

**Davenham Group plc****International Financial Reporting Standards (IFRS) “First-time Adoption of International Financial Reporting Standards ” Update**

Davenham Group plc (“Davenham” or “the Group”) today issues an update for investors and analysts on the restatement of the financial information for the year ended 30 June 2007.

Davenham have previously prepared consolidated financial statements in accordance with UK Generally Accepted Accounting Practice (‘UK GAAP’). Future financial reporting by the Group is now required to be prepared under International Financial Reporting Standards (‘IFRS’) as adopted by the European Union (‘EU’).

The Group’s first annual report under IFRS will be for the financial year ending 30 June 2008, and its first interim IFRS results will be for the six months ending 31 December 2007. These interim results will be published on 4 March 2008. The Group’s date of transition to IFRS is 1 July 2006, being the start of the previous period which will be presented as comparative information.

This document sets out the changes in accounting policies arising from the adoption of IFRS, and presents restated information in accordance with IFRS 1 “First-time Adoption of International Financial Reporting Standards” for the opening balance sheet at 1 July 2006, the balance sheet at 30 June 2007, the income statement for the year ended 30 June 2007 and the cash flow statement for the year ended 30 June 2007, all of which were previously published under UK GAAP. The IFRS financial information and reconciliations from UK GAAP are unaudited.

This announcement also provides detailed explanations on the key areas of impact arising from the Group’s adoption of IFRS which, in line with the guidance provided in our announcement on 26 April 2007, are as follows:

- the recognition of income on an effective interest rate (‘EIR’) basis;
- the adoption of prescriptive rules for the calculation of loan loss provisions which require discounting expected future cash flows at the original EIR if there is objective evidence that an impairment loss has occurred;
- the recognition of derivatives at fair value on the balance sheet;
- the annual review of goodwill impairment; and
- the reclassification of software costs and Manor Credit customer relationship as intangible assets.

The announcement issued on 26 April 2007 and the presentation given at that time which outlined the impact of IFRS for Davenham, as well as a copy of this update are available on the Groups’ website at [www.davenham.co.uk](http://www.davenham.co.uk).

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**Davenham Group plc**  
**Update on the adoption of IFRS 25 February 2008**

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## INTRODUCTION

Davenham is required to adopt International Financial Reporting Standards ('IFRS') with effect from 1 July 2007. These new reporting standards represent a change from UK Generally Accepted Accounting Principles ('UK GAAP'), previously adopted by the Group. Davenham's first reported results under IFRS will be the Interim Results for the six months ending 31 December 2007, including comparative information re-stated under IFRS. The Group's first Annual Report under IFRS will be for the year ending 30 June 2008.

A dedicated project team was formed early in 2006 to oversee the transition to IFRS. This team has worked closely with our auditors PwC to implement the accounting policies, systems and other reporting changes that are required to ensure the Group complies with IFRS.

Changes to the figures reported under UK GAAP are due mainly to the timing of income recognition and loan portfolio impairment required under IFRS. In the profit and loss account, income under IFRS is spread over the life of the loan based upon its effective interest rate. IFRS also stipulates prescriptive rules for determining impairment of loans and requires a loan loss impairment charge to be calculated based on expected future cash flows, discounted at the loan's effective interest rate over the estimated period of collection.

Whilst the adoption of IFRS has an impact on historic reported figures it is important to recognise that these changes do not impact on the Group's reported operating cash flows. To explain how Davenham's reported figures are affected by the adoption of IFRS, attached are reconciliations of the Group's balance sheets as at 1 July 2006 and 30 June 2007 converted from UK GAAP to IFRS, along with reconciliations of profit and cash flows for the year ended 30 June 2007. The IFRS figures and reconciliations from UK GAAP are unaudited. The update also includes detailed explanations of the key areas impacted by IFRS.

The following section details the revised accounting policies adopted under IFRS.

## **ACCOUNTING POLICIES**

This financial information has been prepared in accordance with applicable International Financial Reporting Standards. A summary of the more important Group accounting policies is set out below.

### **Basis of preparation**

This financial information is prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments.

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

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

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the key impact analysis on pages 13 to 16.

### **Basis of consolidation**

A business combination is recognised where separate entities or businesses have been brought together within the Group. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The purchase method of accounting is used to account for business combinations made by the Group. The cost of a business combination is measured as the fair value of the assets acquired and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination.

Identifiable assets, liabilities and contingent liabilities acquired in the business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Intra Group transactions, including income and profits, are eliminated fully on consolidation.

