


Davenham Group plc
Annual Report and Accounts 2010



trade finance
property finance
asset finance

davenham 
positive thinking in business finance

Contents

	Page
Chairman and Group Managing Director's Statement	2
Business Review	3
Directors, Auditors and Company Information	10
Directors' Report	11
Corporate Governance	13
Independent Auditors' Report	16
Consolidated Income Statement	17
Consolidated Statement of Comprehensive Income	17
Consolidated Balance Sheet	18
Company Balance Sheet	19
Consolidated Statement of Cash Flow	20
Company Statement of Cash Flow	21
Notes to the Financial Statements	22
Notice of Annual General Meeting	57
Form of Proxy	59

Chairman and Group Managing Director's Statement

Overview

Having taken the decision in October 2008 to collect-out the Group's property book, whilst only very selectively underwriting new business in our asset and trade books, we have made continued progress during the year under review in reducing the size of the Group's loan portfolio and operating cost base.

In addition, the Group worked closely with Hawkpoint Partners, the Group's NOMAD and financial adviser, to complete the strategic review of the Group's options.

This review was completed on 30 June 2010 concluding that Davenham should cease to write new business and that, with the support of its banking syndicate, Davenham would collect in its loan books in a prudent and orderly manner.

In view of this outcome of the strategic review, the Board considered (having consulted with Hawkpoint Partners) that there was likely to be no value for ordinary shareholders in the Company.

Results summary

The Board have concluded that following the announcement on 30 June 2010 that it is not appropriate to prepare its financial statements on a going concern basis. The results for the year ended 30 June 2010 have therefore been prepared on a break-up basis as defined in the Group's accounting policies on page 23.

The financial results reflect an environment that has remained challenging during the year with the Group finding it difficult, especially in respect of its property portfolio, to sell assets for value. The vast majority of the property portfolio has remained non-performing, resulting in reduced income and continued operating losses.

- Loan portfolio (including letters of credit) reduced to £108.2m at 30 June 2010 from £193.0m a year earlier
- Provisions before gross up of £10.7m were made during the year
- Bank facility reduced from £181m to £130m during the year
- Cost base reduced substantially by £4m
- Net liabilities of £24.0m (2009: Net assets £10.9m)

People

On 1 March 2010 Davenham announced that David Coates had stepped down as Chief Executive of the Group and that Paul Burke, the Group Finance Director, had been appointed Group Managing Director. Since the year end, Graham "Sam" Footitt and David Stewart have retired as Non-Executive Directors of the Company.

The Board thanks David, Sam and David for their contributions to the Company during their tenures.

AIM

On 30 June 2010, the Company announced its intention to propose the cancellation of the admission of its securities to the Alternative Investment Market ("AIM"), having regard to the ongoing costs of maintaining that admission. A general meeting was subsequently convened on 13 August 2010, at which a special resolution ("the Resolution") was proposed to approve this cancellation. The Resolution, which was conditional upon the approval of not less than 75% of the votes cast by shareholders, was not approved by a sufficient majority of shareholders.

The Board will make further announcements as appropriate.

Post year end

Following the Board's announcement that the Group would cease to write new business and that, with the support of its banking syndicate, it would collect in its loan books in a prudent and orderly manner, the detailed parameters of that run-off were finalised with the banking syndicate. This has ensured that a stable platform is maintained during the run-off period and that the Group has access to the required levels of working capital, ensuring the day to day liabilities of the Group are met as they fall due.

The key financial indicators as at 23 November 2010 are as follows:

- Loan portfolio reduced to c.£80m
- Bank facility reduced from £130m to £111m

Further reductions to the cost base/headcount are expected as the Group continues to run-off its loan portfolios.

Summary

The Board confirms that Davenham continues to collect in its loan book with the support of the banking syndicate and that the Board remains of the view that there is likely to be no value for ordinary shareholders in the Company.

James Kerr-Muir
Chairman

Paul Burke
Group Managing Director

24 November 2010

Business Review

The year under review continued to be very challenging for the Group as the impact of the depressed property market continues to seriously affect the financial performance of the Group, in addition to the uncertainty surrounding the future of the business whilst the Strategic Review was being conducted.

Financial Highlights

In an environment which saw the Property book being collected in and restricted new business being written in the Asset and Trade portfolios, Group revenues decreased by 35% to £32.0m (2009: £49.1m). The loan portfolio including letters of credit reduced by 44% to £108m (2009: £193m).

Loss before tax and exceptional items was £23.3m (2009: £48.9m) after charging £29.9m (2009: £66.7m) for impairment, the vast majority relating to the performance of the property portfolio. The impairment charge is inclusive of gross up which amounted to £19.3m (2009: £17.5m) 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 £29.8m (2009: £55.4m).

The Group's effective tax rate during the year was 28% (2009: 26.7%). 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. These costs primarily related to the strategic review process and new basis of preparation, including the new banking facilities, office closures and redundancies. These costs have been disclosed as exceptional.

Borrowing facilities

In March 2009 a two year facility with the Group's existing syndicate of banks was agreed. The 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.

Following the Board's announcement on 30 June 2010 (and the expiry of temporary waivers of covenant breaches), the detailed parameters of the run-off were finalised with the banking syndicate, with the result that the facility is now repayable on demand.

This on demand facility will expire on 31 March 2011, at which point the banking syndicate is expected to review their ongoing support for the run-off process.

Cash flow

Considerable time was invested towards cash generation resulting in a net reduction of the Group's indebtedness by £55.1m in the year to £123.9m, as at 30 June 2010.

The cessation of lending within the areas of property, small ticket asset and professional loans and associated run-off and the writing of very selective new business in Asset and Trade were the prime drivers in the Group's overall reduction in its debt levels.

Administrative expenses

During the run-off period the Group continues to carefully manage its business, taking hard decisions to remove costs as the business contracts.

Shareholders' Return

The Board remains of the view that there is likely to be no value for ordinary shareholders.

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).

2006	UK GAAP	£32.7m
2007	IFRS	£38.6m
2008	IFRS	£49.5m
2009	IFRS	£31.6m
2010	IFRS	£12.7m

The reduction in revenue is primarily reflective of a high number of non-performing accounts predominantly within Property, 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.

2006	UK GAAP	£10.4m
2007	IFRS	£11.6m
2008	IFRS	£13.1m
2009	IFRS	(£48.9m)
2010	IFRS (Break-up basis)	(£23.3m)

The reduction in revenue combined with the requirement for continued levels of impairment charges has led to the Group recording a loss.

Business Review continued

In accordance with IAS 37 the loss for 2010 as prepared on a break-up basis does not include forecast future operating costs.

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

2006	UK GAAP	£183.7m
2007	IFRS	£248.0m
2008	IFRS	£284.4m
2009	IFRS	£193.0m
2010	IFRS (Break-up basis)	£108.2m

The net loan portfolio has continued to decrease in 2010 as a result of the run-off of property, small ticket leasing and professional loans portfolios, and a very cautious lending approach in the asset and trade divisions. In addition, the continued requirement for substantial loan loss provisioning has 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
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
2010	£58.9m	£18.6m	£30.7m

The net loan portfolios have decreased across all three divisions in line with the Group's revised strategy.

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.

2006	27.4p
2007	33.44p
2008	35.75p
2009	(163.99p)
2010	(159.11p)

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 as prepared on a break-up basis.

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 reduction in property values and lack of liquidity continues to result in a substantial reduction in the value of collateral security held.

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 level of 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 continued to see 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 69.2% (2009: 66.7%).

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 67.8% (2009: 64.5%).

	Property £'000	Trade £'000	Asset £'000	Total £'000
Arrears				
2010	–	5	2,151	2,156
2009	1,852	9	3,870	5,731
Non-performing				
2010	93,586	5,396	5,155	104,137
2009	132,332	4,941	8,745	146,018

Bad debt charge, defined as the specific provisioning charge (net of recoveries and before the effects of discounting) is £13.4m (2009: £37.8m).

