>27,647</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,132,498	27,647
NET ASSETS		<u>4,132,498</u>	<u>27,647</u>
CAPITAL AND RESERVES			
Called up share capital	14	5,141,891	249,813
Share premium account	15	52,167	336,766
Profit and loss account	15	(1,061,560)	(558,932)
SHAREHOLDERS' EQUITY FUNDS		<u>4,132,498</u>	<u>27,647</u>

The financial statements were approved and authorised for issue by the Board on 15 September 2006

D E M Mond
Director

CLEARDEBT GROUP PLC

COMPANY BALANCE SHEET AT 30 JUNE 2006

	<i>Notes</i>	30 June 2006 £	31 Dec 2004 £
FIXED ASSETS			
Investments	11	3,085,000	-
CURRENT ASSETS			
Debtors	12	702,647	16,828
Cash at bank and in hand		714,380	11,906
		<u>1,417,027</u>	<u>28,734</u>
CREDITORS: Amounts falling due within one year	13	(29,921)	(1,087)
NET CURRENT ASSETS		<u>1,387,106</u>	<u>27,647</u>
NET ASSETS		<u>4,472,106</u>	<u>27,647</u>
CAPITAL AND RESERVES			
Called up share capital	14	5,141,891	249,813
Share premium account	15	52,167	336,766
Profit and loss account	15	(721,952)	(558,932)
SHAREHOLDERS' EQUITY FUNDS		<u>4,472,106</u>	<u>27,647</u>

The financial statements were approved and authorised for issue by the board on 15 September 2006

D E M Mond
Director

CLEARDEBT GROUP PLC
CONSOLIDATED CASH FLOW STATEMENT
FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

	<i>Notes</i>	Period ended 30 June 2006 £	Year ended 31 Dec 2004 £
Net cash (outflow)/inflow from operating activities	17a	(291,781)	11,906
Returns on investments and servicing of finance	17b	16,151	-
Taxation		-	-
Capital expenditure and financial investment	17b	(31,333)	-
Acquisition of subsidiary	18	5,922	-
CASH (OUTFLOW)/INFLOW BEFORE FINANCING		<u>(301,041)</u>	<u>11,906</u>
Financing	17b	1,010,734	-
INCREASE IN CASH IN THE PERIOD/ YEAR	17c	<u><u>709,693</u></u>	<u><u>11,906</u></u>

CLEARDEBT GROUP PLC
RECONCILIATION OF SHAREHOLDERS' FUNDS
FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

GROUP

	Period ended 30 June 2006	Year ended 31 Dec 2004
	£	£
Loss for the financial period	(502,628)	(22,353)
New equity share capital subscribed	4,892,078	-
Share premium utilised for new share issue	(336,766)	-
Share premium on new share capital subscribed	52,167	-
	<u>4,104,851</u>	<u>(22,353)</u>
Opening shareholders' equity funds	27,647	50,000
	<u>4,132,498</u>	<u>27,647</u>
	<u><u>4,132,498</u></u>	<u><u>27,647</u></u>

COMPANY

	Period ended 30 June 2006	Year ended 31 Dec 2004
	£	£
Loss for the financial period	(163,020)	(22,353)
New equity share capital subscribed	4,892,078	-
Share premium utilised for new share issue	(336,766)	-
Share premium on new share capital subscribed	52,167	-
	<u>4,444,459</u>	<u>(22,353)</u>
Opening shareholders' equity funds	27,647	50,000
	<u>4,472,106</u>	<u>27,647</u>
	<u><u>4,472,106</u></u>	<u><u>27,647</u></u>

CLEARDEBT GROUP PLC

ACCOUNTING POLICIES

FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

BASIS OF ACCOUNTING

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

In these financial statements FRS 25 "Financial Instruments: Disclosure & Presentation" has been adopted for the first time. There is no effect on the current or prior year figures as a result of this change in accounting policy.

BASIS OF CONSOLIDATION

The consolidated accounts incorporate the accounts of the company and all group undertakings. The subsidiary undertakings accounts are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and amortised over its estimated useful life from the year of acquisition. The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively.