## **Financial assets**

Management determines the classification of the Group's financial assets at initial recognition into one of the following categories:

### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a customer with no intention of trading the receivable. Loans and receivables are initially recorded at fair value including any transaction costs and are subsequently measured at amortised cost using the effective interest rate (EIR) method.

### ***Financial assets at fair value through profit or loss***

This category comprises derivatives that are not designated as hedges, and any financial assets that are designated as fair value through the profit and loss on inception. These financial assets are initially recognised at fair value, with transaction costs recorded immediately in the income statements, and are subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in the income statement.

### ***Held-to-maturity***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has a positive intention and ability to hold to maturity. Were the Group to sell a significant amount of held-to-maturity assets the entire category would be tainted and reclassified as available-for-sale.

### ***Available-for-sale***

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates.

The Group has not held any held-to-maturity investments or available-for-sale financial assets at any point during the reporting periods.

## **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable, net of value added tax, and is recognised as follows:

### ***Interest and similar income***

Interest income is recognised in the income statement for all financial assets measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash receipts through the expected life, or contractual term if shorter, of the financial asset to the net carrying amount of the financial asset. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the financial instruments, such as early settlement income, but does not include an expectation for future credit losses. The calculation includes all fees charged to customers, such as acceptance or similar fees and direct and incremental transaction costs, such as broker commissions.

Amounts due from lessees under finance leases and hire purchase contracts are recorded as receivables at the amount of the Group's net investment in the contract. Finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment (before tax) outstanding in respect of the lease.

Interest income continues to be recognised at the EIR once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, irrespective of the terms of the loan and whether interest has been suspended on the customer's account. A gross-up adjustment to income is offset by a corresponding gross-up adjustment to the loan loss charge (refer to the accounting policy entitled 'Impairment of loans and receivables').

### ***Fee and Commissions income***

The Group earns fee income from services provided to clients. Fee income can be divided into two broad categories, fees earned from services that are provided over a period of time which are recognised over the period in which the service is provided, and fees that are earned on the completion of a significant act or on the occurrence of an event such as the completion of a transaction, which are recognised when the act is completed or the event occurs.

Fees and commissions that are an integral part of a loan or receivable are deferred (together with related direct costs) and recognised over the life of the agreement as an adjustment to the effective interest rate.

### **Impairment of loans and receivables**

In respect of loans and receivables, the Group assesses on an ongoing basis whether there is objective evidence that a loan asset or a group of loan assets is impaired. A loan asset or a group of loan assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and the loss event has an impact on the estimated future cash flows of the loan asset or group of loan assets that can be reliably estimated.

The Group reviews its leasing and loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss is to be recorded in the income statement the Group makes judgements as to whether there is observable data indicating that there is a measurable decrease in the estimated cash flows from an individual lease or loan. This evidence can be as a result of non-payment or other evidence of a deterioration of the financial status of the customer. The Group takes account of the value of collateral held and also any movements in market conditions that impact on the value of collateral when calculating the level of impairment loss to be charged to the income statement.

The Group first assesses whether objective evidence of impairment exists individually for loan assets that are individually significant, and either individually or collectively for loan assets that are not individually significant.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred,

discounted at the loan asset's original EIR. The carrying amount of the asset is reduced through the use of a loan loss provision. The amount of the loss is recognised in the income statement as a loan loss charge within administrative expenses.

For the purposes of a collective evaluation of impairment, loan assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of loan assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The accuracy of the allowances and provisions made depends on how accurately the Group estimates future cash flows for specific counterparty allowances and provisions and the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgement, the Group believes that its allowances and provisions are reasonable and supportable.

Where interest income continues to be recognised on impaired loans, which cannot be collected from the customer due to the interest being fixed at the outset or interest having been suspended on the customer's account, referred to as the 'gross-up adjustment' to income, a corresponding loan loss charge is made. This is referred to as the 'gross-up adjustment' to the loan loss charge (refer to the revenue recognition accounting policy entitled 'Interest and similar income').

### **Interest payable**

Interest payable is stated after charging amortisation of loan arrangement fees. Loan arrangement fees are deducted from the liability recorded in the balance sheet and amortised over the life of the relevant arrangement

### **Operating leases – as lessee**

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a systematic straight line basis over the period of the lease.

### **Foreign currency**

The Group's financial statements are presented in Pounds Sterling, which is the Group's functional and presentational currency. All subsidiaries of the Group have Pounds Sterling as their functional currency. Foreign exchange gains and losses resulting from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement as part of finance costs.