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 below:

Gross up

IAS39 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	7,809	1,592	4,009	13,410
Cash discounting	(1,244)	(30)	(239)	(1,513)
Collective impairment	(306)	(177)	(746)	(1,229)
Sub-total	6,259	1,385	3,024	10,668
Gross up	17,106	683	1,487	19,276
Total	23,365	2,068	4,511	29,944

This analysis highlights that the Group has released impairment provisions of approximately £2.7m in relation to cash discounting and collective impairment. A material element of this relates to the property portfolio.

As at 30 June 2010 the property portfolio has released impairment provisions in relation to cash discounting and collective impairment of approximately £1.6m (2009 charge: £8.4m) as a result of the ongoing collect out of the portfolio. 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 £19.3m 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 2010 amounted to £13.4m (2009: £37.8m) of the headline impairment level charged under IFRS of £29.9m (2009: £66.7m).

The total balance sheet provisions as at 30 June 2010 under a break-up basis are as follows:

Business Review continued

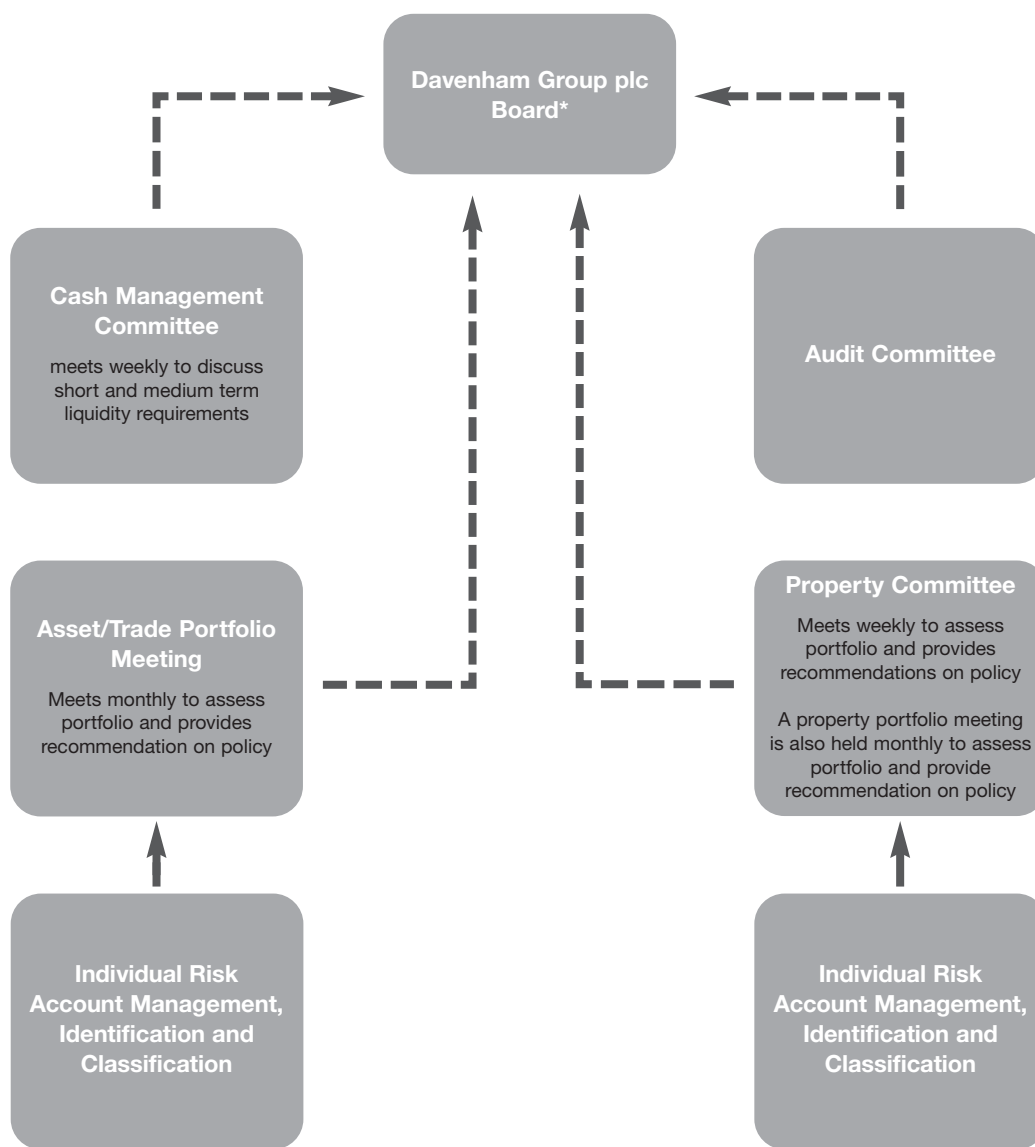
	Property £'000	Trade £'000	Asset £'000	Total £'000
Specific provision	30,157	2,307	2,146	34,610
Cash discounting	9,172	275	146	9,593
Collective impairment	–	754	1,347	2,101
Total	39,329	3,336	3,639	46,304

Risk Environment

The Group is exposed to a number of risks arising from its current business strategy 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.

Risk Management Framework

The risk framework is adopted and implemented through various risk management groups and committees.



*Asset & Liability Management Committee (ALCO) was integrated into the Board during 2009.

The principal risk management groups and their responsibilities in the year under review were:

The Board of Davenham Group plc

Responsibility for the overall risk framework and governance lies with the Board of Directors. The historical Group risk function has now been incorporated within the responsibilities of the Board.

The Audit Committee

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

Risk Categorisation

The Group has identified the following key risks in relation to its various portfolio types 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 revised 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. 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 Board of Directors.

Credit risk in relation to approved advances is closely monitored by account managers through a rigorous control framework, which exists to escalate account level risk from an individual to the divisional management team. 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.

Business Review continued

Treasury Risk

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

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

Liquidity Risk

As explained in note 1 to the financial statements, a revised facility was agreed with the banks in July 2010. The facility is now repayable on demand.

If demand were made the Board considers that the Group would be unable to meet that demand, with the result that one or more members of the Group would need to seek the protection of an administration and/or to enter into some form of insolvency process.

This is also 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. 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 maintains a formal treasury function via Davenham Treasury Services Limited. This manages the day to day treasury function and is charged with providing daily management information to manage daily liquidity requirements.

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.

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 three 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.

An independent valuation of the swap portfolio has now been undertaken which shows a negative fair value of the total portfolio of £6.0m as at 30 June 2010 (2009: £9.8m negative fair value) (refer to note 22). This represents a £3.8m reduction from 30 June 2009 position. As the Group's borrowings have now moved to an on-demand basis none of the Group's interest rate swaps are now forecast to remain fully effective for their remaining lives and therefore £1.1m 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.

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 2010 the Group had foreign currency cash balances equivalent to £2.3m (2009: £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.

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 the Board.

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

On 30 June 2010 the Group advised that the strategic review had been concluded and that it would cease writing new business and collect out its loan books in a prudent and orderly manner.

The Group's current goals and its expectations in relation to the future run-off of the Group's portfolio 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 and market-related risks (such as fluctuations in interest rates) and any decision by the Group's banking syndicate to call in the facility (or not to extend it beyond its expiry in March 2011).

Directors, Auditors and Company Information

Chairman

J R Kerr-Muir

Executive Directors

P E Burke

Group Managing Director

(appointed 1 March 2010,

Group Finance Director until 1 March)

D R Coates

Chief Executive Officer

(resigned 26 February 2010)

D Bowles

Group Risk Director

(resigned 28 September 2009)

Non-Executive Directors

G L Footitt (retired 1 September 2010)

D H Stewart (retired 5 July 2010)

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 Lawyers

Pinsent Masons LLP

3 Hardman Street

Manchester

M3 3AU

Public Relations

Hogarth Partnership

No.1 London Bridge

London

SE1 9BG

Principal Banker

The Royal Bank of Scotland Plc

6th Floor

1 Spinningfields Square

Manchester

M3 3AP

Nominated Advisor

Hawkpoint Partners Limited

41 Lothbury

London

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

274 Deansgate

Camp Street

Manchester

M3 4JB

Registered Number

3976032

Incorporation

Davenham Group plc

("the Company") and its

subsidiaries (together, "the Group")

are incorporated and domiciled

in the UK

Directors' Report

for the year ended 30 June 2010

The Directors present their report and the audited financial statements for the year ended 30 June 2010. As set out more fully in the Statement of Accounting Policies, this Annual Report has been prepared on a break-up basis 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 during the year under review 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 2010 are included in the Business Review on pages 3 to 9.

