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Application has been made for the whole of the issued and to be issued ordinary share capital of Davenham Group plc to be admitted to trading on AIM, a market operated by the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. The rules of AIM are less demanding than those of the Official List. It is expected that Admission will become effective and dealings will commence in the Ordinary Shares on 22 November 2005. All dealings before the commencement of unconditional dealings will be on a "when issued basis", will only be settled if Admission takes place and will be of no effect if Admission does not take place. All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be at the sole risk of the parties concerned.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The whole text of this document should be read. Your particular attention is drawn to the risk factors set out in Part II of this document. The whole of this document should be read in light of those risk factors. Neither the UK Listing Authority nor the London Stock Exchange has examined or approved the contents of this document. It is emphasised that no application is being made for admission of these securities to the Official List. The Ordinary Shares are not dealt on any regulated market and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange.

This document, which comprises an admission document required by the rules of AIM, has been drawn up in compliance with the AIM Rules. This document does not contain an offer of transferable securities to the public within the meaning of the Financial Services and Markets Act 2000 (as amended) and therefore no prospectus within the meaning of section 85 of the Financial Services and Markets Act 2000 (as amended) is required.

The Directors of Davenham Group plc, whose names appear on page 3 of this document under the heading "Directors, secretary, registered and head office and advisers", and Davenham Group plc accept responsibility individually and collectively for the information contained in this document and compliance with the AIM Rules. To the best of the knowledge and belief of the Directors and Davenham Group plc (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All of the Ordinary Shares will, upon Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions declared in respect of the Ordinary Shares after Admission.

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## Davenham Group plc

(Incorporated in England and Wales under the Companies Act 1985 – No. 3976032)

### Placing of 17,576,414 Ordinary Shares of 1p each at 254p per share

#### Admission to trading on AIM

Financial Adviser and Nominated Adviser

**Hawkpoint Partners Limited**

Broker

**Panmure Gordon & Co**

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#### SHARE CAPITAL

(immediately following the Placing)

<i>Authorised</i>			<i>Issued</i>	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
£400,000	40,000,000	Ordinary Shares of 1p each	£256,481.94	25,648,194

In connection with the issue of the Placing Shares, Panmure Gordon and any of its affiliates acting as an investor for its own account may take up, or otherwise purchase Placing Shares and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with such issue. Accordingly, references in this document to Placing Shares being issued, offered or placed should be read as including any issue, offering or placement of securities to Panmure Gordon and any of its affiliates acting in such capacity. Panmure Gordon does not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Hawkpoint and Panmure Gordon are regulated by the Financial Services Authority and are acting exclusively for the Company and no-one else in connection with the Placing and Admission. Neither Hawkpoint nor Panmure Gordon will regard any other person as its customer or be responsible to any other person for providing the protections afforded to customers of Hawkpoint or Panmure Gordon respectively, nor for providing advice in relation to the transactions and arrangements detailed in this document. Neither Hawkpoint nor Panmure Gordon are making any representation or warranty, express or implied, as to the contents of this document.

Hawkpoint has been appointed as nominated adviser to the Company. In accordance with the AIM Rules, Hawkpoint has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, in its opinion and to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with. No liability whatsoever is accepted by Hawkpoint for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

This document does not constitute an offer to sell or to subscribe for, or the solicitation of an offer to buy or to subscribe for Ordinary Shares in any jurisdiction in which such an offer or solicitation is unlawful and is not for distribution in or into any of the United States, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan (the "Prohibited Territories") or their respective territories or possessions. No Ordinary Shares have been, or will be, registered under the United States Securities Act of 1933, as amended (the "Securities Act") or qualified for sale under the laws of any state of the United States of America or under the applicable securities laws of any of the other Prohibited Territories and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and, subject to certain exceptions, may not be offered or sold within any of the other Prohibited Territories or to any national, resident or citizen of any of the Prohibited Territories or their respective territories or possessions.

Copies of this document will be available free of charge during normal business hours on any day (except Saturdays, Sundays and public holidays) at the offices of Eversheds LLP, 85 Queen Victoria Street, London EC4V 4JL from the date of this document for the period of one month from Admission.

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## **DIRECTORS, SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS**

<b>Directors</b>	James Kerr-Muir, <i>Non-executive Chairman</i> David Coates, <i>Chief Executive</i> Steve Marsh, <i>Managing Director</i> Paul Burke, <i>Finance Director</i> Graham Lawrence (Sam) Footitt, <i>Non-executive Director</i> David Stewart, <i>Non-executive Director</i>
<b>Registered and Head Office</b>	Davenham Group plc 8 St John Street Manchester M3 4DU
<b>Company Secretary</b>	Dawn Smethurst
<b>Financial Adviser and Nominated Adviser</b>	Hawkpoint Partners Limited 4 Great St Helen's London EC3A 6HA
<b>Broker</b>	Panmure Gordon & Co Moorgate Hall 155 Moorgate London EC2M 6XB
<b>Legal advisers to the Company</b>	Eversheds LLP Eversheds House 70 Great Bridgewater Street Manchester M1 5ES
<b>Legal advisers to the Financial Adviser, Nominated Adviser and Broker</b>	Simmons & Simmons CityPoint 1 Ropemaker Street London EC2Y 9SS
<b>Reporting Accountants</b>	KPMG LLP St James Square Manchester M2 6DS
<b>Auditors</b>	PricewaterhouseCoopers LLP 101 Barbirolli Square Lower Mosley Street Manchester M2 3PW
<b>Bankers</b>	The Royal Bank of Scotland Group Plc 6th Floor 1 Spinningfields Square Manchester M3 3AP
<b>Registrars</b>	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA
<b>Public relations</b>	Smithfield Consultants Limited 10 Aldersgate Street London EC1A 4HJ

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission and commencement of unconditional dealings in the Ordinary Shares on AIM	8.00 a.m. on 22 November 2005
Crediting of Ordinary Shares to CREST accounts	22 November 2005
Definitive share certificates dispatched (where applicable) <sup>3</sup>	30 November 2005

**Notes:**

1. Each of the times and dates in the above timetable are subject to change
2. All times are London times
3. Or as soon thereafter as practicable

## PLACING STATISTICS

Placing Price	254p
Number of New Shares	10,922,777
Number of Placing Shares	17,576,414
Number of Ordinary Shares in issue immediately following Admission	25,648,194
Market capitalisation at the Placing Price	£65.1 million
Percentage of issued share capital immediately following Admission subject to the Placing	68.53 per cent.
Estimated net proceeds of the Placing receivable by the Selling Shareholders <sup>1</sup>	£16.1 million
Estimated net proceeds of the Placing receivable by the Company	£23.5 million

**Notes:**

1. The net proceeds of the Placing receivable by the Selling Shareholders are stated after deduction of commission payable by the Selling Shareholders of approximately £0.7 million and stamp duty of £0.1 million.

## KEY INFORMATION

*The following summary information does not purport to be complete and should be read in conjunction with the more detailed information appearing elsewhere in this document. Unless otherwise stated, financial information has been extracted without material adjustment from the Accountants' report contained in Part IV of this document. Investors should read the whole of this document and not just rely on the key or summarised information.*

### INTRODUCTION

Davenham is a leading, independent asset based lender to the UK SME sector.

The business was founded in 1991 in Manchester from where its core operations are run. In recent years, the Company has begun to expand and it now also operates from offices in Leeds, Birmingham, Liverpool and Newcastle.

The Company provides lending solutions designed to meet the financing needs of UK SMEs – typically involving loans of between £10,000 and £3 million. The Directors believe this is a profitable and attractive marketplace that is not adequately serviced by mainstream lenders which tend to adopt a formulaic approach to lending decisions. Davenham has a diverse loan portfolio, with its lending activities organised into three divisions: property finance, asset finance and trade finance.

The Company enjoys strong client relationships reflecting high levels of customer service and tailored financing packages. The Directors believe that Davenham's ability to form a commercial view and reach lending decisions quickly underpins premium rates and high levels of repeat business. New clients are typically sourced through introductions from existing clients, direct approaches and a network including mainstream lenders, finance brokers, accountancy firms and other professionals.

Davenham has a strong financial record both in terms of revenue growth and profitability and has consistently achieved a gross return on loan portfolio of circa 20 per cent. The Directors believe this results from the Company's position as a leading lender in a profitable and niche marketplace in which the competition is fragmented.

Davenham is funded by a group of banks led by The Royal Bank of Scotland plc and has a facility of £175 million, which the Directors believe is sufficient for the Company's current requirements.

### INVESTMENT HIGHLIGHTS

- **Leading position in an attractive market**

Davenham enjoys a leading market position in the provision of lending solutions to UK SMEs. This is a profitable and niche marketplace in which the competition is fragmented, and in which the mainstream lenders tend to adopt a formulaic approach to lending decisions.

- **Significant growth potential**

The Directors believe there is a significant growth opportunity in expanding the business beyond its roots in the North West of England – particularly to the Midlands and the South of the UK. The Directors also anticipate organic growth opportunities through the development of new product lines, larger exposure limits and cross-selling of existing products and through selective acquisitions in the fragmented marketplace in which the Group operates.

- **Diversified business**

Davenham has a diverse loan portfolio with property finance, asset finance and trade finance accounting for 45.5 per cent., 26.3 per cent. and 28.2 per cent. of the loan portfolio respectively as at 30 June 2005. Furthermore, the portfolio is diverse in terms of customer concentration – Davenham's top ten customers account for less than 15 per cent. of the total portfolio.

- **Effective risk management**

Davenham has an established culture of risk management including regular, detailed portfolio reviews within each division. Underwriting and risk management processes are performed independently from new business development teams. Davenham maintains close contact with its clients and monitors their activities on an ongoing basis. Policies and procedures specific to each product are implemented rigorously. Each division is headed by a divisional director who has responsibility for the performance of that division.

- **Strong financial track record**

Davenham has grown significantly both in terms of turnover and profit. In the three years ending 30 June 2005, turnover has increased by 78 per cent. from £16.0 million to £28.5 million, and profitability (defined as profit before tax and interest payable on the Loan Notes and Mezzanine Debt) has increased by 60 per cent. from £5.8 million to £9.3 million. Furthermore, the Company has consistently generated a high level of return, achieving a gross return on its loan portfolio of circa 20 per cent. for each of the last three financial years ended 30 June 2005.

- **High barriers to entry**

The Directors believe that success in Davenham's marketplace is dependent on a combination of detailed knowledge and experience in both sourcing, structuring, pricing and risk managing lending solutions, and a sound understanding of the client base. The Directors also believe that Davenham's strong financial track record underpins its ability to secure funding from mainstream clearing banks. The Directors believe the above constitute high barriers for new entrants competing effectively with Davenham.

- **Experienced management team**

Davenham's management team has extensive knowledge and experience of asset based lending and high quality relationships in the UK SME marketplace. The management team has a proven track record in designing and launching new lending products, as well as identifying and implementing strategic initiatives to increase the scale of the business.

## **STRATEGY FOR GROWTH**

Davenham's strategy for growth is driven by:

- geographic expansion of the business beyond its roots in the North West of England, particularly to the Midlands and the South of the UK;
- development of new product lines to meet the evolving needs of UK SMEs;
- generation of new business from underwriting larger loans to new and existing clients;
- cross-selling of existing products to the existing client base; and
- selective acquisitions in the fragmented marketplace of typically small companies providing lending solutions to UK SMEs.

## SUMMARY TRADING RECORD

Davenham's financial record for the three years ended 30 June 2003, 2004 and 2005 which has been extracted, without material adjustment, from the Accountants' report contained in Part IV of this document, and which should be read in conjunction with the full text of this document, is as follows:

	<i>Years ended 30 June</i>		
	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Turnover:			
Property finance	6.9	8.8	11.9
Trade finance	6.1	7.3	9.7
Asset finance	2.9	5.6	6.8
Loan portfolio income	15.9	21.7	28.4
Interest receivable from banks	0.1	0.1	0.1
<b>Total turnover</b>	<b>16.0</b>	<b>21.8</b>	<b>28.5</b>
<b>Profit before taxation<sup>(1)</sup></b>	<b>5.8</b>	<b>6.3</b>	<b>9.3</b>
<b>Loan portfolio<sup>(2)</sup></b>	<b>93.5</b>	<b>125.6</b>	<b>151.1</b>

### Notes:

- (1) Profit before taxation excludes interest payable in respect of the Loan Notes and Mezzanine Debt
- (2) Excludes letters of credit

Davenham has grown significantly both in terms of turnover and profit over the last three years. Overall turnover and profit growth has been driven by increases in amounts lent across all lending divisions in part arising from the Company's successful geographic expansion.

Property finance has benefited from strong property markets in the last three years, particularly in 2003 and 2004, as well as the recruitment of additional business development managers, during which time Davenham has gradually expanded beyond its original market in the North West of England. The Company's portfolio of property loans has consistently been of good quality. While returns have been broadly maintained and volumes have progressively increased, the Board is monitoring closely a number of accounts which are not fully performing and which have arisen partly from the current flattening of the property market.

Asset finance has grown both organically and through the acquisition of the business of BML in 2003. Key drivers of organic growth have included an increase in the numbers of sales staff, widening geographic reach through additional sales sites and strengthening of Davenham's brand and reputation in its chosen markets. In May 2003 the Company acquired BML, a small ticket asset finance business with a loan portfolio at the time of purchase of circa £8 million. The acquisition increased the gross return of Davenham's asset finance portfolio as the acquired business achieves higher returns on its lower ticket sales.

Trade finance has also grown through the opening of new offices in Liverpool and Birmingham. Average deal size has increased progressively partly due to the continued growth of the structured finance product business.

## CURRENT TRADING AND PROSPECTS

Since the end of the financial year to 30 June 2005, Davenham has performed in line with the Directors' expectations.

Davenham is currently experiencing a strong pipeline of new business without compromising on credit terms. This has been assisted by implementation of the strategy to grow geographically and through the recruitment of new business development managers. A new office opened in July in Newcastle and is already producing good quality business.

Against the background of the current economic climate, the Company is well positioned to capitalise on the opportunities in its marketplace and the Directors continue to view the financial prospects for the current year with confidence.

## **DIVIDENDS**

In the absence of unforeseen circumstances and taking into account that Admission is only expected to occur on 22 November 2005, the Directors intend to pay a final cash dividend of approximately £2 million for the financial period ending 30 June 2006. Had Admission taken place at the start of the current financial period, this would have equated to a total dividend for the financial year ended 30 June 2006 of approximately £3 million. For the avoidance of doubt, this is not a profit forecast.

Thereafter, the Directors intend to declare an interim and final dividend in respect of each financial year, in the approximate ratio of one third: two thirds. The Directors intend to adopt a progressive dividend policy taking into account the underlying long-term earnings growth and capital base of the Company.

## **REASONS FOR ADMISSION AND USE OF PROCEEDS**

Davenham is seeking Admission to:

- strengthen the Company's capital base in order to facilitate future growth;
- provide access to capital for selective acquisitions;
- raise its corporate profile and brand awareness;
- allow an exit for the funds managed by Dunedin and Indigo, and certain other existing shareholders; and
- facilitate the incentivisation of key management and employees.

The net proceeds of the issue of New Shares of approximately £23.5 million will, in part, be used to redeem the Loan Notes and Mezzanine Debt (at a cost of approximately £17.2 million). The balance will be used to increase the capital base of the Company, further strengthening its ability both to lend and to develop the business.

## **SUMMARY OF THE PLACING**

The Placing comprises an offer by the Company of 10,922,777 New Shares to raise gross proceeds of approximately £27.7 million and the sale of, in aggregate, 6,653,637 Existing Shares by the Selling Shareholders. The New Shares will represent 42.6 per cent. of the issued ordinary share capital of the Company immediately following Admission.

Panmure Gordon has agreed to use reasonable endeavours to procure placees in accordance with the terms of the Placing Agreement (further details of which are set out in Part III, and paragraph 9 of Part VI, of this document).

The Directors, Dunedin, Indigo, Uberior, those employees participating in the Placing and certain other employees have entered into lock-up arrangements with Panmure Gordon and Hawkpoint. Approximately 30.7 per cent. of the Ordinary Shares either in issue or the subject of share options after completion of the Placing will be subject to such lock-up arrangements.

Further details of the Placing are set out in Part III and paragraph 9 of Part VI this document.

## **RISK FACTORS**

Risk factors in relation to the Group's business and financial condition, its industry and markets, the economic environment and an investment in the Ordinary Shares are set out in Part II of this document.

# PART I

## INFORMATION ON THE GROUP

*Financial information has been extracted without material adjustment from the Accountants' report set out in Part IV of this document and the pro forma financial information set out in Part V of this document. Investors should read the whole document and not just rely on key or summarised information.*

### 1. INTRODUCTION

Davenham is a leading, independent asset based lender to the UK SME sector.

The business was founded in 1991 in Manchester from where its core operations are run. In recent years, the Company has begun to expand and it now also operates offices in Leeds, Birmingham, Liverpool and Newcastle.

The Company provides lending solutions designed to meet the financing needs of UK SMEs – typically involving loans of between £10,000 and £3 million. The Directors believe this is a profitable and attractive marketplace, that is not adequately serviced by mainstream lenders which tend to adopt a formulaic approach to lending decisions. Davenham has a diverse loan portfolio, with its lending activities organised into three divisions: property finance, asset finance and trade finance.

The Company enjoys strong client relationships reflecting high levels of customer service and tailored financing packages. The Directors believe that Davenham's ability to form a commercial view and reach lending decisions quickly underpins premium rates and high levels of repeat business. New clients are typically sourced through introductions from existing clients, direct approaches and a network including mainstream lenders, finance brokers, accountancy firms and other professionals.

Davenham has a strong financial record both in terms of revenue growth and profitability and has consistently achieved a gross return on loan portfolio of circa 20 per cent. The Directors believe this results from the Company's position as a leading lender in a profitable and niche marketplace in which the competition is fragmented.