## **Intangible assets**

### ***Goodwill and Other Intangible Assets***

Goodwill arising on acquisition represents the excess of the cost of a business combination over the fair values of the Group's share of the identifiable net assets acquired. Goodwill is not amortised, but is reviewed annually for impairment. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

Other intangible assets, including customer relationships, are valued on acquisition and shown separately from goodwill. These intangibles are amortised over their estimated useful lives (5 – 10 years).

### ***Computer software***

Acquired software licenses are capitalised as intangible assets and amortised over their useful lives, 3 years, on a straight line basis.

Costs that are directly attributable with the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 'Intangible assets', are recognised as internally generated intangible assets.

Direct costs include the employment costs of internal software developers, consultancy costs and borrowing costs. Borrowing costs are capitalised until such time as the internally generated software is substantially ready for its intended use.

Computer software development costs recognised as assets are amortised over their estimated useful lives (3 years) on a straight line basis. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

All other software development and maintenance costs are recognised as an expense as incurred.

## **Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation. Cost represents expenditure that is directly attributable to the purchase of the asset.

Land and buildings are not subject to regular revaluations.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation on other assets is calculated using the straight line basis on tangible fixed assets at rates calculated to write off the assets over their anticipated useful lives as follows:

Freehold buildings	50 years
Fixtures and fittings	4 - 5 years
Computer and ancillary equipment	3 years
Motor vehicles	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

## **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held with banks, which have a residual maturity of 3 months at the date of acquisition, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

## **Employee benefits**

### ***Pension obligations***

The Group operates a money purchase pension scheme for the members of the Group. The assets of the scheme are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the scheme.

The Group provides no other post-retirement benefits to its employees or directors.

### ***Share-based payments***

The Group operates a number of share based payment award schemes. The fair value of the options is measured at grant date and spread over the vesting period through the Profit and Loss account with a corresponding increase in equity. The fair value of the share options and awards are measured using an option-pricing model taking into account the terms and conditions of the individual schemes. The fair value of the options awarded under the schemes with market based performance conditions is estimated using a Monte-Carlo simulation model. The fair value of options awarded under schemes with non-market based performance conditions is estimated using the Black-Scholes model.

The Group makes charges to the income statement for employer's National Insurance liabilities on options granted as incurred.

## **Borrowings**

Borrowings include bank borrowings and other borrowings, overdrafts and obligations under finance leases and hire purchase contracts.

Bank borrowings and other borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. These borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

### **Current tax**

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed. It is calculated using rates of tax that have been enacted by the balance sheet date.

### **Deferred tax**

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is determined using tax rates and laws that have been enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

### **Share capital**

Ordinary shares are classified as equity.

Shares are recorded at their nominal value with any surplus received on their issue taken to the share premium account. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

### **Dividend distribution**

Final dividends payable to the Group's shareholders are recognised in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders. Interim dividends payable are recognised in the period in which the dividends are paid.

### **Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value. The fair value of derivatives is

determined by using a valuation model and is primarily based on observable market data. The method of recognising the resulting gain or loss from the re-measurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group's policy is to designate derivatives on the date that the derivative contract is committed to. The Group designates its derivatives as a hedge of the variability of cash flows associated with highly probable forecast transactions and recognised assets and liabilities ('cash flow hedging instrument').

To qualify for hedge accounting, the Group is required, at inception, to document prospectively the relationship between the item being hedged and the hedging instrument. The Group is also required to document and perform an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective in offsetting changes in cash flows of the hedged item on an ongoing basis. This effectiveness testing is re-performed at each reporting date to ensure that the hedge remains highly effective.

The effective portion of changes in the fair value of derivatives designated as cash flow hedging instruments is recognised in equity within the hedging reserve. The change in the fair value relating to the ineffective portion is recognised immediately in the income statement within finance costs.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit, i.e. when the forecast interest payment that is hedged is expensed.

When a cash flow hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. Any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

## **APPLICATION OF IFRS - BASIS OF PREPARATION**

IFRS applies to all AIM companies' accounting periods beginning on or after 1 January 2007. The date of transition to IFRS is 1 July 2006, being the start of Davenham's accounting period of comparative information.

The financial information set out in this document is prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations, endorsed by the European Union ("EU") and those requirements of the Companies Act 1985 applicable to companies reporting under IFRS. The financial information set out in this document is prepared under the historical cost convention, except for derivative contracts, which are stated at their fair value.

The unaudited re-stated financial information has been prepared on the basis of IFRS's expected to be applicable to the financial statements for the year ended 30 June 2008. These are subject to ongoing review and endorsement by the European Union or possible amendment by interpretative guidance from the International Accounting Standards Board and therefore may be subject to change.