Results and transfers to reserves

The consolidated loss for the year ended 30 June 2010 is set out in the Consolidated Income Statement on page 17. The Group has agreed with its banking syndicate not to make dividend distributions. The loss for the year of £39.4m (2009: loss of £40.6m) will be transferred from reserves.

Directors and their interests

The Directors of the Company at 30 June 2010, all of whom have been Directors for the whole of the year ended on that date are listed on page 10, except where stated.

The Company maintains appropriate Directors' and Officers' Liability Insurance in respect of itself and its Directors. In addition, as permitted by the Companies Act 2006, there was in force (during the year ended 30 June 2010) a qualifying third party indemnity provision granted by the Company in favour of each of the Directors who held office during that year (and such provision also continues in force for the Directors currently holding office).

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 2010 Number	30 June 2009 Number
J R Kerr-Muir	90,000	90,000
D R Coates	n/a	56,729
P E Burke	50,000	50,000
D Bowles	n/a	51,355
G L Footitt	82,325	82,325
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 2010 Number	30 June 2009 Number
D R Coates	n/a	482,258
P E Burke	353,965	353,965

There have been no changes in the above interests between 30 June 2010 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 2010 was 0.5p. The shares traded in the range 0.5p to 20.25p during the year.

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 £5,400 (2009: £5,500) 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 2010 were 41 days (2009: 38 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, 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

Directors' Report continued

for the year ended 30 June 2010

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

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;

- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution 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

24 November 2010

Corporate Governance

The Board is committed to the effective management of risk, not least in the context of the difficult trading and economic conditions detailed elsewhere in this report.

As an AIM Company, Davenham is not required to comply with the Combined Code but, as outlined in the following paragraphs, the Board continued during the year ended 30 June 2010 to apply the principles of good governance and the code of best practice set out in the current edition of the Combined Code, where it was practical to do so in relation to its size and current trading status.

Directors and the Board

The Chief Executive (David Coates) resigned on 26 February 2010. The Board comprised the Non-Executive Chairman (James Kerr-Muir), the Group Managing Director (Paul Burke), and two Non-Executive Directors (Graham "Sam" Footitt and David Stewart). The Board considered that Sam Footitt and David Stewart met the criteria of independence as defined in the Combined Code and that James Kerr-Muir was independent on his appointment as Chairman.

Non-Executive Directors, David Stewart and Sam Footitt both retired after the year-end on 5 July 2010 and 1 September 2010 respectively.

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 2010, the Board met 12 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 in London. The Board also meets as required on an ad hoc basis to deal with urgent business.

The Board 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 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 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.

Matters requiring Board and Committee approval were 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 received appropriate information on the Company comprising a financial report and briefings from the Executives before each scheduled Board Meeting. The Group Managing Director also briefed the Board 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. 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 terms and conditions of appointment of Non-Executive Directors 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 post of Chairman is held by James Kerr-Muir. During the year, the Board considered that the Chairman and the two independent Non-Executive Directors, Sam Footitt, who served as Senior Independent Director, and David Stewart together brought a strong and independent Non-Executive element to the Board. 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.

The Chairman is responsible for leadership of the Board and creating the conditions for the overall effectiveness of the Board. The Group Managing Director 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

Corporate Governance continued

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.

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. The Board also benefits from regular updates and presentations from senior managers.

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 had established various committees during the year, each of which had written Terms of Reference. These were the Audit, Nomination and Remuneration committees. The Terms of Reference for each committee are available on request from the Company Secretary.

The **Audit Committee** comprised the two Non-Executive Directors and was chaired by Sam Footitt, the Senior Independent Director. As noted earlier, the Board considers the Chairman, Mr Kerr-Muir, 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 were invited to attend by prior arrangement. The committee reviewed all material controls including financial, operational and compliance controls including risk management processes, ensuring that good financial practices were maintained throughout the Company. The Committee met 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 Board has received a report from the external auditors on the 2010 audit, for further detailed consideration.

In addition to its work in relation to the Group's internal controls and systems set out above, the Committee was 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 had primary responsibility for making a recommendation on the appointment, reappointment and

removal of the external auditors. The Committee aimed 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 (and the Board) consider that the Company's auditors are properly independent.

The **Remuneration Committee** responsibilities included setting remuneration policy, ensuring that remuneration (including compensation and other benefits) and the terms of service of the Executive Directors and other senior employees are appropriate and that they are fairly rewarded for the contribution which they make to the Company's overall performance.

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 December 2010, James Kerr-Muir will stand down and offer himself 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 was consistent with previous reviews indicating that the Board continues to benefit from constructive debate and challenges in the Company's operational and strategic matters.

Relationship with Shareholders and Dialogue with institutional shareholders

The Board attends brokers' and analysts' presentations in relation to the Company's interim and full year results as required. The Board, with assistance from the Company's advisors, collates feedback from such presentations for further consideration by the Board. The Board also maintains 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. 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 2010 AGM are set out in the notice of the meeting enclosed with this report.

The members of the Board 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 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 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, 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.

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 7 to 9).

Overall, the Board 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, additional skilled resource was deployed to the Risk teams. The Risk teams contribute significantly to the process for identifying and managing significant risks throughout the year.

Position following the conclusion of the strategic review

In light of the conclusion of the strategic review (announced on 30 June 2010), and of the process for collecting in the Company's loan books (in an orderly and prudent manner), the Board is currently operating with two members only (being Paul Burke (the Group Managing Director) and James Kerr-Muir (the Chairman)) – although this means that the use of designated Board committees is currently not appropriate, the Board is satisfied that it is able to operate effectively (particularly given the advisers to which the Board has access in relation to matters such as directors' duties and corporate governance issues). The Board will nevertheless continue to review whether it would be appropriate (not least given the recent decision by the Company's shareholders not to cancel the listing of the Company's shares on AIM) to appoint one or more additional Non-Executive Directors.

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 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Cash Flow 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 12, 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 Chapter 3 of Part 16 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 2010 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 and Basis of preparation

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 explain that the Group has ceased writing new business and will now collect out the existing loan portfolios. As a result, the Directors concluded that preparing the financial statements on a going concern basis was no longer appropriate, and therefore the financial statements have been prepared on a break-up basis. The financial statements include the necessary adjustments in accordance with this new basis of preparation.

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

24 November 2010

Consolidated Income Statement

for the year ended 30 June 2010

	Notes	2010			2009		
		Before exceptional items £'000	Exceptional items (Note 6) £'000	Total £'000	Before exceptional items £'000	Exceptional items (Note 6) £'000	Total £'000
Revenue	3	31,973	–	31,973	49,074	–	49,074
Finance costs	5	(13,940)	–	(13,940)	(15,907)	–	(15,907)
Gross profit		18,033	–	18,033	33,167	–	33,167
Administrative expenses		(11,404)	(6,473)	(17,877)	(15,382)	(6,479)	(21,861)
Loan loss impairment	17	(29,944)	–	(29,944)	(66,713)	–	(66,713)
Operating loss before taxation	6	(23,315)	(6,473)	(29,788)	(48,928)	(6,479)	(55,407)
Taxation	9	(9,308)	(302)	(9,610)	12,986	1,814	14,800
Loss for the year after taxation	25	(32,623)	(6,775)	(39,398)	(35,942)	(4,665)	(40,607)
Loss per share							
– basic	12	(131.75)p	(27.36)p	(159.11)p	(145.15)p	(18.84)p	(163.99)p
– diluted	12	(131.75)p	(27.36)p	(159.11)p	(145.15)p	(18.84)p	(163.99)p
Dividends per share							
– Paid during the period	11			Nil			Nil
– Proposed	11			Nil			Nil

All results are from continuing operations.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2010

	2010 £'000	2009 £'000
Loss for the year	(39,398)	(40,607)
Other comprehensive income:		
Effective portion of changes in fair value of interest rate cashflow hedges:		
– fair value adjustment	–	(9,590)
– tax on fair value adjustment	–	2,686
Total comprehensive income for the year	(39,398)	(47,511)

There are no movements to be recognised through the Parent Company Statement of Comprehensive Income in 2010 or 2009.