Davenham is funded by a group of banks led by The Royal Bank of Scotland plc and has a facility of £175 million, which the Directors believe is sufficient for the Company's current requirements.

### 2. HISTORY

Davenham was founded in 1991 in Manchester through the management buy-out of Davenham Trust plc and Davenham Trade Finance Limited from Burns Anderson. The buy-out was led jointly by Colin Davenport and Mike Hamlyn – then respectively Managing Director and Finance Director of the business. Equity finance for the buy-out was provided by Aberdeen Murray Johnstone.

In 1996, the business was sold to the Bank of NT Butterfield, before being re-acquired by way of a further management buy-out in 2000. Equity finance for this further buy-out was provided by funds managed by Dunedin and Indigo.

In 2000 James Kerr-Muir and in 2001 Sam Footitt joined the Board as Chairman and Non-executive Director respectively.

During 2003 Davenham acquired the business of BML, significantly enhancing the Group's asset finance division.

David Coates and Paul Burke joined the Group in 2004 and 2005 respectively, after which Colin Davenport and Mike Hamlyn stepped down as directors of the Company.

### **3. BUSINESS OVERVIEW**

Davenham is a leading, independent asset based lender to the UK SME sector.

The Company provides lending solutions designed to meet the financing needs of UK SMEs – typically involving loans of between £10,000 and £3 million. The Directors believe this is a profitable and attractive marketplace, that is not adequately serviced by mainstream lenders which tend to adopt a formulaic approach to lending decisions.

Davenham has a diverse loan portfolio, with its lending activities organised into three divisions: property finance, asset finance and trade finance.

#### **Property finance division**

Property finance is the largest trading division, with a loan portfolio of £68.7 million accounting for 45.5 per cent. of the Company's total loan portfolio as at 30 June 2005, and 41.8 per cent. of the Company's total revenues for the year ended 30 June 2005. The average property finance advance is approximately £295,000 and has an average life of approximately nine months.

At present, the division is focused in the North of England. The geographical breakdown of the loan portfolio is 54 per cent. in the North West, 25 per cent. in Yorkshire, 17 per cent. in the Midlands, 3 per cent. in the South and 1 per cent. in Scotland. The activities of the division involve providing short-term finance secured against residential and commercial property, typically through one of the following three types of transaction:

- short term bridging loans to dealers in commercial property;
- short term bridging loans for residential refurbishment and development; and
- advances to small house builders.

The Company is also intending to introduce a longer term commercial mortgage product.

All loans are secured via a charge over the underlying property (97 per cent. with a first charge). Additional security may also be obtained via fixed and floating charges over other property and non-property assets and personal guarantees.

Davenham's lending decision is based on careful consideration of a client's track record and sector of activity, as well as the proposed loan period and likely valuation of the underlying property at the time of repayment.

Loans are usually repaid from proceeds of the eventual sale of the underlying property, following, for example, refurbishment or development of the property.

Davenham's underwriting guidelines vary for different types of property, are regularly reviewed and are typically based on loans of a maximum of 85 per cent. of the projected valuation at the anticipated repayment date. This type of facility is not available from mainstream lenders, which tend to adopt a loan to value formula at the point of acquisition. The flexibility of Davenham's property finance product is of particular interest to customers because it may enable them to borrow up to 100 per cent. of the cost of acquiring a given property.

#### **Trade finance division**

Trade finance has a loan portfolio of £42.6 million accounting for 28.2 per cent. of the Company's total loan portfolio as at 30 June 2005 and 34.0 per cent. of the Company's total revenues for the year ended 30 June 2005. The average trade finance advance is approximately £287,000.

Working capital finance is provided in the form of purchase finance (including both trade finance and deal finance) and invoice finance for clients with a wide variety of businesses. The division provides structured finance packages, typically used to fund management buy-outs, financial restructurings and acquisitions. In addition, in October 2005, the Company also introduced a debtor based product targeted at the Independent Financial Adviser market.

### *Purchase finance*

The trade finance business provides finance for a client's working capital requirements by acquiring goods on the client's behalf and selling them to the client on credit. Davenham's security is based on the Company retaining title to the goods until fully repaid. Typical clients include importers, wholesalers and distributors, who must pay for goods before a supplier releases them, but who cannot invoice their own clients (for example retailers or mail order catalogue businesses) until the goods have been delivered.

The deal finance business usually provides finance for a client's working capital requirements by enabling clients to purchase assets against firm orders prior to sale. Davenham's security is based on it retaining title to the assets until fully repaid. Typical clients include dealers in capital equipment.

For both products, Davenham will advance up to 100 per cent. of the cost of goods or assets involved.

### *Invoice finance*

The invoice finance business provides finance secured against invoiced debtors, enabling clients to receive cash for invoiced products or services.

Some of Davenham's clients use invoice finance on a recurring basis as an ongoing source of funding, whilst most others use invoice financing to repay trade finance on delivery of goods to the end-customers. The Directors believe that this combined structure is not widely available elsewhere in the market and that this gives Davenham a strong competitive advantage in the marketplace.

Davenham's invoice finance business will typically lend up to 80 per cent. of debtor balances secured by invoices.

### *Structured asset backed lending*

The Directors believe Davenham's ability to provide a package of lending products is key to its competitive advantage. Packages of lending products across several asset classes, marketed under the Davenham brand, are used by UK SMEs as a source of funding for management buy-outs, financial restructurings and acquisitions. In providing a structured finance package, Davenham will draw upon expertise from the whole business to ensure that an appropriate structure and security package is obtained.

### **Asset finance division**

Asset finance has a loan portfolio of £39.8 million accounting for 26.3 per cent. of the Company's total loan portfolio as at 30 June 2005 and 24.0 per cent. of the Company's total revenues for the year ended 30 June 2005. The average asset finance advance is approximately £21,000 and has an average life of approximately thirty months.

Asset finance involves providing finance secured against key assets used in a client's business including, for example, plant, machinery, equipment and vehicles. As at 30 June 2005, approximately 64 per cent. of the asset finance portfolio was asset backed, 32 per cent. involved small ticket assets with the balance corresponding to professional loans. The finance provided is based on hire purchase and leasing agreements with a term of up to five years, and no residual value risk. The Group takes title to the financed asset and typically advances up to 80 per cent. of the asset's auction value or expected sale price. In January 2005, the Company also introduced a new loan product targeted at the professional market.

Mainstream lenders in the asset finance market tend to focus on lending against new assets to businesses with established credit records, and where title is not in doubt. Davenham also provides asset finance secured on currently owned assets, a less competitive and more profitable market. The Company's lending decision is based not only on the value of the asset, but also on careful consideration of the ability to service the debt, the net worth of the directors or owners of a client's business, with personal guarantees obtained in respect of the majority of advances.

#### 4. CLIENTS

Davenham's client base comprises approximately 2,400 UK SMEs, typically with a turnover of between £1 million and £25 million, with fewer than 50 employees. The Directors estimate that there are approximately 80,000 such companies in the UK, and their number is growing. The majority of Davenham's clients are based in the North of England.

Davenham's property finance and trade finance clients are serviced on a day-to-day basis by Client Relationship Managers ("CRMs"). CRMs aim to provide a high level of client service and hence develop a thorough knowledge and understanding of each client's business and financing requirements. The Directors believe that this constitutes a critical competitive advantage relative to mainstream lenders. Regular meetings, audits and a detailed review of management accounts ensure CRMs are well placed to identify any deterioration in a client's business. Preventive action can then be taken early, thereby minimising credit risk.

Business Development Managers ("BDMs") are responsible for winning new clients, typically through introductions from existing clients, direct approaches or via a network of mainstream lenders, finance brokers, accountancy firms and other professionals. The ability of BDMs to establish and develop new client relationships is an important component of Davenham's strategy for growth.

Davenham's clients are spread across its three divisions as follows:

<i>Number of accounts by division</i>	<i>As at 30 June</i>		
	<i>2003</i>	<i>2004</i>	<i>2005</i>
Property finance division	163	222	239
Trade finance division	151	167	152
Asset finance division	1,254	1,719	2,044
	<u>1,568</u>	<u>2,108</u>	<u>2,435</u>

#### 5. COMPETITORS

The Directors believe that the mainstream banks' tendency to adopt a formulaic approach to lending decisions makes their lending proposition complementary, rather than competitive, to Davenham's products and that there are few competitors who provide the full range of facilities offered by Davenham. Instead, competitors typically focus on a specific asset class.

Within the individual asset classes, the Directors believe competitive advantage is driven by:

- a sound understanding of the client base;
- expertise in sourcing, structuring, pricing and risk managing lending solutions;
- strong client relationships and high levels of customer service;
- the ability to form a commercial view, reach and execute lending decisions quickly; and
- the ability to secure funding from mainstream clearing banks.

The Directors believe Davenham's principal competitors in the property finance market include other short-term niche bridging finance providers including Lancashire Mortgage Corporation Limited and Goldentree Financial Services Limited and some non-mainstream banks such as Dunbar Bank plc and United Trust Bank Limited.

The mainstream asset finance market is dominated by subsidiaries of the large clearing banks and American based finance companies. However, the Directors see Davenham's principal competitors as being Close Asset Finance Limited, State Securities plc and Haydock Finance Limited.

Trade finance for the SME sector at the smaller deal size is a very fragmented market, serviced by a number of small local operators. More recently, Davenham has been pursuing larger deal sizes and, at the top end of Davenham's exposure limit, has been competing with larger players such as GE Capital and GMAC, albeit transactions at this level are relatively small for such players. Additionally, with respect to structured finance in particular, Davenham competes with Venture Finance plc, Enterprise Finance Europe Limited and Euro Sales Finance plc together with several mainstream lenders including The Royal Bank of Scotland plc and Lloyds TSB Bank plc.

## **6. STRATEGY FOR GROWTH**

Davenham's strategy for growth is driven by:

- geographic expansion of the business beyond its roots in the North West of England, particularly to the Midlands and the South of the UK;
- development of new product lines to meet the changing needs of UK SMEs;
- generation of new business from underwriting larger loans to new and existing clients;
- cross-selling of existing products to the existing client base; and
- selective acquisitions in the fragmented market place of typically small companies providing lending solutions to UK SMEs.

## **7. CREDIT RISK MANAGEMENT**

### **Underwriting**

Each of Davenham's three divisions has underwriters who are independent of BDMs and are responsible for determining which transactions should be financed and on what terms. The Group performs credit evaluation checks and operates other controls to ensure that all transactions are closely monitored. Procedures are tailored to each division or product.

Smaller transactions can be approved by a single underwriter, whereas for larger transactions, approval must be obtained from two underwriters. In certain situations, typically for transactions in excess of £1 million, approval must be obtained from either Steve Marsh or David Coates.

### **Credit risk management**

Detailed monitoring and audit procedures on each divisional portfolio are performed on a regular basis and overseen by the divisional risk manager in each area. These procedures are also tailored to each division and product. In addition, high levels of client contact through CRMs enables Davenham to monitor and manage the risks of each debt portfolio.

All clients are allocated a risk category status, which is reviewed on a monthly basis. Client exposures are monitored by the head of each division in monthly divisional portfolio meetings, which are attended by the divisional director, divisional risk manager, relevant CRMs and the group risk manager. The monthly portfolio report is reviewed by the Board.

Separate risk teams in each division are employed to recover loans classified as doubtful. The teams tailor revised payment strategies for each client, and they are supported by an outsourced professional function including litigators and insolvency practitioners.

An annual review of the loan portfolio is carried out for the group of lending banks by KPMG. The last review was carried out in early 2005.

### **Bad debt provisions**

The Directors believe that Davenham maintains a prudent bad debt provisioning policy and has a good track record in this area.

Davenham's current provisioning policy is to maintain a general provision of one per cent. of portfolio balances, with an additional 3 per cent. provision for certain smaller value asset finance deals. In addition, Davenham includes a level of specific provision in each division based on recent experience. In the last five years Davenham's annual bad debt charge has remained between one per cent. and two per cent. of its portfolio level except in the year ended 30 June 2004, when it rose to circa 2.5 per cent. In this year, Davenham incurred a single bad debt charge of £1.95 million (reduced to £1.35 million after the application of £600,000 of available provisioning in accordance with Davenham's provisioning policy) which arose from a customer failure after Davenham had advanced against irregular invoices. Davenham's procedures were strengthened following an internal review and a Company commissioned external review, reported on by Ernst and Young.

As at 30 June 2005 the total bad debt provision was £4.3 million, representing 2.8 per cent. of the total loan portfolio. This was comprised of a specific provision of £2.2 million and a general provision of £2.1 million, each representing circa 1.4 per cent. of the portfolio at that date.

## **8. FUNDING**

Davenham finances its lending activities primarily through a £175 million revolving credit facility from a group of banks led by The Royal Bank of Scotland plc, and including HBOS plc, Singer and Friedlander Limited, Bank Leumi (UK) plc, Lloyds TSB Bank plc, Barclays Bank plc and Yorkshire Bank plc, a subsidiary of National Australia Bank. The revolving credit facility was amended in October 2005. The Directors believe the current facility is sufficient for the Company's current requirements.

The revolving credit facility is secured by a fixed and floating charge over all the assets of the Group.

Davenham utilises interest rate swaps for hedging purposes.

## **9. CURRENT TRADING AND PROSPECTS**

Since the end of the financial year to 30 June 2005, Davenham has continued to perform in line with the Directors' expectations. Davenham is currently experiencing a strong pipeline of new business without compromising on credit terms. This has been assisted by implementation of the strategy to grow geographically and through the recruitment of new business development managers. The most recent new office opened in July in Newcastle and is already producing good quality business.

Against the background of the current economic climate, the Company is well positioned to capitalise on the attractive opportunities in its marketplace and the Directors continue to view the financial prospects for the current year with confidence.

## **10. DIRECTORS AND KEY MANAGEMENT**

### **10.1 Executive Directors**

#### ***David Raiffe Coates (Chief Executive) (Age: 54)***

David Coates is a banking, commercial finance and financial services specialist. His early asset based lending career was with The Royal Bank of Scotland plc, and he subsequently headed Standard Chartered's asset based lending group in the UK. He was also a director of Standard Chartered Credit USA. More recently, David was a divisional Managing Director and main board director of Experian Limited, and was Managing Director at CallCredit plc prior to joining Davenham.

#### ***Steven Robert Marsh (Managing Director) (Age: 44)***

Steve is an experienced banker and asset based lender who spent his early career working for Barclays Bank plc in the North West of England. After short spells working for Commercial Print Leasing Limited and Edington plc (the merchant bank subsidiary of Henry Cooke Group), Steve joined Davenham in 1991 and has held a variety of positions.

#### ***Paul Edward Burke (Finance Director) (Age: 40)***

Paul is a Fellow of the Chartered Association of Certified Accountants. He was previously a director of Tenon Recovery (part of the Tenon Group plc). Prior to that, Paul was Finance Director of State Securities plc when it was sold to a subsidiary of Abbey National plc and subsequently to Five Arrows Leasing.

### **10.2 Non-executive Directors**

#### ***James Rodier Kerr-Muir (Non-executive Chairman) (Age: 64)***

James is a former Managing Director UK for Tate & Lyle plc and Group Finance Director of Kingfisher plc. He has been a non-executive director of a number of companies including Birmingham Midshires Building Society and is currently chairman of Senior plc, and Hardys & Hansons plc and is a non-executive director of Gartmore Fledgling Trust plc.

***Graham Lawrence (Sam) Footitt (Non-executive Director) (Age: 63)***

Sam joined the Board in 2001, having previously held many senior roles within Royal Dutch Shell plc, including Director of Finance of Shell UK Limited. Since retiring from Royal Dutch Shell plc he has been a consultant to Simmons & Simmons, the City of London law firm (who are acting as legal advisers to Hawkpoint and Panmure Gordon in relation to the Placing), and to Schroder Salomon Smith Barney, the investment banking arm of Citigroup, Inc. He is also non-executive director of two other companies.

***David Howat Stewart (Non-executive Director) (Age: 60)***

David joined the Board in October 2005, having previously held several senior roles in banking and asset finance including Senior Director of County NatWest Limited, Managing Director of Hill Samuel Bank Limited, Commercial Banking Director of TSB Group plc, Director of Business and Professional Banking of Abbey National Group plc and Executive Director of Business Finance, First National Limited. He is a non-executive director of Fletcher King plc and Laird Capital Limited and a director of IDDAS Limited. Until recently, he was non-executive Chairman of Broadcastle plc, a specialist banking and asset finance company which was acquired by Siemens AG.

### 10.3 Other Senior Management

***Gary Ellis (Property Finance) (Age: 32)***

Gary's previous role was with National Westminster Bank plc where a varied range of experience was obtained. Since 2003, Gary has had overall responsibility for managing the growth of the property finance lending book.

***Wayne Shore (Trade Finance) (Age: 49)***

Wayne is an Associate of the Chartered Institute of Bankers. Wayne has had 16 years of experience with Barclays Bank plc. He has been in his current role at Davenham since October 2002.

***Phil Graysmark (Asset Finance) (Age: 41)***

Phil was previously with Terex Financial Services, which provides finance products to Terex Corporation Inc's customer base, where he held the position of European Sales Manager since September 2003.

He previously spent five years at GE Capital culminating in the position of Manager of European Business Development, which he held from June 2001 until September 2003.

***Raymond Wise (Senior sales director) (Age: 55)***

Ray's early career was in corporate and international banking at Standard Chartered and HSBC Bank plc. Subsequently, he moved into asset based lending in 1995 with Kellock (a subsidiary of HBOS plc) before becoming a founder director of Euro Sales Finance plc.

