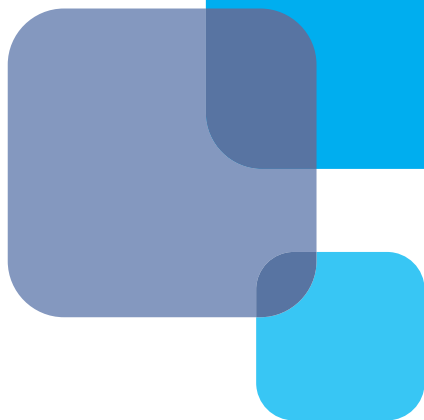


positive thinking in business finance

Davenham Group plc
Annual Report and Accounts 2009



trade finance
property finance
asset finance

davenham 
positive thinking in business finance

Positive thinking in business finance

Davenham Group plc is a leading specialist commercial finance company which provides flexible, innovative finance solutions for SME clients in the UK, who choose not to, or are unable to, use mainstream clearing bank funding.

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Financial Performance Summary

for the year ended 30 June 2009

- Loan portfolio reduced to £193m (2008: £284m)⁺
- Revenue of £49.1m (2008: £53.1m)
- Operating loss (before exceptional items) of £48.9m (2008: profit of £13.1m)
- Pre-tax loss of £55.4m (2008: profit of £12.7m)⁺⁺
- Impairment charge of £49.2m (£66.7m inclusive of gross up)⁺⁺⁺ (2008: £3.8m (£7.4m inclusive of gross up)) of which c. 84% is in relation to the impairment of the property portfolio. c. £31m (c. £38m inclusive of gross up) of this was reported at the interim results
- Net asset value of £10.9m (2008: £58.2m)

+ including letters of credit of £2.1m (2008: £7.2m).

++ Pre-tax loss is stated after charging costs of £3.2m in relation to the restructuring of the business, the movement in the value of derivatives not qualifying for hedge accounting of £3.0m and transformation costs associated with restructure and resizing of £0.3m.

+++ Gross up is defined as interest income which continues to be recognised on impaired loans, and is included within the Group's revenues, for which a corresponding loan loss charge is made.

Strategic and restructuring update:

- £215m refinancing of the Group's banking facilities to support new strategy
- Extensive strategic review carried out, resulting in:
 - Focus on our trade and asset portfolios within appropriate parameters; and
 - Cessation of new facilities in property whilst optimising recoveries from our property portfolio
- Good progress with de-leveraging the business to a smaller operating and cost base
 - Loan portfolio reduced further to £173m as at close of business on 28 September 2009
 - Sales offices in Scotland, Liverpool, Newcastle and Bristol closed
 - Headcount reduced by 33%
- Annualised cost savings of £3.6m achieved
- £6.5m of exceptional restructuring costs incurred
- David Bowles has resigned from the Board to pursue new business interests

Chairman's Statement

The 2009 financial year was the most challenging in recent memory. The credit crunch continuing throughout the year and the recession starting last Autumn had a severe impact on the economy in general, and on the property market in particular. Despite having tightened property lending criteria in the Spring of 2008, the Group has experienced an unprecedented rise in the number of non performing assets in the property loan book.

A full strategic review of the business was undertaken in the year. This review received the full support of our banking syndicate and underpinned the new two year banking agreement in March 2009.

Performance Summary

Against this background, and given that property loans comprise over 63% of our loan book, our results for the year ended 30 June 2009 have been severely affected by a high level of provisions. Impairment charges of £66.7m (2008: £7.4m) were taken against loans believed to be at risk, of which approximately 82% relates to the property portfolio. This was the major factor in producing an operating loss before taxation and exceptional items of £48.9m (2008: profit of £13.1m) and fully diluted losses per share of 163.99p (2008: earnings per share of 35.17p). The net assets of the Group fell to £10.9m (2008: £58.2m).

Dividend Policy

The Group has agreed with its banking group not to make dividend distributions in the short term. The suspension of dividend payments has the benefit of preserving cash for the Group.

Our people

A number of our staff left the Group during the year as a result of phased restructuring. I would like to thank them for their contribution to the Group and to wish them well in their future careers.

We remain confident that the professionalism and commitment of our remaining staff will serve us well as the challenging times continue. On behalf of the Board, I would like to thank all of our employees for the tremendous efforts they have made in a time of unprecedented change.

Given the downsizing of the Group and the contraction of its asset base, the risk management function is now being embraced within the operating divisions. In line with this structural change, David Bowles has resigned from the Davenham Board with immediate effect. We would like to thank him for his contribution to the development of the Group and wish him success in his future career.

Summary

The economy is expected to remain difficult in the year ahead. The March 2009 refinancing and restructuring was designed to allow the Group to meet the continuing challenges of working out the non performing elements of its book in order to position it to benefit from an eventual economic recovery. Nevertheless, a renegotiation of the banking agreement is likely to be required during the current financial year.

James Kerr-Muir
Chairman

29 September 2009

Chief Executive's Report

Introduction

The past twelve months have seen the problems in the world's capital markets which were first identified in mid 2007 impact deeply on the world economy, putting the UK firmly into recession. This has had a particularly brutal effect upon the Group's core SME market, and in particular its property finance clients, many of whom are struggling for survival.

Reflecting these global events and a downturn in our results, we completed a thorough review of the business in Autumn 2008, leading to our decision to focus on operating our trade and asset portfolios within appropriate parameters, whilst optimising recoveries from our property portfolio.

In March 2009, we reported that we had successfully refinanced the Group's banking facilities and restructured our operating divisions. Nevertheless, the quantum of the downturn, specifically in the property market, has been greater than many commentators anticipated.

Trading Overview

The deteriorating economy has affected Davenham in three principal ways:

- In our property book, clients found it increasingly difficult to repay our loans, either through the successful sale of their property or through refinancing. The impact became more severe as property prices began to fall sharply;
- In the SME marketplace, the Group's heartland, across a wide variety of sectors, many businesses became increasingly vulnerable to insolvency; and
- In the small ticket asset and professional loans market, the Group's loan books experienced a higher rate of default, whilst recovery against asset values started to fall as the assets themselves fell in value.

The result of the above principally caused a significant rise in the level of loan impairment most notably within the Group's property loan portfolio, as initially reported upon in March 2009 and confirmed in these results.

Strategic review

During the Autumn of 2008 we carried out a thorough review of the business, leading to the decision to focus on operating our trade and asset portfolios within appropriate parameters, whilst optimising recoveries from our property portfolio.

Overall, these changes are resulting in a significant de-leveraging of the business to a smaller operating and cost base, a lower loan portfolio and smaller balance sheet.

As part of the strategic review the Group has taken the following specific actions:

- Ceased new business in the property division
- Ceased new business in small ticket leasing and professional loans
- Closed offices in Liverpool, Glasgow, Newcastle and Bristol
- Reduced its staffing levels from 193 in mid 2008 to 129 currently
- Reduced its banking facilities from £300m to £180m
- Reduced its indebtedness to its banking group from £235m to approximately £168m as at 29 September 2009
- Traded cautiously and at a reduced level in its trade and asset divisions
- Further resourced its property management group with specialist property asset professionals

The net result of these actions is that operating costs have been reduced by 25% and the risks within the loan portfolios have reduced. Additionally all the portfolios have been provisioned at sensible levels.

The objective has therefore been to ensure the Group weathers the recessionary forces in the economy emerging into what will be a significantly changed operating environment for financing SMEs.

Operating review

Property

As the Group results indicate our specific provisions have increased to £37.8m (please refer to page 8 for an analysis of the total impairment charge) – largely as a result of our clients being unable to refinance or sell their properties to effect repayment of the associated loans. This has been complicated by the serious falls in property values across the UK, of up to 25% in most regions. This has led to arrears, default and in some cases very serious solvency issues for our clients.

In many cases where properties have been repossessed from clients, the Group has often been required to complete and get properties ready for sale to optimise exit values. We have met this challenge by taking on property professionals to support our loan officers and develop full asset management skills within the team. The Group's stance is to work closely with all its clients to protect mutual value which has seen our clients successfully redeem £57m of property based loans in the last twelve months. This has been an outstanding achievement by our clients and staff.

Chief Executive's Report continued

However, in some cases where relationships have broken down or our clients have tried to abrogate their obligations, we have had no option but to take legal action.

The division is currently managing gross assets of £151m with specific provisions of £29m. Our intention is to redeem these loans over the next 18-24 months. The Group continues to take a conservative stance in respect of the property market outlook, notwithstanding that market commentators are referring to a potential recovery being underway.

Asset

The asset division has three main elements:

Large ticket assets including Manor Credit

Whilst asset values have generally fallen and SMEs are naturally cautious about taking on further commitments, demand for this type of finance remains steady. This is the core of the Group's asset offering, both through hire purchase and leasing. Arrears and bad debts have inevitably increased as the economy has slowed, but these are not out of line with management expectations.

Small ticket leasing

This book is in 'run down' and is liquidating at the expected rate. Individual leases remain problematic with very little underlying asset security. Legal action to recover smaller sums is ongoing.

Professional loans

This book is also in 'run down' with workout strategies being employed by the Group across sole traders and partnerships.

Trade

The trade division embraces a series of working capital products secured against debtors, stock and underlying transactions. The division continues to trade cautiously and is well positioned to address the tough current trading environment.

Central

The central area of the Group provides services to the rest of the Group including HR, Training, Finance, Company Secretarial, Treasury and Marketing. Many of these areas have been scaled back as part of the downsizing process.

Banking

As stated elsewhere in this report the Group refinanced in March 2009. This new two year facility was tailored to support the asset and trade divisions' working capital requirements whilst reflecting the recovery of cash from the downsizing of the property loan book.

Outlook

Over the past nine months we have taken decisive action to change the Group's strategy to meet a very challenging economic environment.

Significant progress has been made in:

- Reducing credit risk
- Reducing operating costs
- De-leveraging
- Optimising recoveries
- Downsizing the property book

We do not see a significant uplift in the economic environment currently and we will continue to focus on collecting-out our property book. Our banks continue to show support for the Group and we are working closely with them. Now that the rate of provisioning across our property book has slowed, the Board has appointed Hawkpoint to evaluate the options available to maximise stakeholder value.

David Coates

Chief Executive

29 September 2009

Business Review

These are the second set of consolidated Financial Statements reported by the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

This has been a very challenging year for the Group as the impact of interest rate cuts and the liquidity squeeze led to a more difficult market place. It was during the latter part of 2008 that the Group implemented the revised strategy, highlighted in the Chief Executive's Report.

The property division operated in a market experiencing rapid decline. This was reflected in the paucity of transactions, the period of time taken to sell a property and the prices being achieved. The Group was unable to charge interest on a large proportion of its property exposures due to the overall value of the property collateral being less than the level of the original loan advanced.

In addition, both the asset and trade portfolios began to see the impact of recessionary pressures as customer's access to liquidity was squeezed and overall levels of trading activity were reduced.

The cash discounting treatment of non-performing loans within the property portfolio (together with the fair value adjustment of the swap portfolio) has had a material impact on the Group's results under IFRS (and a significantly greater impact than would have been the case under UK GAAP).

Financial Highlights

In this intensely difficult market, Group revenues decreased by 8% to £49.1m (2008: £53.1m). The loan portfolio, including letters of credit, reduced by 32% to £193m (2008: £284m).

Loss before tax and exceptional items was £48.9m (2008: profit of £13.1m) after charging £66.7m (2008: £7.4m) for impairment, the vast majority relating to the performance of the property portfolio. The impairment charge is inclusive of gross up which amounted to £17.5m (2008: £3.7m) for the year reflecting the opportunity loss on many of the Group's property loans.

Exceptional costs of £6.5m increased the loss before tax to £55.4m (2008: profit of £12.7m).

The Group's effective tax rate during the year was 26.7% (2008: 30.6%). A full analysis of the tax charge for the year is set out in note 9 to the financial statements.

Exceptional costs

During the year, the Group recognised a number of items within administrative expenses, which due to their size and unusual nature are disclosed as exceptional costs.

In view of the significant shift in market conditions, the Group initiated a new strategy which has resulted in the implementation of a number of restructuring initiatives, leading in turn to costs being incurred in respect of the new banking facilities, office closures and redundancies. These costs have been disclosed as exceptional.

The Group's debt levels fell below the overall size of the swap portfolio, as a result of the Group's revised strategy. As a consequence, the Group incurred a charge of £3.0m (2008: £nil) in relation to fair value movements on its interest rate swaps which were no longer designated as hedging drawn down debt.

Borrowing facilities

In late 2006, the Group had negotiated a revolving total facility agreement of £300m which was due to expire in December 2009. As part of the Group's revised strategy, concerns over the levels of liquidity within the wholesale banking market, and potential for covenant pressure, the Group refinanced its banking lines early. It agreed a new two year facility with its existing syndicate of banks on 23 March 2009. The interest rate increased from 125bps over LIBOR to 300bps over LIBOR under the new agreement.

The new facility was tailored to ensure the working capital requirements of the asset and trade divisions were met whilst reflecting the recovery of cash from the reduction of the property loan book.

The facility commenced at £215m and contains covenants and other undertakings (including the need to obtain banking group consent to the payment of any dividends) that the Board considered acceptable in the prevailing financial environment and appropriate when adopting the new strategy.

The facility levels as determined by the new banking agreement are required to reduce in line with predetermined step downs to £90m by September 2010.

Cash flow

Management focused on the trade and asset portfolios, whilst at the same time investing considerable efforts towards cash generation resulting in a net reduction of its indebtedness by £38m in the year to £179m, as at 30 June 2009. The cessation of lending within the areas of property, small ticket asset and professional loans, together with a strong focus on recoveries, particularly in property, were the prime drivers in the Group's overall reduction in its debt levels.

Administrative expenses

During this prolonged period of severe economic turmoil, the Group continues to carefully manage its business, taking hard decisions to remove costs where practicable.

Business Review continued

Shareholders' Return

Fully diluted losses per share were 163.99p (2008: earnings per share of 35.17p) with basic losses per share being calculated at 163.99p (2008: earnings per share of 35.75p).

In light of the current economic conditions, the Group has agreed with the banking group not to make dividend distributions currently.

Key Performance Indicators

A number of KPIs are used by the Group in managing the business. The following provides an explanation of the purpose and basis of the calculation for these KPIs:

Revenue

Measurement of income generated from the deployment of the Group's product portfolio. Income is calculated based upon the various product margins charged and fees applied and recognised in accordance with the Group's income recognition policies, excluding the impact of gross-up adjustments (the nature of this adjustment is explained in note 2 of the annual report and accounts).

2005	UK GAAP	£28.5m
2006	UK GAAP	£32.7m
2007	IFRS	£38.6m
2008	IFRS	£49.5m
2009	IFRS	£31.6m

The reduction in revenue is primarily reflective of a high number of non-performing accounts being suspended, resulting in income being frozen, due to the quality of the underlying Loan to Value. Declining portfolio levels in asset and trade have also contributed to lower income streams.

Profit/(Loss) before tax and exceptional items

Measurement of the Group's return on employed business resources. The measurement is based upon income less interest payable, impairment and administrative expenses.

2005	UK GAAP	£8.1m
2006	UK GAAP	£10.4m
2007	IFRS	£11.6m
2008	IFRS	£13.1m
2009	IFRS	(£48.9m)

The reduction in revenue combined with the requirement for unprecedented levels of impairment charges has led to the Group recording a loss for the first time in its history.

Loan Portfolio**

Total amount of the lending portfolio outstanding at the end of the financial year. The measure assesses the size of the portfolio and associated dynamics.

** including letters of credit and after loan loss provisions

2005	UK GAAP	£154.7m
2006	IFRS	£187.3m
2007	IFRS	£248.0m
2008	IFRS	£284.4m
2009	IFRS	£193.0m

The net loan portfolio has decreased in 2009 as a result of ceasing to write new facilities in property, small ticket leasing and professional loans, and a cautious lending approach in the asset and trade divisions. In addition, the requirement for substantial loan loss provisioning has further impacted on net portfolio levels.

Portfolio Mix

The portfolios for the three divisions within the Group have differing risk and margin characteristics.

	Property	Trade	Asset
2005	£68.7m	£46.2m	£39.8m
2006	£91.1m	£56.0m	£40.2m
2007	£150.4m	£56.0m	£65.2m
2008	£154.6m	£58.4m	£71.4m
2009	£110.1m	£29.7m	£53.2m

The net loan portfolios have decreased across all three divisions in line with the Group's revised strategy of operating its trade and asset portfolios within appropriate parameters, whilst optimising recoveries from its property portfolio.

Basic Earnings/(Loss) per share

Assessment of the creation of shareholder value, measured as the profit/(loss) on ordinary activities after taxation divided by the weighted average number of ordinary shares in issue during the year.

2005	21.6p
2006	27.4p
2007	33.44p
2008	35.75p
2009	(163.99p)

There have been minimal movements in the weighted average number of ordinary shares in issue. The reduction in the earnings per share has been a result of the Group's trading losses.