In order to show the effect of the transition from UK GAAP to IFRS-compliant accounting policies on the Group's reported financial position and financial performance, the following reconciliations have been presented and explained:

- A reconciliation of equity (i.e. net assets) as at 1 July 2006 and 30 June 2007; and
- A reconciliation of profit for the year ended 30 June 2007.

Each of these reconciliations are presented and explained on pages 21 to 26. In addition, in order to show the effect of the transition from UK GAAP to IFRS-compliant accounting policies on the Group's cash flows, reconciliation of cash flows for the year ended 30 June 2007 has also been given.

### **Transitional arrangements**

IFRS 1 'First Time Adoption of International Financial Reporting Standards', permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. Davenham's application of the optional exemptions is as follows:

#### *Business combinations*

The Group has elected not to apply IFRS 3 'Business Combinations' retrospectively to past business combinations that occurred prior to 1 July 2006 and therefore no adjustment has been made.

#### *Share based payments*

The Group has elected not to apply IFRS 2 'Share Based Payments' to equity instruments, such as employee share schemes, that were granted on or before 7 November 2002 and to those instruments that were granted after 7 November 2002 which vested before 1 July 2006.

## **KEY IMPACT ANALYSIS**

### **Income recognition**

#### *Interest income*

Under UK GAAP, interest receivable on interest-bearing loan agreements is recognised on the accruals basis. In the case of hire purchase and leasing agreements, interest receivable is computed at the inception of the agreement, added to the customer's balance and released to the profit and loss account on an actuarial basis over the life of the agreement.

All introducer fees and direct incremental transaction costs are expensed to the profit and loss account as incurred.

Acceptance fees and similar fees charged to borrowers at the inception of the loan are credited to the profit and loss account when charged.

Under IFRS, all the Group's customer advances are classified as 'loans and receivables' and interest is recognised using the effective interest rate ('EIR') method. The EIR is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the life of the loan. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to its net carrying amount. When calculating the EIR, the Group estimates cash flows considering all contractual terms. The calculation includes all fees and direct and incremental transaction costs. The application of the EIR method has the effect of recognising interest income to give a constant rate of return on the amount outstanding over the period of the loan.

The impact under IFRS, as at 1 July 2006, was an increase in net assets of £0.4m. For the year ended 30 June 2007, there was a decrease in revenue of £0.1m, resulting in an increase in net assets, at 30 June 2007, of £0.3m. This results primarily from the inclusion of early settlement fees within the EIR calculation, and the deferral of acceptance fees and similar fees charged to borrowers at the inception of the loan with third party loan origination costs. The customer's option to settle their loan early increases the value of loans and receivables in the balance sheet representing the early settlement fees, which the Group is entitled to charge.

IFRS requires that income continues to be recognised on the outstanding balance of a loan at the original EIR, irrespective of the contractual term of the loan and whether interest has been suspended or not.

As a consequence, IFRS requires more interest to be recognised than under UK GAAP. As this interest is not charged to the customer, a corresponding loan loss charge is made. The impact on profit is zero, but the revenue and administrative expenses lines are effectively 'grossed-up' by the same amount. The income gross-up adjustment for the twelve months ended 30 June 2007 was £3.2m.

## **Loan loss provisioning**

Under UK GAAP, customers' accounts receivable consist of amounts outstanding under hire purchase agreements, finance leases, property related products and factoring agreements, including repayments not yet due at the year end, less an appropriate provision for bad debts based upon a detailed individual assessment of accounts and a general provision for doubtful debts based on a fixed percentage of the portfolio balance.

Under IFRS, at each balance sheet date the Group assesses whether there is any objective evidence that a loan or group of loans is impaired. If any such evidence exists, the amount of the loss is measured as the difference between the loan's carrying amount on the balance sheet and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original EIR.

The impact under IFRS, as at 1 July 2006, was an increase in net assets of £0.2m. For the year ended 30 June 2007, there was a decrease in revenue of £0.3m, resulting in a decrease in net assets at 30 June 2007 of £0.1m.

## **Treasury and hedging**

Under UK GAAP, the Group manages the risk of the exposure of floating rate borrowings to adverse interest rate fluctuations by the use of financial hedging instruments, primarily swaps. Amounts payable or receivable in respect of these hedging instruments are recognised as adjustments to finance costs over the period of the contracts.

Under IFRS, derivatives, including financial hedging instruments, are initially recognised and subsequently re-measured at fair value. The Group designates its derivatives as cash flow hedges of floating rate borrowings ('cash flow hedging instrument').

To qualify for hedge accounting, the Group is required, at inception, to document in advance the relationship between the item being hedged e.g. the variable rate loan cash flows, and the hedging instrument e.g. the swap. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be and has been effective. This effectiveness testing is re-performed at each reporting period end to ensure that the hedge remains highly effective.