## 11. EMPLOYEES

The average number of employees of the Group (including directors) during the following periods, as extracted from the Accountants' report contained in Part IV, is shown below:

	<i>Year ended June 2003</i>	<i>Year ended June 2004</i>	<i>Year ended June 2005</i>
Property finance division	11	16	21
Trade finance division	39	49	59
Asset finance division	11	15	18
Administration	18	19	21
Average number of employees	<u>79</u>	<u>99</u>	<u>119</u>

## **12. INCENTIVE ARRANGEMENTS**

The Directors believe that the Company's success is partly dependent on its ability to motivate and retain its key employees. Accordingly, the Group has established, conditional on Admission, the SAYE Scheme.

Further details of the SAYE Scheme are set out in paragraph 4 of Part VI of this document.

The Remuneration Committee has been reviewing the structure of remuneration for executive directors and senior management post-Admission with a view to developing and implementing remuneration policies which both provide an appropriate motivational framework and more closely align the interests of the Executive Directors and senior management with the performance of the business and the interests of Shareholders.

As part of this exercise, the Remuneration Committee has decided that the introduction of a long-term performance share plan is key to supporting the business strategy in the future. The proposed plan will have a duration of ten years.

The plan, which was adopted on 16 November 2005, will focus participants on delivering strong year-on-year annual performance and align their longer term interests with those of Shareholders, whilst taking into account institutional shareholder guidelines and the provisions of the Combined Code. The proposed plan also reflects the Remuneration Committee's policy of linking remuneration to the performance of the Company's business.

A summary of the principal features of the performance share plan is set out in paragraph 4(e) of Part VI of this document.

## **13. CORPORATE GOVERNANCE**

Following Admission, the Company intends to comply (so far as the Directors consider appropriate for a company of its size) with the requirements of the Combined Code.

### **The Board**

The posts of Chairman and Chief Executive are held by different Directors and the board is balanced by an appropriate non-executive element with three out of six Directors being non-executive. The non-executive Directors are considered by the Board to be independent and have no relationships interfering with their independent judgement. In accordance with the Combined Code, Sam Footitt has been named as the senior independent non-executive Director.

James Kerr-Muir's role as Chairman is to secure good corporate governance. He is responsible for leadership of the Board, for ensuring its effectiveness in all aspects of its role, and setting its agenda and for ensuring that all Directors (both executive and non-executive) are encouraged and enabled to contribute fully to the activities and decisions of the Board.

The Board has a procedure through which the Directors are able to take independent advice in the furtherance of their responsibilities. The Directors have access to the advice and services of the Company Secretary. The Company Secretary is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The Board meets regularly throughout the year (normally monthly) and all necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. Additionally, special meetings take place or other arrangements are made when Board decisions are required in advance of regular meetings. Certain matters are reserved for consideration by the Board (with other matters delegated to Board committees). The Board is responsible for leading and controlling the Company and in particular, formulating, reviewing and approving the Company's strategy, budget, major items of capital expenditure and acquisitions and disposals. In addition, the Board will delegate specific responsibilities to the committees described below, each of which has written terms of reference.

### **The Audit Committee**

The Audit Committee is chaired by Sam Footitt and its other members are David Stewart and James Kerr-Muir. The Audit Committee will formally meet at least once a year and at such other times as the Audit Committee Chairman shall require. The Audit Committee will consider all matters relating to financial controls and reporting, internal and external audits, the scope and results of the audits, the independence and objectivity of the auditors and will keep under review the effectiveness of the Company's controls and risk management. The ultimate responsibility for reviewing and approving the annual report and accounts and interim statements will remain with the Board. The Company's auditors may attend and speak at meetings of the Audit Committee.

### **The Remuneration Committee**

The Remuneration Committee is chaired by David Stewart and its other members are Sam Footitt and James Kerr-Muir. The Remuneration Committee will meet at least once a year and otherwise as required. The Remuneration Committee will consider all material elements of remuneration policy, remuneration and incentives of Executive Directors and senior management with reference to independent remuneration research and professional advice in accordance with the Combined Code, and will make recommendations to the Board on the framework for executive remuneration and its cost. The Board is then responsible for implementing the recommendations and agreeing the remuneration packages of individual Directors. It is also responsible for making recommendations for grants of options under the SAYE Scheme. The Directors are not permitted, under the Articles, to vote on their own terms and conditions of remuneration. Non-executive Directors' and the Chairman's remuneration fees will be determined by the full Board.

### **The Nominations Committee**

The Nominations Committee is chaired by James Kerr-Muir and its other members are Sam Footitt and David Stewart. This committee has responsibility for considering the size, structure and composition of the Board, the retirement and appointment of Directors and will make appropriate recommendations to the Board in relation to these matters.

## **14. DIVIDEND POLICY**

In the absence of unforeseen circumstances and taking into account that Admission is only expected to occur on 22 November 2005, the Directors intend to pay a final cash dividend of approximately £2 million for the financial period ending 30 June 2006. Had Admission taken place at the start of the current financial period, this would have equated to a total dividend for the financial year ended 30 June 2006 of approximately £3 million. For the avoidance of doubt, this is not a profit forecast.

Thereafter, the Directors intend to declare an interim and final dividend in respect of each financial year, in the approximate ratio of one third: two thirds. The Directors intend to adopt a progressive dividend policy taking into account the underlying long-term earnings growth and capital base of the Company.

## **15. REASONS FOR ADMISSION AND USE OF PROCEEDS**

Davenham is seeking Admission to:

- strengthen the Company's capital base in order to facilitate future growth;
- provide access to capital for selective acquisitions;
- raise its corporate profile and brand awareness;
- allow an exit for the funds managed by Dunedin and Indigo, and certain other existing shareholders; and
- facilitate the incentivisation of key management and employees.

The net proceeds of the issue of New Shares of approximately £23.5 million will be, in part, used to redeem the Loan Notes and Mezzanine Debt (at a cost of approximately £17.2 million). The balance will be used to

increase the capital base of the Company, further strengthening its ability both to lend and to develop the business.

## **16. SUMMARY OF THE PLACING**

The Placing comprises an offer by the Company of 10,922,777 New Shares to raise gross proceeds of approximately £27.7 million and the sale of, in aggregate, 6,653,637 Existing Shares by the Selling Shareholders. The New Shares will represent 42.6 per cent. of the issued ordinary share capital of the Company immediately following Admission.

Panmure Gordon has agreed to use reasonable endeavours to procure placees in accordance with the terms of the Placing Agreement (further details of which are set out in Part III, and paragraph 9 of Part VI, of this document).

The Directors, Dunedin, Indigo, Uberior, those employees participating in the Placing and certain other employees have entered into lock-up arrangements with Panmure Gordon and Hawkpoint. Approximately 30.7 per cent. of the Ordinary Shares either in issue or the subject of share options after completion of the Placing will be subject to such lock-up arrangements.

Further details of the Placing are set out in Part III and paragraph 9 of Part VI of this document.

## **PART II**

### **RISK FACTORS**

**An investment in Ordinary Shares involves a high degree of risk. Accordingly, before deciding whether to invest in the Ordinary Shares, prospective investors should carefully consider the risks described below together with all other information contained in this document. If any of the following risks actually occur, the Group's business, financial condition and/or results of operations could be materially and adversely affected. In such a case, the trading price of the Ordinary Shares would decline and an investor may lose all or part of his investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on the Group's business and the risks described below do not necessarily comprise all those associated with an investment in the Group.**

#### **1. BUSINESS RISKS**

##### **1.1 Credit risk and fraud**

Davenham is exposed to the risk that clients owing the Company money will not fulfil their obligations. Although Davenham regularly reviews credit exposure for every client, credit default risk may arise from events or circumstances that are difficult to detect and handle, such as fraud.

##### **1.2 Inadequate security**

Davenham is exposed to the risk that the security upon which its loan advances are made may reduce in value, so that the Company may not recover any proportion of its loan advances in an event of default. Although this risk is mitigated by the large number of loans and clients involved, there is no guarantee that a significant reduction in the value of loan security will not materially impact the financial condition of the Company.

##### **1.3 Client base**

Davenham has a strong client loyalty and repeat business track record. However, there is no guarantee that this trend will continue. Clients could cease to use Davenham for future funding requirements for a variety of reasons including, for example, clients attaining a size or profile where cheaper finance may be obtained from other lenders. Furthermore, notwithstanding the Company's successful track record in winning business, there is no guarantee that Davenham can continue to win new clients.

##### **1.4 Funding**

Davenham relies on funding lines and availability of credit from a group of banks led by The Royal Bank of Scotland plc in order to maintain an adequate level of working capital and to fund loan advances to the Company's clients. Although Davenham has had a successful relationship with its banking syndicate for five years, there is no guarantee of continued support beyond the commitment period expiring September 2007, or if any of the Company's covenants are breached.

##### **1.5 Management of growth**

Davenham's future prospects depend upon its ability to continue managing growth successfully, in particular through the cost effective management of quality, scaleable information and control systems. Failure to achieve this could have a material adverse effect on the financial condition and prospects of the business.

##### **1.6 Retention of key staff**

The Directors believe that Davenham's success depends to a significant extent on the Company's ability to attract and retain knowledgeable and experienced staff.

## **2. MARKET RISKS**

### **2.1 Competition**

Davenham has various competitors for each of its different products. There is no guarantee that mainstream lenders or new entrants will not seek to enter the specialist finance market in the future, despite the high barriers to entry into this market which the Directors believe to exist.

### **2.2 Sector failure**

Davenham is exposed to the risk that any one of the sectors in which its clients are active may experience a significant downturn. Such a downturn may materially impact the financial condition and prospects of the Company.

### **2.3 Increasing regulatory risk**

Davenham is not currently regulated by the FSA. However, there is no guarantee that the FSA will not widen the scope of businesses it regulates to Davenham's activities, potentially with cost implications for Davenham. There is also no guarantee that any widening of the scope of the Consumer Credit Act may not impact Davenham's business.

## **3. GENERAL ECONOMIC TRENDS**

### **3.1 Economic downturn**

A downturn in the economy could have an adverse impact on the Company, as it may reduce the ability of SMEs to repay amounts due to Davenham, thereby increasing bad debt expense and reducing the profitability of the Group.

### **3.2 Property market downturn**

As at 30 June 2005 the property division represented 45.5 per cent. of the Company's total loan portfolio. At the time of advance, an appropriate level of security is obtained. However, the value of this level of security is significantly influenced by the UK property market (both the residential and commercial). Notwithstanding the short-term nature of the Company's property finance, a fall in UK property prices or any significant reduction in the number of property transactions could erode the value of the security and hinder or delay the repayment of part or all of the Company's loans. This may lead to increased levels of provisions and bad debt expense. The Company's level of repeat business may also be adversely affected.

### **3.3 Interest rates**

The interest rate on Davenham's borrowings is calculated on a floating rate basis by reference to the London Interbank Offer Rate, whilst the interest rate charged to clients, for all products except invoice finance, is fixed at the time of the advance. Whilst the Company utilises interest rate swaps to manage this risk, there is no guarantee that movements in interest rates may not adversely impact on Davenham's profitability.

### **3.4 Exchange rates**

As at 30 June 2005, the trade division represented 28.2 per cent. of the Company's total loan portfolio. Key users of this product range are importers. Should there be a sustained fall in the value of the Pound Sterling, there are two potential impacts on the trade finance division. Firstly, the volume of goods imported by such clients may fall, leading to a reduction in the quantum of new business written to such clients and consequently adversely affecting growth in the asset portfolio. Secondly, the profitability of such clients may be adversely impacted. Consequently, their ability to repay amounts due to Davenham may be reduced, thereby increasing bad debt expense and reducing profitability of the Company.

## **4. OTHER**

### **4.1 Accounting principles and standards**

Davenham prepares its financial statements in accordance with UK GAAP. Companies listed on AIM will have to comply with International Financial Reporting Standards (“IFRS”) for each year beginning on or after 1 January 2007. Therefore Davenham will have to comply with IFRS from 1 July 2007 and will need to prepare comparable data in accordance with IFRS for the year ending 30 June 2007. A detailed analysis of the impact that conversion from UK GAAP to IFRS will have on Davenham’s financial results has not been undertaken, but a high level comparison of IFRS principles and the Group’s current accounting practices has been carried out. This review has not identified any significant adverse impacts on reported earnings, but the need to recognise the fair value of certain financial instruments is likely to lead to increased volatility in reported net assets. There are also differences in the presentation of financial statements under IFRS compared to UK GAAP.

### **4.2 Dividends**

The payment of dividends in respect of Ordinary Shares will rely on underlying growth in the business and, in particular, the dividend policy mentioned in Part I of this document should not be construed as a dividend or profit forecast. Any change in the tax treatment of dividends or interest received by the Company may reduce the level of yield received by shareholders.

## **5. SHARES**

### **5.1 Investment in AIM quoted securities**

Investment in securities traded on AIM is perceived to involve a higher degree of risk and be less liquid than investment in companies whose shares are listed on the Official List. An investment in the Ordinary Shares may be difficult to realise. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may therefore realise less than, or lose all of, their investment.

### **5.2 Share price volatility and liquidity**

The share prices of quoted companies can be highly volatile and shareholdings illiquid. The prices at which the Ordinary Shares are quoted and the prices which investors may realise for their Ordinary Shares, will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect quoted companies generally. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political or regulatory conditions.

### **5.3 Substantial future sales of Ordinary Shares could impact their market price**

Following the Placing, there will be 25,648,194 Ordinary Shares in issue. The possibility of sales of a substantial number of Ordinary Shares by the Shareholders following Admission could have an adverse effect on the market trading prices of the Ordinary Shares irrespective of the fact that the Directors and Selling Shareholders have agreed to certain restrictions on the sale of Ordinary Shares for various limited periods of time following Admission, as described in Part III of this document under the heading “Lock-up arrangements”.

## PART III

### THE PLACING AND RELATED MATTERS

#### Terms and conditions of the Placing

The Placing comprises an offer by the Company of 10,922,777 New Shares to raise gross proceeds of approximately £27.7 million and the sale of, in aggregate, 6,653,637 Existing Shares by the Selling Shareholders. The New Shares will represent 42.6 per cent. of the issued ordinary share capital of the Company immediately following Admission.

At the Placing Price the Company will have a market capitalisation of approximately £65.1 million.

The Placing is conditional upon:

- (i) the Placing Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms prior to Admission; and
- (ii) Admission becoming effective not later than 8.30 a.m. on 22 November 2005 or such later time and/or date as Hawkpoint and Panmure Gordon and the Company may agree in writing, being not later than 16 December 2005.

Pursuant to the Placing Agreement (which is described more fully in paragraph 9(a) of Part VI of this document), Panmure Gordon has agreed, subject to the fulfilment of certain conditions, to use reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price.

The following is a list of the Selling Shareholders who will be selling shares pursuant to the Placing.

<i>Name</i>	<i>Business address</i>	<i>No. of Ordinary Shares being sold</i>
<b>Non-institutional shareholders<sup>(1)</sup>:</b>		
Jacques Alard	8 St John Street, Manchester M3 4DU	11,307
Sophia Maria Barnwell	8 St John Street, Manchester M3 4DU	2,000
Carole Andrea Crookall	8 St John Street, Manchester M3 4DU	8,830
Christine Curran	8 St John Street, Manchester M3 4DU	2,340
Colin Davenport	c/o 8 St John Street, Manchester M3 4DU	180,852
Averil Ann Duncan	8 St John Street, Manchester M3 4DU	2,206
Gary Ellis	8 St John Street, Manchester M3 4DU	111,681
Margaret Fawns	8 St John Street, Manchester M3 4DU	4,406
Lynne Finney	8 St John Street, Manchester M3 4DU	2,376
Malcolm Flannery	8 St John Street, Manchester M3 4DU	8,576
Valerie Ann Footitt	c/o 8 St John Street, Manchester M3 4DU	8,925
James Furey	8 St John Street, Manchester M3 4DU	2,085
Louise Geller	8 St John Street, Manchester M3 4DU	7,743
Steven Mark Gildea	8 St John Street, Manchester M3 4DU	10,000
Lynne Graham	8 St John Street, Manchester M3 4DU	10,289
Christine Greenhalgh	8 St John Street, Manchester M3 4DU	4,358
John Michael Hamlyn	c/o 8 St John Street, Manchester M3 4DU	173,103
Angela Hampson	8 St John Street, Manchester M3 4DU	6,113
Susan Haworth	8 St John Street, Manchester M3 4DU	8,674
Natalie James	8 St John Street, Manchester M3 4DU	1,210
Chris Kavanagh	8 St John Street, Manchester M3 4DU	6,095
James Rodier Kerr-Muir	8 St John Street, Manchester M3 4DU	41,835
Mark Lindsay	8 St John Street, Manchester M3 4DU	12,436
Kim Livsey	8 St John Street, Manchester M3 4DU	20,436
Emma Lloyd	8 St John Street, Manchester M3 4DU	3,253

**Note:**

- (1) Some of the non-institutional Selling Shareholders hold some or all of their shares through the EBT and therefore the legal transferor in such cases will be Davenham Group Trustees Limited.