Following the adoption of the Group's new strategy and the signing of the £215m facility in March 2009, the Group has in addition to the traditional KPIs detailed above focussed on its banking covenants, the key indicators being the step down of the facility from £215m to £90m and the underlying value of the Group's net tangible worth as defined under UK GAAP. These covenants are explained in more detail in the liquidity risk section on page 12.

Arrears and Impairment

In addition to the KPIs noted above the Group closely manages the following credit performance indicators:

- Arrears
- Non-performing debt
- Bad debt charge

As an asset based lender, the Group assesses the underlying value of the asset against which it advances funds using the asset held as collateral security. Historically, it has been the detailed initial assessment of the underlying collateral that has been important in ensuring the levels of actual capital losses in a "normal economic environment" reflected as a bad debt charge, are kept to a minimum. However, the unprecedented turmoil in the financial markets has been reflected in the property market with a sharp reduction in the availability of mortgage finance both for the end user and the buy to let investor resulting in a substantial reduction in the value of collateral security held. Similar issues are being seen in the asset and trade divisions, as asset values decline as demand diminishes whilst the UK economy is in recession.

The deterioration of credit quality will typically manifest itself through three main stages which are reflected by the three indicators.

Arrears on an account reflect the full balance regardless of the underlying security, which should be equivalent to the capital outstanding. This occurs where a customer is unable to service contractual repayments. Remedial action is taken to address the interest arrears and ensure that the funds advanced remain asset secured. Should the customer not be able to remedy the arrears an account becomes defined as non-performing. At this point further interest accrued to the account is suspended.

While non-performing accounts can result in a loss of income, this historically has not necessarily resulted in a capital loss as the Group looks to realise the maximum value of underlying collateral. In the current environment, the Group has seen the value of this underlying collateral eroded substantially below values originally expected.

A bad debt charge is incurred where there is objective evidence to show that the carrying value is more than the future expected cashflows discounted at the original effective interest rate. In practical terms the value of the underlying collateral would be less than the outstanding loan.

The speed at which credit quality has deteriorated, due to the current economic environment, has seen accounts pass directly to the bad debt stage.

The definitions of the metrics used and recent performance of each of these indicators are as follows:

Arrears, measured as the value of the Group's customers' accounts contractually in arrears shown as a percentage of the gross portfolio balance, are 66.7% (2008: 12.4%).

Non-performing debt, measured as the value of the Group's customers' accounts where the recognition of interest has been suspended shown as a percentage of the gross portfolio balance, is 64.5% (2008: 13.6%).

	Property £'000	Trade £'000	Asset £'000	Total £'000
Arrears				
2009	1,852	9	3,870	5,731
2008	28,667	875	5,456	34,998
Non-performing				
2009	132,332	4,941	8,745	146,018
2008	29,597	3,810	4,879	38,286

Bad debt charge, defined as the specific provisioning charge (net of recoveries and before the effects of discounting) is £37.8m (2008: £3.1m).

In addition to the specific bad debt charge, the Group makes charges under IAS 39 'Financial Instruments – Recognition and Measurement' under the headings of gross up, cash discounting and collective impairment. These are defined overleaf:

Business Review continued

Gross up

IAS 39 requires that income continues to be recognised on the outstanding balance of a loan at the original effective interest rate, irrespective of the contractual term and whether interest has been suspended or frozen. Currently interest is suspended or frozen if the Group believes the serviceability of the debt is significantly at risk. IAS 39 requires more interest to be recognised than actually deemed recoverable from the customer. As this interest is not deemed recoverable a corresponding loan loss charge is made.

Cash Discounting

The cash discounting charge is the amount of the loss measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial assets original effective interest rate. The cash discounting charge unwinds as the related cashflows are received.

Collective Impairment

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 the historical loss experience.

The total impairment charge for the year is analysed as follows into its constituent parts as defined by the Group's accounting policies:

	Property £'000	Trade £'000	Asset £'000	Total £'000
Specific bad debt charge	31,259	1,873	4,652	37,784
Cash discounting	8,508	88	233	8,829
Collective impairment	(80)	789	1,922	2,631
Sub-total	39,687	2,750	6,807	49,244
Gross up	14,711	1,332	1,426	17,469
Total	54,398	4,082	8,233	66,713

This analysis highlights that the Group has incurred impairment charges of approximately £11.5m in relation to cash discounting and collective impairment. A material element of this relates to the property portfolio.

As at 30 June 2009 the property portfolio has suffered an impairment charge in relation to cash discounting and collective impairment of approximately £8.4m in addition to specific provisions. As highlighted in the definitions above, as the property portfolio is disposed of the cash discounting provision will be released, provided the actual cashflows are the same as forecast, back into the income

statement reflecting a positive impact on the Group's financial performance over the coming year(s).

The impairment charge is also increased by the level of gross up (see note 17). This charge is offset by a corresponding increase in the Group's revenues of £17.5m for the year. The charge is reflective of that element of the Group's portfolio where it is unable to recognise income. This is primarily in relation to the property portfolio as analysed in note 17.

The level of capital loss the Group has or is expecting to incur (i.e. the shortfall between capital balances outstanding and the underlying collateral security) for the year ended 30 June 2009 amounted to £37.8m of the headline impairment level charged under IFRS of £66.7m.

The total balance sheet provisions as at 30 June 2009 under IFRS are as follows:

	Property £'000	Trade £'000	Asset £'000	Total £'000
Specific provision	29,076	1,681	2,930	33,687
Cash discounting	10,416	305	385	11,106
Collective impairment	306	931	2,093	3,330
Total	39,798	2,917	5,408	48,123

Risk Environment

The Group is exposed to a number of risks arising from the nature of its business and the environment in which it operates. The Group historically operated in an environment that exposes it to higher risks than those faced by other more traditional mainstream business to business asset secured finance providers.

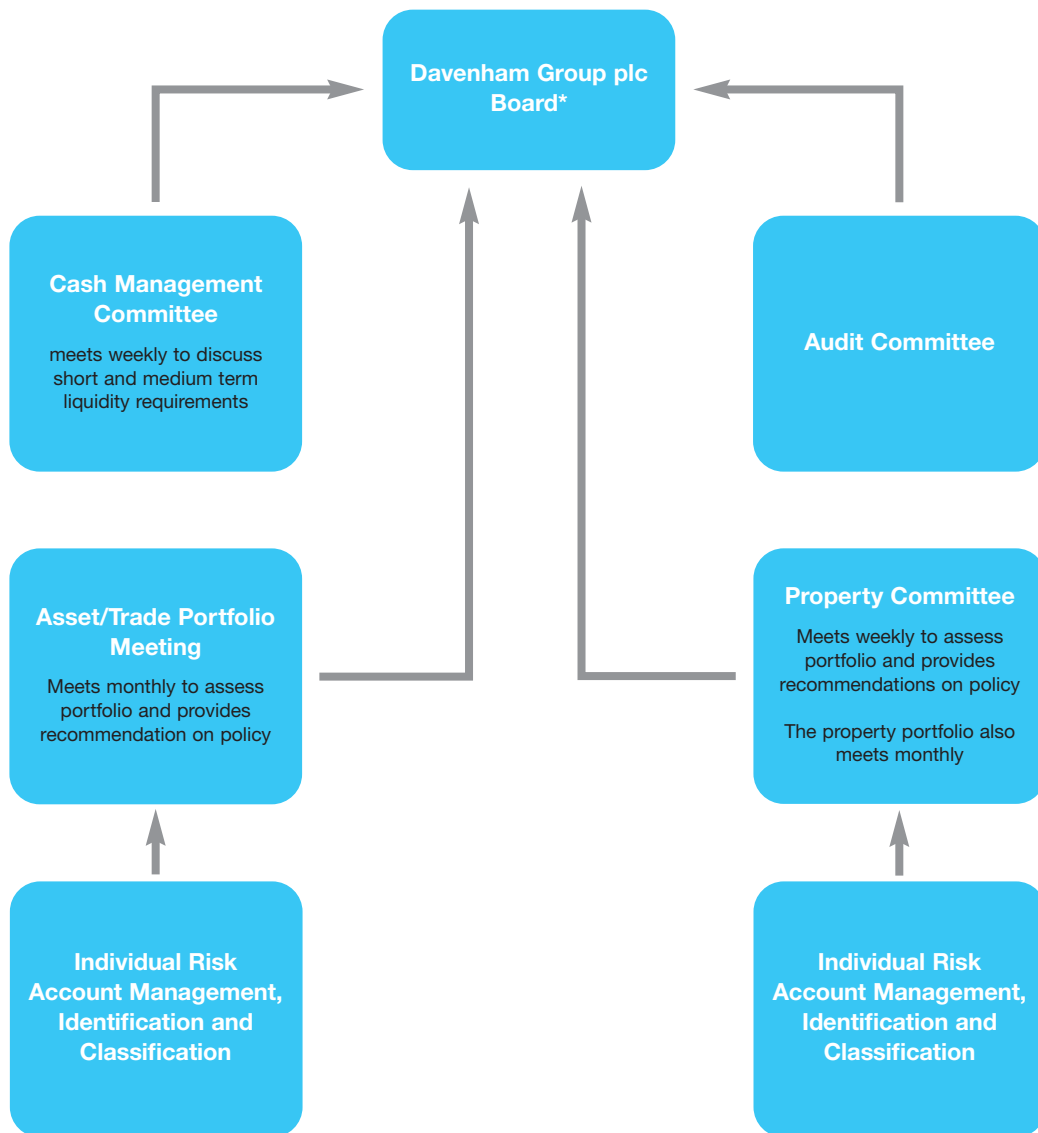
The business risks facing the Group have significantly increased and changed since late 2008, reflecting the worsening economic climate and the implications this carries for both short and long term performance. The impact of these increased and changing risks, especially in the property portfolio, have given rise to numerous changes in the risk management framework.

The primary areas of change have centred around liquidity risk and the property portfolio. The property portfolio has seen the Group having to consider differing types of risk and their management which are more aligned to a property investment/fund manager business as opposed to a provider of finance as highlighted in the Chief Executive's Report.

The Risk Management Framework has therefore been strengthened in response to these changes.

Risk Management Framework

The risk framework is adopted and implemented through various risk management groups and committees who have been expanded during the year. The two notable additions have been in relation to the property portfolio and cash management. The following details the risk control framework:



*Asset & Liability Management Committee (ALCO) has now been integrated into the Board.

Business Review continued

The principal risk management groups and their responsibilities are:

The Board of Davenham Group plc

Responsibility for the overall risk framework and governance lies with the Board of Directors.

The Audit Committee

The Audit Committee is a non-executive committee that works on behalf of the Board. Its key responsibilities include monitoring external auditor performance and ensuring the financial reporting, accounting policies and internal controls are monitored and assessed and correctly applied to the Group's reporting statements.

Internal Audit

The development of a formal internal audit review has been delayed whilst the Group's financial resources are focused on the current financial challenges. The Board intends to commence the reviews once the current challenges have been addressed and believes it would not be appropriate to engage further resource at the current time.

Asset & Liability Management Committee (ALCO)

The committee was responsible for advising the Board on all matters relating to the balance sheet of the Group, specifically in relation to the following matters:

- Capital structure and related matters;
- Funding; and
- Liquidity

The committee historically advised the Board and recommended actions it considered necessary or desirable to establish that the Group's balance sheet matters are suitably understood and managed. Due to the seriousness of the current financial challenges facing the Group the Committee no-longer advises the Board. The Board has now taken direct responsibility.

Group Risk

The function of Group Risk management is to provide the Board with independent oversight that risks are being adequately managed and providing the divisional risk functions with support and guidance as necessary.

Risk Categorisation

The Group has identified the following key risks which could impact on the Group's ability to deliver its stated strategy:

- Credit Risk;
- Property Risk;
- Treasury Risk;
- Capital Risk;
- Operational Risk; and
- Strategic Risk

The following definitions of the Group's key risks also reflect how they are managed and mitigated.

Credit Risk

The Group acknowledges that the taking of credit risk in order to earn a return is a central facet of the Group's business model. This is the risk that a financial loss both in terms of earnings or capital will arise through a customer failing to meet the terms and obligations of their contract as they become due. This risk relates to the Group's exposure to its portfolio of loans and receivables.

Adverse changes in the credit quality of the Group's portfolio through a general deterioration in economic conditions has affected the recoverability and value of the Group's assets, including its loans and receivables and therefore its financial performance.

Concentration Risk

The loan portfolio within each product segment is broadly spread by both sector and geography.

Risk Management

The Group maintains a focused risk management ethic and framework, core to the strategy and culture of the business.

Portfolio Meetings

A key risk management control is the monthly portfolio meeting, used to discuss actions required on delinquent accounts, trends, recommendations for policy changes and provisions.

The monthly portfolio reviews are managed by Divisional Risk Management on behalf of each product and division, with independent oversight provided by Group Risk. They are held in conjunction with the divisional senior management, underwriters, customer facing teams and divisional risk managers.

In addition to the monthly portfolio management meeting as noted earlier, the Property Committee meets every week to discuss the performance of the property portfolio – both performing and non-performing accounts.

Risk Control

Risk is managed through the deployment of specialist and dedicated risk professionals within each division, with oversight provided by the Group Risk function.

Specialist underwriters work in the divisions where they are closest to their markets. The underwriters have complete independence from the sales process. External professionals are used in combination with this internal expertise to conduct due diligence on the equity value of the assets being considered for finance, the customer's financial position and the ability of the commercial entity to repay any facility provided.

On approval, credit risk is closely monitored by account managers. A rigorous control framework exists to escalate account level risk from an individual to the divisional management team and then to Group Risk. All accounts are reviewed for emerging risks on at least a monthly basis.

Risk Classification and Monitoring

Each part of the Group's lending activities has defined risk classifications, consistently used across product ranges to ensure complete transparency. The main categories of debt are:

- Performing
- Arrears
- Impaired

Sub-categories of the primary groups are adopted to give the Board greater depth to the performance of individual products. The assignment of loans to different risk categories is based upon the monthly portfolio review which reflects an assessment of the relative risk of default and the strength of the underlying security. The presentation of agreements to each monthly portfolio review is conducted on all debts that have or may breach the terms of their facilities. Each loan is subject to an independent assessment which determines the allocation of a risk category.

Detailed account level exception reports are produced monthly to clarify the status of known risks to the Group and highlight potential emerging and new risks. The detailed account level information is collated in order for the Group to clarify its position on account level risk but also to build a picture of the portfolio trends. These trends are used to provide insight to and enable the Board to manage the risk appetite of the business.

Property Risk

The current upheaval in the property market is subject to many external economic and market factors which are cyclical in nature. The unprecedented turmoil in the financial markets has been reflected in the residential property market which has seen a period of rapid decline. This is reflected in terms of the paucity of transactions, the period of time taken to sell a property and the values being achieved. The primary cause is the substantial reduction in the availability of mortgage finance as major lenders have looked to repair their own balance sheets by limiting lending.

The inability of our clients to sell their underlying property assets and repay their loans has seen a substantial increase in the levels of non-performing loans. This has been heightened by the fact that many of our clients are property developers and have suffered severe working capital constraints. We have seen a large number of clients enter into formal insolvency processes.

The combination of these two factors has resulted in the Group becoming an Asset Manager as it has had to take "ownership" of the properties concerned. Ownership does not necessarily refer to actual legal ownership being instigated but the Group now has to manage the following:

- Holding the property whilst a buyer is found
- Maintenance of the property
- Completion of developments where developers have ceased trading
- Managing planning and building inspection sign off and related regulation
- Managing the sales process via estate agents and direct approaches

Business Review continued

This change in focus from property lender to property asset manager has given rise to additional risks, which are summarised below. The assessment of these risks and the implications on the short and medium term performance of the portfolio is discussed and managed at a weekly Property Committee meeting headed by the Chief Executive. The outcomes of this meeting are then reflected within the weekly cashflow meetings and ultimately reported to the Board on a monthly basis:

- The market risk assesses the response to changes in the macroeconomic climate including buyer confidence and interest rate movements. The Property Committee considers key sales data across the portfolio e.g. sales rates, visitor levels, offers received and market intelligence obtained through the management of estate agents employed to action the disposal of various units. The Group recently employed the services of an experienced estate agent to manage the network of estate agencies being used across the country and take an active role in the sales process being adopted. Based upon this information consideration is given to the pricing of the sales units and whether price changes are required. The Committee is however focused on the need to retain value and not to dispose of the assets concerned through a distressed process unless all other avenues have been considered.

In addition to monitoring interest rate movements the Committee also actively monitors the availability of mortgage products, including buy to let, and which are being withdrawn/introduced to the market to assess availability of liquidity.

- Construction/Regulation risk is the failure to meet planning requirements to ensure compliance with various permissions and guidance. The risk of not meeting prescribed development milestones and their impact on cost overruns and ultimately delayed future sales performance. The Group now employs experienced quantity surveyors and building project managers to assist in managing these risks.
- Other risks include the Group now having to ensure insurance, health and safety and security requirements of its property assets are managed and controlled through specialist advisers.