The fair value of hedging instruments is determined by using a valuation model and is primarily based on observable market data.

Gains or losses on highly effective cash flow hedging instruments are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Davenham has adopted cashflow hedge accounting with effect from 1 July 2006. The impact on transition under IFRS is positive as the initial fair value of the financial instruments being recognised represents an adjustment to shareholder's equity of £0.1m. The impact as at 30 June 2007 is a positive adjustment to shareholder's equity of £1.1m

## **Others**

The adoption of IFRS has resulted in a number of other minor changes including :

### *Goodwill and other intangible assets*

Under UK GAAP, goodwill arising on the acquisition of subsidiary undertakings and trading assets is capitalised at cost and subsequently amortised on a straight-line basis over its estimated useful life. This reflects the estimated period over which the value of the underlying businesses acquired is expected to exceed the value of the underlying assets. Goodwill is reviewed for impairment at the end of the first full year after acquisition and in other years if events or changes in circumstances indicate that the carrying value may not be fully recoverable. Any impairment assessed is charged to the profit and loss account.

Under IFRS, for qualifying business combinations, goodwill represents the excess of consideration over the fair values of acquired assets (including any separately quantifiable intangible assets), liabilities and contingent liabilities. IAS 38 'Intangible Assets' requires that goodwill is not amortised but instead subject to an annual impairment review. Any impairment loss would be recognised as an expense immediately through the income statement.

Also, under IFRS, additional intangible assets are separately recognised which under UK GAAP are recorded within the goodwill valuation. At 30 June 2007, a customer relationship intangible arising on the acquisition of Manor Credit, valued at £0.4m has been recognised separately from goodwill. Under IAS 38, this intangible is amortised over its useful economic life, deemed to be 7 years.

### *Reclassification of capitalised software*

Under UK GAAP, capitalised software costs can be recognised as a tangible fixed asset. Under IFRS, capitalised software costs are recognised as an intangible asset. Capitalised software with a net book value of £0.2m as at 1 July 2006 and £0.4m as at 30 June 2007 has been reclassified from property, plant and equipment to intangible assets.

## **Reconciliation of cash flows**

There are some major differences between a cash flow statement prepared under IAS 7 'Cash Flow Statements' and one prepared under FRS 1.

### *Definition of cash and cash equivalents*

The cash flows reported under IAS 7 relate to movements in cash and cash equivalents, whereas FRS 1 required the movements in cash only. There was no concept of cash equivalents under FRS 1.

Under UK GAAP, the Group's syndicated bank borrowings were excluded from the cash flow statements. This treatment is not permitted under IAS 7, therefore cash flows arising from the issuance of bank borrowings are now included within financing activities in the cash flow

statement. The impact under IFRS is a net decrease in cash and cash equivalents as at 30 June 2006 of £131.4m and at 30 June 2007 of £78.9m.

#### *Presentational change*

IAS 7 requires cash flows to be reported under three headings : operating, investing and financing, whereas FRS 1 required cash flows to be reported under significantly more headings including separate headings for cash flows arising from taxation and equity dividends. Under IAS 7, tax cash flows are included within operating activities and equity dividends payments are included within financing activities.

#### *Reclassification of intangible assets*

On transition to IFRS, a customer relationship intangible has been reclassified from goodwill to intangible assets. Therefore cash flows arising from the purchase or disposal of intangibles are shown separately within the investing activities section of the cash flow statement.

#### *Reclassification of software-related cash flows*

On transition to IFRS, capitalized software has been reclassified from property, plant and equipment to intangible assets. Therefore cash flows arising from the purchase or disposal of software are shown separately within the investing activities section of the cash flow statement.

## RE-STATEd IFRS FINANCIAL INFORMATION

### Consolidated Income Statement for the year ended 30 June 2007

	<b>£'000 unaudited</b>
<b>Revenue</b>	41,798
Finance costs	(11,202)
<b>Gross profit</b>	30,596
Administrative expenses	(18,995)
<b>Profit before taxation</b>	11,601
Taxation	(3,397)
<b>Profit for the year</b>	8,204
Earnings per share	
- Basic	33.44 p
- Diluted	32.72 p

### Consolidated Statement of Recognised Income and Expense for the year ended 30 June 2007

	<b>£'000 unaudited</b>
<b>Profit for the year</b>	8,204
Cash flow hedges: – net fair value adjustment, net of tax	1,024
<b>Recognised gains and losses for the year</b>	<b>9,228</b>