The notes on pages 22 to 56 form part of these financial statements.

Consolidated Balance Sheet

as at 30 June 2010

	Notes	30 June 2010 £'000	30 June 2009 £'000
ASSETS			
Non-current assets			
Goodwill	13	–	1,909
Other intangible assets	14	–	415
Property, plant & equipment	15	771	868
Loans & advances to customers	17	40,583	68,635
Deferred taxation asset	19	4,913	14,451
Derivative financial instruments	22	718	155
		46,985	86,433
Current assets			
Loans & advances to customers	17	66,728	122,309
Other receivables, prepayments & accrued income	18	591	827
Derivative financial instruments	22	120	63
Cash and cash equivalents	20	5,470	2,562
		72,909	125,761
Total assets		119,894	212,194
LIABILITIES			
Current liabilities			
Borrowings	21	129,407	82,879
Current tax liabilities		2,898	2,396
Derivative financial instruments	22	3,151	6,051
Trade and other payables	23	4,753	7,319
		140,209	98,645
Non-current liabilities			
Borrowings	21	–	98,707
Derivative financial instruments	22	3,685	3,920
		3,685	102,627
Total liabilities		143,894	201,272
Net (liabilities)/assets		(24,000)	10,922
SHAREHOLDERS' EQUITY			
Share capital	24	261	261
Share premium	25	26,528	26,528
Own shares held reserve	25	(1,507)	(1,507)
Retained earnings	25	(49,282)	(9,884)
Share based payment reserve	25	–	406
Hedging reserve	25	–	(4,882)
Total Shareholders' equity		(24,000)	10,922

The financial statements on pages 17 to 56 were approved by the board of directors on 24 November 2010 and were signed on its behalf by:

P E Burke

Director

The notes on pages 22 to 56 form part of these financial statements.

Company Balance Sheet

as at 30 June 2010

	Notes	30 June 2010 £'000	30 June 2009 £'000
ASSETS			
Non current assets			
Investment in Group undertakings	16	–	7,618
Other intangible assets	14	–	99
Property, plant & equipment	15	24	9
Deferred taxation asset	19	–	63
		24	7,789
Current assets			
Other receivables, prepayments & accrued income	18	518	34,036
Cash and cash equivalents	20	140	243
		658	34,279
Total assets		682	42,068
LIABILITIES			
Current liabilities			
Trade and other payables			
Borrowings	23	2,030	2,262
	21	71	9,966
Non-current liabilities			
Deferred taxation liability	19	–	–
Total liabilities		2,101	12,228
Net (liabilities)/assets		(1,419)	29,840
SHAREHOLDERS' EQUITY			
Share capital	24	261	261
Share premium	25	26,528	26,528
Own shares held reserve	25	–	–
Retained earnings	25	(28,208)	2,645
Share based payment reserve	25	–	406
Total Shareholders' equity		(1,419)	29,840

The notes on pages 22 to 56 form part of these financial statements.

Consolidated Statement of Cash Flow

for the year ended 30 June 2010

	Notes	2010 £'000	2009 £'000
Cash flows from operating activities			
Cash generated from operations	29	4,291	5,414
Tax repaid		429	2,188
Net cash inflow from operating activities		4,720	7,602
Cash flows from investing activities			
Purchase of property, plant and equipment		(20)	(113)
Purchase of intangible assets		(5)	(43)
Proceeds from sale of property, plant and equipment		21	16
Net cash outflow from investing activities		(4)	(140)
Net increase in cash and cash equivalents		4,716	7,462
Cash and cash equivalents at 1 July		683	(6,779)
Cash and cash equivalents at 30 June		5,399	683
For the purposes of the cash flow statement, cash and cash equivalents comprise:			
Cash at bank and in hand	20	5,470	2,562
Bank overdrafts included within current borrowings	21	(71)	(1,879)
		5,399	683

The notes on pages 22 to 56 form part of these financial statements.

Company Statement of Cash Flow

for the year ended 30 June 2010

	Notes	2010 £'000	2009 £'000
Cash flows from operating activities			
Cash used in operations	29	(150)	(1,939)
Tax repaid		–	2,188
Net cash (outflow)/inflow from operating activities		(150)	249
Cash flows from investing activities			
Purchase of property, plant and equipment		(19)	(43)
Purchase of intangible assets		(5)	(7)
Net cash outflow from investing activities		(24)	(50)
Net (decrease)/increase in cash and cash equivalents			
		(174)	199
Cash and cash equivalents at 1 July		243	44
Cash and cash equivalents at 30 June		69	243
For the purposes of the cash flow statement, cash and cash equivalents comprise:			
Cash at bank and in hand	20	140	243
Bank overdrafts included within current borrowings	21	(71)	–
		69	243

The notes on pages 22 to 56 form part of these financial statements.

Notes to the Financial Statements

for the year ended 30 June 2010

1. Basis of preparation

Basis of accounting

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 2010 or later periods, but which the Group and the Company have not early adopted.

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010) – the interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a “debt for equity swap”). This will have no significant impact for the Group.
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013) – it is not expected that this standard will have a material impact on the classification and measurement of the Group’s financial assets.
- Annual Improvements 2010 (effective for annual periods beginning on or after 1 July 2010 and 1 January 2011) – these include several small amendments with no significant impact for the Group.
- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 July 2011) – 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.

Other new standards, amendments and interpretations have been considered but are not deemed 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 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 consider whether it is appropriate to prepare the financial statements on a going concern basis.

As noted in the Business Review section on pages 3 to 9 the Group considered a number of potential strategic options during the year on behalf of shareholders, however due to the continued difficult economic conditions, particularly in relation to the property market, the Group was unsuccessful in securing a sale on satisfactory terms for either the whole or any part of the business.

The Group has continued to incur ongoing losses, primarily attributable to the levels of impairment and non-performing property portfolio along with the associated debt burden, and the Group’s existing swap portfolio which has continued to result in the Group being in an over-hedged position with fixed interest rates higher than LIBOR. Consequently, during the year the Group’s net asset base was eroded such that it is now in a net liability position.

In light of the above, it became apparent that the Group’s lenders were likely to suffer a material shortfall on the amount repayable to them under the Group’s current borrowing facilities. The Group has therefore held detailed discussions with the banking syndicate to secure their ongoing support for the revised collect out strategy of the Group’s existing portfolio as the Directors believe this will result in a smaller loss for the banking syndicate.

On 31 July 2010 the lenders agreed to amendments to the Group’s current Revolving Credit Facility (‘RCF’) whereby the facility step-downs have been removed and the facility has become a repayable on-demand type nature. The contractual maturity of the facility remains as 31 March 2011.

In securing the above support the Group has prepared detailed forecasts to support the collect out process which indicate that this will extend beyond the RCF’s contractual maturity date. The Group therefore intends that prior to this date the actual performance of the collect out process will be reviewed against the forecasts, in conjunction with the lenders, following which the Group will seek agreement to extend the current maturity date or secure a new facility tailored to the expected remaining period of the run down.

1. Basis of preparation continued

As the Directors no longer consider the Group or Company to be a going concern, the financial statements have been prepared on a break-up basis and all assets and liabilities stated at their recoverable value.

Break-up Basis

The accounting policies have been applied to derive the recoverable amounts of the Group's and Company's assets and liabilities. The assets and liabilities have not been prepared using fair values, except where stated, but based upon expected cashflows following an orderly collect out of outstanding loans. No provision has been made for future operating losses in accordance with IAS 37 requirements.

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 +/-3%, the loan loss provision in the balance sheet would be an estimated £3.2 million lower/higher (2009: £3.6 million 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 £nil million (2009: £1.9 million). Details of the value in use calculation are provided in note 13.

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. Details of deferred tax are contained in note 19.

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.

Notes to the Financial Statements continued

for the year ended 30 June 2010

2. Accounting policies continued

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.

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').

2. Accounting policies continued

Fee and commissions income

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

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

Impairment of loans and receivables

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

The Group reviews its leasing and loan portfolios to assess impairment at least on a 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.