<i>Name</i>	<i>Business address</i>	<i>No. of Ordinary Shares being sold</i>
Steven Robert Marsh	8 St John Street, Manchester M3 4DU	467,170
Adele McDonald	8 St John Street, Manchester M3 4DU	2,307
Tracey Jayne McKeag	8 St John Street, Manchester M3 4DU	5,316
Caroline Heather Midgelow	8 St John Street, Manchester M3 4DU	18,978
Anne-Marie Murray	8 St John Street, Manchester M3 4DU	8,749
Angela Marie Pleasant	8 St John Street, Manchester M3 4DU	2,085
Wayne Shore	8 St John Street, Manchester M3 4DU	133,274
Dawn Elizabeth Smethurst	8 St John Street, Manchester M3 4DU	50,944
Deborah Sutton	8 St John Street, Manchester M3 4DU	6,148
Gayle Taylor	8 St John Street, Manchester M3 4DU	4,829
Austin Thorp	8 St John Street, Manchester M3 4DU	12,463
Vincent Tovey	8 St John Street, Manchester M3 4DU	9,341
Karen Vincent	8 St John Street, Manchester M3 4DU	1,478
Guy Wadsworth	8 St John Street, Manchester M3 4DU	16,710
Andrew Richard Whitehouse	8 St John Street, Manchester M3 4DU	2,352
Raymond Wise	8 St John Street, Manchester M3 4DU	177,854
David Pow and Anne Lee Calder	c/o Monro Pennefather & Co, 8 Great James Street, London WC1N 3DA	13,943

#### **Institutional Shareholders:**

Dunedin Enterprise Investment Trust plc	10 George Street, Edinburgh EH2 2DW	2,761,602
Napier House Investments Limited	10 George Street, Edinburgh EH2 2DW	223,911
Dunedin Buyout Fund LP	10 George Street, Edinburgh EH2 2DW	182,818
European Mezzanine Fund III LP	3rd Floor, 25 Watling Street, London EC4M 9BR	1,619,595
Uberior Trading Limited	Level 1 Citimark, 150 Fountainbridge, Edinburgh EH3 9PE	280,641

#### **Plan of distribution and allotment**

Settlement of transactions in the Placing Shares following Admission will take place within the CREST system. Placees will receive a conditional contract note from Panmure Gordon which will be deemed to incorporate the terms and conditions of the Placing applicable to Placees. Definitive share certificates for the Ordinary Shares, if applicable, are expected to be dispatched by 30 November 2005.

#### **CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. Upon Admission, the Articles will permit the holding of Ordinary Shares in CREST. The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within CREST if any Shareholder so wishes.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Investors applying for Placing Shares under the Placing may, however, elect to receive Placing Shares in uncertificated form if they are a system-member (as defined in the Regulations) in relation to CREST.

#### **Admission to trading and dealing arrangements**

Application has been made for Admission in respect of the Ordinary Shares. It is expected that Admission will become effective and dealings in the Ordinary Shares will commence on 22 November 2005.

No application is being made for the Ordinary Shares to be admitted to listing or to be dealt in on any other exchange.

### **Lock-up arrangements**

Immediately following Admission, the Directors will be interested, in aggregate, in 1,608,191 Ordinary Shares representing approximately 6.3 per cent. of the enlarged issued share capital of the Company. Under the terms of the Placing Agreement, which is described more fully in paragraph 9(a) of Part VI of this document, the Directors and all Selling Shareholders (save for the Institutional Shareholders, Colin Davenport and John Michael Hamlyn) have undertaken that, subject to certain exceptions, without the consent of Hawkpoint and Panmure Gordon they will not sell or otherwise dispose of, or agree to dispose of, any of their respective interests in the Ordinary Shares held immediately following Admission at any time within one year of Admission. The Institutional Shareholders, Colin Davenport and John Michael Hamlyn have given a similar undertaking but only in respect of the period ending six months after Admission. In addition, a number of employees who hold Ordinary Shares have agreed not to dispose of their shares for a period of one year from Admission.

### **Share Options**

As at 28 October 2005 the Company employed a total of 134 members of staff. In order to provide suitable employee incentives and to reflect the commitment of certain employees to the Company's business to date, the Company has established the SAYE Scheme, further details of which are set out in paragraph 4 of Part VI of this document.

The Remuneration Committee has also adopted the long term performance share plan which is described in paragraph 4(e) of Part VI of this document.

### **Dilution**

The number of Ordinary Shares in issue immediately following the Placing will be 25,648,194. The New Shares will, upon Admission, represent 42.6 per cent. of the enlarged share capital of the Company.

# PART IV

## ACCOUNTANTS' REPORT



KPMG LLP  
St James' Square  
Manchester M2 6DS  
United Kingdom

The Directors  
Davenham Group plc  
8 St John Street  
Manchester  
M3 4DU

17 November 2005

Dear Sirs

### **Accountants' report on the consolidated historical financial information of Davenham Group plc for the three years ended 30 June 2005**

#### **Davenham Group plc (the "Company" and together with its subsidiary undertakings, the "Group")**

We report on the financial information set out on pages 27 to 48. This financial information has been prepared for inclusion in the AIM Admission Document dated 17 November 2005 of Davenham Group plc on the basis of the accounting policies set out in note 1. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with UK accounting standards.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

#### **Opinion**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 17 November 2005, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 1 and in accordance with the applicable financial reporting framework as described in the same note.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

KPMG LLP

## Consolidated profit and loss accounts

		2003	2004	2005
	<i>Notes</i>	£'000	£'000	£'000
<b>Continuing operations</b>				
<b>Turnover</b>	2	16,045	21,836	28,489
Interest payable	4	(5,435)	(6,743)	(9,071)
<b>Gross profit</b>		10,610	15,093	19,418
Administrative expenses		(5,786)	(9,689)	(11,287)
<b>Profit on ordinary activities before taxation</b>	5	4,824	5,404	8,131
Tax on profit on ordinary activities	9	(1,478)	(1,673)	(2,519)
<b>Profit on ordinary activities after taxation</b>		3,346	3,731	5,612
Dividends		–	(578)	(889)
<b>Retained profit for the financial period</b>	22	3,346	3,153	4,723
<b>Dividends per 'A' Ordinary Share</b>		–	8.07p	12.41p
<b>Earnings per share (Basic)</b>				
Ordinary and 'B' Ordinary Shares	10	28.95p	26.59p	39.85p
'A' Ordinary Shares	10	28.95p	35.48p	52.86p
<b>Earnings per share (Diluted)</b>				
Ordinary and 'B' Ordinary Shares	10	22.62p	20.89p	32.00p
'A' Ordinary Shares	10	22.62p	28.97p	44.41p

## Consolidated balance sheets

	Notes	2003 £'000	2004 £'000	2005 £'000
<b>Fixed assets</b>				
Intangible assets				
Positive goodwill	11	42	36	30
Negative goodwill	12	(134)	(107)	(80)
		(92)	(71)	(50)
Tangible assets	13	1,110	1,054	1,026
		<u>1,018</u>	<u>983</u>	<u>976</u>
<b>Current assets</b>				
Debtors: amounts receivable within one year	14	79,398	108,480	130,807
Debtors: amounts receivable after more than one year	14	14,772	18,606	21,961
Cash at bank and in hand		5,491	2,380	3,319
		<u>99,661</u>	<u>129,466</u>	<u>156,087</u>
<b>Creditors:</b> amounts falling due within one year	15	(78,745)	(6,275)	(8,106)
<b>Net current assets</b>		<u>20,916</u>	<u>123,191</u>	<u>147,981</u>
<b>Total assets less current liabilities</b>		21,934	124,174	148,957
<b>Creditors:</b> amounts falling due after more than one year				
Bank loans and other creditors	16	(208)	(97,079)	(119,261)
Loan stock liabilities	17	(14,428)	(16,648)	(16,871)
<b>Net assets</b>		<u>7,298</u>	<u>10,447</u>	<u>12,825</u>
<b>Capital and reserves</b>				
Called up share capital	21	119	119	125
Share premium account	22	762	762	762
Own shares held reserve		(7)	(11)	(2,362)
Profit and loss account	22	6,424	9,577	14,300
<b>Shareholders' funds</b>	22	<u>7,298</u>	<u>10,447</u>	<u>12,825</u>

## Consolidated cash flow statements

	<i>Notes</i>	<i>2003</i> £'000	<i>2004</i> £'000	<i>2005</i> £'000
<b>Cash inflow/(outflow) from operating activities</b>	28	13,688	(2,229)	7,595
<b>Return on investment and servicing of finance</b>				
Interest paid on loan stock		(790)	(902)	(986)
<b>Taxation</b>		(1,680)	(1,823)	(2,570)
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(349)	(208)	(206)
Sale of tangible fixed assets		73	55	29
<b>Cash outflow from capital expenditure and financial investment</b>		(276)	(153)	(177)
<b>Acquisition and disposals</b>				
Purchase of Booker assets		(7,953)	–	–
<b>Net cash outflow for acquisitions and disposals</b>		(7,953)	–	–
<b>Cash inflow/(outflow) before use of liquid resources and financing</b>		2,989	(5,107)	3,862
<b>Equity dividends paid</b>		–	–	(578)
<b>Management of liquid resources</b>				
Transfer from cash to short term deposits		(2,487)	–	–
<b>Financing</b>				
Purchase of own shares for Employee Benefit Trust		(7)	(4)	(2,351)
Issue of shares net of issue costs		24	–	6
Issue of loan stock, net of loan arrangement fees		–	2,000	–
<b>Increase/(decrease) in cash in the period</b>		519	(3,111)	939

## Reconciliation of net cash flow to movement in net debt

	<i>Notes</i>	<i>2003</i> £'000	<i>2004</i> £'000	<i>2005</i> £'000
Increase /(decrease) in cash in the period		519	(3,111)	939
Cash inflow from increase in loan stock		–	(2,000)	–
Cash outflow from decrease in liquid resources		2,487	–	–
<b>Change in net debt resulting from cash flows</b>		3,006	(5,111)	939
Other non-cash movements		(216)	(220)	(223)
Opening net debt		(11,727)	(8,937)	(14,268)
<b>Closing net debt</b>	29	(8,937)	(14,268)	(13,552)

## **Notes (forming part of the financial information)**

### **1 Accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the accounting policies, which have been consistently applied, is set out below.

#### **Basis of preparation**

The financial statements have been prepared on the historical cost basis of accounting. In accordance with paragraph 3(3) of Schedule 4 Companies Act 1985 the directors have adapted the arrangement of certain headings in the profit and loss account to reflect more effectively the nature of the group's activities. In particular, as disclosed in note 2, turnover includes interest receivable. Interest payable on bank loans has been treated as a deduction against gross profit. Similarly, the cash flow statement shows movements in amounts due to credit institutions to fund loans and advances to customers within cash flow from operating activities.

#### **Basis of consolidation**

The consolidated financial statements include the company and its subsidiaries. Intra group transactions, including income and profits, are eliminated fully on consolidation. The consideration paid for own shares held by the company's Employee Benefit Trust is deducted in arriving at shareholders' funds.

#### **Turnover**

Turnover represents interest on loans and advances to customers, which accrues on a day to day basis according to the balance on the account, and is credited to income in the financial period in which it arises. Turnover also includes interest charged and discounts received for credit finance provided.

#### **Income from hire purchase agreements and finance leases**

Rental income from hire purchase agreements and finance leases where the Group is acting as a lessor is calculated on an actuarial basis, whereby rental income is allocated over the duration of each agreement in proportion to the capital balance, as reduced by each monthly payment required by the agreement. Unearned finance charges represent the portion of finance charges on instalment credit agreements attributable to future accounting periods.

#### **Income from trade finance agreements**

Income from trade finance agreements is credited in the financial period in which it arises. Unearned finance charges, included within accruals and deferred income, represent the portion of finance charges on instalment credit agreements attributable to future accounting years.

#### **Interest payable**

Interest payable is stated after charging amortisation of loan arrangement fees. It includes interest rolled-up on mezzanine loan stock, which is payable on maturity of the loan. Loan arrangement fees are deducted from the liability recorded in the balance sheet and amortised over the life of the relevant arrangement.

#### **Operating leases**

Costs in respect of operating leases are charged on a straight line basis over the lease term.

## **Depreciation**

Depreciation is provided on a straight line basis on tangible fixed assets at rates calculated to write off the assets over their anticipated useful lives as follows:

Fixtures and fittings	4 to 5 years
Motor vehicles	4 years
Computers and ancillary equipment	3 years
Freehold buildings	50 years

## **Goodwill**

Positive goodwill arising on consolidation is capitalised in the balance sheet at cost and amortised through the profit and loss account on a straight line basis over a period of 10 years, which is the directors' estimate of its useful economic life.

Negative goodwill is capitalised in the balance sheet at cost and amortised through the profit and loss account on a straight line basis over a period of 5 years, which is the directors' estimate of its useful economic life.

## **Pensions**

A group company, Davenham Group Holdings plc, 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 Company to the scheme.

## **Deferred taxation**

Provision is made for deferred tax assets and liabilities, using the liability method, on all material timing differences. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax balances are not discounted.

## **Cash at bank and in hand**

Cash at bank and in hand includes cash on short term deposit.

## **Cash flow statement**

The Group has adopted FRS 1 as it applies to banking institutions as this is considered to be the most appropriate basis on which to prepare the cash flow statement.

## **Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date and exchange differences arising from this transaction are included in the profit and loss account.

## **Financial instruments**

The primary derivative instruments utilised by the Group are interest rate swaps. The Group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts. The Company has not adopted hedge accounting.

## **Bad and doubtful debts**

Provisions for bad and doubtful debts are based on the directors' appraisal of all loans and advances. Specific provisions are made in respect of all identified potentially impaired advances.

General provisions are made in respect of losses which are not yet specifically identified. Loans and advances are written down to estimated realisable value when there is no realistic prospect of recovery. Interest of doubtful collectability is not recognised in the profit and loss account.

## 2 Turnover

	2003	2004	2005
	£'000	£'000	£'000
Interest receivable from customers	9,411	13,555	17,436
Fees and commissions receivable	6,550	8,206	10,963
Interest receivable from banks	84	75	90
	<u>16,045</u>	<u>21,836</u>	<u>28,489</u>

The Group's sole business activity is the provision of finance to customers within the United Kingdom. The principal products offered within this business segment and their respective volumes of business conducted were:

	2003	2004	2005
	£'000	£'000	£'000
Trade finance provided	183,763	230,405	262,625
Loan finance provided	55,210	74,806	99,808
Cost of assets acquired for leasing and hire purchase	16,285	28,644	30,846
	<u>255,258</u>	<u>333,855</u>	<u>393,279</u>

## 3 Segmental information

A business segment is a group of funding products and operations 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, with funding and overheads being managed and accounted for through a central function. As a result, segmented information is given on income attributable to each segment and the loan portfolio relating to each; centrally managed funding and overheads are not allocated to segments and therefore no split is given.

	2003	2004	2005
	£'000	£'000	£'000
<i>Portfolio size</i>			
Property	39,440	53,424	68,674
Trade	28,262	39,040	42,603
Asset	25,827	33,147	39,797
	<u>93,529</u>	<u>125,611</u>	<u>151,074</u>
Letters of credit	2,453	2,463	3,638
	<u>95,982</u>	<u>128,074</u>	<u>154,712</u>
<i>Portfolio income</i>			
Property	6,916	8,835	11,905
Trade	6,136	7,342	9,688
Asset	2,909	5,584	6,826
	<u>15,961</u>	<u>21,761</u>	<u>28,399</u>

#### 4 Interest payable

	2003 £'000	2004 £'000	2005 £'000
Interest payable on bank loans and overdrafts	4,073	5,396	7,602
Amortisation in respect of bank loan arrangement fees	298	322	259
Interest payable on subordinated debt and loan stock	976	937	1,121
Amortisation in respect of subordinated debt and loan stock arrangement fees	88	88	89
	<u>5,435</u>	<u>6,743</u>	<u>9,071</u>

#### 5 Profit on ordinary activities before taxation

	2003 £'000	2004 £'000	2005 £'000
Profit on ordinary activities before taxation is stated after charging:			
Depreciation for the period	174	212	208
Auditors' remuneration for:			
Audit services (Company: £16,000; 2003: £7,500; 2004: £7,000)	38	36	38
Non-audit services	4	4	4
Charge for bad and doubtful debts	897	2,788	2,161
(Profit) on disposal of fixed assets	(1)	(2)	(3)
Hire of other assets – operating leases	122	242	218
Goodwill amortisation – positive	6	6	6
Goodwill amortisation – negative	(2)	(27)	(27)
	<u></u>	<u></u>	<u></u>

#### 6 Directors' emoluments

The remuneration paid to the directors of the Company was:

	2003 £'000	2004 £'000	2005 £'000
Aggregate emoluments and benefits	616	597	978
Company pension contributions to money purchase schemes	48	59	94
Compensation for loss of office	–	–	224
Sums paid to third parties for directors' services	30	30	30
	<u>694</u>	<u>686</u>	<u>1,326</u>

Retirement benefits are accruing to 7 (2003: 5; 2004: 5) directors under a money purchase pension scheme.

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

	2003 £'000	2004 £'000	2005 £'000
Aggregate emoluments and benefits	173	146	152
Company pension contributions to money purchase scheme	14	15	27
Compensation for loss of office	–	–	127
	<u>187</u>	<u>161</u>	<u>306</u>

The highest paid director did not receive shares in respect of qualifying service under the long term incentive scheme and did not exercise any share options during the period.