GOING CONCERN

The directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

TURNOVER

The Turnover shown in the group profit and loss account represents amounts in respect of the provision of financial solutions to individuals experiencing personal debt problems. Turnover is largely derived from nominee and supervisory fees which results from individual voluntary arrangements (IVA). These fees are recognised as follows:

Nominee fees: on the approval by the creditors of a finalised IVA proposal

Supervisory fees: on a monthly basis, commencing on approval by creditors of the IVA

The Group also received commission income from the referral of cases for re-mortgaging. The income is recognised on receipt of the commission.

COST OF SALES

Cost of sales represent the cost of advertising, new advertising creative, promotional and disbursements on specific cases. The cost of advertising is not written off as incurred. It is carried forward for a period of four months from the date of inception of the campaign and then amortised over a period of twelve months.

AMORTISATION

Amortisation is calculated so as to write off the cost of intangible assets less their estimated residual value, over the useful economic life of the asset as follows:

Development costs	- 25% straight line
Goodwill	- 10% straight line

The directors review the carrying value of development costs and goodwill on a regular basis and if appropriate impair the value of development cost and goodwill as required.

DEPRECIATION

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets over their expected useful lives. It is calculated at the following rates:

Software Development	- 25% straight line
Fixtures and fittings	- 25% straight line

INVESTMENTS

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

CLEARDEBT GROUP PLC

ACCOUNTING POLICIES

FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

TAXATION

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

CASH AND LIQUID RESOURCES

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

CLEARDEBT GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

1 **TURNOVER**

The turnover and losses before tax are attributable to the principal activity of the group, which is the provision of IVA and other financial solutions to individuals experiencing personal problems. All turnover originated in the UK.

2	OPERATING PROFIT	Period ended 30 June 2006	Year ended 31 Dec 2004
		£	£

Operating profit is stated after charging:

Amortisation		173,277	-
Depreciation:			
- owned assets		16,666	-
Auditors' remuneration	- audit services	14,000	850
	- other services	2,000	-
		=====	=====

3	EMPLOYEES	Period ended 30 June 2006	Year ended 31 Dec 2004
		£	£

The aggregate payroll costs of the staff consist of:

Wages and salaries		105,220	-
Social security costs		7,462	-
		=====	=====
		112,682	-

The average monthly number of staff employed by the group during the financial period amounted to:

	Number	Number
Directors	3	3
Advice team, management and administration	2	-
IVA processing team	6	-
	=====	=====
	11	3

4	DIRECTORS' EMOLUMENTS	Period ended 30 June 2006	Year ended 31 Dec 2004
		£	£

The aggregate emoluments in respect of qualifying services were:

Directors' fees		27,000	-
Directors' emoluments		12,667	-
		=====	=====
		39,667	-

CLEARDEBT GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

5	INTEREST PAYABLE AND SIMILAR CHARGES	Period ended 30 June 2006 £	Year ended 31 Dec 2004 £
	Additional amounts payable on repayment of Sound Financial plc loan (see note 24)	89,512	-
		<u> </u>	<u> </u>
6	TAXATION	Period ended 30 June 2006 £	Year ended 31 Dec 2004 £
	Corporation tax at 30% (2005: 30%)	-	-
	Total current tax	<u> </u>	<u> </u>
	Deferred tax: Origination of and reversal of timing differences	<u> </u>	<u> </u>
	Tax on profit on ordinary activities	<u> </u>	<u> </u>
	Factors affecting the tax charge for the year		
	Loss on ordinary activities before taxation	(502,628)	(22,353)
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2004: 30.00%)	(150,788)	(6,709)
	Effects of:		
	Non deductible expenses	49,721	-
	Depreciation in excess of capital allowances	2,631	-
	Origination of tax losses	98,436	6,709
		<u> </u>	<u> </u>
	Current tax charge	<u> </u>	<u> </u>

7 LOSS PER SHARE

The calculations of earnings per share are based on the following losses and numbers of shares.

	Period ended 30 June 2006 £	Year ended 31 Dec 2004 £
Loss for the financial period/ year	(502,628)	(22,353)
Weighted average number of shares		
	2006 No. of shares	2004 No. of shares
For basic earnings per share	91,235,958	12,490,641

There is no difference between the basic and diluted loss per share as the outstanding warrants would have had the effect of reducing the loss per ordinary share and would, therefore, not be dilutive under the terms of FRS 22.

CLEARDEBT GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

8 LOSS ATTRIBUTABLE TO THE MEMBERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent company for the 18 months ended 30 June 2006 was £163,020 (2004: 22,353).