Notes to the Financial Statements continued

for the year ended 30 June 2010

2. Accounting policies continued

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.

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) unless otherwise stated.

Computer software

Acquired software licenses are capitalised as intangible assets and after impairment 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.

2. Accounting policies continued

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.

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 less than 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.

Notes to the Financial Statements continued

for the year ended 30 June 2010

2. Accounting policies continued

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.

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

	2010 £'000	2009 £'000
Interest and similar income receivable from customers	29,575	46,088
Fees and commissions income	2,398	2,986
	31,973	49,074

Interest and similar income includes the 'gross-up adjustment' of £19,276,000 (2009: £17,467,000) (note 17).

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. Management has determined the operating segments based on the reports reviewed by the Directors that are used to make strategic decisions. The reportable operating segments derive their revenue primarily from the granting of credit to businesses including loans, hire purchase, finance lease arrangements and working capital facilities. The three operating segments are Property Finance, Trade Finance and Asset Finance.

The segmental income and results for the year ended 30 June 2010 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	19,048	4,941	7,984	–	31,973
Finance costs	(10,115)	(801)	(2,233)	(791)	(13,940)
Gross Profit/Loss	8,933	4,140	5,751	(791)	18,033
Result					
Segment result	(16,904)	(281)	(1,485)	(4,645)	(23,315)
Exceptional items					(6,473)
Taxation					(9,610)
Loss for the financial year					(39,398)

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
Segment assets and liabilities					
Segment assets					
Total assets	58,899	17,711	30,701	12,583	119,894
Segment liabilities					
Total liabilities	70,987	21,346	37,003	14,558	143,894

Other segment items

Capital expenditure	–	–	–	20	20
Depreciation	24	24	24	24	96
Amortisation – other intangible assets	40	40	300	40	420
Loan loss charge	23,365	2,068	4,511	–	29,944

The loan loss charge includes the 'gross-up adjustment' £19,276,000 (note 17).

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

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, to the extent there remained any equity during the year, 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.

Notes to the Financial Statements continued

for the year ended 30 June 2010

4. Segmental information continued

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)

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
Segment assets and liabilities					
Segment assets	110,071	27,666	53,207	21,250	212,194
Total assets					
Segment liabilities	103,593	26,038	50,076	21,565	201,272
Total liabilities					
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).

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.

5. Finance Costs

	2010 £'000	2009 £'000
Interest on bank loans and overdrafts	5,838	12,715
Interest payable on swaps	8,102	3,192
	13,940	15,907

6. Operating loss

	2010 £'000	2009 £'000
Operating loss is stated after charging/(crediting):		
Depreciation for the period	96	164
Loan loss provisions*	29,944	66,713
Loss on disposal of intangible assets		91
Loss on disposal of property, plant and equipment	–	90
Operating lease payments	216	245
Amortisation of other intangibles	420	318
Exceptional costs relating to redundancy & refinancing	3,890	3,467
Exceptional costs relating to loss on de-designation of interest rate swaps	1,080	3,012
Exceptional costs relating to impairment of goodwill	1,909	–
Exceptional gain relating to release of share based payment reserve	(406)	–
Total exceptional costs	6,473	6,479

* The loan loss provisioning charge includes £19,276,000 (2009: £17,469,000) in respect of the 'gross-up adjustment' (note 17).

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

As a result of the Group's decision to close the business, the Group implemented a number of further restructuring initiatives, leading to costs in respect of banking, office closures and redundancies. These costs totalled £3,890,000.

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 £1,080,000.

Also in light of the decision to cease writing new business and collect in its existing portfolio the Directors have considered the carrying value of certain of its assets which they believe it is no longer appropriate to continue to recognise and have therefore charged an impairment loss to the income statement within exceptional costs of £1,909,000 in respect of goodwill (note 13).

The Directors have also credited to the income statement the carrying value of the share based payments reserve of £406,000 on the basis that these awards are no longer likely to be granted as performance conditions will not be met and thus the potential costs accrued within the reserve will no longer arise (note 30).

	2010 £'000	2009 £'000
Services provided by the Company's auditor and its associates:		
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	76	106
Fees payable to the Company's auditor and its associates for other services:		
The audit of company's subsidiaries pursuant to legislation	15	13
Tax services	64	2
Other assurance	46	47

Notes to the Financial Statements continued

for the year ended 30 June 2010

7. Directors' emoluments

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

	2010 £'000	2009 £'000
Emoluments and benefits	917	1,069
Company pension contributions to money purchase schemes	65	63
Other post employment benefits	–	1
Other long term benefits	–	12
Share based payments	–	112
	982	1,257

Key management personnel, as defined under IAS24 '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 1 (2009: 3) director under a money purchase pension scheme.

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

	2010 £'000	2009 £'000
Emoluments and benefits	303	375
Company pension contributions to money purchase schemes	26	26
	329	401

During the year nil shares (2009: 221,622) were awarded to the highest paid director under the long term incentive scheme.

8. Employee information

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

	2010 Number	2009 Number
Administration	117	158
	£'000	£'000
Staff costs (for the above persons)		
Wages and salaries	4,954	6,431
Social security costs	572	751
Pension costs	412	568
Share-based payments	–	225
Other benefits	122	216
	6,060	8,191

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

9. Taxation

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

	2010 £'000	2009 £'000
Current tax		
– United Kingdom corporation tax on losses of the period	–	(32)
– Adjustments in respect of previous periods	72	(4,597)
Total current tax	72	(4,629)
Deferred tax		
Current year deferred tax charge/(credit)	9,538	(7,740)
Adjustment in respect of prior periods	–	(2,431)
Deferred tax	9,538	(10,171)
Tax charge/(credit) on loss on ordinary activities	9,610	(14,800)

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

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

	2010 £'000	2009 £'000
Loss before tax	(29,788)	(55,407)
at the UK tax rate of 28.0% (2009: 28.0%)	(8,341)	(15,514)
Losses unutilised	8,341	–
Deferred tax charge (note 19)	9,538	–
Adjustment in respect of prior periods	72	(7,028)
Expenses not deductible for tax purposes	–	103
Losses carried back	–	7,639
Total tax charge/(credit) for the year	9,610	(14,800)

The standard rate of current tax for the year is 28% (2009: 28%).

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 24 per cent by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

If it had been enacted at the balance sheet date, the effect of the changes enacted in the Finance (No 2) Act 2010 would be to reduce the deferred tax asset provided at 30 June 2010 by approximately £175,000. This £175,000 decrease in the deferred tax asset would increase the loss for the year by the same amount. This decrease in the deferred tax asset is due to the reduction in the corporation tax rate from 28 per cent to 27 per cent with effect from 1 April 2011.

The proposed reductions of the main rate of corporation tax by 1 per cent per year to 24 per cent by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 27 per cent to 24 per cent, if these applied to the deferred tax balance at 30 June 2010, would be to reduce the deferred tax asset by approximately £525,000.

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 £30.9m (2009: loss of £2.9m). This is stated after charging £7.6m (2009: £nil) in respect of impairment of investments in subsidiaries as disclosed in note 16. In addition, all amounts owed by Group undertakings and unsecured intra-group borrowings of the Company have been charged/credited to the Company's Income Statement as the Directors believe these will no longer be recoverable/payable from/to Group undertakings.

Notes to the Financial Statements continued

for the year ended 30 June 2010

11. Dividends

No dividends were paid during the year (2009: £nil) and the Directors do not propose payment of any further dividends.

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.

	Loss £'000	2010 Weighted average number of of shares '000	Loss per share pence	Loss £'000	2009 Weighted average number of of shares '000	Loss per share pence
Shares in issue during the year		26,061			26,061	
Own shares held		(1,299)			(1,299)	
Basic EPS	(39,398)	24,762	(159.11)	(40,607)	24,762	(163.99)
Effect of dilutive securities:						
Options	-	-	-	-	-	-
Diluted EPS	(39,398)	24,762	(159.11)	(40,607)	24,762	(163.99)

13. Goodwill

	Group 2010 £'000	Group 2009 £'000
Goodwill		
Cost		
At 30 June 2010 and 30 June 2009	1,909	1,909
Accumulated amortisation and impairment		
At 1 July 2009 and 1 July 2008	-	-
Provision for diminution in value	(1,909)	-
At 30 June 2010 and 30 June 2009	(1,909)	-
Net book amount at 30 June 2010 and 30 June 2009	-	1,909

Goodwill relates entirely to the Group's Manor Credit division.