## 7 Directors and directors' interests

The undermentioned directors had the following beneficial interests in the ordinary shares (being either ordinary shares or A ordinary shares) of the Company as follows:

	<i>Davenham Group plc</i>		
	<i>ordinary shares of 1p each</i>		
	<i>30 June</i> <i>2003</i> <i>Number</i>	<i>30 June</i> <i>2004</i> <i>Number</i>	<i>30 June</i> <i>2005</i> <i>Number</i>
J R Kerr-Muir	132,807	132,807	99,609
C Davenport (resigned 5/8/05)	1,162,099	1,162,099	348,630
J M Hamlyn (resigned 29/4/05)	1,123,310	1,123,310	–
D R Coates	–	–	–
S R Marsh	1,112,310	1,112,310	1,112,310
P E Burke	–	–	–
R Wise (resigning effective upon Admission)	538,953	538,953	538,953
S N S Middleton	86,327	86,327	86,327
G L Footitt	21,250	21,250	21,250
W Shore (resigning effective upon Admission)	33,803	33,803	33,803

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

	<i>Davenham Group plc</i>		
	<i>ordinary shares of 1p each</i>		
	<i>30 June</i> <i>2003</i> <i>Number</i>	<i>30 June</i> <i>2004</i> <i>Number</i>	<i>30 June</i> <i>2005</i> <i>Number</i>
D R Coates	–	–	482,258
P E Burke	–	–	353,965
W Shore	–	40,000	298,131

## 8 Employee information

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

	<i>2003</i> <i>Number</i>	<i>2004</i> <i>Number</i>	<i>2005</i> <i>Number</i>
Employees	79	99	119
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Staff costs (for the above persons)			
Wages and salaries	2,639	3,703	5,331
Social security costs	292	428	609
Other pension costs	194	290	380
	3,125	4,421	6,320

## 9 Tax on profit on ordinary activities

### (a) Analysis of tax charge in the period

	2003 £'000	2004 £'000	2005 £'000
<i>Current tax</i>			
– United Kingdom corporation tax on profits of the period	1,635	2,062	2,768
– Adjustments in respect of previous periods	(10)	58	103
Total current tax	<u>1,625</u>	<u>2,120</u>	<u>2,871</u>
<i>Deferred tax</i>			
Movement in deferred and accelerated capital allowances	(102)	(338)	(21)
Origination and reversal of timing differences	(45)	(109)	(331)
Deferred tax	<u>(147)</u>	<u>(447)</u>	<u>(352)</u>
Tax on profit on ordinary activities	<u>1,478</u>	<u>1,673</u>	<u>2,519</u>

### (b) Factors affecting tax charge for the period

	2003 £'000	2004 £'000	2005 £'000
<b>Profit on ordinary activities before taxation</b>			
Taxation charge at 30% (2004: 30%)	1,447	1,621	2,439
Effects of:			
Expenses not deductible for tax purposes	41	58	(64)
Capital allowances less than depreciation	102	338	62
Movement in general provision for doubtful debts	45	45	198
Other timing differences	–	–	133
Adjustments in respect of previous periods	(10)	58	103
Current tax charge for the period	<u>1,625</u>	<u>2,120</u>	<u>2,871</u>

The standard rate of current tax for the year is 30 per cent., based on the weighted average which is deemed an appropriate 'standard' rate of tax for the Group.

## 10 Earnings per share

	2003 £'000	2004 £'000	2005 £'000
Earnings attributable to all shareholders	3,346	3,153	4,723
Earnings attributable to 'A' ordinary shareholders, in addition to above	–	578	889

### Weighted average number of shares in issue

	2003	2004	2005
Ordinary and 'B' Ordinary	5,059,686	5,355,895	5,021,307
Dilutive effect of share options/warrants outstanding	7,632,641	7,928,850	7,594,262
'A' Ordinary	6,499,995	6,499,995	6,831,650
Dilutive effect of share options/warrants outstanding	<u>7,161,161</u>	<u>7,161,161</u>	<u>7,163,305</u>

There have been no other gains or losses during any of the periods other than those shown in the profit and loss account. There is no material difference between the historical cost profit for each of the years and the profit as reported above.

## 11 Positive goodwill

<b>Goodwill</b>	<i>£'000</i>
<b>Cost</b>	
At 1 July 2002, 1 July 2003, 1 July 2004 and 30 June 2005	96
<b>Amortisation</b>	
At 1 July 2002	48
Charge for the year	6
At 1 July 2003	54
Charge for the year	6
At 1 July 2004	60
Charge for the year	6
<b>At 30 June 2005</b>	<b>66</b>
Net book value at 1 July 2003	42
Net book value at 1 July 2004	36
<b>Net book value at 30 June 2005</b>	<b>30</b>

## 12 Negative goodwill

<b>Goodwill</b>	<i>£'000</i>
<b>Cost</b>	
At 1 July 2002	–
Additions	136
At 1 July 2003, 1 July 2004 and 30 June 2005	136
<b>Amortisation</b>	
At 1 July 2002	–
Charge for the year	2
At 1 July 2003	2
Charge for the year	27
At 1 July 2004	29
Charge for the year	27
<b>At 30 June 2005</b>	<b>56</b>
Net book value at 1 July 2003	134
Net book value at 1 July 2004	107
<b>Net book value at 30 June 2005</b>	<b>80</b>

### 13 Tangible fixed assets

	<i>Freehold property £'000</i>	<i>Motor vehicles £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Total £'000</i>
<b>Cost</b>				
At 1 July 2002	750	236	478	1,464
Additions	–	152	197	349
Additions – Booker	–	–	21	21
Disposals	–	(120)	(54)	(174)
At 1 July 2003	750	268	642	1,660
Additions	–	86	122	208
Disposals	–	(86)	(10)	(96)
At 1 July 2004	750	268	754	1,772
Additions	–	43	163	206
Disposals	–	(68)	(7)	(75)
<b>At 30 June 2005</b>	<b>750</b>	<b>243</b>	<b>910</b>	<b>1,903</b>
<b>Depreciation</b>				
At 1 July 2002	81	54	343	478
Charge for the year	15	64	95	174
Disposals	–	(54)	(48)	(102)
At 1 July 2003	96	64	390	550
Charge for the year	16	66	130	212
Disposals	–	(38)	(6)	(44)
At 1 July 2004	112	92	514	718
Charge for the year	15	62	131	208
Disposals	–	(46)	(3)	(49)
<b>At 30 June 2005</b>	<b>127</b>	<b>108</b>	<b>642</b>	<b>877</b>
<b>Net book value</b>				
<b>At 30 June 2005</b>	<b>623</b>	<b>135</b>	<b>268</b>	<b>1,026</b>
<b>At 30 June 2004</b>	<b>638</b>	<b>176</b>	<b>240</b>	<b>1,054</b>
<b>At 30 June 2003</b>	<b>654</b>	<b>204</b>	<b>252</b>	<b>1,110</b>

## 14 Debtors

	2003 £'000	2004 £'000	2005 £'000
<b>Amounts receivable within one year</b>			
Trade debtors	28,262	39,040	42,603
Loans and advances to customers	39,440	53,424	68,674
Hire purchase and finance lease debtors	11,055	14,541	17,836
Other debtors	127	377	414
Prepayments and accrued income	263	400	230
Deferred tax asset (see note 18)	251	698	1,050
	<u>79,398</u>	<u>108,480</u>	<u>130,807</u>

### Amounts receivable after more than one year

Hire purchase and finance lease debtors	<u>14,772</u>	<u>18,606</u>	<u>21,961</u>
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Trade debtors comprise amounts advanced to customers under invoice discounting and credit finance arrangements. Amounts included within loans and advances to customers relate to short term asset-backed funding.

	2003 £'000	2004 £'000	2005 £'000
<b>Net investment in finance leases:</b>			
In one year or less	11,055	14,541	17,836
In more than one year, but not more than two years	8,619	9,706	11,735
In more than two years, but not more than five years	6,153	8,900	10,200
In more than five years	–	–	26
	<u>25,827</u>	<u>33,147</u>	<u>39,797</u>

## 15 Creditors: amounts falling due within one year

	2003 £'000	2004 £'000	2005 £'000
Bank loan	73,250	–	–
Less: unamortized loan arrangement fees	(149)	–	–
	<u>73,101</u>	<u>–</u>	<u>–</u>
Block discounting	933	985	–
Trade creditors	1,621	883	1,111
Corporation tax	825	1,122	1,423
Other taxation and social security	191	116	150
Accruals and deferred income	1,394	2,591	4,533
Bank acceptance costs	340	–	–
Dividend payable	–	578	889
	<u>78,745</u>	<u>6,275</u>	<u>8,106</u>

The block discounting creditor is secured on specific hire purchase and finance lease debtors of a subsidiary company. The bank loan is secured by a floating charge over the trading assets of the Group. The facilities secured were due for renewal on 30 September 2006. They bear funding costs at LIBOR plus 1.50 per cent.

These facilities were renegotiated in October 2005 to extend through to 30 September 2007 on terms not materially different to those in place in the period to 30 June 2005.

## 16 Bank loans and other creditors

Amounts falling due after more than one year:

	2003 £'000	2004 £'000	2005 £'000
Bank loan	–	97,590	119,693
Less: unamortised loan arrangement fees	–	(519)	(432)
	–	97,071	119,261
Block discounting	208	8	–
	208	97,079	119,261

The block discounting creditor is secured on specific hire purchase and finance lease debtors of a subsidiary company.

The Group has taken out various interest rate swaps which have the effect of converting £108.556 million (2003: £45.848 million; 2004: £74.740 million) of funding to fixed rate. These are listed below:

### Financial instruments as at 30 June 2005

	Notional principal £'000	Pre- margin rate	Life (remaining years)
<b>Interest rate swaps: current hedge</b>			
The Royal Bank of Scotland plc	20,000	5.090%	1.00
The Royal Bank of Scotland plc	3,556	5.350%	2.00
The Royal Bank of Scotland plc	10,000	5.345%	2.11
The Royal Bank of Scotland plc	20,000	5.355%	2.11
The Royal Bank of Scotland plc	10,000	5.080%	2.51
The Royal Bank of Scotland plc	10,000	5.250%	4.00
Yorkshire Bank	10,000	5.150%	1.17
Lloyds TSB Bank plc	10,000	4.405%	0.47
Lloyds TSB Bank plc	10,000	3.835%	1.97
Lloyds TSB Bank plc	5,000	4.745%	0.45
Total swaps	108,556	4.998%	1.34
<b>Interest rate swaps: forward hedge</b>			
The Royal Bank of Scotland plc	10,000	4.910%	N/a
The Royal Bank of Scotland plc	20,000	4.840%	N/a
The Royal Bank of Scotland plc	20,000	5.050%	N/a
Barclays Bank plc	30,000	5.055%	N/a
Lloyds TSB Bank plc	20,000	4.880%	N/a
<b>Interest rate cap: forward hedge</b>			
Yorkshire Bank	10,000	5.500%	N/a

Current hedges are instruments held to hedge asset positions reflected in the Group balance sheet at 30 June 2005. Forward hedges relate to future projected cashflows of the Group.

## 17 Loan stock liabilities

	<i>2003</i>	<i>2004</i>	<i>2005</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Subordinated debt	7,450	7,450	7,450
Less: unamortised loan arrangement fees	(250)	(204)	(158)
	<u>7,200</u>	<u>7,246</u>	<u>7,292</u>
Mezzanine	7,000	9,000	9,000
Roll up of interest payable on maturity	376	507	642
Less: unamortised loan arrangement fees	(148)	(105)	(63)
	<u>7,228</u>	<u>9,402</u>	<u>9,579</u>
Total	<u>14,428</u>	<u>16,648</u>	<u>16,871</u>

As part of the mezzanine finance agreement, the Company has issued warrants to subscribe for 2,032,610 ordinary shares as described in note 21. Mezzanine stock and subordinated loan stock creditors rank second for payment after the syndicated loan creditor. The subordinated debt bears interest at 5 per cent. and is repayable between 31 December 2007 and 31 December 2009. £5.0 million of the mezzanine stock bears interest at LIBOR plus 3 per cent., the £4.642 million bears interest at LIBOR plus a 3 per cent. roll up. All is repayable on 31 December 2006. As part of the subordinated loan agreement the Company issued warrants to subscribe for 663,377 ordinary shares as described in note 21 and such warrants have since been exercised.

## 18 Maturity profile of loans and other borrowings

	<i>Note</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Analysis of loans and other borrowings:</b>				
Bank acceptance	15	340	–	–
Block discounting	15, 16	1,141	993	–
Bank loan	15, 16	73,101	97,071	119,261
Loan stock liabilities	17	14,428	16,648	16,871
		<u>89,010</u>	<u>114,712</u>	<u>136,132</u>
		<i>2003</i>	<i>2004</i>	<i>2005</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Maturity of debt:</b>				
In one year or less, or on demand		74,523	985	–
In more than one year, but not more than two years		173	8	131,819
In more than two years, but not more than five years		9,894	112,064	4,966
In more than 5 years		4,967	2,483	–
		<u>89,557</u>	<u>115,540</u>	<u>136,785</u>
Unamortised loan arrangement fees		(547)	(828)	(653)
		<u>89,010</u>	<u>114,712</u>	<u>136,132</u>

## 18 Maturity profile of loans and other borrowings (continued)

The analysis of undrawn facilities is as follows:

	2003 £'000	2004 £'000	2005 £'000
Bank loan	45,418	21,936	55,739
Block discounting	1,859	2,007	–
Mezzanine and subordinated debt	2,000	–	–
	<u>49,277</u>	<u>23,943</u>	<u>55,739</u>
Letters of credit	11,047	11,037	4,662
	<u>60,324</u>	<u>34,980</u>	<u>60,401</u>

## 19 Fair value and hedging

Interest rate risk arises due to the fact that a significant proportion of the Group's lending is at a fixed rate, whereas a significant proportion of the Group's funding is at floating rate, causing a mis-match in interest rates. The Group holds a number of non-traded interest rate swap contracts in order to manage this interest rate risk. The swaps enable the Group to hedge against interest rate rises and are used for no other reason.

In addition to the swaps the Group holds one small interest rate fixed cap which has been included within the figures below.

Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest expense over the period of the contracts.

The carrying value of all financial liabilities with the exception of the derivatives shown below is not considered to be materially different from their fair value. In respect of financial assets, fair value exceeds book value by an amount equivalent to the fair value of interest rate instruments. The book value and fair values of the interest rate swap contracts were as follows:-

	2003 £'000	2004 £'000	2005 £'000
Principal amount	51,348	84,740	218,556
Book value	–	–	–
Fair value	<u>(585)</u>	<u>808</u>	<u>(2,351)</u>

The fair values of derivative contracts has been calculated by reference to the sterling yield curve prevailing at each period end. The valuation on a fair value basis has been provided by an independent specialist.

All financial assets and liabilities are in sterling, as a result no currency risk disclosures are necessary.

An analysis of net losses arising in the previous the year but recognised in the succeeding year end is as follows:

	2003 £'000	2004 £'000	2005 £'000
Losses	<u>132</u>	<u>332</u>	<u>94</u>

The net loss expected to arise in the year to 30 June 2006 is £513,000.

## 20 Interest rate sensitivity gap

These tables summarise the repricing profiles of the Group's assets and liabilities:

	<i>Less than 3 months £'000</i>	<i>6 months or less but over 3 months £'000</i>	<i>1 year or less but over 6 months £'000</i>	<i>5 years or less but over 1 year £'000</i>	<i>Over 5 years £'000</i>	<i>Non – interest bearing £'000</i>	<i>Total £'000</i>
<b>30 June 2005</b>							
<b>Assets</b>							
Cash at bank and in hand	3,319	–	–	–	–	–	3,319
Loans and advances to customers	72,674	26,545	29,894	21,961	–	–	151,074
Intangible fixed assets	–	–	–	–	–	(50)	(50)
Tangible fixed assets	–	–	–	–	–	1,026	1,026
Other debtors	–	–	–	–	–	414	414
Prepayments and accrued income	–	–	–	–	–	230	230
Deferred tax assets	–	–	–	–	–	1,050	1,050
<b>Total assets</b>	<b>75,993</b>	<b>26,545</b>	<b>29,894</b>	<b>21,961</b>	<b>–</b>	<b>2,670</b>	<b>157,063</b>
<b>Liabilities</b>							
Bank loans and other creditors	(119,261)	–	–	–	–	–	(119,261)
Loan stock liabilities	–	–	–	(16,871)	–	–	(16,871)
Block discounting	–	–	–	–	–	–	–
Dividend payable	–	–	–	–	–	(889)	(889)
Other liabilities	–	–	–	–	–	(7,217)	(7,217)
Shareholders' funds	–	–	–	–	–	(12,825)	(12,825)
<b>Total liabilities</b>	<b>(119,261)</b>	<b>–</b>	<b>–</b>	<b>(16,871)</b>	<b>–</b>	<b>(20,931)</b>	<b>(157,063)</b>
Off balance sheet items – swaps	108,556	(5,000)	10,000	(113,566)	–	–	–
<b>Interest rate sensitivity gap</b>	<b>65,288</b>	<b>21,545</b>	<b>39,894</b>	<b>(108,476)</b>	<b>–</b>	<b>(18,261)</b>	<b>–</b>
<b>Cumulative gap</b>	<b>65,288</b>	<b>86,833</b>	<b>126,727</b>	<b>18,251</b>	<b>18,251</b>	<b>(10)</b>	<b>–</b>

## 20 Interest rate sensitivity gap (continued)

	<i>Less than 3 months £'000</i>	<i>6 months or less but over 3 months £'000</i>	<i>1 year or less but over 6 months £'000</i>	<i>5 years or less but over 1 year £'000</i>	<i>Over 5 years £'000</i>	<i>Non – interesting bearing £'000</i>	<i>Total £'000</i>
<b>30 June 2004</b>							
<b>Assets</b>							
Cash at bank and in hand	2,380	–	–	–	–	–	2,380
Loans and advances to customers	60,780	21,081	25,144	18,606	–	–	125,611
Intangible fixed assets	–	–	–	–	–	(71)	(71)
Tangible fixed assets	–	–	–	–	–	1,054	1,054
Other debtors	–	–	–	–	–	377	377
Prepayments and accrued income	–	–	–	–	–	400	400
Deferred tax assets	–	–	–	–	–	698	698
<b>Total assets</b>	<b>63,160</b>	<b>21,081</b>	<b>25,144</b>	<b>18,606</b>	<b>–</b>	<b>2,458</b>	<b>130,449</b>
<b>Liabilities</b>							
Bank loans and other creditors	(97,071)	–	–	–	–	–	(97,071)
Loan stock liabilities	–	–	–	(14,165)	(2,483)	–	(16,648)
Block discounting	(509)	(428)	(48)	(8)	–	(993)	–
Dividend payable	–	–	–	–	–	(578)	(578)
Other liabilities	–	–	–	–	–	(4,712)	(4,712)
Shareholders' funds	–	–	–	–	–	(10,447)	(10,447)
<b>Total liabilities</b>	<b>(97,580)</b>	<b>(428)</b>	<b>(48)</b>	<b>(14,173)</b>	<b>(2,483)</b>	<b>(15,737)</b>	<b>(130,449)</b>
Off balance sheet items – swaps	74,118	(9,118)	(55,000)	(10,000)	–	–	–
<b>Interest rate sensitivity gap</b>	<b>39,698</b>	<b>20,653</b>	<b>15,978</b>	<b>(50,567)</b>	<b>(12,483)</b>	<b>(13,279)</b>	<b>–</b>
<b>Cumulative gap</b>	<b>39,698</b>	<b>60,351</b>	<b>76,329</b>	<b>25,762</b>	<b>13,279</b>	<b>–</b>	<b>–</b>