9 INTANGIBLE FIXED ASSETS

	Goodwill	Development	Total
	£	costs	£
		£	
<i>GROUP</i>			
<i>Cost</i>			
At beginning of period	-	-	-
Additions	3,230,510	80,312	3,310,822
At end of period	<u>3,230,510</u>	<u>80,312</u>	<u>3,310,822</u>
<i>Amortisation</i>			
At beginning of period	-	-	-
Charge for the period	161,524	11,753	173,277
At end of period	<u>161,524</u>	<u>11,753</u>	<u>173,277</u>
<i>Net Book Value</i>			
At 30 June 2006	<u>3,068,986</u>	<u>68,559</u>	<u>3,137,545</u>
At 31 December 2004	<u>-</u>	<u>-</u>	<u>-</u>

The company holds no intangible fixed assets.

10 TANGIBLE FIXED ASSETS

	Software	Fixture &	Total
	Development	Fittings	£
	£	£	
<i>GROUP</i>			
<i>Cost</i>			
At beginning of period	-	-	-
Additions	92,457	40,613	133,070
At end of period	<u>92,457</u>	<u>40,613</u>	<u>133,070</u>
<i>Depreciation</i>			
At beginning of period	-	-	-
Charge for the period	11,697	4,969	16,666
At end of period	<u>11,697</u>	<u>4,969</u>	<u>16,666</u>
Net book value			
At 30 June 2006	<u>80,760</u>	<u>35,644</u>	<u>116,404</u>
At 31 December 2004	<u>-</u>	<u>-</u>	<u>-</u>

The Company holds no tangible fixed assets.

CLEARDEBT GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

11	INVESTMENTS		30 June 2006	31 Dec 2004
	<i>COMPANY</i>		£	£
	Investments in subsidiary undertakings:			
	Cost		3,085,000	-
			<u> </u>	<u> </u>

The subsidiary undertakings at 30 June 2006, all of which were incorporated in England and acquired during the period are as follows:

Company	Activity	Class of Shares	Holding	Aggregate Capital and Reserves 30 June 2006
				£
ClearDebt Limited	Financial Advisors	Ordinary	100%	(323,591)
Carrwood Limited	Dormant	Ordinary	100%	-

12	DEBTORS	30 June 2006	31 Dec 2004	30 June 2006	31 Dec 2004
		Group	Group	Company	Company
		£	£	£	£
	Trade debtors	209,380	-	-	-
	Other debtors	28,411	16,828	6,063	16,828
	Amounts owed by group undertakings	-	-	680,366	-
	Prepayments and accrued income	205,596	-	16,218	-
		<u>443,387</u>	<u>16,828</u>	<u>702,647</u>	<u>16,828</u>
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

13	CREDITORS: Amounts falling due within one year	30 June 2006	31 Dec 2004	30 June 2006	31 Dec 2004
		Group	Group	Company	Company
		£	£	£	£
	Trade creditors	155,613	-	-	-
	Other creditors	22,627	-	22,627	-
	Social security & other taxes	5,133	-	-	-
	Accruals	103,064	1,087	7,294	1,087
		<u>286,437</u>	<u>1,087</u>	<u>29,921</u>	<u>1,087</u>
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

CLEARDEBT GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

14	SHARE CAPITAL	30 June		31 Dec
		2006		2004
		£		£
	Company			
	Authorised share capital			
	500,000,000 (2004: 25,000,000) ordinary shares of 2 pence each	10,000,000		500,000
		_____		_____
	Allotted, called up and fully paid			
	257,094,536 (2004: 12,490,641) ordinary shares of 2 pence each	5,141,891		249,813
		=====		=====

On the 4 January 2006 the company issued 240,187,228 ordinary shares of 2p at par. 60,350,000 of these were issued for cash. 150,000,000 were issued for the acquisition of a subsidiary, and 29,837,228 were issued to settle an outstanding loan note.

On the 4 January 2006 the company issued to W H Ireland warrants enabling them to subscribe for 7,580,336 ordinary shares at 2p during the period 4 January 2006 to 4 January 2009. Subscription shareholders were also granted warrants enabling them to subscribe for 24,018,722 ordinary shares at 4p during the period 4 January 2006 to 4 January 2009.