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 Directors have performed an impairment review of the goodwill at 30 June 2010 which indicated that the goodwill is fully impaired. The carrying value of £1,909,000 has therefore been charged to the income statement through exceptional costs (note 6).

The Company has no goodwill.

14. Other intangible assets

Group	Software Costs £'000	Customer Intangible £'000	Total £'000
Cost			
At 1 July 2008	1,023	360	1,383
Additions	43	–	43
Disposals	(390)	–	(390)
At 1 July 2009	676	360	1,036
Additions	5	–	5
Disposals	(251)	–	(251)
At 30 June 2010	430	360	790

Accumulated amortisation and impairment

At 1 July 2008	553	50	603
Charge for the year	268	50	318
Disposals	(300)	–	(300)
At 1 July 2009	521	100	621
Charge for the year	160	260	420
Disposals	(251)	–	(251)
At 30 June 2010	430	360	790

Net book amount

At 30 June 2010	–	–	–
At 30 June 2009	155	260	415

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.

In light of the current status of the Group, and the decision to cease writing any further new business, the Directors no longer believe it is appropriate to continue carrying any value in respect of the customer relationships intangible asset and has therefore written down the value of this asset to £nil as at 30 June 2010.

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 2008	394	–	394
Additions	43	–	43
Disposals	(7)	–	(7)
At 1 July 2009	430	–	430
Additions	5	–	5
Disposals	(251)	–	(251)
At 30 June 2010	184	–	184

Accumulated amortisation and impairment

At 1 July 2008	186	–	186
Charge for the year	152	–	152
Disposals	(7)	–	(7)
At 1 July 2009	331	–	331
Charge for the year	104	–	104
Disposals	(251)	–	(251)
At 30 June 2010	184	–	184

Net book amount

At 30 June 2010	–	–	–
At 30 June 2009	99	–	99

Notes to the Financial Statements continued

for the year ended 30 June 2010

15. Property, plant and equipment

Group	Freehold Property £'000	Motor Vehicles £'000	Computer Equipment and Fixtures & Fittings £'000	Total £'000
Cost				
At 1 July 2008	901	126	1,083	2,110
Additions	–	–	113	113
Disposals	–	(79)	(856)	(935)
At 1 July 2009	901	47	340	1,288
Additions	–	14	6	20
Disposals	–	(12)	(123)	(135)
At 30 June 2010	901	49	223	1,173
Depreciation				
At 1 July 2008	176	72	839	1087
Charge for the year	18	18	128	164
Disposals	–	(57)	(774)	(831)
At 1 July 2009	194	33	193	420
Charge for the year	18	8	70	96
Disposals	–	(8)	(106)	(114)
At 30 June 2010	212	33	157	402
Net book value at 30 June 2010	689	16	66	771
Net book value at 30 June 2009	707	14	147	868

The cost of freehold properties includes land of £0.1m (2009: £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 2008	–	–	4	4
Additions	–	–	7	7
At 1 July 2009	–	–	11	11
Additions	–	14	5	19
Disposals	–	–	–	–
At 30 June 2010	–	14	16	30
Depreciation				
At 1 July 2008	–	–	–	–
Charge for the year	–	–	2	2
At 1 July 2009	–	–	2	2
Charge for the year	–	2	2	4
At 30 June 2010	–	2	4	6
Net book value at 30 June 2010	–	12	12	24
Net book value at 30 June 2009	–	–	9	9

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

16. Investments in subsidiary undertakings

Company	2010 £'000	2009 £'000
Cost		
At 30 June 2010 and 30 June 2009	7,618	7,618
Provision for diminution in value	(7,618)	–
Net book amount at 30 June 2010 and 30 June 2009	–	7,618

The subsidiaries of the Company at 30 June 2010, 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	Property investment company – 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.

In light of the Group's net liabilities position the Directors no longer consider it appropriate to continue to recognise any value in respect of the Company's investments in its subsidiaries.

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 3 to 9 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 7.

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	2010 £'000	2009 £'000
Property Finance	58,899	110,071
Trade Finance	17,711	27,666
Asset Finance	30,701	53,207
Total loans and receivables	107,311	190,944
Comprising:		
Current assets	66,728	122,309
Non-current assets	40,583	68,635
	107,311	190,944

Other financial assets subject to credit risk include derivative financial instruments of £838,000 (2009: £218,000), other debtors of £313,000 (2009: £418,000) and cash and cash equivalents of £5,470,000 (2009: £2,562,000). These are subject to a maximum exposure to credit risk equal to their carrying value.

Notes to the Financial Statements continued

for the year ended 30 June 2010

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 2010 and 30 June 2009:

Group	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Total £'000
2010				
Neither past due nor impaired	4,592	15,646	26,948	47,186
Past due but not impaired	–	5	2,151	2,156
Impaired	93,586	5,396	5,155	104,137
Outstanding customer balance	98,178	21,047	34,254	153,479
Unamortised fees and costs	50	–	86	136
Gross loans and receivables	98,228	21,047	34,340	153,615
Loan loss provision	(39,329)	(3,336)	(3,639)	(46,304)
Total loans and receivables	58,899	17,711	30,701	107,311

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

Loans and receivables – past due but not impaired

Group	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Total £'000
2010				
Past due up to 31 days	–	5	2,024	2,029
Past due 32-65 days	–	–	110	110
Past due 66-95 days	–	–	17	17
Past due 96 days or more	–	–	–	–
Total	–	5	2,151	2,156

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

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 £0.8m at 30 June 2010 (2009: £nil, £nil and £1.5m) 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 2010 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 endeavour 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.

Notes to the Financial Statements continued

for the year ended 30 June 2010

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 2010 and 2009:

Group	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Total £'000
2010				
At 1 July 2009	39,798	2,917	5,408	48,123
Utilised	(6,781)	(966)	(5,211)	(12,958)
Recoveries of amounts previously written off	53	-	418	471
Charged to the income statement:				
Additional provisions created	6,312	1,385	3,442	11,139
Recoveries of amounts previously written off	(53)	-	(418)	(471)
	6,259	1,385	3,024	10,668
At 30 June 2010	39,329	3,336	3,639	46,304
Loan loss charge before gross-up adjustment	6,259	1,385	3,024	10,668
Gross-up adjustment	17,106	683	1,487	19,276
Total bad and doubtful debt charge	23,365	2,068	4,511	29,944

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

17. Loans and advances to customers continued

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

Gross investment in finance leases receivable:

	2010 £'000	2009 £'000
No later than 1 year	19,455	5,857
Later than 1 year and no later than 5 years	15,715	57,364
Later than 5 years	486	1,806
	35,656	65,027
Unearned future finance income on finance leases	(4,955)	(11,820)
Net investment in finance leases	30,701	53,207
Net investment in finance leases receivable:		
No later than 1 year	16,493	5,737
Later than 1 year and no later than 5 years	13,811	46,207
Later than 5 years	397	1,263
	30,701	53,207

Company

Company loans and receivables, as shown in Note 18, of £nil (2009: £33,643,000), 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 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Amounts owed by Group undertakings	–	–	–	33,643
Other debtors	313	418	–	–
Other taxation	–	–	298	–
Prepayments and accrued income	278	409	220	393
	591	827	518	34,036

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

Notes to the Financial Statements continued

for the year ended 30 June 2010

19. Deferred tax

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 28% (2009: 28%).

Deferred tax assets have been recognised in respect of all 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 2009	7,673	3,603	28	405	2,742	14,451
Charge to income statement (note 9)	(7,673)	(369)	(28)	(405)	(1,063)	(9,538)
As at 30 June 2010	–	3,234	–	–	1,679	4,913

The unclaimed capital allowances of £7,673,000 are no longer considered to be recoverable due to the fact that the Group is unlikely to make any future taxable profits against which to offset these.