Treasury Risk

The Group has categorised its treasury risk across the following elements:

- Liquidity risk
- Financing risk
- Market risk – interest rate and currency risk
- Counterparty credit risk

Liquidity Risk

This is the risk to both current and prospective earnings or capital arising from the Group's inability to meet its obligations when they become due without incurring unacceptable or unexpected losses. This may be despite the fact that the Group has adequate capital. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources due to changes in market conditions. Liquidity risk also arises from the failure to recognise or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value if necessary.

The Group funds its business through syndicated and bilateral facilities with major UK and international banks.

The Group maintains a formal treasury function via Davenham Treasury Services Limited. This manages the day to day treasury function, providing funding to, and taking surplus funds from, each of the Group business segments as required. The treasury function is charged with providing daily management information including short term funding requirements to enable the business to manage its daily liquidity requirements.

As explained in note 1 to the financial statements, a revised facility was agreed with the banks in March 2009. The facility contains certain covenant tests, which are based upon financial results prepared under UK GAAP including:

- tangible net worth
- net borrowings cover ratio
- the actual amount of loan repayments in the property portfolio (as against their book values)
- asset quality defined for product type
- individual portfolio exposure levels, and
- facility step-down levels

In addition other undertakings were given (including the need to obtain banking group consent to the payment of any dividends) that the Board considered acceptable and appropriate in the context of the new strategy.

The covenant tests are reviewed by the Board on a monthly basis to assess the Group's performance against each of the covenants.

The Group successfully met the facility step-down covenant test as at 30 June 2009 and is confident it will meet the next testing point at 30 September 2009. This has been despite the actual cashflows generated by the property division being lower than originally forecast. However the quantum of the cash collected to date has been considerable, with approximately £57m having been collected from its realisation between October 2008 and to date.

However, as discussed in note 1 to the financial statements, the directors consider it likely that the Group will breach some of the facility covenants in the current financial year.

Details of current bank facilities and their maturity dates are set out in note 21.

Interest Rate Risk

The Group's long standing treasury strategy is to minimise interest rate volatility from its bank borrowings.

The Group looks to fix that element of its floating rate borrowings against its fixed rate lending thus locking in its profit element.

The Group has minimal risk to revenue from changes in market interest rates as the majority of advances made to the Group's customers are at rates of interest that are fixed over the term of the contract. However, elements of the Trade finance portfolio are priced at floating rates and historically any impact to revenue from changes in market rates would be offset by a corresponding reduction in the cost of funding in relation to that element of the portfolio. As noted on page 54, the Group is currently locked into fixed rates of interest on its debt due to the excess swap portfolio which has resulted in the trade portfolio suffering from reduced income on its floating rate lending following interest rate reductions whilst still incurring a fixed rate of borrowing at levels in excess of current market rates.

Funding facilities provided by the banking syndicate are at a floating rate. The Group was therefore exposed to the risk of rising interest rates. However this has been avoided through the use of financial hedging derivatives. The counterparties to these derivatives are from the top four of the Group's banking syndicate. The Group reviews on a regular basis counterparty credit risk; currently this is not considered a material risk to the business.

As a result of the Group using various financial derivatives, it limits exposure to movements in bank funding rates in the short to medium term. As at 30 June 2009, the Group had £210m of swap contracts in place against an initial £215m facility level. The covenanted step-down requirements of the facility to £90m by September 2010, will result in the Group having a number of swap contracts which will no longer remain effective for their remaining contractual periods. This will result in an over-hedged position at various points over the coming years. Therefore, during the year, the Group de-designated £105m of hedging relationships to reflect this.

The impact of these de-designations requires that the fair value of these contracts is recognised directly within the income statement and any future movements in these should also be passed directly through the income statement rather than the hedging reserve.

An independent valuation of the swap portfolio has now been undertaken which shows a negative fair value of the total portfolio of £9.8m as at 30 June 2009 (2008: positive fair value £2.8m) (refer to note 22). This represents a £12.6m reduction from 30 June 2008 position. However, of the £9.8m, only swaps with fair values of £6.8m are forecast to remain fully effective for their remaining lives and therefore £3.0m has been recognised as a charge within the income statement in the year.

Given that this charge has arisen because of the requirement to down-size the Group, this cost has been treated as an exceptional item.

It should be noted that this charge will be credited back into the income statement in future years as the lives of these swaps amortise. Given interest rates remain at all-time lows, in the event that rates harden during these remaining periods then the fair value of these swaps will improve and a credit back to the income statement will be seen.

The treasury function monitors interest rate movements advising the executive directors on a daily basis. The function also benefits from regular updates from the treasury departments of each of the leading banks within the syndicate keeping the Group advised of any movements within the capital markets and risk management products which may be of benefit to the Group.

Currency Risk

The Group has very little exposure to currency risk with all product foreign exchange transactional risk being the responsibility of the customer. However certain funding received or deposits held by the Group at times may not be in sterling. This creates a potential exposure to accounting risk of adverse changes in exchange rate movements on re-translation. As at 30 June 2009 the Group had foreign currency cash balances equivalent to £1.9m. The Group uses formal hedging techniques in the form of forward contracts where the Group acts as agent on behalf of its clients.

Capital Risk

The Group's objective when managing capital is to ensure it continues as a going concern as well as to provide a balance between financial flexibility and balance sheet efficiency. In determining its optimal capital structure, the Group considers the robustness of future cash flows, potential funding requirements, the cost of capital and ease of access to funding sources.

The Group is not subject to any external regulatory capital requirements. However the Group is required, under its banking agreement, to procure that the tangible net worth, (as defined by the banking agreement), of the Group as at 31 March 2010, and as at each quarter end thereafter, is greater than or equal to £20m, when accounted for under

Business Review continued

UK GAAP. This covenant has not yet reached its first testing point, however, at 30 June 2009, under UK GAAP, the Group achieved a tangible net worth of £27.1m.

The Group's equity together with a reconciliation to tangible net worth is shown below:

	2009 £'000	2008 £'000
Borrowings	181,586	219,225
Less cash and cash equivalents	(2,562)	(2,416)
Net borrowings	179,024	216,809
Total equity	10,922	58,208
Adjustments:		
Own shares held reserve	1,507	1,507
IFRS adjustments	14,638	(1,552)
Tangible net worth (as defined by the banking agreement)	27,067	58,163

Operational Risk

This is the risk to earnings or capital resulting from inadequate or failed internal processes, systems and the actions of our people across the whole Group. The major areas of operational risk surround:

- Dependence on key suppliers;
- IT security;
- Product documentation and execution;
- Internal and external fraud;
- Implementation of strategic change; and
- Process errors.

The Group manages these risks through a variety of controls and processes, and mitigation actions including

insurance. The implementation and monitoring of these actions are reviewed by each of the individual divisional risk functions which then report into Group Risk.

External risk advice and support is provided in connection with human resources, health and safety and IT security including business continuity planning. Whilst the Group remains ultimately responsible for the management of these risks, the support and advice offered by these external advisers forms an important part of the risk management matrix. The Board is updated on a monthly basis regarding issues surrounding human resource and health and safety.

Strategic Risk

This is the risk to earnings or capital through taking adverse business decisions, or the unsuccessful implementation of those decisions both in the short and long term.

The Group's strategic vision, its current goals and its expectations relating to its future financial position involve risks and uncertainties which are dependent on future events and circumstances which may be beyond its control. These include, among others, UK economic and business conditions; market-related risks, such as fluctuations in interest rates; the impact of competition; and the timing, impact and other uncertainties of future mergers or combinations within relevant industries.

In March 2009, the Group adopted its new strategy of focusing on its trade and asset portfolio whilst at the same time ceasing new facilities in property and recovering the current portfolio. This was supported by the banking group with the agreement of the Group's new two year financing facility.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in its forward-looking statements. The Group undertakes no obligation to update the forward-looking statements contained in this document or any other forward-looking statement it may make.

Board of Directors

J R Kerr-Muir

Chairman



James is a non-executive Director of Gartmore Fledgling Trust plc and was formerly Managing Director UK of Tate & Lyle plc and Group Finance Director of Kingfisher plc. He has also held non-executive roles for a number of companies including Acertec plc, Birmingham Midshires Building Society and Senior plc.

D R Coates

Chief Executive Officer



David's early career in commercial finance/lending was within the RBS Group and later with Standard Chartered Bank, where he held senior positions in both the UK and USA. Subsequently, David held a succession of MD/main board roles with Experian and Callcredit, before joining Davenham Group plc in 2004 and becoming Chief Executive in 2005.

P E Burke

Finance Director



A qualified accountant, Paul spent almost ten years with State Securities, part of Abbey National specialising in asset finance. As Finance Director, Paul was part of the successful team that concluded the original sale to Abbey National and then in 2003 the sale of State Securities to The Rothschild Merchant Banking Group.

D Bowles

Risk Director



David joined Davenham in early 2007 from GE Capital Bank where he held several senior management positions in eight years of service. His most recent role was as Head of Enterprise Risk Management and Basel Program Director. Prior to this he held positions of Risk Director, GE Capital Woodchester, and previous to this, Risk Director and Head of Risk, GE Global Consumer Finance. Prior to GE, David held a variety of Credit, Risk and Fraud Management positions. David Bowles resigned from the Board on 28 September 2009.

G L Footitt

Senior non-executive Director



Sam joined the Board in 2001, having previously held many senior roles within the Royal Dutch Shell Group of Companies, including Director of Finance in Shell UK Limited. Since retiring from Shell, he has been a consultant to Simmons & Simmons, the City of London Law firm and to UBS, and to Schroders, Salomon Smith Barney, the investment banking arm of Citigroup. Since September 2008, Sam has been non-executive Chairman of Challenge Energy Limited. He is also a non-executive director of Quexo Inc. based in Dallas, USA, and a director/trustee of the Rockdale Housing Association, a charitable organisation located in Sevenoaks, Kent.

D H Stewart

Non-executive Director



David joined the Board in October 2005, having previously held senior roles in banking and asset finance including Commercial Banking Director of TSB Group plc, Director of Business and Professional Banking of Abbey National Group plc and Executive Director of Business Finance, First National Bank Limited. He is also a non executive director of Fletcher King plc. He was previously non-executive Chairman of Broadcastle plc, a specialist banking and asset finance company, acquired by Siemens AG.

Directors, Auditors and Company Information

Chairman

J R Kerr-Muir

Executive Directors

D R Coates Chief Executive Officer

D Bowles Risk Director
(resigned 28 September 2009)

P E Burke Finance Director

Non-executive Directors

G L Footitt

D H Stewart

Secretary

Qconsult Limited
Laurel House
173 Chorley New Road
Bolton
BL1 4QZ

Registered Auditors

PricewaterhouseCoopers LLP
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

Corporate Lawyer

Pinsent Masons LLP
1 Park Row
Leeds
LS1 5AB

Public Relations

Smithfield Consultants Limited
10 Aldersgate Street
London
EC1A 4HJ

Principal Banker

The Royal Bank of Scotland Plc
6th Floor
1 Spinningfields Square
Manchester
M3 3AP

Nominated Advisor

Hawkpoint Partners Limited
41 Lothbury
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EC2R 7AE

Broker

Panmure Gordon & Co
Moorgate Hall
155 Moorgate
London
EC2M 6XB

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6ZX

Registered Office

8 St. John Street
Manchester
M3 4DU

Registered Number

3976032

Directors' Report

for the year ended 30 June 2009

The Directors present their report and the audited financial statements for the year ended 30 June 2009. As set out more fully in the Statement of Accounting Policies, this Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS). All financial information given in this Directors' Report is taken solely from the statutory results prepared on this basis.

Principal activities

The principal activity of the Group is the granting of credit to businesses including loans, hire purchase, financial leasing arrangements and working capital facilities.

Review of business

A review of the business of the Group, a description of the principal risks and uncertainties facing the Group during the year ended 30 June 2009 are included in the Business Review on pages 5 to 14.

Future developments

As noted in the Chairman's Statement, a renegotiation of the Group's banking agreement is likely to be required during the current financial year, in conjunction with a review of strategic options for the Group.

Results and transfers to reserves

The consolidated loss for the year ended 30 June 2009 is set out in the Consolidated Income Statement on page 24. In relation to the 2008 financial year, the Directors proposed a final dividend of £1.8m, payable on 31 October 2008, but this was withdrawn on 20 October 2008. The Group has agreed with its banking syndicate not to make dividend distributions in the short term. The loss for the year of £40.6m (2008: profit of £8.8m) will be transferred to reserves.

Directors and their interests

The Directors of the Company at 30 June 2009, all of whom have been Directors for the whole of the year ended on that date are listed on page 16.

The Company maintains appropriate Directors' and Officers' Liability Insurance in respect of itself and its Directors.

The under mentioned Directors had the following beneficial interests in the ordinary shares of the Company as follows:

	Davenham Group plc ordinary shares of 1p each	
	30 June 2009 Number	30 June 2008 Number
J R Kerr-Muir	90,000	90,000
D R Coates	56,729	56,729
D Bowles	51,355	Nil
P E Burke	50,000	Nil
G L Footitt	82,325	12,325
D H Stewart	3,935	3,935

The under mentioned directors had the following share options over the ordinary shares of the Company as follows:

	Davenham Group plc ordinary shares of 1p each	
	30 June 2009 Number	30 June 2008 Number
D R Coates	482,258	482,258
P E Burke	353,965	353,965
D Bowles	Nil	Nil

There have been no changes in the above interests between 30 June 2009 and the date of this report.

Options are exercisable at a price of 147.0p per share.

The closing market price of ordinary shares at 30 June 2009 was 18.12p. The shares traded in the range 6.0p to 131.5p during the year.

The Group has an established Long Term Incentive Plan (LTIP) which allows periodic awards, over shares vesting in three years, to be made to individuals. The LTIP rewards participants by reference to performance based criteria. The choice of criteria is intended to incentivise executives to deliver substantial real earnings growth, in addition to generating above market returns for shareholders. During the year, further awards were made to individuals in accordance with the Rules of the Plan.

No director had any material interest in any contract with the Group during the period under review.

Charitable and political contributions

The Group made contributions of £5,500 (2008: £2,000) during the year to local charities. No political contributions were made.

Creditor payment policy

The Group's current policy concerning the majority of its creditors is to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

Trade creditor days of the Group for the year ended 30 June 2009 were 38 days (2008: 29 days) based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Employees

It is the Group's policy to involve employees in the business and to ensure that matters of concern to them, including the Group's aims and objectives and its financial performance,

Directors' Report continued

for the year ended 30 June 2009

are communicated in an open and regular way. This is achieved through the use of business briefings and other less formal communications.

The Group remains committed to a policy that promotes equality of opportunity to all employees and prospective employees, irrespective of background, for employment, training, career development and selection on the basis of ability, qualifications and suitability for the job. Executive management, managers and employees are required to support the policy in their day-to-day work, and commit themselves to maximising the potential of every employee. Employees who become disabled will be retained and re-trained, where possible.

Statement of disclosure of information to auditors

In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

- so far as the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit and loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and

enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the 'Business Review'. The finances of the Group, its liquidity position and borrowing facilities are described on pages 5 to 8 of the 'Business Review' and the risks faced by the Group, in particular, the financial covenant risks are set out in the 'Business Review' on page 10.

The Board have specifically considered the material risk of a breach of its loan covenants within the next 12 months. If a covenant breach were to occur then the banking syndicate would have the right, if it chose, to request early repayment of the outstanding borrowings. This represents a material uncertainty which may cast a significant doubt on the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Having made the requisite enquiries, the Directors have a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future for the reasons set out in note 1 to the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Group and Company financial statements.

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and resolutions proposing their re-appointment as auditors and authorising the directors to determine the auditors' remuneration will be proposed at the Annual General Meeting.

By order of the board

Qconsult Limited
Company Secretary

29 September 2009

Corporate Governance

The Board is committed to maintaining high standards of Corporate Governance and has continued in its efforts to further its approach to this and the effective management of risk, not least in the context of the difficult trading and economic conditions detailed elsewhere in this report. The Board further believes that its commitment to good Corporate Governance is intrinsic to the culture and values of the Company such as integrity, professional excellence and ongoing viability.

As an AIM Company, Davenham is not required to comply with the Combined Code but, as outlined in the following paragraphs, the Board has applied the principles of good governance and the code of best practice set out in the current edition of the Combined Code where it is practical to do so in relation to its size and business.

Directors and the Board

There have been no changes to the Board in the year. The Board comprises the Non-Executive Chairman (James Kerr-Muir), the Chief Executive (David Coates), the Finance Director (Paul Burke), the Risk Director (David Bowles) and two Non-Executive Directors (Graham "Sam" Footitt and David Stewart). The Board considers that Sam Footitt and David Stewart are independent as defined in the Combined Code and that James Kerr-Muir was independent on his appointment as Chairman. The balance of executive and non-executive directors is considered appropriate for the size of the Board of the Company.

The Board normally meets monthly for scheduled Board meetings and in addition for at least one off-site meeting per annum solely to discuss strategy. In the year ended 30 June 2009, the Board met twelve times. This is consistent with the number of regular meetings held in the previous year. Meetings are held at the Head Office in Manchester or on occasion at its London Office. The Board also meets as required on an ad hoc basis to deal with urgent business, including the consideration of transactions.