## Consolidated Balance Sheet as at 30 June 2007

£'000  
unaudited

### ASSETS

#### Non-current assets

Goodwill	1,909
Other Intangible assets	796
Property, plant and equipment	1,052
Derivative financial instruments	1,221
Loans and receivables	58,066
Deferred tax assets	1,307
	<hr/>
	<b>64,351</b>

#### Current assets

Loans and receivables	208,326
Other receivables, prepayments and accrued income	1,516
Derivative financial instruments	1,057
Cash and cash equivalents	7,094
	<hr/>
	<b>217,993</b>

#### Total Assets

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**282,344**

### LIABILITIES

#### Current liabilities

Borrowings	10,801
Current tax liabilities	2,205
Derivative financial instruments	235
Trade and other payables	6,291
	<hr/>
	<b>19,532</b>

#### Non-current liabilities

Borrowings	210,349
Derivative financial instruments	543
	<hr/>
	<b>210,892</b>

#### Total liabilities

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**230,424**

#### Net assets

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**51,920**

### SHAREHOLDERS' EQUITY

Share capital	260
Share premium account	26,503
Own shares held	(1,507)
Retained earnings	25,307
Share based payment reserve	277
Hedging reserve	1,080
	<hr/>
Total Shareholder's funds	<b>51,920</b>

## Consolidated Balance Sheet as at 1 July 2006

**£'000**  
**unaudited**

### ASSETS

#### Non-current assets

Goodwill	-
Other Intangible assets	172
Property, plant and equipment	1,044
Derivative financial instruments	123
Loans and receivables	34,639
Deferred tax assets	1,016
	<b>36,994</b>

#### Current assets

Loans and receivables	148,091
Other receivables, prepayments and accrued income	495
Derivative financial instruments	203
Cash and cash equivalents	1,937
	<b>150,726</b>

#### Total Assets

**187,720**

### LIABILITIES

#### Current liabilities

Borrowings	5,557
Current tax liabilities	1,168
Derivative financial instruments	230
Trade and other payables	4,397
	<b>11,352</b>

#### Non-current liabilities

Borrowings	131,414
Derivative financial instruments	18
	<b>131,432</b>

#### Total liabilities

**142,784**

#### Net assets

**44,936**

### SHAREHOLDERS' EQUITY

Share capital	259
Share premium account	26,470
Own shares held	(2,202)
Retained earnings	20,259
Share based payment reserve	94
Hedging reserve	56
Total Shareholder's funds	<b>44,936</b>

## Consolidated Cash Flow Statement for the year ended 30 June 2007

£'000  
unaudited

### Cash flows from operating activities

Cash generated from operations	31,094
Tax paid	(3,049)
<b>Net cash inflow from operating activities</b>	<u>28,045</u>

### Cash flows from investing activities

Acquisition of business and subsidiary undertakings	(24,758)
Purchase of property, plant and equipment	(269)
Proceeds from sale of property, plant and equipment	31
Purchase of intangible assets	(708)
<b>Net cash outflow from investing activities</b>	<u>(25,704)</u>

### Cash flows from financing activities

Proceeds from issue of share capital	34
Purchase of own shares	695
Issue of new borrowings	(78,935)
Dividends paid to shareholders	(3,157)
<b>Net cash outflow from financing activities</b>	<u>(81,363)</u>

### Net decrease in cash and cash equivalents

Cash and cash equivalents at beginning of the year	(135,034)
<b>Cash and cash equivalents at end of the year</b>	<u>(214,056)</u>

### For the purposes of the cash flow statement, cash and cash equivalents comprise:

Cash at bank and in hand	7,094
Bank overdrafts	(10,801)
Bank borrowings	(210,349)
<b>Total</b>	<u>(214,056)</u>

The definition of cash and cash equivalents has changed under IAS 7 'Cash flow statements'. Cash and cash equivalents, therefore, include cash at bank and in hand, short-term bank deposits and bank overdrafts. Cash flows in other bank borrowings are now classified as financing activities.