## 20 Interest rate sensitivity gap (continued)

	<i>Less than 3 months £'000</i>	<i>6 months or less but over 3 months £'000</i>	<i>1 year or less but over 6 months £'000</i>	<i>5 years or less but over 1 year £'000</i>	<i>Over 5 years £'000</i>	<i>Non – interesting bearing £'000</i>	<i>Total £'000</i>
<b>30 June 2003</b>							
<b>Assets</b>							
Cash at bank and in hand	5,491	–	–	–	–	–	5,491
Loans and advances to customers	44,124	15,728	18,905	14,772	–	–	93,529
Intangible fixed assets	–	–	–	–	–	(92)	(92)
Tangible fixed assets	–	–	–	–	–	1,110	1,110
Other debtors	–	–	–	–	–	127	127
Prepayments and accrued income	–	–	–	–	–	263	263
Deferred tax assets	–	–	–	–	–	251	251
<b>Total assets</b>	<b>49,615</b>	<b>15,728</b>	<b>18,905</b>	<b>14,772</b>	<b>–</b>	<b>1,659</b>	<b>100,679</b>
<b>Liabilities</b>							
Bank loans and other creditors	(73,441)	–	–	–	–	–	(73,441)
Loan stock liabilities	–	–	–	(9,461)	(4,967)	–	(14,428)
Block discounting	(572)	(120)	(241)	(208)	–	–	(1,141)
Dividend payable	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	(4,371)	(4,371)
Shareholders' funds	–	–	–	–	–	(7,298)	(7,298)
<b>Total liabilities</b>	<b>(74,013)</b>	<b>(120)</b>	<b>(241)</b>	<b>(9,669)</b>	<b>(4,967)</b>	<b>(11,669)</b>	<b>(100,679)</b>
Off balance sheet items – swaps	51,348	(2,247)	(10,000)	(39,101)	–	–	–
Interest rate sensitivity gap	26,950	13,361	8,664	(33,998)	(4,967)	(10,010)	–
Cumulative gap	26,950	40,311	48,975	14,977	10,010	–	–

## 21 Share capital

	2003		2004		2005	
	<i>Number</i>	<i>£'000</i>	<i>Number</i>	<i>£'000</i>	<i>Number</i>	<i>£'000</i>
<b>Authorised</b>						
Ordinary shares of 1p each	6,677,605	–	6,677,605	67	6,677,605	67
“A” ordinary shares of 1p each	7,163,372	72	7,163,372	72	7,163,372	72
“B” ordinary shares of 1p each	1,615,995	16	1,615,995	16	1,615,995	16
	<u>15,456,972</u>	<u>155</u>	<u>15,456,972</u>	<u>155</u>	<u>15,456,972</u>	<u>155</u>
<b>Allotted, called up and fully paid shares</b>						
Ordinary shares of 1p each	4,644,995	47	4,644,995	47	4,644,995	47
“A” ordinary shares of 1p each	6,499,995	65	6,499,995	65	7,163,372	71
“B” ordinary shares of 1p each	710,900	7	710,900	7	710,900	7
	<u>11,855,890</u>	<u>119</u>	<u>11,855,890</u>	<u>119</u>	<u>12,519,267</u>	<u>125</u>

The A ordinary shares have a right to a cumulative preferential net cash dividend of a sum equal to 10 per cent. of net profit of the Group. No dividend will accrue and be payable on ordinary shares, A ordinary shares and B ordinary shares until after 30 June 2003.

In the case of winding up the Company, the remaining assets should be distributed as follows: £1.24 to be paid for each A ordinary share, £1 for each ordinary share and B ordinary share and the balance distributed on an equal basis.

The ordinary, A ordinary shares and B ordinary shares carry one vote each. In the case of dividends on the A ordinary shares and/or monies on the loan stock liabilities not being repaid within 6 months of the due date, each A ordinary share will have twenty five votes.

Under the Companies Act 1985, the ordinary, ‘A’ ordinary and ‘B’ ordinary shares are classified as equity share capital, because they have a right to participate beyond a specified amount on liquidation. However, within the financial statements up to and including the periods ended 30 June 2003, these shares were classified as non-equity in accordance with FRS4 “Capital Instruments”, because of restricted dividend payments such that no dividends could accrue or be declared until periods ending after 30 June 2003. Subsequent to that date, all shares are classified as equity in accordance with FRS4.

As part of a mezzanine finance agreement the Company has issued warrants to subscribe for ordinary shares at a price of 1p per share. The warrants may be exercised on the date of listing of the Company’s shares on the London Stock Exchange, its Alternative Investment Market or any other recognised investment exchange.

### *Number of outstanding warrants*

	<i>Ordinary shares</i>	<i>‘A’ ordinary shares</i>	<i>‘B’ ordinary shares</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
As at 1 July 2003	2,032,610	663,377	168,500
As at 1 July 2004	2,032,610	663,377	168,500
As at 30 June 2005	<u>2,032,610</u>	<u>–</u>	<u>168,500</u>

## 22 Reconciliation of movements in shareholders' funds

	2003 £'000	2004 £'000	2005 £'000
At beginning of year	3,935	7,298	10,447
New shares issued	24	–	6
Increase in own shares held	(7)	(4)	(2,351)
Profit for the year	3,346	3,731	5,612
Dividends	–	(578)	(889)
Closing shareholders' funds	<u>7,298</u>	<u>10,447</u>	<u>12,825</u>

## 23 Deferred tax

Deferred taxation recognised in the financial statements is as follows:

	2003 £'000	2004 £'000	2005 £'000
At the beginning of year	104	251	698
Movement for the year (note 6a)	147	447	352
At the end of year	<u>251</u>	<u>698</u>	<u>1,050</u>

Deferred tax provided in the financial statements is as follows:

	£'000	£'000	£'000
Tax effect of timing differences:			
Excess of tax allowances over depreciation	11	413	434
Doubtful debtors general provision	240	285	483
Other timing differences	–	–	133
Total deferred tax assets	<u>251</u>	<u>698</u>	<u>1,050</u>

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

## 24 Investments in group undertakings

	<i>Shares in group undertakings</i> £'000	<i>Loans</i> £'000	<i>Total</i> £'000
<b>At 1 July 2003, 1 July 2004 and 30 June 2005</b>			
At beginning and end of year	<u>5,863</u>	<u>1,217</u>	<u>7,080</u>

The subsidiaries of the Company at 30 June 2005, all of which are 100 per cent. owned and included in consolidation, are:

<b>Subsidiary undertaking</b>	<b>Country of registration</b>	<b>Principal business activity</b>
St Johns Street Holdings Limited	Cayman Islands	Holding company
Davenham Group Holdings plc (which changed its name from Davenham Group plc on 26 October 2005)	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 (which changed its name from Davenham European Trade Services Limited on 15 July 2003)	England and Wales	Provision of sales, import and stock finance
* St John Street Properties Limited	England and Wales	Property investment company

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

## 25 Contingent liabilities

	2003 £'000	2004 £'000	2005 £'000
Letters of credit	2,453	2,463	3,638

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. Where these letters of credit are in foreign currencies, forward exchange contracts are entered into to hedge the exposure.

## 26 Financial commitments

The Group had annual commitments under operating leases as follows:

	<i>Land and buildings</i>			<i>Plant and machinery</i>		
	2003 £'000	2004 £'000	2005 £'000	2003 £'000	2004 £'000	2005 £'000
Expiring within one year	60	13	41	4	3	–
Expiring within two and five years inclusive	94	189	176	5	–	–
	<u>154</u>	<u>202</u>	<u>217</u>	<u>9</u>	<u>3</u>	<u>–</u>

## 27 Related party transactions

The Company has taken advantage of the exemption under FRS 8 not to disclose intra group transactions. There are no other related party transactions.

## 28 Reconciliation of profit before taxation to operating cash flows

	2003 £'000	2004 £'000	2005 £'000
Profit on ordinary activities before taxation	4,824	5,404	8,131
Add back: interest payable on loan stock	1,064	1,025	1,210
<b>Operating profit before interest payable on loan stock</b>	5,888	6,429	9,341
Depreciation charges	174	212	208
Amortisation of goodwill – positive	6	6	6
Amortisation of goodwill – negative	(2)	(27)	(27)
Amortisation of loan arrangement fees	298	322	259
(Increase) in other debtors	(107)	(387)	133
Increase in other creditors	1,820	140	2,203
(Profit) on disposal of fixed assets	(1)	(2)	(3)
<b>Net cash inflow from trading activities</b>	8,076	6,693	12,120
(Increase) in trade debtors, loans and advances to customers	(24,222)	(32,082)	(25,463)
Increase in amounts owed to credit institutions	29,834	23,160	20,938
<b>Net cash inflow/(outflow) from operating activities</b>	<u>13,688</u>	<u>(2,229)</u>	<u>7,595</u>

## 29 Analysis of net debt

	<i>At 1 July</i>	<i>Other non-</i>	<i>Cash flow</i>	<i>At 1 July</i>	<i>Other non-</i>	<i>Cash flow</i>	<i>At 30 June</i>
	<i>2003</i>	<i>cash</i>		<i>2004</i>	<i>cash</i>		<i>2005</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at bank and in hand	5,491	–	(3,111)	2,380	939	3,319	
Debt due within one year	–	–	–	–	–	–	
Debt due after one year	(14,428)	(220)	(2,000)	(16,648)	(223)	–	(16,871)
<b>Total</b>	<b>(8,937)</b>	<b>(220)</b>	<b>(5,111)</b>	<b>(14,268)</b>	<b>(223)</b>	<b>939</b>	<b>(13,552)</b>

Operating borrowings from credit institutions in the ordinary course of business to fund loans and advances to customers have been excluded from the above analysis. These amounts totalled £119,261,286. Amounts owed for subordinated debt and loan stock, totalling £16,871,394 have been included in the analysis as they are considered long term funding for the Group.

## 30 Post balance sheet events

- (a) By special resolutions passed at a general meeting of the Company on 30 October 2005 and subject to and with effect from the date of admission to the Alternative Investment Market of the London Stock Exchange, it was resolved that:
- (i) the existing A Ordinary and B Ordinary Shares be reclassified as Ordinary Shares;
  - (ii) the authorised share capital of the Company be increased to £400,000 divided into 40,000,000 Ordinary Shares.
- (b) On 26 October 2005, being the date on which the certificate of incorporation on change of name was issued by the Registrar of Companies, the Company changed its name from Davenham Group Holdings Limited to Davenham Group plc.

## PART V

### PRO FORMA STATEMENT OF NET ASSETS

The unaudited pro forma statement of consolidated net assets of the Company, together with its subsidiary undertakings, set out below, has been prepared to illustrate the effect on the consolidated net assets of the Company had the Placing and Admission taken place on 30 June 2005. The unaudited pro forma statement of consolidated net assets has been prepared for illustrative purposes only and, because of its nature, it addresses a hypothetical situation and therefore, may not give a true picture of the actual financial position or results of the Company following the Placing and Admission.

The pro forma statement of net assets is based on the audited consolidated financial statements of the Company for the period ended 30 June 2005 and adjusted for items disclosed in note 2 below:

	<i>Unadjusted consolidated net assets at 30 June 2005</i>	<i>Adjustments</i>	<i>Pro forma</i>
	<i>Note 1</i>	<i>Note 2</i>	
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Fixed assets</b>			
Tangible assets	1,026	–	1,026
Intangible assets	(50)	–	(50)
	976	–	976
<b>Current assets</b>			
Debtors	152,768	–	152,768
Cash at bank and in hand	3,319	11,500	14,819
	156,087	11,500	167,587
<b>Creditors</b>			
Amounts falling due within one year	(8,106)	(4,200)	(12,306)
Net current assets	147,981	7,300	155,281
Total assets less current liabilities	148,957	7,300	156,257
<b>Creditors</b>			
Amounts falling due after more than one year	(136,132)	17,244	(118,888)
<b>Net assets</b>	12,825	24,544	37,369

Notes:

1. The consolidated net assets information has been extracted without material adjustment from the audited financial statements of the Company for the year ended 30 June 2005, as set out in Part IV of this document.
2. The adjustments made in the pro forma net assets statement reflect the following items:
  - (a) an increase in cash of £11.5 million reflecting:
    - (i) the expected gross proceeds from the Placing of £27.7 million;
    - (ii) the redemption of the Loan Notes and Mezzanine Debt (a total of £17.2 million);
    - (iii) a repayment of £1.0 million to the Company from the EBT;
  - (b) an increase in creditors of £4.2 million reflecting the estimated expenses of £4.2 million payable by the Company (excluding VAT).
3. No account has been taken of trading results since 30 June 2005.

## PART VI

### ADDITIONAL INFORMATION

#### 1 Incorporation and general

- (a) The Company was incorporated in England on 18 April 2000 under the name of Pinco 1408 Limited with registered number 3976032 as a private company with limited liability under the Companies Act. Its name was changed to Davenham Group Holdings Limited on 17 July 2000. The Company was re-registered as a public company on 14 September 2001 and changed its name to Davenham Group Holdings plc. The Company was re-registered as a private company on 25 April 2002 and changed its name back to Davenham Group Holdings Limited. On 26 October 2005 the Company was re-registered as a public company and changed its name to Davenham Group plc. The registered office and head office of the Company is at 8 St John Street, Manchester M3 4DU. It is domiciled in England. The telephone number for the registered office is 0161 832 8484.
- (b) The Company is the ultimate holding company of the Group, and has the following significant subsidiary undertakings, being those considered by the Company to be likely to have a significant effect on the assessment of the assets and liabilities, financial position and/or profits and losses of the Group:

<i>Name</i>	<i>Principal Activity</i>	<i>Issued share capital (fully paid)</i>
Davenham Group Holdings plc	Provision of financial services	£3,300,000 divided into 3,300,000 ordinary shares of £1
St John Street Properties Limited	Property Management	£2 divided into two ordinary shares of £1
St John's Street Holdings Limited	Investment Company	£100,000 divided into 100,000 ordinary shares of £1
Davenham Trust plc	Provision of property finance	£3,000,000 divided into 3,000,000 ordinary shares of £1 each
Davenham Trade Finance Limited	Provision of purchase finance and invoice finance	£50,000 divided into 50,000 ordinary shares of £1
Davenham Group Trustees Limited	Trustee of employee benefit trust	£1 divided into one ordinary share of £1
Booker Montague Leasing Limited	Provision of loans and finance	£2 divided into 2 ordinary shares of £1

- (c) The registered office of each of the above companies is at 8 St John Street, Manchester, M3 4DU save that the registered office of St John's Street Holdings Limited is Butterfield House, PO Box 705, Grand Cayman, Cayman Islands, British West Indies.
- (d) The country of incorporation of each of the above companies is England save for St John's Street Holdings Limited which is incorporated in the Cayman Islands.

#### 2 Share capital

- (a) *Authorised share capital of the Company*

The authorised share capital of the Company on incorporation was £1,000 divided into 1,000 ordinary shares of £1 each. Since that date, the authorised share capital of the Company has been changed as follows:

- (i) on 13 June 2000 the authorised share capital was sub-divided from 1,000 ordinary shares of £1 each into 100,000 Ordinary Shares;
- (ii) on 13 June 2000 the authorised share capital was increased to £4,000 by the creation of 300,000 Ordinary Shares;
- (iii) on 16 June 2000 the authorised share capital of the Company was increased to £8,333.33 by the creation of 433,333 A Ordinary Shares;
- (iv) on 12 September 2001 the authorised share capital of the Company was increased to £124,999.95 by the creation of 5,600,000 Ordinary Shares and 6,066,662 A Ordinary Shares;
- (v) on 29 April 2002 the authorised share capital was increased to £145,477.37 by the creation of 33,125 A Ordinary Shares and 1,384,365 Ordinary Shares;
- (vi) on 10 December 2002 the authorised share capital was increased to £154,569.72 by the creation of 909,235 B Ordinary Shares.

Accordingly, as at the date of this document the authorised share capital of the Company is £154,569.72 divided into 6,677,605 Ordinary Shares, 7,163,372 A Ordinary Shares and 1,615,995 B Ordinary Shares.

(b) *Issued share capital of the Company*

The issued share capital of the Company on incorporation was one ordinary share of £1 in issue nil paid which was registered in the name of Pinco 1408 Limited. Since incorporation the issued share capital of the Company has been changed as follows:

- (i) on 13 June 2000 the one issued ordinary share of £1 in the share capital of the Company was subdivided into 100 Ordinary Shares;
- (ii) on 13 June 2000 the issued share capital of the Company was increased from £1 to £2,454.17 by the issue of 245,317 Ordinary Shares;
- (iii) on 16 June 2000 the issued share capital of the Company was increased by £6,870.83 by the issue of 433,333 A Ordinary Shares and the issue of 8,333 Ordinary Shares;
- (iv) on 17 November 2000 the issued share capital of the Company was increased to £7,245.08 by the issue of 37,425 Ordinary Shares;
- (v) on 12 September 2001 the issued share capital of the Company was increased to £7,416.66 by the issue of 17,158 Ordinary Shares;
- (vi) on 12 September 2001, the issued share capital of the Company was increased to £111,249.90 by the issue of 4,316,662 Ordinary Shares and 6,066,662 A Ordinary Shares at par by way of a bonus issue capitalised from the share premium account;
- (vii) on 26 November 2002 the issued share capital of the Company was increased to £118,203.02 by the issue of 695,312 B Ordinary Shares pursuant to a bonus issue;
- (viii) on 11 December 2002 the issued share capital of the Company was increased to £118,415.52 by the issue of 20,000 Ordinary Shares and 1,250 B Ordinary Shares;
- (ix) on 11 December 2002 the issued share capital of the Company was further increased to £118,558.90 by the issue of 14,338 B Ordinary Shares;
- (x) on 24 December 2004 the issued share capital of the Company was increased to £125,192.67 by the issue of 663,377 A Ordinary Shares; and

Accordingly, as at the date of this document, the issued share capital of the Company is £125,192.67 divided into 4,644,995 Ordinary Shares, 7,163,372 A Ordinary Shares and 710,900 B Ordinary Shares.