On the 3 February 2006 the company issued a further 1,066,667 ordinary shares of 2p each for consideration of 3.75p.

On the 6 June 2006 the company issued 3,350,000 ordinary shares of 2p each for consideration of 3p per share for cash.

Options under the company's shares option scheme that were granted in 1998 were cancelled on the 18 March 2005 and so are no longer outstanding.

15	RESERVES	Share	Profit &	
		premium	Loss	Total
		£	£	£
	<i>GROUP</i>			
	At beginning of period	336,766	(558,932)	(222,166)
	Premium on issue of shares	52,167	-	52,167
	Loss for the year	-	(502,628)	(502,628)
	Flotation costs written off	(336,766)	-	(336,766)
		_____	_____	_____
	Balance carried forward	52,167	(1,061,560)	(1,009,393)
		=====	=====	=====
	<i>COMPANY</i>			
	At beginning of period	336,766	(558,932)	(222,166)
	Premium on issue of shares	52,167	-	52,167
	Loss for the year	-	(163,020)	(163,020)
	Flotation costs written off	(336,766)	-	(336,766)
		_____	_____	_____
	Balance carried forward	52,167	(721,952)	(669,785)
		=====	=====	=====

CLEARDEBT GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

16 DEFERRED TAXATION

GROUP AND COMPANY	30 June 2006	31 Dec 2004
	£	£
The movement in the deferred taxation account during the period/ year was:		
Balance brought forward	-	-
Charged in period/ year	-	-
Balance carried forward	<u>-</u>	<u>-</u>

No deferred tax asset has been recognised in relation to tax losses of £328,120 carried forward. This asset of £98,436 (at a rate of 30%) will be recognised when the Group starts making profits.

17 NOTES TO THE STATEMENT OF CONSOLIDATED CASH FLOWS

Period ended 30 June 2006	Year ended 31 Dec 2004
£	£

a Reconciliation of operating profit to net cash inflow from operating activities

Operating (loss)/profit	(429,267)	(22,353)
Amortisation	173,277	-
Depreciation	16,666	-
(Increase)/ decrease in debtors	(269,499)	33,172
Increase in creditors	217,042	1,087
	<u>(291,781)</u>	<u>11,906</u>

b Analysis of Cash Flows For Headings Netted Off in the Cash Flow Statement

	Period ended 30 June 2006	Year ended 31 Dec 2004
	£	£
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	16,151	-
Net cash inflow from returns on investments and servicing of finance	<u>16,151</u>	<u>-</u>
CAPITAL EXPENDITURE		
Purchase of tangible fixed assets	<u>(31,333)</u>	<u>-</u>

CLEARDEBT GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

Analysis of Cash Flows For Headings Netted Off in the Cash Flow Statement (continued)

	Period ended 30 June 2006	Year ended 31 Dec 2004
	£	£
FINANCING		
Issue of ordinary share capital	1,347,500	-
Issue costs	(336,766)	-
Net cash inflow from financing	<u>1,010,734</u>	<u>-</u>

c Analysis of net funds	At 1 January 2005	Cash flow	At 30 June 2006
	£	£	£
Net cash:			
Cash at bank and in hand	11,906	709,693	721,599
Net funds	<u>11,906</u>	<u>709,693</u>	<u>721,599</u>

18 PURCHASE OF SUBSIDIARY UNDERTAKING

	Period ended 30 June 2006	Year ended 31 Dec 2004
	£	£
Net liabilities acquired:		
Intangible fixed assets	80,312	-
Tangible fixed assets	101,737	-
Trade debtors	62,958	-
Other debtors	94,102	-
Cash at bank and in hand	90,922	-
Trade creditors	(31,231)	-
Accruals	(34,308)	-
Other creditors	(510,002)	-
	<u>(145,510)</u>	<u>-</u>
Goodwill	3,230,510	-
	<u>3,085,000</u>	<u>-</u>
Discharged by:		
Shares allotted	3,000,000	-
Cash paid	85,000	-
	<u>3,085,000</u>	<u>-</u>

CLEARDEBT GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

18 PURCHASE OF SUBSIDIARY UNDERTAKING *(continued)*

The subsidiary undertaking acquired during the year contributed £251,781 to the group's net operating cash flows and utilised £31,333 for capital expenditure.