The Board has approved a formal schedule of matters reserved for its consideration and decision. These can be divided into a number of key areas, including but not limited to:

- Group strategy and transactions
- Financial reporting (including approval of interim and final financial statements and dividends)
- The Company's finance, banking and capital structure arrangements
- Regulatory matters (including the issue of shares, communication and announcements to the market)
- Approval of the Company's risk management and control (as recommended by the Audit Committee)
- Approval of policies on remuneration (as recommended by the Remuneration Committee)

- the Constitution of the Board, including its various committees, and succession planning (as recommended by the Nomination Committee)
- Approving the Company's policies in general in respect of, inter alia, Health & Safety, Corporate Responsibility, the environment.

This schedule is also available for inspection on the Company's website www.davenham.co.uk.

Matters requiring Board and Committee approval are generally the subject of a proposal by the Executive Directors submitted to the Board, together with supporting information, as part of the Board or Committee papers circulated prior to the relevant meeting. All Directors receive appropriate information on the Company comprising a financial report and briefings from the Executives before each scheduled Board Meeting. The Chief Executive also briefs the Directors on results, key issues and strategy at such Meetings.

The Board recognises the importance of ongoing professional development and education, particularly in respect of new laws and regulations relevant to the business of the Company. Such training may be obtained by the Directors individually through the Company or through other companies of which they are Directors. Directors may additionally obtain independent professional advice at the Company's expense. Appropriate third party Directors' and Officers' insurance is maintained by the Company.

The Executive Directors have a business coach to assist with their overall development as business leaders.

The terms and conditions of appointment of the Non-Executive Directors, including those of the Chairman, are available for inspection at the Company's registered office during normal business hours. Each letter of appointment specifies the anticipated level of time commitment including, where relevant, additional responsibilities in respect of the Audit, Remuneration or Nomination Committees. Details of other material commitments are disclosed to the Board and a register of the same maintained by the Company Secretary.

Corporate governance structure

The posts of Chairman and Chief Executive are held by James Kerr-Muir and David Coates respectively. The Board considers that the Chairman and the two independent Non-Executive Directors, Sam Footitt and David Stewart together bring a strong and independent Non-Executive element to the Board. The Senior Independent Director is Sam Footitt. The Non-Executive Directors are not involved with the day-to-day management of the Company and are free from any business or other relationship which could materially interfere with their judgement. James Kerr-Muir also serves on the board of Gartmore Fledgling Trust plc. Biographies of the directors are contained on page 15.

Corporate Governance continued

The Chairman and other Non-Executive Directors meet at least twice a year without the Executive Directors present. In addition, the Chairman regularly briefs the other Non-Executive Directors on relevant developments regarding the Company as necessary. The Senior Independent Director, Sam Footitt, and the other Non-Executive Director, David Stewart, meet at least annually without the Chairman present to appraise the Chairman's performance as part of the overall Board annual appraisal process.

The Chairman is responsible for leadership of the Board and creating the conditions for overall Board and individual Director effectiveness. The Chief Executive is responsible for running the Company's business day-to-day and, subject to Board agreement, the development and implementation of strategy. The minutes of meetings of the Board and each Committee are taken by the Company Secretary. In addition to constituting a record of decisions taken, the minutes reflect questions raised by the Board Members relating to the Company's businesses and, in particular, issues raised from the reports included in the Board or Committee papers circulated prior to the relevant meeting. Unresolved issues (if any) are recorded in the minutes.

The Board is of the opinion that the respective background of each Non-Executive Director indicates that they are of sufficient calibre and experience to carry appropriate weight in the Board's decision-making process.

Corporate Governance and the management of the Company's resources is achieved by regular review through monthly management accounts, presentations and external consultant reports and briefings. The Board receives analysts' and brokers' reports and is updated regularly on movements in major shareholdings.

All Directors have access to the advice and services of the Company Secretary, whose role is to ensure that all procedures are followed and that applicable rules and regulations are complied with.

Committees of the Board

The Board has established various committees, each of which has written Terms of Reference. These are the Audit, Nomination, Remuneration and Asset & Liability Management ("ALCO") committees. The Terms of Reference for each committee are available on request from the Company Secretary and are also published on the Company's website www.davenham.co.uk.

The **Audit Committee** comprises the two Non-Executive Directors and the Chairman and is chaired by Sam Footitt, the Senior Independent Director. As noted earlier, the Board considers the Chairman, on his appointment, met the

independence criteria specified in the Combined Code and continues to value his contribution to the committee. Non-committee members and the external auditors are invited to attend by prior arrangement. The committee reviews all material controls including financial, operational and compliance controls including risk management processes, ensuring that good financial practices are maintained throughout the Company. The Committee meets on a regular basis with the external auditors, without the Executive Directors being present as appropriate, to review and discuss issues arising from internal and external audits and to agree the scope and planning of future work. The Committee has received a report from the external auditors on the 2009 audit. The findings and recommendations of the Committee are reported to the Board for further detailed consideration.

The Board is satisfied that the Chairman of the Audit Committee, Sam Footitt, has appropriate recent and relevant financial experience for the role. In addition to its work in relation to the Group's internal controls and systems set out above, the Committee is also responsible for reviewing the integrity of the Company's accounts, including the annual and interim results, and recommending their approval to the Board.

The Audit Committee has primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. The Committee aims to ensure auditor objectivity and independence is safeguarded at all times. Specifically, non-audit services, including taxation and consultancy advice are routinely put out to tender to other external accounting firms. Accordingly, the Audit Committee considers that the Company's auditors are properly independent.

The **Remuneration Committee** comprises the Non-Executive Directors and the Chairman. It is chaired by David Stewart. The Chief Executive regularly attends by invitation but is not present for discussions relating to his own remuneration. The Remuneration Committee has appointed KPMG to advise it in relation to the design of appropriate executive remuneration structures. The responsibilities of the Remuneration Committee include setting remuneration policy, ensuring that remuneration (including compensation and other benefits) and the terms of service of the Executive Directors, the Chairman and senior operating management below Board level are appropriate and that they are fairly rewarded for the contribution which they make to the Company's overall performance. It is also responsible for the allocation of shares under long-term incentive arrangements approved by shareholders and in accordance with agreed criteria.

In addition, it monitors current best practice in remuneration and related issues. No Executive Director takes part in any

discussion relating to his own remuneration or benefits. The Board's policy is that shareholders should have a say in all new long-term incentive schemes and significant changes to existing schemes, while acknowledging that the Remuneration Committee must retain flexibility to alter such arrangements to reflect changing circumstances. Therefore, in line with the Company's commitment to transparency as regards its remuneration policy and maintaining a continuous dialogue with shareholders, the Chairman of the Remuneration Committee, David Stewart, has held discussions on occasion with shareholders to take soundings on the key features of any proposed changes to the Executive Directors' incentive arrangements. The Committee is authorised by the Board to seek appropriate professional advice as and when it considers necessary.

The Company maintains a performance-driven culture to promote achievement of financial targets and individual objectives. To this end, the Company's Long Term Incentive Plan adopted by the Board on 16 November 2005 (amended 19 December 2005) is intended to reward through achievement of objectives albeit that in the present economic climate, awards under such schemes are unlikely.

The **Nomination Committee** comprises the Non-Executive Directors, chaired by James Kerr-Muir, and its principal responsibilities are to consider and review the size, structure and composition of the Board. The Committee meets formally as necessary. It also considers succession planning and makes recommendations to the Board for any appropriate changes. There is a formal procedure for appointments to the Board and the senior management team.

The **Asset and Liability Management Committee** ("ALCO") is responsible for reviewing and advising the Board on capital structure, funding and liquidity. The ALCO is chaired by David Stewart and in addition comprises the Executive Directors. Relevant senior financial management are invited to attend. Any director may attend as an observer. The Committee recommends to the Board any actions it considers are required to ensure that the Company's balance sheet matters are appropriately managed. The management of the Group's capital structure, funding and liquidity is currently managed directly by the Board.

Further information on the Board and its committees can be found on page 10 of the 'Business Review'.

Re-election

Under the Company's Articles of Association, all Directors are subject to election by shareholders at the Annual General Meeting following appointment and all Directors are subject to retirement by rotation requiring re-election at intervals of no more than three years. The letters of appointment of each of

the Non-Executive Directors and the Chairman confirm that appointments are for specified terms and that reappointment is not automatic. At the Annual General Meeting of the Company in November 2009, David Stewart and David Coates will stand down and offer themselves for re-election.

Performance Evaluation

A formal evaluation of the Board and each of the individual director's own performances is undertaken annually. This includes a review of success in achieving objectives set during the period and agreeing areas for improvement going forward.

The evaluation for the current year is ongoing but is consistent with previous reviews indicating that the Board continues to benefit from constructive debate and challenges in the Company's operational and strategic matters. Regular presentations from the senior management team are held at the scheduled monthly meetings throughout the year and at strategy meetings which promotes good communication and ongoing dialogue at the operational level.

Relationship with Shareholders and Dialogue with institutional shareholders

The Chairman and Executive Directors regularly attend brokers' and analysts' presentations in relation to the Company's interim and full year results. The Chief Executive, with assistance from the Company's advisors, collates feedback from such presentations and reports the findings to the Board. The Chairman and Chief Executive also maintain occasional dialogue with major shareholders in relation to, inter alia, strategy and corporate governance issues.

All shareholders receive the Annual Report and Accounts and are welcome to attend the Annual General Meeting ("AGM") in Manchester. Formal notification of the meeting is sent at least 20 working days in advance as required under the Combined Code. The Directors attend the meeting and are available to answer questions both formally during the meeting and informally afterwards.

The collection and analysis of the proxy votes is handled independently by the Company's registrars. The Chairman announces the results of the proxy votes which have been lodged after shareholders have voted on a show of hands. Details of the 2009 AGM are set out in the notice of the meeting enclosed with this report. All Committee Chairmen are available at the AGM.

The Chairman and Senior Independent Non-Executive Director are available to shareholders and may be contacted through the Company Secretary.

The Company's website at www.davenham.co.uk is an important source of information for investors, including

Corporate Governance continued

information required in compliance with AIM Rule 26, and is updated regularly.

Corporate and Social Responsibility

Corporate responsibility is considered to be integral to the Company's culture and business practice and is applied to all its relationships, whether internally with employees or externally within the marketplace. The Board is committed to managing and minimising any potential adverse environmental issues. In line with such objectives, the Board requires that all the Company's activities are carried out in a responsible way and that the highest standards of health and safety, ethical and social conduct are maintained. The Board also believes that such initiatives as creating a better work/life balance are directly beneficial to the Company by improving efficiency and morale.

Internal Control and Risk Management

The Board, with the assistance of its Committees, is responsible for analysing the strategic, financial and operational risks which could affect the Company's businesses. These include, but are not limited to, the market and economic conditions in which the Company operates, competitor activities, gearing, regulation and business plans. Any potential impact is prioritised and evaluated not only in terms of possible financial impact on the Company such as loss of income/additional expenditure but also according to potential effects on employees, operational processes and stakeholder relations.

The successful management of such risks is seen as key to the Company's ability to achieve its corporate goals. Clearly in the currently unstable economic outlook, the risk

associated with an economic downturn has been a key risk for executive management and Board attention. The Company's 'key risks' are discussed in more detail in the Business Review (pages 10 to 14).

David Bowles is the Risk Director and an Executive Board member. He is responsible for the management of risk. Overall responsibility for the risk management process rests at Board level. The Board systematically reviews and evaluates the risks of the Company regularly, which ensures that as new risks emerge in connection with projects or general market developments, appropriate actions can be discussed, agreed and taken in a flexible manner.

Overall, the Board, together with its Audit Committee, is responsible for the systems of internal control and the continued monitoring of the effectiveness of such systems. This responsibility includes safeguarding the Company's assets against unauthorised use, maintaining proper accounting records and ensuring accurate financial information. The Directors recognise that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives but cannot provide absolute assurance against material misstatement, financial loss or fraud. The Board appoints experienced, professional staff to fulfil their duties and responsibilities and during the year, significant additional resource was deployed to the Risk teams. The Risk Director and Risk teams contribute significantly to the process for identifying and managing significant risks throughout the year. The Board has reviewed the need for an internal audit function but considers that the size and the centralisation of the key finance activities of the Group do not justify such an appointment at the present time.

Independent Auditors' Report

to the Members of Davenham Group plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Davenham Group plc for the year ended 30 June 2009 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Statements of Recognised Income and Expense, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2009 and of the Group's loss and Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements which indicate that the Directors consider it likely that the Group will breach one of the Group's borrowing covenants in the forthcoming year. As a result, the Directors are considering various strategic options which it will ask the Group's lenders to support. These circumstances indicate, along with all other matters set out in note 1, the existence of a material uncertainty as any failure by the Group's lenders to agree to waive covenants whilst the Group continues to explore its strategic options would cast significant doubt upon the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would be necessary if the Group were unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

29 September 2009

Consolidated Income Statement

for the year ended 30 June 2009

	Notes	2009			2008		
		Before exceptional items £'000	Exceptional items (Note 6) £'000	Total £'000	Before exceptional items £'000	Exceptional items (Note 6) £'000	Total £'000
Revenue	3	49,074	–	49,074	53,148	–	53,148
Finance costs	5	(15,907)	–	(15,907)	(16,391)	–	(16,391)
Gross profit		33,167	–	33,167	36,757	–	36,757
Administrative expenses		(15,382)	(6,479)	(21,861)	(16,266)	(318)	(16,584)
Loan loss impairment	17	(66,713)	–	(66,713)	(7,438)	–	(7,438)
Operating (loss)/profit before taxation	6	(48,928)	(6,479)	(55,407)	13,053	(318)	12,735
Taxation	9	12,986	1,814	14,800	(3,980)	89	(3,891)
(Loss)/profit for the year after taxation	25	(35,942)	(4,665)	(40,607)	9,073	(229)	8,844
(Loss)/earnings per share							
– basic	12	(145.15)p	(18.84)p	(163.99)p	36.67p	(0.92)p	35.75p
– diluted	12	(145.15)p	(18.84)p	(163.99)p	36.08p	(0.91)p	35.17p
Dividends per share							
– Paid during the period	11			Nil			15.06p
– Proposed*	11			Nil			7.00p

* The 2008 proposed final dividend was withdrawn on 20 October 2008.

All results are from continuing operations.

The notes on pages 30 to 64 form part of these financial statements.

Consolidated Statement of Recognised Income & Expense

for the year ended 30 June 2009

	2009 £'000	2008 £'000
(Loss)/profit for the year	(40,607)	8,844
Effective portion of changes in fair value of interest rate cashflow hedges:		
– fair value adjustment	(9,590)	1,309
– tax on fair value adjustment	2,686	(367)
Net (losses)/gains recognised directly in equity	(47,511)	9,786

There are no movements to be recognised through the parent company Statement of Recognised Income and Expense in 2009 or 2008.

The notes on pages 30 to 64 form part of these financial statements.

Consolidated Balance Sheet

as at 30 June 2009

	Notes	30 June 2009 £'000	30 June 2008 £'000
ASSETS			
Non-current assets			
Goodwill	13	1,909	1,909
Other intangible assets	14	415	780
Property, plant & equipment	15	868	1,023
Loans & advances to customers	17	68,635	53,808
Deferred taxation asset	19	14,451	1,594
Derivative financial instruments	22	155	1,853
		86,433	60,967
Current assets			
Loans & advances to customers	17	122,309	222,778
Other receivables, prepayments & accrued income	18	827	1,151
Derivative financial instruments	22	63	995
Cash and cash equivalents	20	2,562	2,416
		125,761	227,340
Total assets		212,194	288,307
LIABILITIES			
Current liabilities			
Borrowings	21	82,879	9,195
Current tax liabilities		2,396	4,835
Derivative financial instruments	22	6,051	10
Trade and other payables	23	7,319	6,000
		98,645	20,040
Non-current liabilities			
Borrowings	21	98,707	210,030
Derivative financial instruments	22	3,920	29
		102,627	210,059
Total liabilities		201,272	230,099
Net assets		10,922	58,208
SHAREHOLDERS' EQUITY			
Share capital	25	261	261
Share premium	25	26,528	26,528
Own shares held reserve	25	(1,507)	(1,507)
Retained earnings	25	(9,884)	30,427
Share based payment reserve	25	406	477
Hedging reserve	25	(4,882)	2,022
Total Shareholders' equity		10,922	58,208

The financial statements on pages 24 to 64 were approved by the board of directors on 29 September 2009 and were signed on its behalf by:

D R Coates

Director

The notes on pages 30 to 64 form part of these financial statements.