- (c) By a warrant instrument dated 16 June 2000 (as amended by deed poll on 29 April 2002) (“the Indigo Warrant Instrument”) the Company issued to European Mezzanine Fund warrants to subscribe at par for 1,523,439 Ordinary Shares and 95,215 B Ordinary Shares. European Mezzanine Fund is entitled to exercise a right to cancel its warrants in respect of 1,283,338 Ordinary Shares upon which event 1,283,338 Ordinary Shares are to be issued to European Mezzanine Fund by way of a bonus issue. A similar right of cancellation and entitlement to a bonus issue exists in respect of the 95,215 B Ordinary Shares. By a notice dated 26 October 2005 and conditional upon Admission, European Mezzanine Fund exercised its warrants in respect of 240,101 Ordinary Shares and its right to cancel warrants in respect of 1,283,338 Ordinary Shares and 95,215 B Ordinary Shares. Accordingly, upon Admission there will be issued to European Mezzanine Fund 1,618,654 Ordinary Shares (1,378,553 of which Ordinary Shares will be issued by way of a bonus issue).
- (d) By a warrant instrument dated 29 April 2002 (as amended by deed poll on 29 November 2002) (“Uberior Warrant Instrument”) the Company has issued to Uberior warrants to subscribe for up to 509,171 Ordinary Shares and 31,823 B Ordinary Shares at par. Uberior is entitled (provided it is a shareholder of the Company at the time) to cancel its subscription rights in respect of the 31,823 B Ordinary Shares upon which event a bonus issue of the same number and class of shares is to be made to Uberior. By a notice dated 26 October 2005 and conditional upon Admission, Uberior exercised its warrants in respect of 509,171 Ordinary Shares and its right to cancel warrants in respect of 31,823 B Ordinary Shares. Accordingly, upon Admission there will be issued to Uberior 540,994 Ordinary Shares (31,823 of which Ordinary Shares will be issued by way of a bonus issue).
- (e) By a further warrant instrument dated 29 April 2002 (as amended by deed poll on 29 November 2002) the Company issued to European Mezzanine Fund and Dunedin Buyout Fund LP warrants to subscribe at par for in aggregate for up to 663,377 A Ordinary Shares and 41,462 B Ordinary Shares. The warrants in respect of the 663,377 A Ordinary Shares have been exercised. European Mezzanine Fund and Dunedin Buyout Fund LP have the right to cancel their subscription rights in respect of the 41,462 B Ordinary Shares whereupon the Company is required to issue an equivalent number and class of shares by way of bonus issue. By notices dated 26 October 2005 and conditional upon Admission, each of European Mezzanine Fund and Dunedin Buyout Fund LP exercised their rights to cancel warrants in respect of 20,731 B Ordinary Shares and accordingly upon Admission there will be issued to each of European Mezzanine Fund and Dunedin Buyout Fund LP 20,731 Ordinary Shares by way of a bonus issue.
- (f) By resolution passed at an extraordinary general meeting of the Company held on 30 October 2005, *inter alia*, and conditional upon Admission it was resolved that:
- (i) all of the existing authorised issued and unissued A Ordinary Shares and B Ordinary Shares be redesignated as Ordinary Shares on a one for one basis (but without prejudice to the entitlement of the existing holders of A Ordinary Shares to receive a participating dividend in respect of the period from 1 July 2005 to the date of Admission);
  - (ii) the authorised share capital of the Company be increased from £154,569.72 to £400,000 by the creation of 24,543,028 new Ordinary Shares;
  - (iii) conditional upon the passing of the resolutions set out in paragraphs (i) and (ii) above, the Directors be authorised, pursuant to section 80 of the Act, to allot relevant securities (as defined by section 80(2) of the Act) to a maximum aggregate nominal value of £190,000 (such authority to expire on the date of the next Annual General Meeting of the Company or the date falling 15 months after the date on which the resolution was passed whichever is the earlier) and that the Directors be empowered pursuant to section 94 of the Act to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the general authority set out above as if section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to:
    - (aa) the allotment of equity securities in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer to the holders of shares in the Company in proportion to their holdings;

- (bb) the allotment of Ordinary Shares pursuant to the Placing;
- (cc) the allotment of equity securities to satisfy the exercise of warrants and options in existence at the date of the resolution;
- (dd) the allotment of equity securities (otherwise than pursuant to paragraphs (aa), (bb) and (cc) above) up to a maximum aggregate value of £7,728 being equal to five per cent. of the aggregate nominal value of the issued share capital of the Company upon the date of the resolution.

Accordingly, following the Placing and Admission, the authorised share capital of the Company will be £400,000 divided into 40,000,000 Ordinary Shares.

In the period prior to the expiry of the authority set out above, the Directors do not intend to allot equity securities, the nominal value of which is more than one third of the aggregate nominal value of the issued share capital of the Company immediately after Admission.

- (g) By a trust deed dated 25 September 2000, the Company established the EBT. Davenham Group Trustees Limited (“the Trustee”), as trustee of the EBT, holds the trust fund (and the income therefrom) upon trust for the benefit of all, or any one or more exclusively, of the employees (including executive directors) of the Group, the former employees (including former executive directors) of the Group and the spouses, widows and children and step-children under the age of 18 of such employees and former employees.

The Trustee currently holds 2,317,179 Ordinary Shares and 144,824 B Ordinary Shares in the capital of the Company. Prior to Admission the Trustee proposes to transfer certain of these Ordinary Shares and B Ordinary Shares to employees of the Company.

Of the shares held by the Trustee 456,152 Ordinary Shares and 28,511 B Ordinary Shares are held pursuant to the Share Plan, the beneficial interest in such shares being vested in the participants under the Share Plan.

The Trustee has granted the following outstanding options under the Non-Approved Scheme:

- (i) options granted on 30 April 2003 with an exercise price of £0.50 per share over a total of 96,940 Ordinary Shares;
- (ii) options granted on 30 April 2003 with an exercise price of £0.50 per share over a total of 6,742 B Ordinary Shares;
- (iii) options granted on 23 May 2005 with an exercise price of £1.47 per share over a total of 1,272,928 Ordinary Shares; and
- (iv) options granted on 23 May 2005 with an exercise price of £1.47 per share over a total of 79,557 B Ordinary Shares.

Details of the Non-Approved Scheme are set out in paragraph 4(c) below. As noted in paragraph 4(c) below, all of these options will become exercisable at any time on or after Admission.

- (h) Save as set out in paragraph 2(g) above neither the Company nor any of its subsidiaries holds shares in the Company.

- (i) As at the date of this document, the following options to subscribe for Ordinary Shares have been granted by the Company to employees and Directors under the Approved Scheme and the Non-Approved Scheme which remain outstanding:

<i>Scheme</i>	<i>Number of B Ordinary Shares under option</i>	<i>Date of grant</i>	<i>Exercisable from</i>	<i>Exercisable until</i>	<i>Exercise price (£)</i>
Approved	403,731	2 December 2002	22 November 2005	1 June 2008	0.50
Non-Approved	22,480	30 April 2003	22 November 2005	31 October 2008	0.50

- (j) Save as disclosed in paragraphs 2(c) to 2(e), 2(g) and 2(i) above, no share or loan capital of the Company or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.
- (k) The authorised but unissued share capital of the Company following the Placing will be £143,518.06, representing approximately 35.9 per cent. of the Company's authorised share capital, which the Directors will be authorised to allot pursuant to the authorities referred to in paragraph 2(f) above.
- (l) Save for the allotments referred to in paragraph 2(b) above, since incorporation no capital of the Company has been allotted for cash or for a consideration other than cash.
- (m) Save as disclosed in paragraph 2(j) above and save for the issue of the Placing Shares, no capital of the Company is proposed to be issued or is under option or is agreed conditionally or unconditionally to be put under option.
- (n) The Ordinary Shares will, on Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company save that following Admission, a final cumulative preferential net cash dividend will be payable to those shareholders which, at the date of this document, hold A Ordinary Shares, such dividend to be a sum equal to ten per cent. of the net profit of the Group for the period from 30 June 2005 to the date of Admission.
- (o) The Ordinary Shares are in registered form and capable of being held in uncertificated form. None of the Ordinary Shares are being marketed or made available in whole or in part to the public in conjunction with the applications for Admission other than pursuant to the Placing. The Ordinary Shares to be issued pursuant to the Placing are being issued at a price of 254p per share, representing a premium of 253p over the nominal value of 1p each. The expected issue date is 22 November 2005.

### **3 Memorandum and Articles of Association**

The principal objects of the Company as set out in its Memorandum of Association are to carry on the business of a holding company.

The Articles of Association of the Company contain, *inter alia*, provisions to the following effect:

(a) *Voting rights*

Subject to paragraph (f) below, and to any special terms as to voting upon which any shares may for the time being be held, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by its duly appointed representative shall have one vote and on a poll every member present in person or by representative or proxy shall have one vote for every ordinary share in the capital of the Company held by him. A proxy need not be a member of the Company.

(b) *Variation of rights*

If at any time the capital of the Company is divided into different classes of shares all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or

with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy one-third in nominal value of the issued shares of that class.

(c) *Alteration of capital*

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal value, sub-divide all or any of its shares into shares of a smaller nominal value and cancel any shares not taken, or agreed to be taken, by any person.

The Company may, subject to the Companies Act, by special resolution reduce or cancel its share capital or any capital redemption reserve or share premium account.

Subject to and in accordance with the provisions of the Companies Act, the Company may purchase its own shares (including any redeemable shares), provided that the Company shall not purchase any of its shares unless such purchase has been sanctioned by an extraordinary resolution passed at a separate meeting of the holders of any class of shares convertible into equity share capital of the Company. Any exercise by the Company of the power to purchase its own shares is subject to the following provisions contained in the Company's Articles of Association:

- (i) purchases shall be made either through the market or by tender or partial offer, except that purchases of 15 per cent. or more of the shares of any class of the Company's share capital for the time being shall be made only by way of tender or partial offer. All tenders or partial offers shall be available to all members holding shares of the class concerned on the same terms; and
- (ii) in the case of purchases through the market, they may be made at any price per share up to the market price of the shares at the time the purchase is made, provided that such price is not more than 5 per cent. above the average market price for the 5 business days before the purchase is made.

(d) *Transfer of shares*

A member may transfer all or any of his shares (1) in the case of certificated shares by instrument in writing in any usual or common form or in such other form as may be approved by the Directors and (2) in the case of uncertificated shares, through CREST in accordance with and subject to the CREST Regulations and the facilities and requirements of the relevant system concerned. The instrument of transfer of a certificated share shall be executed by or on behalf of the transferor and, if the share is not fully paid, by or behalf of the transferee. The Directors may in their absolute discretion refuse to register a transfer of any share which is not fully paid, provided that dealings in the shares are not prevented from taking place on an open and proper basis. Subject to paragraph (f) below, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

(e) *Dividends*

- (i) The Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time pay such interim dividends as appear to the Directors to be justified.
- (ii) Subject to the rights of persons, if any, holding shares with special dividend rights, and subject to paragraph (f) below, all dividends shall be apportioned and paid *pro rata* according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.

(iii) All dividends unclaimed for a period of 12 years after the payment date for such dividend shall if the Directors so resolve be forfeited and shall revert to the Company.

(f) *Suspension of rights*

If a member or any other person appearing to be interested in shares held by such shareholder has been duly served with notice under section 212 of the Companies Act and is in default in supplying to the Company within 14 days (or such longer period as may be specified in such notice) the information thereby required, then (if the Directors so resolve) such member shall not be entitled to vote or to exercise any right conferred by membership in relation to meetings of the Company in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25 per cent. of the issued shares of that class, the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arm's length sale.

(g) *Return of capital*

Subject to any preferred, deferred or other special rights, or subject to such conditions or restrictions to which any shares in the capital of the Company may be issued, on a winding-up or other return of capital, the holders of ordinary shares are entitled to share in any surplus assets *pro rata* to the amount paid up on their Ordinary Shares. A liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Companies Act, divide amongst the members *in specie* or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. A liquidator may also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members.

(h) *Pre-emption rights*

There are no rights of pre-emption under the articles of association of the Company in respect of transfers of issued Ordinary Shares.

In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the Companies Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment by existing shareholders on a *pro rata* basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

Sections 428 to 430F of the Act contain provisions regarding the purchase of the shares of minority shareholders by the offeror where the offeror has acquired 90 per cent. or more of the shares to which the offer relates (and all other conditions of that offer have been satisfied or waived). These provisions entitle the offeror to acquire, and for the minority shareholders to be required to sell, the shares held by the minority shareholders on the same terms as the takeover offer. The provisions also entitle minority shareholders to require that the offeror purchases their shares on the same terms as the takeover offer.

(i) *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future (including uncalled capital) and, subject to section 80 of the Companies Act, to issue debenture stock or any other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate amount at any one time owing by the Company and all its subsidiaries in respect of monies borrowed by them or any of them (exclusive of monies borrowed by the Company or any of its subsidiaries from such companies) shall not at any time without the previous sanction of the shareholders in general meeting exceed a sum equivalent to seven times the aggregate of the nominal capital of the Company for the time being issued and paid up and the amounts standing to the credit of the share premium account, capital redemption reserve and profit and loss account of the Company and each of its subsidiary companies.

(j) *Annual General Meeting*

An annual general meeting is to be held once every year at such time and place as may be determined by the Directors. Annual general meetings should be held within a period of not more than 15 months after the holding of the last preceding annual general meeting. Annual general meetings are called on 21 days' notice in writing, exclusive of the day of which it is served or deemed to be served and of the day on which the meeting is to be held, and is to be given to all members on the register at the close of business on a day determined by the Company, such day being not more than 21 days before the day that the notice of meeting is sent. The annual general meeting may be called on shorter notice providing all members entitled to attend and vote thereat agree. The Company may specify in the notice of meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered into the register in order to have the right to attend or vote at the meeting.

(k) *Extraordinary General Meetings*

Extraordinary general meetings may be called whenever the directors think fit or when one has been requisitioned in accordance with the Companies Act. An extraordinary general meeting at which it is proposed to pass a special resolution or a resolution of which special notice has been given to the Company shall be called on 21 days' notice in writing. Any other extraordinary general meeting is to be called on 14 days' notice in writing exclusive of the day on which it is served or deemed to be served and the day on which it is to be held. An extraordinary general meeting can be called on shorter notice if a majority in number of the members having a right to attend and vote at the extraordinary general meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, consent. Two members present in person or by proxy and entitled to vote shall be a quorum for all purposes.

(l) *Directors*

Save as provided in the Articles, a director shall not vote as a director in respect of any contract, transaction or arrangement or proposed contract, transaction or arrangement or any other proposal whatsoever in which he has any interest which (together with any interest of any person connected with him) is to his knowledge a material interest (otherwise than by virtue of an interest in shares or debentures or other securities of or otherwise in or through the Company), and if he shall do so his vote shall not be counted, nor in relation thereto shall he be counted in the quorum present at the meeting.

A director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution relating to any of the following matters namely:

- (a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings or its parent company (if any) or any other subsidiary undertaking of any such parent company; or
- (b) the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security; or
- (c) an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings or its parent company (if any) or any other subsidiary undertaking of any such parent company for subscription or purchase in which offer he is or is to be or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate; or
- (d) any other company in which he or any person connected with him is interested, directly or indirectly, and whether as an officer or shareholder or otherwise howsoever, provided that he and any persons connected with him are not to his knowledge the holder (otherwise than as a nominee for the Company or any of its subsidiary undertakings or its parent company (if any) or any other subsidiary undertaking of any such parent company) of or beneficially interested in one per cent.

or more of any class of the equity share capital of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances); or

- (e) an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (f) the purchase and/or maintenance of any insurance policy for the benefit of directors or for the benefit of persons including directors.

Fees may be paid out of the funds of the Company to directors who are not managing or executive directors at such rates as the Directors may from time to time determine provided that such fees do not in the aggregate exceed the sum of £200,000 per annum (exclusive of value added tax if applicable) or such other figure as the Company may by ordinary resolution from time to time determine.

Any director who devotes special attention to the business of the Company, or otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a director, may be paid such additional remuneration as the Directors or any committee authorised by the Directors may determine.

The Directors (including alternate Directors) shall be entitled to be paid out of the funds of the Company all their travelling, hotel and other expenses properly incurred by them in connection with the business of the Company, including their expenses of travelling to and from meetings of the Directors, committee meetings or general meetings.

A director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine, and no director or intending director shall be disqualified by his office from entering into any contract, arrangement, transaction or proposal with the Company either with regard to his tenure of any other such office or place of profit or as vendor, purchaser or otherwise, nor shall any such contract, arrangement, transaction or proposal or any contract, arrangement, transaction or proposal entered into by or on behalf of the Company in which any director or any person connected with him is in any way interested (whether directly or indirectly) be liable to be avoided, nor shall any director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the Company for any profit realised from any such contract, arrangement, transaction or proposal by reason of such director holding that office or of the fiduciary relationship thereby established, but his interest shall be disclosed by him in accordance with the Act.