The deferred tax asset of £405,000 arising from losses carried forward has no longer been recognised as recoverable against future taxable profits as the directors no longer consider it 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 2009	62	1	63
Charge to income statement	(62)	(1)	(63)
At 30 June 2010	–	–	–

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

Group	2010 £'000	2009 £'000
Deferred tax asset to be recovered within 12 months	2,380	4,731
Deferred tax asset to be recovered after more than 12 months	2,533	9,720
	4,913	14,451

Company	2010 £'000	2009 £'000
Deferred tax asset to be recovered within 12 months	–	–
Deferred tax asset to be recovered after more than 12 months	–	63
	–	63

The Group did not recognise deferred income tax assets of £9.7m in respect of accelerated capital allowances, £8.6m in respect of losses and £0.7m in respect of other short term timing differences that can be carried forward against future taxable income.

The Company did not recognise deferred income tax assets of £0.1m in respect of accelerated capital allowances and £1.3m in respect of losses that can be carried forward against future taxable income.

20. Cash and cash equivalents

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Cash at bank and in hand	5,470	2,562	140	243

21. Borrowings

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Current				
Secured bank overdraft	71	1,879	71	–
Secured bank loan	129,336	81,000	–	–
Unsecured intra-group borrowings	–	–	–	9,966
	129,407	82,879	71	9,966
Non-current				
Secured bank loan	–	98,707	–	–
Total borrowings	129,407	181,586	71	9,966

The secured bank loan is stated net of £664,000 (2009: £1,293,000) of unamortised loan arrangement fees.

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

On 30 July 2010 the Group's revolving credit facility, repayable on 31 March 2011, was amended following a period of waivers granted by the banking syndicate after the Group failed to meet all its covenants.

The outcome of the amendment to the Group's facility has resulted in the loan being repayable on demand by the banking syndicate and it has therefore been classified as a current liability.

The Group's obligations under the amended banking agreement continue to be 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 8 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 7.

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 below. The amounts shown therefore do not reconcile to the Group and Company's balance sheets.

The interest cost included within the repayments profile below 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 8. As a consequence, the interest payments included in the table below will be increased by £3,763,000 (2009: £6,776,000) based upon the effective interest rate swaps in existence at the Balance Sheet date.

As the Group's borrowings are now repayable on-demand they have been classified as current liabilities within the table below.

In respect of the interest costs included below these have only been forecast to the contractual maturity date of the RCF. However, as disclosed within the Basis of Preparation (note 1) it is anticipated that the run-off period will extend beyond this date. No amounts have been included in respect of interest payments which may arise beyond the contractual maturity date.

Notes to the Financial Statements continued

for the year ended 30 June 2010

21. Borrowings continued

Group	On demand £'000	Up to 1 Year £'000	1-5 years £'000	Total £'000
2010				
Bank overdrafts	71	–	–	71
Bank borrowings	130,529	–	–	130,529
	130,600	–	–	130,600

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

Company	On demand £'000	Up to 1 Year £'000	1-5 years £'000	Total £'000
2010				
Bank overdrafts	71	–	–	71
Intra-group borrowings	–	–	–	–
	71	–	–	71

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

Liquidity risk – loan commitments

As at 30 June 2010, the Group had undrawn facility commitments payable of £26.0m (30 June 2009: £25.6m). 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
2010	196	58	254
2009	102	47	149

The Company has no operating lease contracts.

Trade and other payables are all payable within 3 months.

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 3 to 9 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 8.

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

Group and Company	2010			2009		
	Notional amount £'000	Assets £'000	Liabilities £'000	Notional amount £'000	Assets £'000	Liabilities £'000
Interest rate swaps – current hedge	150,000	–	(5,990)	210,000	–	(9,794)
Interest rate swaps – forward hedge	–	838	(838)	–	177	(177)
Forward exchange contracts	666	–	(8)	1,100	41	–
		838	(6,836)		218	(9,971)
Comprising:						
Current		120	(3,151)		63	(6,051)
Non-current		718	(3,685)		155	(3,920)
		838	(6,836)		218	(9,971)

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

Group and Company	2010			2009		
	Notional amount £'000	Assets £'000	Liabilities £'000	Notional amount £'000	Assets £'000	Liabilities £'000
Interest rate swaps – current hedge	150,000	–	(5,990)	105,000	–	(3,012)
Interest rate swaps – forward hedge	–	838	(838)	–	–	–
		838	(6,828)		–	(3,012)
Comprising:						
Current		120	(3,143)		–	(2,910)
Non-current		718	(3,685)		–	(102)
		838	(6,828)		–	(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 below:

Notes to the Financial Statements continued

for the year ended 30 June 2010

22. Derivative Financial Instruments continued

Interest rate swaps as at 30 June 2010:

	Notional Principal £'000	Pre-margin Rate	Contract Date	Life Remaining in years
Fortis	10,000	4.880%	01/07/2008	1.00
Lloyds	10,000	5.845%	09/08/2007	0.17
Lloyds	10,000	5.175%	20/06/2007	2.00
Lloyds	10,000	5.817%	09/08/2007	0.17
Lloyds	10,000	4.848%	01/07/2008	1.00
Lloyds	15,000	6.245%	02/07/2007	–
Lloyds	15,000	6.160%	27/07/2007	0.08
Lloyds	20,000	5.250%	30/11/2007	2.42
Lloyds	20,000	4.960%	17/03/2008	0.75
RBS	10,000	6.245%	02/07/2007	–
RBS	10,000	6.160%	09/08/2007	0.17
RBS	10,000	5.200%	02/07/2007	7.00
Total Current Swaps	150,000	5.512%		1.23

Forward Swaps

Lloyds	5,000	5.175%	20/06/2007	7.00
Lloyds	5,000	5.175%	20/06/2007	7.00
Lloyds	(10,000)	5.175%	20/06/2007	7.00
Total Forward Swaps	–	5.175%		7.00

As noted in the table above as at 30 June 2010, the fixed interest rates vary from 4.848% to 6.245% (2009: 4.848% to 6.245%).

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.

22. Derivative Financial Instruments continued

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2010.

	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	838	–	838
Total assets	–	838	–	838

	Level 1	Level 2	Level 3	Total
Liabilities				
Derivatives used for hedging	–	6,836	–	6,836
Total liabilities	–	6,836	–	6,836

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2009.

	Level 1	Level 2	Level 3	Total
Assets				
Derivatives used for hedging	–	218	–	218
Total assets	–	218	–	218

	Level 1	Level 2	Level 3	Total
Liabilities				
Derivatives used for hedging	–	9,971	–	9,971
Total liabilities	–	9,971	–	9,971

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Note that all of the resulting fair values are included in level 2.

Notes to the Financial Statements continued

for the year ended 30 June 2010

23. Trade and other payables

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Current				
Trade payables	1,621	1,929	587	796
Other taxation and social security	607	1,062	30	28
Accruals	2,525	4,328	1,413	1,438
	4,753	7,319	2,030	2,262

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	2010 £'000	Number	2009 £'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 2010 equity £'000
2010							
At beginning of the year	261	26,528	(1,507)	(9,884)	406	(4,882)	10,922
Loss for the financial year	-	-	-	(39,398)	-	-	(39,398)
Impairment of Share Based Payment Reserve	-	-	-	-	(406)	-	(406)
Fair value gains on cashflow hedges	-	-	-	-	-	913	913
Tax on fair value on cashflow hedges	-	-	-	-	-	(257)	(257)
Transfer of hedging reserve on de-designation	-	-	-	-	-	4,226	4,226
Closing shareholders' equity	261	26,528	(1,507)	(49,282)	-	-	24,000

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 Payment 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

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 2010 equity £'000
2010						
At beginning of the year	261	26,528	-	2,645	406	29,840
Loss for the financial year	-	-	-	(30,853)	-	(30,853)
Impairment in Share Based Payment Reserve	-	-	-	-	(406)	(406)
Closing shareholders' equity	261	26,528	-	(28,208)	-	(1,419)

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 2009 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 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

Notes to the Financial Statements continued

for the year ended 30 June 2010

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.

The Directors believe it is unlikely that any future awards will be granted under the existing schemes as performance conditions will not be met due to the ongoing losses incurred by the Group. The carrying value of the Share Based Payment reserve has therefore been credited to the income statement.