Company Balance Sheet

as at 30 June 2009

	Notes	30 June 2009 £'000	30 June 2008 £'000
ASSETS			
Non-current assets			
Investment in Group undertakings	16	7,618	7,618
Other intangible assets	14	99	208
Property, plant & equipment	15	9	4
Deferred taxation asset	19	63	–
		7,789	7,830
Current assets			
Other receivables, prepayments & accrued income	18	34,036	28,369
Cash and cash equivalents	20	243	44
		34,279	28,413
Total assets		42,068	36,243
LIABILITIES			
Current liabilities			
Trade and other payables	23	2,262	492
Borrowings	21	9,966	3,200
Non-current liabilities			
Deferred taxation liability	19	–	7
Total liabilities		12,228	3,699
Net assets		29,840	32,544
SHAREHOLDERS' EQUITY			
Share capital	25	261	261
Share premium	25	26,528	26,528
Own shares held reserve	25	–	–
Retained earnings	25	2,645	5,278
Share based payment reserve	25	406	477
Total Shareholders' equity		29,840	32,544

The notes on pages 30 to 64 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 30 June 2009

	Notes	2009 £'000	2008 £'000
Cash flows from operating activities			
Cash generated from operations	29	5,414	3,206
Tax repaid/(paid)		2,188	(1,915)
Net cash inflow from operating activities		7,602	1,291
Cash flows from investing activities			
Acquisition of business and subsidiary undertakings net of cash acquired		-	(240)
Purchase of property, plant and equipment		(113)	(168)
Purchase of intangible assets		(43)	(261)
Proceeds from sale of property, plant and equipment		16	4
Net cash outflow from investing activities		(140)	(665)
Cash flows from financing activities			
Proceeds from issue of share capital		-	26
Dividends paid to shareholders	11	-	(3,724)
Net cash outflow from financing activities		-	(3,698)
Net increase/(decrease) in cash and cash equivalents		7,462	(3,072)
Cash and cash equivalents at 1 July		(6,779)	(3,707)
Cash and cash equivalents at 30 June		683	(6,779)
For the purposes of the cash flow statement, cash and cash equivalents comprise:			
Cash at bank and in hand	20	2,562	2,416
Bank overdrafts included within current borrowings	21	(1,879)	(9,195)
		683	(6,779)

The notes on pages 30 to 64 form part of these financial statements.

Company Cash Flow Statement

for the year ended 30 June 2009

	Notes	2009 £'000	2008 £'000
Cash flows from operating activities			
Cash used in operations	29	(1,939)	(1,509)
Tax repaid		2,188	–
Net cash inflow/(outflow) from operating activities		249	(1,509)
Cash flows from investing activities			
Purchase of property, plant and equipment		(43)	(4)
Purchase of intangible assets		(7)	(91)
Net cash outflow from investing activities		(50)	(95)
Cash flows from financing activities			
Proceeds from issue of share capital		–	26
Purchase of own shares		–	1,507
Dividends paid to shareholders	11	–	(3,920)
Net cash outflow from financing activities		–	(2,387)
Net increase/(decrease) in cash and cash equivalents		199	(3,991)
Cash and cash equivalents at 1 July		44	4,035
Cash and cash equivalents at 30 June		243	44
For the purposes of the cash flow statement, cash and cash equivalents comprise:			
Cash at bank and in hand	20	243	44

The notes on pages 30 to 64 form part of these financial statements.

Notes to the Financial Statements

for the year ended 30 June 2009

1. Basis of preparation

These consolidated and Company financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board.

These consolidated and Company financial statements have also been prepared in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS.

Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments.

The financial statements have been prepared in accordance with the accounting policies described in note 2 below.

Standards, amendments and interpretations that are not yet effective and have not been early adopted

The following standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2009 or later periods, but which the Group and the Company have not early adopted.

- IAS 1 'Presentation of Financial Statements (Revised)' – this will revise the presentation of the financial statements including a single statement of comprehensive income or a separate income statement and a statement of comprehensive income with a statement of movements in reserves. Adopting this change would only result in a presentational change to the financial statements. There will be no change in the recognition, measurement or disclosure of transactions and events.
- IFRS 8 'Operating segments' – it is not expected that this standard, which is effective for the Group from 1 July 2009, will significantly impact on the Group's segmental disclosures.
- Amendment to IAS 23 'Borrowing costs' – it is not expected that this amendment, which is effective from 1 July 2009, will have an impact on the Group or Company's result as the Group's existing accounting policy requires that borrowing costs relating to assets in the course of development are capitalised as part of the asset's costs rather than expensed.
- IFRS 2 'Share based payments' (amended) – it is not expected that this standard, which is effective from 1 July 2009, will have a material impact on the share based payments incurred by the Group.
- Amendment to IFRS 7 'Financial Instruments: disclosures' – the amendment clarifies and enhances disclosures about fair value measurements and the liquidity risk of financial instruments. We expect the amendment will result in further changes and enhancements to the risk disclosures.
- Improvements to IFRSs (May 2008) – several small amendments with no significant impact for the Group.

Other new standards, amendments and interpretations have been considered but are not deemed to be relevant to the Group.

Going concern

Company Law requires the Directors to prepare financial statements that give a true and fair view of the state of the affairs of the Company and the Group and of the profit or loss of the Group for the period under review. Fundamental to this requirement is that the Directors assure themselves that it is reasonable for them to conclude that it is appropriate to prepare the financial statements on a going concern basis.

The financial statements of the Group have been prepared on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities as and when they fall due, for the foreseeable future.

In March 2009 Davenham agreed a new two year £215m facility which was tailored to support the Group's revised strategy ensuring the working capital requirements of the asset and trade divisions were met whilst reflecting the recovery of cash from the downsizing of the property loan book.

However, in the sectors in which the Group operates, especially in relation to the property market, economic conditions have declined since issuing the Group's interim results on 26 March 2009. The Group has generated lower than forecast cash inflows from its property division whilst also incurring higher than forecast impairment levels.

1. Basis of preparation continued

Going concern continued

In conjunction with its advisors, the Board has recently undertaken a thorough review of the Group's forecasts, which extend beyond one year from the date of approval of these financial statements and take account of the impact of the principal risks and uncertainties set out on pages 10 to 14. The forecasts make assumptions in respect of future trading conditions, most notably in respect of the economic environment and its impact on the Group's revenues and costs. In addition to this, the nature of the Group's property division in the current environment is such that there can be considerable variation in the timing of cash inflows. The forecasts take into account foreseeable downside risks based upon the information that is available at the time of approval of these financial statements and indicate that the property division will continue to generate lower than originally forecast cash inflows but reflect positive contribution levels from both the trade and asset portfolios in line with its new strategy.

In addition the high level of non-performing debt and a forecast inability to recover property loans through the realisation of security as quickly as originally forecast will result in a burden of finance costs being higher than originally forecast.

The debt burden is further impacting on the Group's profitability through the carrying of its swap portfolio. The Group adopted a traditional approach to its treasury management over the past three years seeing a swap portfolio being built up of varying amounts reflecting movements in the market. The strategy of the Group was to ensure the interest rate risk in relation to its fixed rate lending portfolios ie Property and Asset were mitigated through the use of fixed interest rate swaps. This of course was predicated upon the Group's portfolio remaining at or above levels during 2007/08 and the Group would not be faced with the current run down situation of property portfolio.

The Group has therefore suffered both from being locked into funding cost rates in excess of current market rates (swapped at a weighted average of 5.5% vs 1% LIBOR) and also being in an over-hedged position whereby the notional swap values are in excess of the Group's debt levels.

Based upon these forecasts a breach of certain of the Group's covenants is likely in the current financial year. One of the key banking covenants relates to the quarterly step-downs of the Group's facility from £215m to £90m by 30 September 2010. In addition the Group also has a tangible net worth covenant, calculated under UK GAAP, which requires the Group to have a tangible net worth (as defined in the banking agreement) equal to or in excess of £20m as from the first testing point of 31 March 2010 and then quarterly thereafter.

Failure of a covenant test would render the facilities in default and repayable on demand at the option of the lenders, if an amendment or waiver is not granted by the lenders in advance. The granting of a waiver requires consent by 66.67% of the banking group. Such a majority can be achieved through the support of the two lead banks plus one other member of the remaining six banks in the syndicate.

The Group reports on its trading performance and covenant compliance (whether tested or not) on a monthly basis. The two lead banks are also given a monthly update through meetings with the senior management team. In addition, the banks have the option to attend the monthly portfolio meetings enabling them to assess firsthand the performance of the various product groups. The Group was compliant with its banking covenants as at 30 June 2009 and remains compliant as at the date of approval of the financial statements, including the 30 September 2009 testing point. The principal financial covenants are due to be tested again as at 31 December 2009 and 31 March 2010.

The Group has proactively entered into detailed on-going discussions with the banking group to consider various strategic options on behalf of shareholders. The options being considered may see the acceleration of cash inflows via asset sales or through access to new forms of funding. In addition the Board may consider proposing an amendment to the terms of the current funding facility primarily in relation to its current covenant testing. The Board is currently reviewing in detail (together with the Company's advisers) the feasibility of various options, prior to deciding which to pursue.

Although the Directors remain confident of a successful outcome for at least one of the strategic options that it is considering, they have concluded that, given the current economic circumstances, that success is not entirely within the Company's control, indicating a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If this is the case, the Group and the Company may be unable to continue to realise assets and discharge liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Notes to the Financial Statements continued

for the year ended 30 June 2009

1. Basis of preparation continued

Use of assumptions and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Estimates and judgements made by management in the application of IFRS that have a significant effect on the financial statements are:

IAS 39 'Financial Instruments: Recognition and Measurement'

The Group reviews its loans and receivables on an ongoing basis to assess the level of impairment. Future cash flows are estimated on the basis of the contractual cash flows of the assets and historical loss experience. 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. To the extent that the net present value of estimated future cash flows differs by +/-1%, the loan loss provision in the balance sheet would be an estimated £1.2m lower/higher (2008: £0.3m lower/higher).

IAS 36 'Impairment of assets'

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU's to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU's and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £1.9m (2008: £1.9m). Details of the value in use calculation are provided in note 13 on page 43.

IAS 12 'Income taxes'

In applying the Group's accounting policy in relation to deferred tax, as set out below, the Directors are required to make assumptions regarding the Group's ability to utilise historical tax assets following an assessment of the likely quantum and timing of future taxable profits. A deferred tax asset is recognised to the extent that the Directors are confident that the Group's future profits will utilise historical tax assets.

2. Accounting Policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements.

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 a 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.

Segmental reporting

A business segment is a distinguishable component of the Group that provides products that are subject to risks and returns that are different from those of other business segments. For management purposes, the Group is organised into three operating segments: Property Finance, Trade Finance and Asset Finance. Management believe that there is only one geographical segment, being the UK market.

2. Accounting Policies

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 statement, 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.

Notes to the Financial Statements continued

for the year ended 30 June 2009

2. Accounting policies continued

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 monthly 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.

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.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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 administrative expenses.

2. Accounting policies continued

Exceptional Items

Exceptional items are those significant items which are separately disclosed by virtue of their size or nature to enable a full understanding of the Group's financial performance, and are shown separately on the face of the income statement.

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.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are initially and subsequently recognised at cost. The Company recognises income from the investment only to the extent that it receives distributions from post-acquisition accumulated profits. Distributions received in excess of such profits are regarded as a recovery of investment and recognised as a reduction in the cost of the investment.

At each reporting date, an assessment is made as to whether there is any indication that the investment may be impaired. If such an indication exists, the Company estimates the investment's recoverable amount. The investment is written down to the recoverable amount if this is lower than its carrying value. The impairment loss is recognised in the Company's income statement.

Notes to the Financial Statements continued

for the year ended 30 June 2009

2. Accounting policies continued

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 income statement 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 market and non-market based performance conditions is estimated using the Binomial and Black-Scholes models respectively.

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.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders, via the own shares held reserve, until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2. Accounting policies continued

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.

3. Revenue

	2009 £'000	2008 £'000
Interest and similar income receivable from customers	46,088	47,103
Fees and commissions income	2,986	6,045
	49,074	53,148

Interest and similar income includes the 'gross-up adjustment' of £17,469,000 (2008: £3,662,000) (note 17). The 2008 split between interest and similar income, and fees and commissions income has been restated to ensure that there is a consistent methodology of splitting revenue between the current and prior year.

Notes to the Financial Statements continued

for the year ended 30 June 2009

4. Segmental information

A business segment is a distinguishable component of the Group that provides products that are subject to risks and returns that are different from those of other business segments. For management purposes the Group is organised into three operating segments: Property Finance, Trade Finance and Asset Finance.

The segmental income and results for the year ended 30 June 2009 and segment assets and liabilities as at that date are as follows:

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
Income					
Revenue	27,534	10,358	11,182	–	49,074
Finance costs	(10,554)	(2,683)	(4,426)	1,756	(15,907)
Gross Profit	16,980	7,675	6,756	1,756	33,167
Result					
Segment result	(40,534)	(464)	(4,712)	(3,218)	(48,928)
Exceptional items					(6,479)
Taxation					14,800
Loss for the financial year					(40,607)

Included within the exceptional items of £6,479,000 are redundancy costs relating to property of £193,000, trade of £78,000 and asset of £92,000. The remaining exceptional items are in the central segment.

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
Segment assets and liabilities					
Segment assets					
Total assets	110,071	27,666	53,207	21,250	212,194
Segment liabilities					
Total liabilities	103,593	26,038	50,076	21,565	201,272
Other segment items					
Capital expenditure	40	40	40	36	156
Depreciation	46	46	46	26	164
Amortisation – other intangible assets	70	67	134	47	318
Loan loss charge	54,398	4,082	8,233	–	66,713

The loan loss charge includes the 'gross-up adjustment' of £17,469,000 (note 17).

Capital expenditure comprises additions to property, plant and equipment (note 15) and intangible assets (note 14).

4. Segmental information continued

Each of the trading divisions is provided with funding for its gross portfolio from Davenham Treasury Services Ltd against which a deduction is made for a pro-rata divisional share of the Group's equity base, calculated by reference to portfolio size, giving rise to a divisional 'net debt' position. Each division is then charged interest by Davenham Treasury Services Ltd on its net debt at a rate equivalent to that charged to the Group on its external borrowings.

This basis of interest calculation gives rise to resultant credit in Davenham Treasury Services Ltd primarily due to the level of provisions, which are not deducted from divisional portfolio balances but are of course reflected in the Group's equity position, thus resulting in the trading divisions incurring interest costs in relation to their non-performing/provisioned accounts.

The segmental income and results for the year ended 30 June 2008 and segment assets and liabilities as at that date are as follows:

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
Income					
Revenue	29,273	12,187	11,688	–	53,148
Finance costs	(7,668)	(2,530)	(5,634)	(559)	(16,391)
Gross Profit	21,605	9,657	6,054	(559)	36,757
Result					
Segment result	12,583	4,036	1,245	(4,811)	13,053
Exceptional items					(318)
Taxation					(3,891)
Profit for the financial year					8,844
Segment assets and liabilities					
Segment assets	154,644	50,567	71,375	11,721	288,307
Total assets					288,307
Segment liabilities	117,431	38,399	54,200	20,069	230,099
Total liabilities					230,099
Other segment items					
Capital expenditure	99	99	135	96	429
Depreciation	50	50	50	47	197
Amortisation – other intangible assets	57	57	107	56	277
Loan loss charge	4,382	1,473	1,583	–	7,438

The loan loss charge includes the 'gross-up adjustment' of £3,662,000 (note 17).

Capital expenditure comprises additions to property, plant and equipment (note 15) and intangible assets (note 14).

All of the exceptional items included above relates to the central segment.

The amount included as segment liabilities within the three trading divisions represents the total external bank borrowings. These have been allocated on a weighted average basis by reference to loan portfolio sizes.

Management believe that there is only one geographical segment, being the UK market.

Notes to the Financial Statements continued

for the year ended 30 June 2009

5. Finance Costs

	2009 £'000	2008 £'000
Interest on bank loans and overdrafts	12,715	17,451
Interest payable/(receivable) on swaps	3,192	(1,060)
	15,907	16,391

6. Operating (loss)/profit

	2009 £'000	2008 £'000
Operating (loss)/profit is stated after charging/(crediting):		
Depreciation for the period	164	197
Loan loss provisions*	66,713	7,438
Loss on disposal of intangible assets	91	–
Loss/(profit) on disposal of property, plant and equipment	90	(4)
Operating lease payments	245	265
Amortisation of other intangibles	318	277
Exceptional costs relating to redundancy & refinancing	3,467	–
Exceptional costs relating to loss on de-designation of interest rate swaps	3,012	–
Exceptional costs relating to bid defence	–	318
Total exceptional costs	6,479	318

* The loan loss provisioning charge includes £17,469,000 (2008: £3,662,000) in respect of the 'gross-up adjustment' (note 17).

The Group's definition of exceptional items is disclosed in note 2.

In view of the significant shift in market conditions, the Group implemented a number of restructuring initiatives, leading to costs in respect of banking, office closures and redundancies. These costs totalled £3,467,000.

In addition and directly linked to the Group's requirement under its new banking agreement to reduce levels of outstanding debt, the Group has incurred a charge in relation to fair value movements on interest rate swaps which no longer qualify for hedge accounting of £3,012,000.