## Reconciliation of Profit between UK GAAP and IFRS for the period ended 30 June 2007

UK GAAP Headings	IFRS Headings	12 months ended <b>30.6.07 UK GAAP</b>	Adjustments							12 months ended <b>30.6.07 IFRS</b>
			1. Reclassify headings	2. EIR	3. Impairment	4. Gross up/ down	5. Hedging	6. Goodwill	7. Software	
Turnover	Revenue	38,685	-38,685							
Interest Payable	Finance Costs	-11,202	38,685	-124			3,237			41,798
Gross Profit	Gross Profit	<b>27,483</b>	-11,202							-11,202
Administration Expenses	Administration Expenses	-15,385	-27,483							
Profit on Ordinary Activities before tax	Profit on Ordinary Activities before tax	<b>12,098</b>	<b>27,483</b>	<b>-124</b>	<b>0</b>	<b>3,237</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30,596</b>
Taxation	Taxation	-3,530	15,385							
Profit after taxation	Profit after taxation	<b>8,568</b>	-15,385		-352	-3,237			-21	-18,995
			-12,098							
			<b>12,098</b>	<b>-124</b>	<b>-352</b>	<b>0</b>	<b>0</b>	<b>-21</b>	<b>0</b>	<b>11,601</b>
			3,530		98	0	0			
			-3,530	35					0	-3,397
			-8,568							
			<b>8,568</b>	<b>-89</b>	<b>-254</b>	<b>0</b>	<b>0</b>	<b>-21</b>	<b>0</b>	<b>8,204</b>



	Derivative financial instruments					543			543
	Borrowings	210,349							210,349
		<b>210,349</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>543</b>	<b>0</b>	<b>0</b>	<b>210,892</b>
<b>Creditors falling due after more than one year</b>									
Bank loans and other creditors									
Loan stock liabilities	-210,349	210,349							
	0								
<b>Total liabilities</b>		<b>229,646</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>778</b>	<b>0</b>	<b>0</b>	<b>230,424</b>
<b>Net assets</b>		<b>50,636</b>							
	<b>Net Assets</b>	<b>50,636</b>	<b>265</b>	<b>-68</b>	<b>0</b>	<b>1,080</b>	<b>7</b>	<b>0</b>	<b>51,920</b>
<b>Capital and reserves</b>									
Called up share capital	260	-260							
Share Premium Account	26,503	-26,503							
Own Shares held reserve	-1,507	1,507							
Profit and Loss account	25,103	-25,103							
Share based payment reserve	277	-277							
Shareholders' funds	<b>50,636</b>	<b>-50,636</b>							
	<b>Shareholders' equity</b>								
Share capital		260							260
Share premium		26,503							26,503
Own shares held reserve		-1,507							-1,507
Retained Earnings		25,103	265	-68			7		25,307
Share based payments reserve		277							277
Hedging reserve		0				1,080			1,080
Total Shareholder's funds		<b>50,636</b>	<b>265</b>	<b>-68</b>	<b>0</b>	<b>1,080</b>	<b>7</b>	<b>0</b>	<b>51,920</b>

## Reconciliation of Equity (net assets) between UK GAAP and IFRS as at 1 July 2006

UK GAAP Headings	IFRS Headings	Adjustments								As at 01-Jul-06 IFRS
		As at 01-Jul-06 UK GAAP	1. Reclassify headings	2. EIR	3. Impairment	4. Gross up / gross down	5. Hedging	6. Goodwill	7. Software	
<b>Fixed Assets</b>										
Intangible Assets		24	-24							
Positive Goodwill		-52	52							
Negative Goodwill		-28	28							
Tangible Assets		1,216	-1,216							
		<b>1,188</b>	<b>-1,188</b>							
	<b>Assets</b>									
	<b>Non-current assets</b>									
	Intangible Assets		-28					28	172	172
	Property plant and equipment		1,216						-172	1,044
	Trade and other receivables		0							0
	Derivative financial instruments		0				123			123
	Loans and receivables		34,639							34,639
	Deferred taxation asset		1,248	-138	-72		-22			1,016
			<b>37,075</b>	<b>-138</b>	<b>-72</b>	<b>0</b>	<b>101</b>	<b>28</b>	<b>0</b>	<b>36,994</b>
<b>Current Assets</b>										
Debtors receivable within one year		149,085	-149,085							
Debtors receivable after one year		34,639	-34,639							
Cash at bank and in Hand		1,937	-1,937							
		<b>185,661</b>	<b>-185,661</b>							
	<b>Current assets</b>									
	Loans and receivables		147,342	492	257	0				148,091
	Other receivables, prepayments & accrued income		495							495
	Derivative financial instruments		0				203			203
	Cash and cash equivalents		1,937							1,937
			<b>149,774</b>	<b>492</b>	<b>257</b>	<b>0</b>	<b>203</b>	<b>0</b>	<b>0</b>	<b>150,726</b>
<b>Creditors falling due within one year</b>		<b>-11,122</b>	<b>11,122</b>							<b>0</b>
	<b>Total Assets</b>		<b>186,849</b>	<b>354</b>	<b>185</b>	<b>0</b>	<b>304</b>	<b>28</b>	<b>0</b>	<b>187,720</b>
<b>Net current assets</b>		<b>174,539</b>	<b>-174,539</b>							
	<b>Liabilities</b>									
	<b>Current liabilities</b>									
	Borrowings		5,557							5,557
	Current tax liabilities		1,168							1,168
	Derivative financial instruments		0				230			230