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.

Following the recent amendments to the Group's loan facilities, which are now repayable on demand, the Group's hedging instruments are no longer likely to be effective and have therefore been de-designated and the changes in fair value are charged directly to the income statement.

Section 656 of the Companies Act 2006

A general meeting of the shareholders of the Company was held on 18 May 2010 (in compliance with section 656 of the Companies Act 2006) to consider whether any, and if so what, steps should be taken to deal with the fall in the value of the Company's net assets to less than half of its called up share capital. No resolutions were proposed at the meeting.

26. Contingent liabilities

	2010 £'000	2009 £'000
Letters of credit	891	2,060

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:

	2010 Land and Buildings £'000	2009 Land and Buildings £'000
Future lease payments:		
Within one year	196	102
In two to five years	58	47
After five years	–	–
	254	149

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

	2010 £'000	2009 £'000
Lease payments	216	245

28. Related party transactions

a) Funding

The Company is provided with borrowing facilities by one of its subsidiary undertakings. During the year the Company was charged £300,000 (2009: £193,000) by way of interest on its borrowing facilities.

b) Remuneration of key management personnel

Disclosures related to the remuneration of key management personnel as defined in IAS24 '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 note 18 and 23 respectively.

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

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Loss on ordinary activities before taxation	(29,788)	(55,407)	(30,790)	(4,342)
Less: share based payments reserve written off	(406)	–	(406)	–
Add back: share based payments	–	225	–	225
Add back: loss on de-designation of interest rate swaps	1,080	3,012	–	–
Add back: fair value loss/(gain) on foreign exchange contracts	48	(41)	–	–
Operating loss before share based payments and loss on de-designation of interest rate swaps	(29,066)	(52,211)	(31,196)	(4,117)
Impairment of investment in Group undertakings	–	–	7,618	–
Impairment of goodwill	1,909	–	–	–
Depreciation of property, plant and equipment	96	164	4	2
Amortisation of intangible assets	420	318	104	152
Amortisation of loan arrangement fees	629	1,000	–	–
Decrease/(increase) in other receivables, prepayments and accrued income	236	324	33,518	(7,622)
(Decrease)/increase in other creditors, trade and other payables	(2,566)	1,319	(10,198)	8,536
Decrease in amounts due to Group undertakings – Group Relief	–	–	–	1,110
Loss on disposal of property, plant and equipment	–	90	–	–
Loss on disposal of intangibles	–	91	–	–
Net cash outflow from trading activities	(28,342)	(48,905)	(150)	(1,939)
Decrease in loans and advances to customers	83,633	85,642	–	–
Decrease in bank borrowings	(51,000)	(31,323)	–	–
Net cash inflow/(outflow) from operating activities	4,291	5,414	(150)	(1,939)

Notes to the Financial Statements continued

for the year ended 30 June 2010

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 remuneration committee	At the discretion of the remuneration committee
Number of employees	4	5	5
Share price at grant date	£3.00	£3.345	£3.18
Shares under option	Nil	Nil	154,826
Expected volatility	n/a	n/a	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	n/a
Expected dividend yield	Nil	Nil	Nil
Fair value per share	£nil	£nil	£nil
Average remaining contractual life at 30 June 2010	n/a	n/a	7.25 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	n/a	n/a	n/a
Option life	7 years from vesting date	7 years from vesting date	7 years from vesting date
Risk free rate	n/a	n/a	n/a
Expected dividend yield	Nil	Nil	Nil
Fair value per share	£nil	£nil	£nil
Average remaining contractual life at 30 June 2010	7.3 years	7.25 years	8.25 years

Options awarded under PSP1 and PSP3 have lapsed due to performance conditions not being met.

All remaining PSP's are expected to lapse due to the failure to meet performance conditions.

Notes to the Financial Statements continued

for the year ended 30 June 2010

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	£nil	£nil	£nil
Average remaining contractual life at 30 June 2009	–	–	0.9 years

Based upon the market price of the Group's shares as at 30 June 2010, the Directors believe that it is unlikely that any of the Group's employees will exercise their options under the above schemes. The carrying value of the reserve has therefore been credited to the income statement through exceptional costs (note 6).

Options under SAYE1 and SAYE2 have lapsed due to options not exercised within the option life period.

30. Share based payments continued

A reconciliation of the option movements over the year to 30 June 2010 is shown below:

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
PSP 1				
Outstanding at 1 July	–	–	97,480	–
Forfeited	–	–	–	–
Expired	–	–	(97,480)	–
Outstanding at 30 June	–	–	–	–
Exercisable at 30 June	–	–	–	–
PSP 3				
Outstanding at 1 July	111,152	–	111,152	–
Expired	(111,152)	–	–	–
Outstanding at 30 June	–	–	111,152	–
Exercisable at 30 June	–	–	–	–
PSP 4				
Outstanding at 1 July	154,826	–	154,826	–
Forfeited	(75,767)	–	–	–
Outstanding at 30 June	79,059	–	154,826	–
Exercisable at 30 June	–	–	–	–
PSP 5				
Outstanding at 1 July	14,563	–	14,563	–
Forfeited	–	–	–	–
Outstanding at 30 June	14,563	–	14,563	–
Exercisable at 30 June	–	–	–	–
PSP 6				
Outstanding at 1 July	98,853	–	98,853	–
Forfeited	(47,534)	–	–	–
Outstanding at 30 June	51,319	–	98,853	–
Exercisable at 30 June	–	–	–	–
PSP 7				
Outstanding at 1 July	617,250	–	–	–
Granted during the period	–	–	676,709	–
Forfeited	(322,447)	–	(59,459)	–
Outstanding at 30 June	294,803	–	617,250	–
Exercisable at 30 June	–	–	–	–

Notes to the Financial Statements continued

for the year ended 30 June 2010

30. Share based payments continued

	Number	2010 Weighted average exercise price	Number	2009 Weighted average exercise price
SAYE 1				
Outstanding at 1 July	71,136	£2.10	98,822	£2.10
Forfeited	(71,136)	£2.10	(27,686)	£2.10
Outstanding at 30 June	–	–	71,136	£2.10
Exercisable at 30 June	–	–	–	–
SAYE 2				
Outstanding at 1 July	9,448	£2.50	32,353	£2.50
Forfeited	(9,448)	£2.50	(22,905)	£2.50
Outstanding at 30 June	–	–	9,448	£2.50
Exercisable at 30 June	–	–	–	–
SAYE 3				
Outstanding at 1 July	21,777	£2.08	72,716	–
Forfeited	(9,965)	£2.08	(50,939)	£2.08
Outstanding at 30 June	11,812	£2.08	21,777	£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 £nil (2009: £225,000).

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 (Company Number: 03976032)

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 274 Deansgate, Camp Street, Manchester M3 4JB on 21st December 2010 at 11:00am to transact the following business:

ORDINARY BUSINESS

- 1.** To receive the accounts of the Company for the year ended 30 June 2010 and the reports of the Directors and the Auditor.
- 2.** To re-elect Mr James R Kerr-Muir as a Director.
- 3.** 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 determine their remuneration.

Dated: 24 November 2010

By Order of the Board

Qconsult Limited
Secretary

Registered Office:
274 Deansgate
Camp Street
Manchester
M3 4JB

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 (calls to this number are charged at 8p per minute from a BT landline. Other providers' costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday). International calls should be made to 44 (0)121 415 7047. Alternatively you may photocopy the form. 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 notarially 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 later than 11a.m. on 17 December 2010 being 48 hours excluding non-working days prior to the meeting (or, as the case may be, not less than 48 hours (excluding non-working days) before the time 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 21st December 2010 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 17 December 2010 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 24th November 2010, 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.

Davenham Group plc Annual General Meeting

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 21st December 2010 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 2010	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To re-elect James R Kerr-Muir as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 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"/>

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 (excluding non-working days) 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.





Manchester

274 Deansgate
Manchester
M3 4JB

Leeds

Manor Credit
Manor House
East View
Burley Street
Elland
HX5 0AH

London

Ground Floor
40 Craven Street
London
WC2N 5NG

www.davenham.co.uk

davenham 
positive thinking in business finance