Services provided by the company's auditor and its associates:	2009 £'000	2008 £'000
During the year the group obtained the following services from the Company's auditor and its associates:		
Fees payable to the Company's auditor for the audit of parent company and consolidated accounts	124	106
Fees payable to the company's auditor and its associates for other services:		
The audit of company's subsidiaries pursuant to legislation	17	13
Tax services	29	2
Other assurance	45	47

7. Directors' emoluments

The remuneration paid to the directors of Davenham Group plc in respect of qualifying services was:

	2009 £'000	2008 £'000
Emoluments and benefits	1,069	887
Company pension contributions to money purchase schemes	63	68
Other post employment benefits	1	1
Other long term benefits	12	12
Share based payments	112	68
	1,257	1,036

Key management personnel, as defined under IAS 24 'Related Party Disclosures', have been identified as the Board of Directors as the controls operated by the Group ensure that all key decisions are reserved for the Board. The above reflects the total key management compensation.

Retirement benefits are accruing to 3 (2008: 4) directors under a money purchase pension scheme.

Emoluments include the following amounts in respect of the highest paid director:

	2009 £'000	2008 £'000
Emoluments and benefits	375	265
Company pension contributions to money purchase schemes	26	24
	401	289

During the year 221,622 share options (2008: 60,849) were granted to the highest paid director under the long term incentive scheme (note 30).

8. Employee information

The average monthly number of persons (including directors) employed during the period was:

	2009 Number	2008 Number
Administration	158	186
	£'000	£'000
Staff costs (for the above persons)		
Wages and salaries	6,431	8,692
Social security costs	751	991
Pension costs	568	617
Share-based payments	225	200
Other benefits	216	236
	8,191	10,736

Other benefits principally comprises the cost of providing health and life assurance cover.

Notes to the Financial Statements continued

for the year ended 30 June 2009

9. Taxation

9(a) Analysis of tax (credit)/charge in the period

	2009 £'000	2008 £'000
Current tax		
– United Kingdom corporation tax on (losses)/profits of the period	(32)	4,545
– Adjustments in respect of previous periods	(4,597)	–
Total current tax	(4,629)	4,545
Deferred tax		
Current year deferred tax expense	(7,740)	(592)
Adjustment in respect of prior periods	(2,431)	(192)
Change in tax rate	–	130
Deferred tax	(10,171)	(654)
Tax (credit)/charge on (loss)/profit on ordinary activities	(14,800)	3,891

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to (losses)/profits of the consolidated entities as follows:

9(b) Factors affecting tax (credit)/charge for the period

	2009 £'000	2008 £'000
(Loss)/Profit before tax	(55,407)	12,735
at the UK tax rate of 28.0% (2008:29.5%)	(15,514)	3,757
Income not subject to tax	–	(12)
Expenses not deductible for tax purposes	103	173
Adjustment in respect of prior periods	(7,028)	(192)
Losses carried back	7,639	–
Change in tax rate – current year	–	35
Change in tax rate – prior year	–	130
Total tax (credit)/charge for the year	(14,800)	3,891

The standard rate of current tax for the year is 28% (2008: 29.5% – based on the weighted average, which reflects the reduction in the rate of UK standard rate corporation tax to 28%, effective from 1 April 2008, and which is deemed an appropriate 'standard' rate of tax for the Group).

10. Results of Davenham Group plc

As permitted by Section 408 of the Companies Act 2006, the parent company's income statement has not been included in these financial statements. The loss for the year, which has been dealt with in the financial statements of the parent company, amounts to £2.9m (2008: profit of £4.4m).

11. Dividends

	2009 £'000	2008 £'000
Ordinary shares – Final 2007 paid – 10.38p per share	–	2,701
Ordinary shares – Interim 2008 paid – 4.68p per share	–	1,219
	–	3,920

The Directors do not propose to pay dividends in respect of the 2009 financial year.

Included in the dividend payment of £3.9m in 2008 are dividends of £0.2m which were paid to the Employee Benefit Trust.

12. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding own shares held which are treated, for this purpose, as being cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

	Loss £'000	2009 Weighted average number of of shares '000	Loss per share pence	Earnings £'000	2008 Weighted average number of of shares '000	Earnings per share pence
Shares in issue during the year		26,061			26,061	
Own shares held		(1,299)			(1,321)	
Basic EPS	(40,607)	24,762	(163.99)	8,844	24,740	35.75
Effect of dilutive securities:						
Options	–	–	–	–	408	(0.58)
Diluted EPS	(40,607)	24,762	(163.99)	8,844	25,148	35.17

13. Goodwill

Goodwill	Group 2009 £'000	Group 2008 £'000
Cost		
At 30 June 2008 and 30 June 2009	1,909	1,909
Accumulated amortisation and impairment		
At 30 June 2008 and 30 June 2009	–	–
Net book amount at 30 June 2008 and 30 June 2009	1,909	1,909

Goodwill relates entirely to the Group's Manor Credit division. The impairment review carried out demonstrated no evidence of impairment.

The recoverable amount of goodwill is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to loan loss rates and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the rates specific to Manor Credit (Davenham) Ltd. Changes in loan loss rates and direct costs are based on historic experience and expectations of short-term future changes in the market. The Group prepares a cash flow forecast derived from the approved budget for the following three years and extrapolates this in line with historic long-term UK GDP growth. The cash flows are discounted using a pre-tax discount rate of 10%.

The Company has no goodwill.

Notes to the Financial Statements continued

for the year ended 30 June 2009

14. Other intangible assets

Group	Software Costs £'000	Customer Intangible £'000	Total £'000
Cost			
At 1 July 2007	762	360	1,122
Additions	261	–	261
At 1 July 2008	1,023	360	1,383
Additions	43	–	43
Disposals	(390)	–	(390)
At 30 June 2009	676	360	1,036
Accumulated amortisation and impairment			
At 1 July 2007	326	–	326
Charge for the year	227	50	277
At 1 July 2008	553	50	603
Charge for the year	268	50	318
Disposals	(300)	–	(300)
At 30 June 2009	521	100	621
Net book amount			
At 30 June 2009	155	260	415
At 30 June 2008	470	310	780

Other intangible assets comprises of computer software and the estimated fair value derived from customer relationships following the acquisition of Manor Credit in June 2007.

All amortisation charges for the year have been charged to the income statement through administrative expenses (note 6).

Company	Software Costs £'000	Customer Intangible £'000	Total £'000
Cost			
At 1 July 2007	303	–	303
Additions	91	–	91
At 1 July 2008	394	–	394
Additions	43	–	43
Disposals	(7)	–	(7)
At 30 June 2009	430	–	430
Accumulated amortisation and impairment			
At 1 July 2007	73	–	73
Charge for the year	113	–	113
At 1 July 2008	186	–	186
Charge for the year	152	–	152
Disposals	(7)	–	(7)
At 30 June 2009	331	–	331
Net book amount			
At 30 June 2009	99	–	99
At 30 June 2008	208	–	208

15. Property, plant and equipment

Group	Freehold Property £'000	Motor Vehicles £'000	Computer Equipment and Fixtures & Fittings £'000	Total £'000
Cost				
At 1 July 2007	901	106	982	1,989
Additions	–	38	130	168
Disposals	–	(18)	(29)	(47)
At 1 July 2008	901	126	1,083	2,110
Additions	–	–	113	113
Disposals	–	(79)	(856)	(935)
At 30 June 2009	901	47	340	1,288
Depreciation				
At 1 July 2007	158	59	720	937
Charge for the year	18	31	148	197
Disposals	–	(18)	(29)	(47)
At 1 July 2008	176	72	839	1,087
Charge for the year	18	18	128	164
Disposals	–	(57)	(774)	(831)
At 30 June 2009	194	33	193	420
Net book value at 30 June 2009	707	14	147	868
Net book value at 30 June 2008	725	54	244	1,023

The cost of freehold properties includes land of £0.1m (2008: £0.1m) on which depreciation is not provided.

Company	Freehold Property £'000	Motor Vehicles £'000	Computer Equipment and Fixtures & Fittings £'000	Total £'000
Cost				
At 1 July 2007	–	–	–	–
Additions	–	–	4	4
At 1 July 2008	–	–	4	4
Additions	–	–	7	7
At 30 June 2009	–	–	11	11
Depreciation				
At 1 July 2007	–	–	–	–
Charge for the year	–	–	–	–
At 1 July 2008	–	–	–	–
Charge for the year	–	–	2	2
At 30 June 2009	–	–	2	2
Net book value at 30 June 2009	–	–	9	9
Net book value at 30 June 2008	–	–	4	4

Depreciation and profit/(loss) on disposal have been charged/(credited) to the income statement through administrative expenses (note 6).

Notes to the Financial Statements continued

for the year ended 30 June 2009

16. Investments in subsidiary undertakings

Company	2009 £'000	2008 £'000
Cost		
At 1 July	7,618	7,618
Additions	–	–
At 30 June	7,618	7,618
Provision for diminution in value at 30 June	–	–
Net book amount at 30 June	7,618	7,618

The subsidiaries of the Company at 30 June 2009, all of which are 100% owned and included in the Group consolidation, are:

Subsidiary undertaking	Country of registration	Principal business activity
St Johns Street Holdings Limited	Cayman Islands	Holding company – dormant during the year
Davenham Group Holdings plc	England and Wales	Holding company
*Davenham Trust PLC	England and Wales	Provision of finance and related services
*Davenham Trade Finance Limited	England and Wales	Provision of sales, import and stock finance
*Booker Montague Leasing Limited	England and Wales	Provision of leasing and asset finance service – dormant during the year
*St John Street Properties Limited	England and Wales	Property investment company – dormant during the year
*Davenham Mortgage Finance Limited	England and Wales	Dormant during the year
Davenham Group Trustees Limited	England and Wales	Employee benefit trust
Davenham Treasury Services Limited	England and Wales	Provision of finance and related services to Group companies
*Manor Credit (Davenham) Limited	England and Wales	Provision of finance and related services

* Indicates holdings through a subsidiary undertaking, Davenham Group Holdings plc.

17. Loans and advances to customers

Credit risk

Credit risk in relation to loans and receivables is the risk that financial loss arises from the failure of a customer to meet their obligations under a loan agreement.

A description of the Group's objectives, policies and processes for managing credit risk and how it is measured is set out in the Business Review on pages 10 to 14 in the section entitled 'Credit risk'. Details are also given in relation to the concentration risk associated with the Group's receivables in the section entitled 'Concentration risk' on page 11.

Maximum exposure to credit risk

The maximum exposure to credit risk of the Group's loans and receivables is set out in the table below:

Group	2009 £'000	2008 £'000
Property Finance	110,071	154,644
Trade Finance	27,666	50,567
Asset Finance	53,207	71,375
Total loans and receivables	190,944	276,586
Comprising:		
Current assets	122,309	222,778
Non-current assets	68,635	53,808
	190,944	276,586

Other financial assets subject to credit risk include derivative financial instruments of £218,000 (2008: £2,848,000), other debtors of £418,000 (2008: £365,000) and cash and cash equivalents of £2,562,000 (2008: £2,416,000). These are subject to a maximum exposure to credit risk equal to their carrying value.

17. Loans and advances to customers continued

Credit quality

A summary of the arrears status of the Group's loans and receivables, by class, is shown below as at 30 June 2009 and 30 June 2008:

Group	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Total £'000
2009				
Neither past due nor impaired	15,689	25,632	46,136	87,457
Past due but not impaired	1,852	9	3,870	5,731
Impaired	132,332	4,941	8,745	146,018
Outstanding customer balance	149,873	30,582	58,751	239,206
Unamortised fees and costs	(4)	–	(135)	(139)
Gross loans and receivables	149,869	30,582	58,616	239,067
Loan loss provision	(39,798)	(2,916)	(5,409)	(48,123)
Total loans and receivables	110,071	27,666	53,207	190,944

Group	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Total £'000
2008				
Neither past due nor impaired	99,590	47,183	62,059	208,832
Past due but not impaired	28,667	875	5,456	34,998
Impaired	29,597	3,810	4,879	38,286
Outstanding customer balance	157,854	51,868	72,394	282,116
Unamortised fees and costs	(60)	–	235	175
Gross loans and receivables	157,794	51,868	72,629	282,291
Loan loss provision	(3,150)	(1,301)	(1,254)	(5,705)
Total loans and receivables	154,644	50,567	71,375	276,586

Loans and receivables – past due but not impaired.

Group	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Total £'000
2009				
Past due up to 31 days	72	9	2,460	2,541
Past due 32-65 days	384	–	870	1,254
Past due 66-95 days	145	–	251	396
Past due 96 days or more	1,251	–	289	1,540
Total	1,852	9	3,870	5,731

Group	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Total £'000
2008				
Past due up to 31 days	11,480	403	3,990	15,873
Past due 32-65 days	7,649	–	978	8,627
Past due 66-95 days	1,559	236	25	1,820
Past due 96 days or more	7,979	236	463	8,678
Total	28,667	875	5,456	34,998

Notes to the Financial Statements continued

for the year ended 30 June 2009

17. Loans and advances to customers continued

Renegotiated loans and receivables

In Property, Trade and Asset renegotiated loans that would otherwise be past due or impaired totalled £nil, £nil and £1.5m at 30 June 2009 (2008: £1.0m, £nil and £2.6m) respectively.

Collateral

The Group holds collateral in relation to its loans and receivables, further details of which are provided below:

In accordance with IFRS 7 paragraph 36(b), as at 30 June 2009 the Group has not disclosed the fair value of the collateral held as security in respect of its hire purchase or lease receivables on the basis that it would be impractical to do so and instead provided below is an explanation of the nature of the collateral held. It would be impractical to fair value the collateral held because information on the current value of customers' assets and first charge liabilities is not maintained for all past due loans.

• *Property loans*

Secured property loans were underwritten based upon equity in the asset and the customer's financial standing. A first legal charge was secured and registered against the customer's property, to ensure that the customer prioritises repayments of the secured loan. In many instances additional security was obtained in the form of personal guarantees and second and third ranking charges against other residential and commercial property.

The fair value of the collateral for all past due loans approximates to the carrying value of such loans.

• *Hire purchase & Lease*

The majority of facilities provided for the acquisition of plant, vehicles and machinery are written on lease and unregulated hire purchase agreements. These can be terminated in the event of default. If this occurs, the assets financed can be immediately repossessed and disposed.

The terms of a regulated hire purchase contract allow the customer to voluntarily terminate and allow the Group to repossess the asset, both subject to meeting certain criteria.

A customer may voluntarily terminate the hire purchase contract provided they have paid at least 50% of the contract and have not received a notice of default. In this instance the asset is returned and disposed of, with the proceeds offset against the customer's outstanding balance.

Legally, the Group may repossess a vehicle financed on a regulated hire purchase contract, provided the customer has paid less than one third of the contract and a notice of default has been issued. The Group endeavours to negotiate arrangements with the customer to avoid the need for repossession. Vehicles that are repossessed are promptly disposed of at auction and the proceeds offset against the customer's outstanding balance. The customer is liable for any remaining balance.

The only way of estimating the fair value of used assets on hire purchase and lease would be on an aggregate basis which may result in the collateral disclosure being misleading when some loans in the portfolio are over collateralised and other loans have insufficient collateral. In these circumstances netting the fair value of the two types of collateral could under or over report the amount of credit risk.

• *Trade Finance*

Trade Finance provides working capital secured against debtors and other tangible assets. Wherever possible, additional security is obtained. These include personal guarantees from major shareholders, charges over personal and other business property, debentures, a floating charge, cross company guarantees from associated companies, and unlimited warranties in the case of fraud. These additional forms of security are impractical to fair value as valuations of the guarantees or warranties are not capable of being accurately determined at the balance sheet date.

17. Loans and advances to customers continued

Loan loss provision

The following tables provide an analysis of the movement of the Group's loan loss provision and charge during 2009 and 2008:

Group	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Total £'000
2009				
At 1 July 2008	3,150	1,301	1,254	5,705
Utilised	(5,011)	(2,313)	(5,286)	(12,610)
Recoveries of amounts previously written off	1,972	1,179	2,633	5,784
Charged to the income statement:				
Additional provisions created	41,659	3,929	9,440	55,028
Recoveries of amounts previously written off	(1,972)	(1,179)	(2,633)	(5,784)
	39,687	2,750	6,807	49,244
At 30 June 2009	39,798	2,917	5,408	48,123
Loan loss charge before gross-up adjustment	39,687	2,750	6,807	49,244
Gross-up adjustment	14,711	1,332	1,426	17,469
Total bad and doubtful debt charge	54,398	4,082	8,233	66,713
2008				
At 1 July 2007	1,553	836	2,538	4,927
Utilised	(231)	(573)	(2,457)	(3,261)
Recoveries of amounts previously written off	9	99	155	263
Charged to the income statement:				
Additional provisions created	1,828	1,038	1,173	4,039
Recoveries of amounts previously written off	(9)	(99)	(155)	(263)
	1,819	939	1,018	3,776
At 30 June 2008	3,150	1,301	1,254	5,705
Loan loss charge before gross-up adjustment	1,819	939	1,018	3,776
Gross-up adjustment	2,563	534	565	3,662
Total bad and doubtful debt charge	4,382	1,473	1,583	7,438

Notes to the Financial Statements continued

for the year ended 30 June 2009

17. Loans and advances to customers continued

Loans and advances to customers include hire purchase receivables as follows:

Gross investment in finance leases receivable:

	2009 £'000	2008 £'000
No later than 1 year	5,857	19,286
Later than 1 year and no later than 5 years	57,364	67,606
Later than 5 years	1,806	–
	65,027	86,892

Unearned future finance income on finance leases	(11,820)	(15,517)
Net investment in finance leases	53,207	71,375

Net investment in finance leases receivable:

No later than 1 year	5,737	17,567
Later than 1 year and no later than 5 years	46,207	53,808
Later than 5 years	1,263	–
	53,207	71,375

Company

Company loans and receivables, as shown in note 18, of £33,643,000 (2008: £26,310,000), comprise amounts due from subsidiary companies, all of which are repayable on demand.