	Trade and other payables		4,397						4,397
			<b>11,122</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>230</b>	<b>0</b>	<b>11,352</b>
<b>Total assets less current liabilities</b>		<b>175,727</b>	-175,727						
	<b>Non-current liabilities</b>								
	Derivative financial instruments						18		18
	Borrowings		131,414						131,414
			<b>131,414</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18</b>	<b>0</b>	<b>131,432</b>
<b>Creditors falling due after more than one year</b>									
Bank loans and other creditors		-131,414	131,414						
Loan stock liabilities		0							
	<b>Total liabilities</b>		<b>142,536</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>248</b>	<b>0</b>	<b>142,784</b>
<b>Net assets</b>		<b>44,313</b>	-44,313						
	<b>Net Assets</b>		<b>44,313</b>	<b>354</b>	<b>185</b>	<b>0</b>	<b>56</b>	<b>28</b>	<b>44,936</b>
<b>Capital and reserves</b>									
Called up share capital		259	-259						259
Share Premium Account		26,470	-26,470						26,470
Own Shares held reserve		-2,202	2,202						-2,202
Profit and Loss account		19,692	-19,692						20,259
Share based payment reserve		94	-94						94
Shareholders' funds		<b>44,313</b>	-44,313						
	<b>Shareholders' equity</b>								
	Share capital		259						259
	Share premium account		26,470						26,470
	Own shares held reserve		-2,202						-2,202
	Retained Earnings		19,692	354	185			28	20,259
	Share based payments reserve		94						94
	Hedging reserve		0				56		56
	<b>Total Shareholder's funds</b>		<b>44,313</b>	<b>354</b>	<b>185</b>	<b>0</b>	<b>56</b>	<b>28</b>	<b>44,936</b>

## Reconciliation of cash flows between UK GAAP and IFRS as at 30 June 2007

UK GAAP Headings	IFRS Headings	As at 30.6.07 UK GAAP	UK GAAP IFRS format	IFRS adjustment s	As at 30.6.07 IFRS
<b>Cash inflow / (outflow) from operating activities</b>		<b>31,094</b>			
<b>Taxation</b>		<b>-3,049</b>			
	<b>Cash flows from operating activities</b>				
	Cash generated from operations		31,094		31,094
	Tax paid		-3,049		-3,049
	<b>Net cash inflow from operating activities</b>		<b>28,045</b>		<b>28,045</b>
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		-617			
Sale of tangible fixed assets		31			
Cash outflow from capital expenditure and financial investment		<b>-586</b>			
<b>Acquisitions</b>					
Cash outflow on acquisition of subsidiary		-25,118			
<b>Cash inflow / (outflow) before use of liquid resources and financing</b>		<b>2,341</b>			
	<b>Cash flows from investing activities</b>				
	Acquisition of business and subsidiary undertakings		-25,118	360	-24,758
	Purchase of property, plant & equipment		-617	348	-269
	Proceeds from sale of property, plant & equipment		31		31
	Purchase of intangible assets			-708	-708
	<b>Net cash outflow from investing activities</b>		<b>-25,704</b>	<b>0</b>	<b>-25,704</b>
<b>Equity dividends paid</b>		<b>-3,157</b>			
<b>Financing</b>					
Exercise of own shares for EBT		695			
Issue of shares net of issue costs		34			
<b>Net cash inflow from financing</b>		<b>729</b>			
	<b>Cash flows from financing activities</b>				
	Proceeds from issue of share capital		34		34
	Purchase of own shares		695		695
	Issue of new borrowings			-78,935	-78,935
	Dividends paid to shareholders		-3,157		-3,157
	<b>Net cash outflow from financing activities</b>		<b>-2,428</b>	<b>-78,935</b>	<b>-81,363</b>
<b>Decrease in cash in period</b>		<b>-87</b>			
	<b>Net decrease in cash and cash equivalents</b>		-87	-78,935	-79,022
	Cash and cash equivalents at beginning of the year		-3,620	-131,414	-135,034
	<b>Cash and cash equivalents at end of the year</b>		<b>-3,707</b>		<b>-214,056</b>
	<b>For the purpose of the cash flow statement, cash and cash equivalents comprise :</b>				
	Cash at bank and in hand				7,094
	Bank overdrafts				-10,801
	Bank borrowings				-210,349
	<b>Total</b>				<b>-214,056</b>