	Period ended 30 June 2006	Year ended 31 Dec 2004
	£	£
Analysis of the net inflow of cash in respect of the purchase of subsidiary undertaking		
Cash consideration	(85,000)	-
Cash at bank and in hand acquired	90,922	-
Net flow of cash in respect of the purchase of subsidiary	5,922	-

19 CAPITAL COMMITMENTS

Neither the Group nor Company have any capital expenditure which is contracted for but not provided in the financial statements.

20 PENSION AND OTHER POST EMPLOYMENT COMMITMENTS

The Group intends to set up and operate a defined contribution pension scheme whose assets will be held separately from those of the Group in an independently administered fund.

21 COMMITMENTS UNDER OPERATING LEASES

At 30 June 2006 the Group and the Company had no annual commitments under non-cancellable operating leases.

22 DERIVATIVES AND FINANCIAL INSTRUMENTS

It is not the Group's policy to enter into financial derivatives for speculative or trading purposes. The financial instruments employed by the Group other than short term debtors and creditors are used to fund its operations and comprise cash and short term deposits.

The Group's policy during the period ended 30 June 2006 was to place the majority of its cash on short term deposit with its bankers.

The Group's exposure to interest rate risk is limited to cash deposits which are typically held at a floating rate. As permitted by Financial Reporting Standard ("FRS") No.13 the disclosures below with the exception of currency exposure, exclude short-term debtors and creditors.

CLEARDEBT GROUP PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE EIGHTEEN MONTH PERIOD ENDED 30 JUNE 2006

22 DERIVATIVES AND FINANCIAL INSTRUMENTS (*continued*)

Interest rate risk profile of financial assets

The interest rate profile of financial assets of the Group as at 30 June 2006 is as follows:

		Financial assets on which no interest is earned	Floating rate financial assets	Total
		£	£	£
2006	Sterling	-	721,599	721,599
		=====	=====	=====
2004	Sterling	-	11,906	11,906
		=====	=====	=====

Floating rate financial assets comprise cash deposits on money market deposit at call and interest is received at a rate of between 0.5% and 5%.

Interest rate risk profile of financial liabilities

The Group has no interest bearing financial liabilities at the period end.

Currency exposures

The Group has no currency exposures at the period end.

Borrowing facility

At the year end the Group did not have a borrowing facility.

Fair Values of financial assets and financial liabilities

The fair value, based upon the market value or discounted cash flows of the financial instruments detailed above was not materially different from their book values.

23 CONTINGENT LIABILITIES

The company has no contingent liabilities (2004: nil).

24 TRANSACTION WITH DIRECTORS

D E M Mond is a partner in Hodgsons, Chartered Accountants, from whom ClearDebt Limited received finance and services to the value of £2,648 on normal commercial terms in the period since acquisition. At the balance sheet date the amount due by ClearDebt Limited was £22,627 (2004: £19,980) and is included in other creditors (see note 13). No interest is being charged for the outstanding amounts.

D E M Mond is a shareholder and director of Sound Financial plc. On the acquisition of ClearDebt Limited amounts owed to Sound Financial plc of £507,233 were cleared by the issue of shares with a value of £596,745. The additional amounts payable of £89,512 are shown in note 5.

25 CONTROL

D E M Mond, together with beneficial trusts, his immediate family and Sound Financial plc, has control over more than 50% of the voting rights of the company.

CLEARDEBT GROUP PLC

NOTICE OF MEETING

To the holders of ordinary shares

Notice is hereby given that the sixteenth annual general meeting of the Company will be held at George House, 48 George Street Manchester on 16 October 2006 at 10am for the following purposes:

To consider, and if thought fit, approve the following resolutions:

1. That the report of the directors and the annual financial statements for the 18 month period ended 30 June 2006 be and hereby are adopted;
2. That Gerald Carey, Andrew Smith and David Shalom who retire by rotation, be re-elected as directors;
3. That Baker Tilly be re-appointed as auditors and the directors be authorised to fix their remuneration.

By Order of the Board

D E M Mond
Secretary

George House
48 George Street
Manchester
M1 4HF

15 September 2006

Notes

- (a) Every member entitled to attend and vote at the meeting may appoint another person as his/her proxy to attend and vote thereat instead of him/her and such proxy need not be a member. Forms appointing proxies must be deposited at the registered office of the Company by 10am on 12 October 2006.