Fair value

There is no material difference between the fair value and the carrying value of the Group's and Company's loans and advances to customers.

18. Other receivables, prepayments and accrued income

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Amounts owed by Group undertakings	–	–	33,643	26,310
Other debtors	418	365	–	–
Corporation tax	–	–	–	1,955
Other taxation	–	18	–	–
Prepayments and accrued income	409	768	393	104
	827	1,151	34,036	28,369

There is no material difference between the fair value and the carrying value of the Group's and Company's other receivables.

19. Deferred tax

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

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

The elements of the deferred taxation asset recognised in the financial statements are as follows:

Group	Unclaimed capital allowances £'000	Loan loss provisions £'000	Share based payments £'000	Losses £'000	Hedging amounts £'000	Total £'000
At 1 July 2008	1,709	644	28	–	(787)	1,594
Credit to income statement (note 9)	5,964	2,959	–	405	843	10,171
Credited to hedging reserve	–	–	–	–	2,686	2,686
At 30 June 2009	7,673	3,603	28	405	2,742	14,451

The unclaimed capital allowances of £7,673,000 are considered to be recoverable against future taxable profits primarily due to the fact that future taxable profits before capital allowances are forecast to be considerably higher than future accounting profits. This is due to the UK corporation tax rules for finance lessors requiring that the capital elements of lease repayments be taxed and that capital allowances be claimed by the lessor.

The deferred tax asset of £405,000 arising from losses carried forward has been recognised as recoverable against future taxable profits that the directors consider more likely than not to occur on the basis of management forecasts.

The deferred tax assets relating to provisions and hedging are timing differences which arise from IAS 39 loan loss provisions and losses relating to cash flow hedging instruments.

Company	Unclaimed capital allowances £'000	Other timing differences £'000	Total £'000
At 1 July 2008	(7)	–	(7)
Credit to income statement (note 9)	69	1	70
Credited to hedging reserve	–	–	–
At 30 June 2009	62	1	63

The Group and Company's deferred tax asset balances are expected to be realised as stated below:

Group	2009 £'000	2008 £'000
Deferred tax asset to be recovered within 12 months	4,731	–
Deferred tax asset to be recovered after more than 12 months	9,720	1,594
	14,451	1,594

Company	2009 £'000	2008 £'000
Deferred tax asset/(liability) to be recovered/(discharged) within 12 months	–	–
Deferred tax asset/(liability) to be recovered/(discharged) after more than 12 months	63	(7)
	63	(7)

There are no unrecognised amounts for deferred taxation in the Group or Company.

Notes to the Financial Statements continued

for the year ended 30 June 2009

20. Cash and cash equivalents

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Cash at bank and in hand	2,562	2,416	243	44

21. Borrowings

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Current				
Secured bank overdraft	1,879	9,195	–	–
Secured bank loan	81,000	–	–	–
Unsecured intra-group borrowings	–	–	9,966	3,200
	82,879	9,195	9,966	3,200
Non-current				
Secured bank loan	98,707	210,030	–	–
Total borrowings	181,586	219,225	9,966	3,200

The secured bank loan included within non-current bank borrowings is stated net of £1,293,000 (2008: £970,000) of unamortised loan arrangement fees.

The interest rate on the secured bank loan is 300bps over Libor.

The Group's obligations under the new banking agreement are secured on the Group's undertaking and assets, including by way of fixed and floating charge.

There is no material difference between the fair value and the carrying value of the Group's and Company's borrowings.

The carrying amounts of the Group's borrowings are denominated in pounds sterling.

Liquidity risk – borrowings

A description of how the Group is exposed to liquidity risk in relation to its borrowings, as well as details on the Group's objectives, policies and processes for managing liquidity risk and how it is measured, is set out in the Business Review on page 12 in the section entitled 'Liquidity risk'. Details are also given in relation to the concentration risk associated with the Group's borrowings in the section entitled 'Concentration risk' on page 11.

The contractual undiscounted cashflows of the Group's and Company's borrowings, including both capital and interest payments, are analysed by maturities in the table opposite. The amounts shown therefore do not reconcile to the Group and Company's balance sheets.

The interest cost included within the repayments profile opposite has been estimated based upon an assumption that LIBOR as at the balance sheet date remains constant throughout the remaining period of the Group's Revolving Credit Facility ('RCF').

The requirements of IFRS 7 are such that the forecast future cash flows in respect of interest payable are calculated by reference to the expected movements in interest rates over the contractual term of the borrowings. However, through the Group's interest rate risk management policy, borrowings in respect of fixed rate lending are converted from floating rate to fixed rate, as noted in the Business Review section on page 13. As a consequence, the interest payments included in the table opposite will be increased by £6,776,000. (2008: £756,000) based upon the effective interest rate swaps in existence at the Balance Sheet date. In addition, as a result of the Group's step down in facilities the Group has £105m of ineffective interest rate swaps which will further increase the interest payments in the table opposite by £3,129,000 (2008: £nil).

The contractual maturity of the RCF is 31 March 2011.

21. Borrowings continued

Group	On demand £'000	Up to 1 Year £'000	1-5 years £'000	Total £'000
2009				
Bank overdrafts	1,879	–	–	1,879
Bank borrowings	–	82,805	100,510	183,315
	1,879	82,805	100,510	185,194

Group	On demand £'000	Up to 1 Year £'000	1-5 years £'000	Total £'000
2008				
Bank overdrafts	9,195	–	–	9,195
Bank borrowings	–	13,082	216,770	229,852
	9,195	13,082	216,770	239,047

Company	On demand £'000	Up to 1 Year £'000	1-5 years £'000	Total £'000
2009				
Intra-group borrowings	9,966	–	–	9,966

Company	On demand £'000	Up to 1 Year £'000	1-5 years £'000	Total £'000
2008				
Intra-group borrowings	3,200	–	–	3,200

Liquidity risk – loan commitments

As at 30 June 2009, the Group had undrawn facility commitments payable of £26.6m (30 June 2008: £48.5m). The drawing of these facility amounts are subject to satisfactory underlying asset quality, as defined by the individual facilities, compliance with audit requirements and standard terms and conditions.

These undrawn facilities represent the maximum possible amount that could be called by our customers. In practice, a substantial element of these commitments remains undrawn, and is to be expected.

The Company has no loan commitments.

Liquidity risk – obligations under operating lease contracts

The maturity profiles of the contractual cash flows associated with the Group's operating leases are analysed below:

Group	Up to 1 year £'000	1-5 years £'000	Total £'000
2009	102	47	149
2008	126	96	222

The Company has no operating lease contracts.

Trade and other payables are all payable within 3 months.

Notes to the Financial Statements continued

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22. Derivative Financial Instruments

A description of how the Group is exposed to interest rate and currency risk in relation to its borrowings and lending, as well as details on the Group's objectives, policies and processes for managing these risks and how they are measured, is set out in the Business Review on pages 10 to 14 in the sections entitled 'Interest rate risk' and 'Currency risk'. Details are also given in relation to the counterparty credit risk associated with the Group's derivative financial instruments in the section entitled 'Interest Rate Risk' on page 13.

The following table shows the fair value of all derivative financial instruments, as well as their notional amounts:

	2009			2008		
	Notional amount £'000	Assets £'000	Liabilities £'000	Notional amount £'000	Assets £'000	Liabilities £'000
Group and Company						
Interest rate swaps – current hedge	210,000	–	(9,794)	200,000	2,136	(6)
Interest rate swaps – forward hedge	–	177	(177)	20,000	712	(33)
Forward exchange contracts	1,100	41	–	–	–	–
		218	(9,971)		2,848	(39)
Comprising:						
Current		63	(6,051)		995	(10)
Non-current		155	(3,920)		1,853	(29)
		218	(9,971)		2,848	(39)

The following table shows the fair value of those derivative financial instruments, as well as their notional amounts, which do not represent cashflow hedges:

	2009			2008		
	Notional amount £'000	Assets £'000	Liabilities £'000	Notional amount £'000	Assets £'000	Liabilities £'000
Group and Company						
Interest rate swaps – current hedge	105,000	–	(3,012)	–	–	–
Interest rate swaps – forward hedge	–	–	–	–	–	–
		–	(3,012)		–	–
Comprising:						
Current		–	(2,910)		–	–
Non-current		–	(102)		–	–
		–	(3,012)		–	–

The interest rate swaps classified above as current hedges reflect those instruments which were operative as at the Balance Sheet date. Those classified as forward hedges relate to interest rate swaps entered into under a forward-starting arrangement whereby they do not become operative until after the Balance Sheet date. Details of the interest rate swaps are shown opposite:

22. Derivative Financial Instruments continued

Interest rate swaps as at 30 June 2009:

	Notional Principal £'000	Pre-margin Rate	Contract Date	Life Remaining in years
Fortis	10,000	4.880%	01/07/2008	2.00
HBOS	10,000	5.845%	09/08/2007	1.17
Lloyds	10,000	5.175%	20/06/2007	3.00
Lloyds	10,000	5.817%	09/08/2007	1.17
Lloyds	10,000	4.848%	01/07/2008	2.00
Lloyds	15,000	6.245%	02/07/2007	1.00
Lloyds	15,000	5.120%	18/09/2008	0.25
Lloyds	15,000	6.160%	27/07/2007	1.08
Lloyds	20,000	5.250%	30/11/2007	3.42
Lloyds	20,000	4.960%	17/03/2008	1.75
RBS	10,000	6.155%	11/06/2007	1.00
RBS	10,000	6.245%	02/07/2007	1.00
RBS	10,000	6.160%	09/08/2007	1.17
RBS	15,000	5.080%	01/10/2008	0.25
RBS	20,000	5.050%	31/07/2007	0.08
RBS	10,000	5.200%	02/07/2007	8.00
Total Current Swaps	210,000	5.512%		1.77

Forward Swaps

Lloyds	5,000	5.175%	20/06/2007	8.00
Lloyds	5,000	5.175%	20/06/2007	8.00
Lloyds	(10,000)	5.175%	20/06/2007	8.00
Total Forward Swaps	-	5.175%		8.00

Interest rate swaps as at 30 June 2008:

	Notional Principal £'000	Pre-margin Rate	Contract Date	Life Remaining in years
HBOS	10,000	5.845%	09/08/2007	2.17
Lloyds	10,000	5.175%	20/06/2007	4.00
Lloyds	10,000	5.817%	09/08/2007	2.17
Lloyds	15,000	6.245%	02/07/2007	2.00
Lloyds	15,000	6.160%	27/07/2007	2.00
Lloyds	20,000	4.880%	03/07/2006	0.01
Lloyds	20,000	5.250%	30/11/2007	4.42
Lloyds	20,000	4.960%	17/03/2008	2.75
RBS	10,000	5.200%	11/06/2007	9.00
RBS	10,000	6.155%	02/07/2007	2.00
RBS	10,000	6.245%	02/07/2007	2.00
RBS	10,000	6.160%	09/08/2007	2.17
RBS	20,000	4.840%	31/07/2007	0.08
RBS	20,000	5.050%	01/07/2006	1.08
Total Current Swaps	200,000	5.570%		2.57

Forward Swaps

Fortis	10,000	4.880%	01/07/2008	3.00
Lloyds	10,000	4.848%	01/07/2008	3.00
Lloyds	5,000	5.175%	20/06/2007	9.00
Lloyds	5,000	5.175%	20/06/2007	9.00
Lloyds	(10,000)	5.175%	20/06/2007	9.00
Total Forward Swaps	20,000	5.051%		6.60

Notes to the Financial Statements continued

for the year ended 30 June 2008

22. Derivative Financial Instruments continued

As noted in the table above as at 30 June 2009, the fixed interest rates vary from 4.84% to 6.245% (2008: 4.84% to 6.245%), and the floating rates are LIBOR for those interest rate swaps which are being hedge accounted. Gains and losses recognised in the hedging reserve in equity (note 25) on interest rate swap contracts as of 30 June 2009 will be continuously released to the income statement over the remaining life of the swaps.

As noted in the Business Review on page 13, the Group has £105m of notional swaps in place which are no longer expected to be effective due to the overhedged position arising from the step-down in the Group's borrowing facilities. Consequently, these swaps have been de-designated with effect from 1 January 2009 and their fair value movement of £3.0m has been recognised in the income statement in 2009.

None of the forward contracts are hedge accounted. These contracts are taken out by the Group to hedge exchange rate risk on letters of credit issued in foreign currencies.

23. Trade and other payables

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Current				
Trade payables	1,929	2,115	796	134
Other taxation and social security	1,062	–	28	226
Accruals	4,328	3,885	1,438	132
	7,319	6,000	2,262	492

There is no material difference between the fair value and the carrying value of the Group's and Company's trade and other payables.

24. Share capital

	Number	2009 £'000	Number	2008 £'000
Authorised				
Ordinary shares of 1p each	40,000,000	400	40,000,000	400
Allotted, called up and fully paid				
Ordinary shares of 1p each	26,060,565	261	26,060,565	261

No new shares have been allotted during the period.

25. Statement of changes in Shareholders' equity

Group	Called up share capital £'000	Share premium account £'000	Own shares held reserve £'000	Profit and loss account £'000	Share based payment reserve £'000	Hedging Reserve £'000	Total 2009 equity £'000
2009							
At beginning of the year	261	26,528	(1,507)	30,427	477	2,022	58,208
Loss for the financial year	-	-	-	(40,607)	-	-	(40,607)
Increase in Share Based Payment Reserve	-	-	-	-	225	-	225
Transfer of share based payments reserve for expired options	-	-	-	296	(296)	-	-
Fair value losses on cash flow hedges	-	-	-	-	-	(9,590)	(9,590)
Tax on fair value losses on cash flow hedges	-	-	-	-	-	2,686	2,686
Closing shareholders' equity	261	26,528	(1,507)	(9,884)	406	(4,882)	10,922

Group	Called up share capital £'000	Share premium account £'000	Own shares held reserve £'000	Profit and loss account £'000	Share based payment reserve £'000	Hedging Reserve £'000	Total 2008 equity £'000
2008							
At beginning of the year	260	26,503	(1,507)	25,307	277	1,080	51,920
New shares issued	1	25	-	-	-	-	26
Profit for the financial year	-	-	-	8,844	-	-	8,844
Dividends	-	-	-	(3,724)	-	-	(3,724)
Increase in Share Based Payment Reserve	-	-	-	-	200	-	200
Fair value gains on cash flow hedges	-	-	-	-	-	1,309	1,309
Tax on fair value gains on cash flow hedges	-	-	-	-	-	(367)	(367)
Closing shareholders' equity	261	26,528	(1,507)	30,427	477	2,022	58,208

Company	Called up share capital £'000	Share premium account £'000	Own shares held reserve £'000	Profit and loss account £'000	Share based payment reserve £'000	Total 2008 equity £'000
2009						
At beginning of the year	261	26,528	-	5,278	477	32,544
Loss for the financial year	-	-	-	(2,929)	-	(2,929)
Increase in Share Based Payment Reserve	-	-	-	-	225	225
Transfer of share based payments reserve for expired options	-	-	-	296	(296)	-
Closing shareholders' equity	261	26,528	-	2,645	406	29,840

Company	Called up share capital £'000	Share premium account £'000	Own shares held reserve £'000	Profit and loss account £'000	Share based payment reserve £'000	Total 2008 equity £'000
2008						
At beginning of the year	260	26,503	(1,507)	4,783	277	30,316
New shares issued	1	25	-	-	-	26
Decrease in own shares held reserve	-	-	1,507	-	-	1,507
Profit for the financial year	-	-	-	4,415	-	4,415
Dividends	-	-	-	(3,920)	-	(3,920)
Increase in Share Based Payment Reserve	-	-	-	-	200	200
Closing shareholders' equity	261	26,528	-	5,278	477	32,544

Notes to the Financial Statements continued

for the year ended 30 June 2009

25. Statement of changes in Shareholders' equity continued

Own Shares Held Reserve

The Own Shares Held reserve represents the cost of funding the purchase, by the Trustees of the Company's Employee Benefit Trust, of ordinary shares in the Company, at an open market value.

Share Based Payment Reserve

The share based payment reserve represents the fair value of equity-settled share-based instruments, which are determined at the date of grant and expensed over the vesting period.

Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have yet to occur.

26. Contingent liabilities

	2009 £'000	2008 £'000
Letters of credit	2,060	7,215

Letters of credit issued to overseas suppliers of the Group's customers are shown as contingent liabilities until the terms of those letters of credit are fulfilled.

27. Operating lease arrangements

At the balance sheet date the Group had total future lease payments under non-cancellable operating leases as follows:

	2009 Land and Buildings £'000	2008 Land and Buildings £'000
Future lease payments:		
Within one year	102	126
In two to five years	47	96
After five years	–	–
	149	222

The following amounts were recognised in the income statement in the year:

	2009 £'000	2008 £'000
Lease payments	245	265

28. Related party transactions

a) Funding

The Company is provided with borrowing facilities by one of its subsidiary undertakings.

b) Remuneration of key management personnel

Disclosures related to the remuneration of key management personnel as defined in IAS 24 'Related Party Disclosures' are given in note 7.

c) Payroll

The Company administers the Group's payroll, with the relevant payroll charges being recharged to fellow group companies. The Company does not make any charges for providing these services.

d) Transactions between the Company and its subsidiaries

The Company has entered into transactions with its subsidiary undertakings in respect of Group services (that include audit, marketing, IT, company secretarial and purchasing). Recharges are made to the subsidiaries based on the utilisation of these services.

Receivables due from and payables to subsidiary undertakings are disclosed in notes 18 and 23 respectively.

29. Reconciliation of loss before taxation to cash flows from operations

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
(Loss)/Profit on ordinary activities before taxation	(55,407)	12,735	(4,342)	4,415
Add back: share based payments	225	200	225	200
Add back: loss on de-designation of interest rate swaps	3,012	–	–	–
Less fair value gain on foreign exchange contracts	(41)	–	–	–
Operating (loss)/profit before share based payments and loss on de-designation of interest rate swaps	(52,211)	12,935	(4,117)	4,615
Depreciation of property, plant and equipment	164	197	2	–
Amortisation of intangible assets	318	277	152	113
Amortisation of loan arrangement fees	1,000	550	–	–
(Increase)/Decrease in other receivables, prepayments and accrued income	324	365	(7,622)	(7,171)
Increase/(Decrease) in other creditors, trade and other payables	1,319	(51)	8,536	934
Decrease in amounts due to Group undertakings – Group Relief	–	–	1,110	–
Loss/(Profit) on disposal of property, plant and equipment	90	(4)	–	–
Loss on disposal of intangibles	91	–	–	–
Net cash (outflow)/inflow from trading activities	(48,905)	14,269	(1,939)	(1,509)
(Decrease)/Increase in loans and advances to customers	85,642	(10,194)	–	–
Increase in borrowings	(31,323)	(869)	–	–
Net cash inflow/(outflow) from operating activities	5,414	3,206	(1,939)	(1,509)

Notes to the Financial Statements continued

for the year ended 30 June 2009

30. Share based payments

Within the scope of IFRS 2, the Group has two share based payment award schemes in place, a Performance Share Plan ("PSP") and a Save As You Earn scheme ("SAYE"). Seven awards have been made in respect of the PSP and three awards in respect of the SAYE. Under the terms of the PSP, the Remuneration Committee can grant nil cost options or market value options over shares or make awards of free shares to employees of the Group. Under the terms of the SAYE, all employees employed by the company are invited to enter into a monthly savings contract for a period of 3 years in conjunction with the grant of a share option granted at a 20% discount to the market value of the company's shares at the invitation date.

All share-based payment schemes are equity-settled schemes.

For PSP's in existence during the year, the fair value per option granted and the assumptions used in the calculation are as follows:

	PSP 1	PSP 3	PSP 4
Award date	19 December 2005	20 September 2006	7 September 2007
Exercise price	Nil	Nil	Nil
Vesting date	19 December 2008	20 September 2009	7 September 2010
Expected exercise date	19 December 2008	20 September 2009	7 September 2010
Performance condition	50% on EPS and 50% on TSR measured against the constituent companies of FTSE All Share Index (excluding Investment Trusts)	50% on EPS and 50% on TSR measured against the constituent companies of FTSE All Share Index (excluding Investment Trusts)	50% on EPS and 50% on TSR measured against the constituent companies of FTSE All Share Index (excluding Investment Trusts)
Eligibility	At the discretion of the remuneration committee	At the discretion of the the remuneration committee	At the discretion of the the remuneration committee
Number of employees	4	5	5
Share price at grant date	£3.00	£3.345	£3.18
Shares under option	97,480	111,152	154,826
Expected volatility	25%	25%	23%
Option life	7 years from vesting date	7 years from vesting date	7 years from vesting date
Risk free rate	n/a	n/a	5.057%
Expected dividend yield	3.85%	4.74%	4.83%
Fair value per share			
– 50% EPS	£2.67	£2.90	£2.71
– 50% TSR	£1.185	£1.502	£1.50
Average remaining contractual life at 30 June 2009	6.5 years	7.25 years	8.25 years

30. Share based payments continued

	PSP 5	PSP 6	PSP 7
Award date	12 October 2007	10 April 2008	17 September 2008
Exercise price	Nil	Nil	Nil
Vesting date	12 October 2010	7 September 2010	17 September 2011
Expected exercise date	12 October 2010	7 September 2010	17 September 2011
Performance condition	50% on EPS and 50% on TSR measured against the constituent companies of the FTSE All Share Index (excluding Investment Trusts)	100% on EPS	100% on TSR measured against the constituent companies of the FTSE All Share Index (excluding Investment Trusts)
Eligibility	At the discretion of the remuneration committee	At the discretion of the remuneration committee on recommendation of the CEO	At the discretion of the remuneration committee
Number of employees	1	16	6
Share price at grant date	£2.58	£1.51	£0.925
Shares under option	14,563	98,853	617,250
Expected volatility	23%	n/a	30%
Option life	7 years from vesting date	7 years from vesting date	7 years from vesting date
Risk free rate	5.057%	n/a	5.3859%
Expected dividend yield	4.83%	11.0%	Nil
Fair value per share			
– 50% EPS	£2.71		
– 50% TSR	£1.50		
– 100% EPS		£1.06	
– 100% TSR			£0.43
Average remaining contractual life at 30 June 2009	8.3 years	8.25 years	9.25 years

The EPS element has been valued using a Black Scholes model for nil cost PSP awards, and a Binomial model for market value PSP awards. The TRS element of both market value and nil cost PSP awards have been valued using a Monte Carlo simulation model.

Options awarded under PSP 2 have lapsed since the employee who was a member of this scheme has left the business.

Notes to the Financial Statements continued

for the year ended 30 June 2009

30. Share based payments continued

For the SAYE, the fair value per option granted and the assumptions used in the calculation are as follows:

	SAYE 1	SAYE 2	SAYE 3
Award date	19 December 2005	7 November 2006	26 October 2007
Exercise price	£2.10	£2.50	£2.08
Vesting date	1 February 2009	1 December 2009	1 December 2010
Expected exercise date	1 May 2009	1 March 2010	1 March 2011
Performance condition	None	None	None
Eligibility	All employees	All employees	All employees
Number of employees	77	49	66
Share price at grant date	£3.00	£3.155	£2.87
Shares under option	172,268	52,990	81,299
Expected volatility	25%	25%	23%
Option life	6 months from vesting date	6 months from vesting date	6 months from vesting date
Risk free rate	4.267%	4.961%	4.913%
Expected dividend yield	3.85%	3.85%	5.73%
Fair value per option	£0.93	£0.78	£0.73
Average remaining contractual life at 30 June 2009	–	0.9 years	1.9 years

SAYE options have been valued using a Black Scholes model.

Due to the fact that the Group has only been listed from November 2005, there is not sufficient historical data available to reliably calculate expected future volatility. Instead, an average of the expected volatility of a peer group of comparable companies has been calculated using historical data over a term broadly equal to the expected term (and in the case of the PSP, the performance period). The expected life of the option is the average expected period from grant to the expected exercise date. The risk free rate has been calculated based on the implied yield of zero-coupon Government bonds (UK Strips) with a remaining term equal to the expected term.

30. Share based payments continued

A reconciliation of the option movements over the year to 30 June 2009 is shown below:

	Number	2009 Weighted average exercise price	Number	2008 Weighted average exercise price
PSP 1				
Outstanding at 1 July	97,480	–	110,833	–
Granted during the period	–	–	–	–
Forfeited	–	–	(13,353)	–
Expired	(97,480)	–	–	–
Outstanding at 30 June	–	–	97,480	–
Exercisable at 30 June	–	–	–	–
PSP 3				
Outstanding at 1 July	111,152	–	124,625	–
Granted during the period	–	–	–	–
Forfeited	–	–	(13,473)	–
Outstanding at 30 June	111,152	–	111,152	–
Exercisable at 30 June	–	–	–	–
PSP 4				
Outstanding at 1 July	154,826	–	–	–
Granted during the period	–	–	169,401	–
Forfeited	–	–	(14,575)	–
Outstanding at 30 June	154,826	–	154,826	–
Exercisable at 30 June	–	–	–	–
PSP 5				
Outstanding at 1 July	14,563	–	–	–
Granted during the period	–	–	14,563	–
Forfeited	–	–	–	–
Outstanding at 30 June	14,563	–	14,563	–
Exercisable at 30 June	–	–	–	–
PSP 6				
Outstanding at 1 July	98,853	–	–	–
Granted during the period	–	–	120,442	–
Forfeited	–	–	(21,589)	–
Outstanding at 30 June	98,853	–	98,853	–
Exercisable at 30 June	–	–	–	–
PSP 7				
Outstanding at 1 July	–	–	–	–
Granted during the period	676,709	–	–	–
Forfeited	(59,459)	–	–	–
Outstanding at 30 June	617,250	–	–	–
Exercisable at 30 June	–	–	–	–

Notes to the Financial Statements continued

for the year ended 30 June 2009

30. Share based payments continued

	Number	2009 Weighted average exercise price	Number	2008 Weighted average exercise price
SAYE 1				
Outstanding at 1 July	98,822	£2.10	172,268	£2.10
Forfeited	(27,686)	£2.10	(73,446)	£2.10
Outstanding at 30 June	71,136	£2.10	98,822	£2.10
Exercisable at 30 June	–	–	–	–
SAYE 2				
Outstanding at 1 July	32,353	£2.50	52,990	£2.50
Granted	–	–	–	–
Forfeited	(22,905)	£2.50	(20,637)	£2.50
Outstanding at 30 June	9,448	£2.50	32,353	£2.50
Exercisable at 30 June	–	–	–	–
SAYE 3				
Outstanding at 1 July	72,716	£2.08	–	–
Granted	–	–	81,299	£2.08
Forfeited	(50,939)	£2.08	(8,583)	£2.08
Outstanding at 30 June	21,777	£2.08	72,716	£2.08
Exercisable at 30 June	–	–	–	–

Exercise of an option is subject to continued employment.

The total charge for the year relating to share based payment plans was £225,000 (2008: £200,000).

In addition to the schemes referred to above, a Deferred Annual Bonus scheme was established on 30 April 2008. Under the terms of the scheme, the executive directors have the opportunity to invest up to 50% of their gross annual bonus in the acquisition of the company's shares at a price equal to market value as at the date of the award. Under the terms of the scheme the Company would grant matching share awards which would vest if performance conditions were met on the expiry of specified periods or on occurrence of other events.

Davenham Group plc

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the Manchester Suite, Institute of Directors Hub, Peter House, St Peter's Square, Oxford Street, Manchester M1 5AN on Wednesday 25th November 2009 at 2:00pm to transact the following business:

ORDINARY BUSINESS

1. To receive the accounts of the Company for the year ended 30 June 2009 and the reports of the directors and the auditors.
2. To re-elect David R Coates as a director.
3. To re-elect David H Stewart as a director.
4. To re-appoint PricewaterhouseCoopers LLP as auditor to the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, (and in the case of resolution 6 to the passing of resolution 5) pass the following resolution. Resolution 5 will be proposed as an ordinary resolution. Resolution 6 will be proposed as a special resolution.

5. THAT the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") (in substitution for any existing authorities to allot relevant securities) to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to a maximum nominal amount of £86,868 (being approximately 33% of the issued share capital of the Company) provided that such authority shall expire at the conclusion of the next Annual General Meeting (or, if earlier on 31 December 2009) and provided further that the Company may before such expiry make such offers or agreements which would or might require relevant securities to be allotted after such expiry.
6. THAT, subject to the passing of resolution 5, the Directors be and are hereby empowered pursuant to section 95(1) of the

Act to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) did not apply to such allotment, provided that this power shall be limited to:

- (i) the allotment of equity securities in connection with a rights issue or other issue in favour of the holders of ordinary shares (notwithstanding that, by reason of such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory, the equity securities to be issued are not offered to all such holders in proportion to the number of ordinary shares held by each of them); and
- (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £13,000 being approximately 5% of the Company's issued share capital;

and such power shall expire on the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or if earlier 31 December 2010), save that the Company may before such expiry make any offers or agreements which would or might require equity securities to be allotted after such expiry.

Dated: 25th October 2009

By Order of the Board

Qconsult Limited
Secretary

Registered Office:
8 St John Street
Manchester
M3 4DU

Notice of Annual General Meeting continued

Notes

1. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the chairman, please insert the name of your chosen proxy holder in the space provided on the form of proxy. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the field after the proxy's name and address, the number of shares in relation to which they are authorised to act as your proxy. If left blank, your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form is completed in respect of a designated account, the full voting entitlement for that designated account).

To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrars helpline on 0871 384 2748 or you may photocopy the form. (Calls to this number are charged at 8p per minute from a BT landline. Other telephone provider costs may vary. Please indicate in the appropriate field the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being made. All forms must be signed and returned together.

2. In order to be valid, any form of proxy and power of attorney or other authority under which it is signed, or notorially certified or office copy of such power or authority, must reach the Company's registrars, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZX not less than 48 hours before the time of the meeting or of any adjournment of the meeting.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 25th November 2009 and any adjournment(s) thereof by using the procedures described in the CREST Manual available at www.euroclear.com/crest. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

4. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders who hold shares in uncertificated form must be entered on the Company's share register at 6:00pm on 23 November 2009 in order to be entitled to attend and vote at the Annual General Meeting. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. The total number of Ordinary shares of 1p in issue as at 1st October 2009, the last practicable day before printing this document was 26,060,565 ordinary shares and the total level of voting shares was 26,060,565.
6. Website Documentation
In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website www.davenham.co.uk.
7. Right to Ask Questions
Pursuant to section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure.

Davenham Group plc Form of Proxy

I/We _____

(Please insert full name(s) and address(es) in block letters)

of _____

being (a) member/members of the above-named Company hereby appoint the Chairman of the Meeting, or (see Note 1 below)

of _____

regarding _____ shares as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday 25th November 2009 and at any adjournment thereof, and to vote as indicated below.

Please tick this box if this proxy appointment is one of multiple appointments being made.

Please indicate how you wish your proxy to vote by inserting "X" in the box below. If no indication is given, and on any other resolutions proposed at the meeting, your proxy will vote or abstain from voting as he/she thinks fit.

RESOLUTIONS		For	Against	Vote Withheld
1	To receive the Accounts for the year ended 30 June 2009	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	To re-elect David R Coates as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	To re-elect David H Stewart as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	To re-appoint PricewaterhouseCoopers LLP as auditors and to authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	To authorise the Directors to allot relevant securities pursuant to section 80 of the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	To authorise the Directors to allot equity securities pursuant to section 95 of the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Name: (Block capitals) _____

Address: _____

Signature(s):
or Common Seal _____

Date: _____

Notes

- Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (who need not be a member of the Company) of his/her own choice to attend and, on a poll, to vote in his/her place. If a member wishes to appoint a proxy other than the Chairman, delete the words "the Chairman of the Meeting or," initial the alteration and insert the name of the person you wish to appoint as your proxy. The Chairman of the Meeting shall act as a proxy unless another proxy is indicated. A proxy will act in his/her discretion in relation to any business, other than that above, at the meeting (including any resolution to amend a resolution or to adjourn the meeting).
- All members are entitled to attend and vote at the meeting, whether or not they have returned a form of proxy.
- The vote withheld option is provided to enable you to abstain on any particular resolution. However, it should be noted that a "vote withheld" is not a vote in law, and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution.
- If a member is a corporation, this form of proxy must be executed under its common seal or by the signature of an officer or attorney duly authorised in writing. [A copy of the authorisation of such officer or attorney must be lodged with the form of proxy.]
- In the case of joint holders, the signature of any one holder will be sufficient, but the names of all joint holders should be stated, and the vote of the senior holder who tenders a vote will be accepted to the exclusion of the vote(s) of other joint holder(s), seniority being determined by the order in which the names stand in the register of members of the Company.
- In order to be valid, this form of proxy, duly executed together with any power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must be lodged at the Company's Registrars not less than 48 hours before the time of the meeting or any adjournment of the meeting.
- CREST participants may lodge their proxy appointments via CREST. Please refer to note 3 in the notice of meeting.
- Any alterations made to this form of proxy should be initialled.



SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. SEA 10855



Equiniti
Aspect House
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Lancing
West Sussex BN99 6ZX

THIRD FOLD AND TUCK IN

FIRST FOLD



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