The remuneration and other terms and conditions of appointment of a director appointed as managing director or to any other executive office or employment under the Company shall from time to time (without prejudice to the provisions of any agreement between him and the Company) be fixed by the Directors, and may (without limitation) be by way of fixed salary, lump sum, commission on the dividends or profits of the Company (or of any other company in which the Company is interested) or other participation in any such profits or otherwise or by any or all or partly by one and partly by another or others of those modes and may be either in addition to or in lieu of his remuneration as a Director.

Any statutory provision which, subject to the provisions of the Articles, would have the effect of rendering any person ineligible for appointment as a director or liable to vacate office as a director on account of his having reached any specified age or of requiring special notice or any other special formality in connection with the appointment of any director over a specified age shall not apply to the Company.

#### 4 Share option schemes and share plans

The Company has adopted a Share Plan and three share option schemes and is proposing to adopt a further share option scheme, the principal provisions of which are summarised below.

##### (a) *The Davenham Group Employee Share Plan (“the Share Plan”)*

###### (i) *Summary of the Share Plan*

On 25 September 2000, the Company established the Share Plan. The principal terms of the Share Plan are as follows:

- **Nature of Awards**

The Directors can select employees of the Group (including executive directors who work at least 25 hours a week) to participate in the Share Plan. A participant will be given the opportunity to acquire such number of shares in the capital of the Company, at such a price per share and on such terms as determined by the Directors in their absolute discretion. The acquisition of shares under the Share Plan will be funded, as determined by the Directors in their absolute discretion, either out of the participant’s own funds or out of an agreed proportion of the annual bonus paid to the participant by a member of the Group. Upon receipt of the monies from the participant, the Company will allot the shares to the Trustee of the EBT and the Trustee will hold the shares as bare trustee for the benefit of the participant.

- **Investment Period**

A participant’s shares must remain within the EBT for the investment period. This investment period will last for a period to be determined by the Directors, but will end earlier if one of the following events occurs:

the participant ceases to be an employee of the Group;

flotation of the Company’s share capital on the London Stock Exchange or AIM;

a change in control of the Company; or

a voluntary winding-up of the Company.

During the investment period, the participant will be entitled to be paid any dividends received in respect of the shares held by the Trustee on his behalf. The participant will not be entitled to exercise any voting rights in relation to the shares or attend any shareholder meetings. The Trustee, however, may (in its absolute discretion) seek directions from the participant as to how they would wish to vote. Otherwise, the Trustee would generally abstain from voting.

- **The end of the Investment Period**

At the end of the investment period, the shares will be transferred by the Trustee to the participant, who will then become the registered owner of the shares.

###### (ii) *Outstanding Awards*

456,152 Ordinary Shares and 28,511 B Ordinary Shares are held by the Trustee pursuant to the Share Plan.

###### (iii) *Effect of Admission*

Given that Admission ends the investment period under the Share Plan, all of the participants will become absolutely entitled to the shares held within the EBT as at the date of Admission.

(iv) *Implications of Operating the Share Plan after Admission*

The Company does not propose to operate the Share Plan after Admission.

(b) ***The Davenham Group Holdings Limited Inland Revenue Approved Discretionary Share Option Scheme (“the Approved Scheme”)***

(i) *Summary of the Scheme*

On 23 October 2002, the Company established the Approved Scheme. The Approved Scheme was approved (pursuant to Schedule 9 of the Income and Corporation Taxes Act 1988) by the Inland Revenue on 15 November 2002. The principal terms of the Approved Scheme are as follows:

- **Nature of Options**  
The Company or the Trustee may from time to time grant options to selected employees of the Group (including executive directors who work at least 25 hours a week). The options entitle participants to acquire shares in the capital of the Company. The price payable to exercise an option shall not be less than the market value (determined as at the date of grant) of the shares subject to the option.
- **Individual Limits**  
Each participant will be limited so that the aggregate option price payable on the exercise of options to acquire shares granted to him under the Approved Scheme will not exceed £30,000 (valued as at the relevant date or dates of grant).
- **Performance Conditions**  
The exercise of options granted under the Approved Scheme may be made conditional upon the achievement of an objective performance target to be determined by the Company when options are granted.
- **Exercise of Options**  
Options may normally only be exercised on or after:  
the fifth anniversary of the date of grant; or  
flotation of the Company’s share capital on the London Stock Exchange or AIM (or any other recognised investment exchange).  
Options may, however, be exercised in the event of an amalgamation, reconstruction or take-over of the Company.
- **Lapse of Options**  
Options will normally lapse (to the extent not previously exercised):  
six months after the fifth anniversary of the date of grant;  
upon the failure of any performance condition; and  
upon the cessation of employment of any participant (unless such cessation takes place after the fifth anniversary of the date of grant in certain special circumstances).

(ii) *Outstanding Options*

The outstanding options were granted by the Company on 2 December 2002 over a total of 403,731 unissued B Ordinary Shares in the capital of the Company at an option price of £0.50 per share.

Whilst the options were subject to performance conditions, these conditions have been satisfied in full.

(iii) *Effect of Admission*

As noted in paragraph (b)(i) above, the outstanding options may be exercised at any time on or after Admission. The options must be exercised before 2 June 2008 (or they will otherwise lapse).

(iv) *Implications of Operating the Scheme after Admission*

The Company does not propose to operate the Approved Scheme after Admission.

(c) ***The Davenham Group Holdings Limited Non-Approved Discretionary Share Option Scheme (“the Non-Approved Scheme”)***

(i) *Summary of the Scheme*

On 23 October 2002, the Company established the Non-Approved Scheme. The principal terms of the Non-Approved Scheme are the same as those for the Approved Scheme summarised in paragraph (b)(i) above (except that the individual limits set out in paragraph (b)(i) will not apply).

In addition, however, the Non-Approved Scheme contains an indemnity from the participants in relation to all PAYE income tax and employee’s national insurance contributions arising on the exercise of the options (and the exercise of options is conditional upon the satisfaction of such indemnity). Furthermore, the rules of the Non-Approved Scheme provide that the Company may enter into arrangements with participants to recover all employer’s national insurance contributions arising on the exercise of the options.

(ii) *Outstanding Options*

The outstanding options under the Non-Approved Scheme are as follows:

- options granted by the Company on 30 April 2003 with an exercise price of £0.50 per share over a total of 22,480 B Ordinary Shares;
- options granted on 30 April 2003 by the Trustee with an exercise price of £0.50 per share over a total of 96,940 Ordinary Shares;
- options granted on 30 April 2003 by the Trustee with an exercise price of £0.50 per share over a total of 6,742 B Ordinary Shares;
- options granted on 23 May 2005 by the Trustee with an exercise price of £1.47 per share over a total of 1,272,928 Ordinary Shares; and
- options granted on 23 May 2005 by the Trustee with an exercise price of £1.47 per share over a total of 79,557 B Ordinary Shares.

Whilst the 30 April 2003 options were subject to performance conditions, these conditions have been satisfied in full.

(iii) *Effect of Admission*

The outstanding options may be exercised at any time on or after Admission. The options must be exercised within six months after the fifth anniversary of the date of grant (or they will otherwise lapse).

(iv) *Implications of Operating the Scheme after Admission*

The Company does not propose to operate the Non-Approved Scheme after Admission.

(d) ***The Davenham Savings Related Share Option Scheme 2005 (“the SAYE Scheme”)***

(i) *Summary of the SAYE Scheme*

The Company adopted the SAYE Scheme on 28 October 2005. The principal terms of the SAYE Scheme are as follows:

- *Status of the SAYE Scheme*

The SAYE Scheme is designed to be capable of approval by HM Revenue & Customs (“HM Revenue”) under Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003 (“ITEPA”).

- *Eligibility*

Participation in the SAYE Scheme will be offered to all employees, including full-time directors holding salaried employment of the Company and participating subsidiaries (“the Group”) who have been employed for a continuous period to be determined by the Directors (not exceeding 5 years ending on the date of grant of the relevant option) by a member of the Group and who are liable to pay UK income tax. In addition, certain other employees may be permitted to participate in the SAYE Scheme at the discretion of the Directors.

- *“Save-As-You-Earn” Contract*

An eligible employee who wishes to participate must enter into a save-as-you-earn (“SAYE”) contract with a building society or bank selected by the Company to save and deposit a regular sum each month for three or five years of not less than £5 (five pounds) nor more than £250 (two hundred and fifty pounds) per month (or such greater amount as may from time to time be permitted by ITEPA). An employee who completes a three-year savings contract will currently be entitled to a bonus of 1.9 monthly instalments (at current rates of interest) from the building society or bank. An employee who completes a five-year savings contract will currently be entitled to a bonus equal to 6.1 monthly instalments. There is no provision for any participant to continue to save for a longer period than five years. The bonus is fixed at the inception of the SAYE contract.

Options to acquire Ordinary Shares will be granted to eligible employees who enter into SAYE contracts. The number of Ordinary Shares subject to such options will be that number of Ordinary Shares which have an aggregate option price not exceeding the projected proceeds of the SAYE contracts (including the bonus).

The option price per Ordinary Share subject to options granted will not be less than the greater of 80 per cent. (or such lesser percentage as may from time to time be permitted by ITEPA) of the market value of an Ordinary Share on the day on which invitations to apply for options are issued and, in the case of an option to subscribe for Ordinary Shares, the nominal value of an Ordinary Share.

- *Grant of Options*

Options may be granted within the period of 38 days following approval of the SAYE Scheme by HM Revenue. Thereafter, options may in general only be granted within the period of 38 days commencing on the fourth dealing day after the date of announcement of the annual or half year results of the Company in any year. Whether options are granted within any of these periods is at the discretion of the Directors. No options may be granted more than ten years after the date of adoption of the SAYE Scheme.

- *Exercise and Lapse of Options*

Options are not transferable and (except in the circumstances described below) an option may normally only be exercised within a period of six months following the maturity of the relevant SAYE contract by a person who remains a director or employee.

Where an option holder dies before the maturity of his SAYE contract, his personal representatives may exercise his option within a period of twelve months from the date of his death. Where an option holder dies within a period of six months following the expiry of his SAYE contract without having exercised his option, his personal representatives may exercise his option within a period of twelve months from the date of expiry of the SAYE contract.

An option holder may exercise his option within a period of six months of ceasing to be an employee of the Group where the cessation occurs as a result of:

death, injury, disability, redundancy (within the meaning of the Employment Rights Act 1996) or retirement on reaching the age of 65 or at any other age at which the option holder is bound to retire in accordance with his contract of employment; or

his employing company or business being disposed of outside the Group.

Where an option holder reaches the age of 65 but remains in employment, he may exercise his option within a period of six months after reaching such age.

An option holder may exercise his option within a limited period following a take-over of the Company or a reconstruction, amalgamation or voluntary winding up of the Company.

In certain circumstances, option holders may release their rights under options in consideration of the grant to them of equivalent rights over shares in an acquiring company which gains control of the Company.

Options will lapse at the expiry of any of the periods allowed for exercise and upon cessation of employment of the option holder in any other circumstances not referred to above.

The number of Ordinary Shares acquired on exercise will in any event be limited by reference to the proceeds accrued under the SAYE contract up to the date of exercise.

- *Transfer, issue and listing of shares*

The SAYE Scheme provides the facility for the exercise of options to be satisfied by either the issue of Ordinary Shares, the transfer of Ordinary Shares held by trustees of an employee benefit trust established for the purpose of facilitating the holding of Ordinary Shares by Group employees or by the transfer of Ordinary Shares held in treasury.

- *Limits applying to the SAYE Scheme*

The number of Ordinary Shares which may be acquired by subscription (which, for the purposes of these limits, will be taken to include any treasury shares transferred to satisfy the exercise of options) on the exercise of options granted under the SAYE Scheme is limited. No option may be granted if immediately following the grant of such option the aggregate nominal value of Ordinary Shares issued or then capable of being issued pursuant to options granted under the SAYE Scheme within the immediately preceding period of 10 years and issued or then capable of being issued pursuant to options granted or rights obtained in such ten year period under any other share option or profit sharing scheme approved by the Company would exceed 10 per cent. of the nominal value of the ordinary share capital of the Company at that time in issue.

- *Variations in share capital*

In the event of any variation of or increase in the share capital of the Company, the number of Ordinary Shares subject to options and/or the option price may be adjusted by the Directors in such manner as approved by the Directors of HM Revenue & Customs.

- *Amendments*

The Directors will have the power to amend the rules of the SAYE Scheme. The rules, however, cannot be amended to affect adversely any subsisting options (other than a minor amendment to benefit the administration of the SAYE Scheme, take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for any option holder or a member of the Group) without the consent of the option holders.

- *Awards Non-Pensionable*  
Any benefits or options available under the SAYE Scheme will not count as pay or remuneration for pension fund purposes.
- *Overseas Participants*  
The rules of the SAYE Scheme give the Directors the authority to adopt rules as schedules to the SAYE Scheme permitting the Company to grant options over shares on the terms contained in such schedules to individuals employed by constituent companies in locations outside the UK. The rules contained in such schedules to the SAYE Scheme will follow the rules contained in the SAYE Scheme as far as reasonably practicable.

**(e) *The Performance Share Plan (“the Plan”)***

**(i) *Summary of the Plan***

The Company has established a performance share plan to operate post-Admission, the principal terms of which are set out below:

- *Eligibility*  
Any person who is an employee or an executive director of the Group will be eligible to participate in the Plan.
- *Types of awards*  
Awards under the plan (“Awards”) will be granted in the form of an option or right to receive shares on the expiry of a specified period at the discretion of the Remuneration Committee. Vesting of Awards will be subject to the satisfaction of the performance target attached to the Award. Awards can generally only be made within 42 days of Admission or of the announcement of final or interim financial results.
- *Plan entitlements*  
For the foreseeable future, the policy will be that the maximum Award which will be granted under the Plan will be over shares with a market value equivalent to 100 per cent. of salary. However, the Plan rules will, in exceptional circumstances, permit grants of Awards to any eligible employee over shares with a market value equivalent to 150 per cent. of salary.
- *Vesting of Awards*  
Awards will be subject to a performance period of no less than three years from the date of grant, with three year performance periods envisaged for the initial awards to be made under the Plan.
- *Performance conditions attaching to Awards*  
The Remuneration Committee will, on each grant of Awards, consider the nature of the performance target that will attach to each Award. Performance targets must be applied to all Awards and shall in each case be designed to align the participants’ interests with those of Shareholders and to reflect the underlying performance of the Company.  
  
The performance condition to be attached to the vesting of the initial Awards to be granted under the Plan will be fifty per cent. based on the Company’s compound annual growth in normalised earnings per share over the three year performance period set at the date of grant and fifty per cent. based on the total Shareholder return when compared to a group of appropriate comparator companies over the same three year period.

- *Plan limits*

Awards may be granted over newly issued or existing shares. In addition, and to the extent permitted by law and the Plan limits, the Company may use treasury shares for the satisfaction of Awards granted under the Plan. To the extent that shares are going to be issued or shares re-issued as treasury shares to satisfy Awards granted under the Plan, the aggregate number of shares that may be capable of issue or re-issue on vesting of Awards, when added to the number of shares which have been issued or re-issued or which remain issuable or re-issuable under Awards granted under the Plan and any other employee share plans operated by the Company in the preceding ten years but after Admission shall not, on the date of grant, exceed ten per cent of the Company's issued share capital.

## 5 Directors' and other interests

- (a) The interests of each Director and those of any person connected with them within the meaning of section 346 of the Companies Act ("Connected Person"), all of which are beneficial, in the share capital of the Company which (i) have been notified to the Company pursuant to section 324 or 328 of the Companies Act, or (ii) are required to be entered into the register maintained under section 325 of the Companies Act, or (iii) are interests of a Connected Person which would, if the Connected Person were a Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known or could with reasonable diligence be ascertained by the Director are as follows:

	<i>Present</i>		<i>Following the Placing Ordinary</i>	
	<i>No. of Shares</i>	<i>%</i>	<i>Shares</i>	<i>%</i>
David Raiffe Coates	–	–	56,729	0.22
Steven Robert Marsh	1,112,310	8.88	645,140	2.52
Paul Edward Burke	–	–	–	–
Graham Lawrence Footitt	21,250	0.17	12,325	0.05
James Rodier Kerr-Muir	99,609	0.80	57,774	0.23
David Howat Stewart	–	–	– <sup>(1)</sup>	– <sup>(1)</sup>

**Note:**

- (1) David Howat Stewart has agreed to acquire Ordinary Shares shortly following Admission at a total cost of £10,000.

Options to acquire existing issued Shares under the Share Option Schemes:

	<i>Date of Grant</i>	<i>Exercise Price</i>	<i>No of Shares</i>	<i>Exercise Period</i>
David Raiffe Coates	23 May 2005	£1.47	482,258	See paragraph 4(c) above
Paul Edward Burke	23 May 2005	£1.47	353,965	See paragraph 4(c) above

All of the above shares are held directly by the Directors listed save that the beneficial interest of Graham Lawrence Footitt of 21,250 Ordinary Shares are held by his wife Valerie Ann Footitt.

- (b) Save as disclosed above, no Director has any interest in the share capital or loan capital of the Company or any of its subsidiaries nor does any person connected with the Directors (within the meaning of section 346 of the Companies Act) have any such interests, whether beneficial or non-beneficial.
- (c) The Directors have held the following directorships and/or been a partner in the following partnerships within the five years prior to the date of this document:

***Steven Robert Marsh***

*In the Davenham Group:*

Davenham Group plc (appointed 13 June 2000)

Davenham Group Holdings Plc

*Other:*

Nil

*Past Directorships:*

Nil

***James Rodier Kerr-Muir***

*In the Davenham Group:*

Davenham Group plc (appointed 25 September 2000)  
Davenham Group Trustees Limited

*Other:*

Gartmore Fledgling Trust plc  
Hardys & Hansons plc  
Senior plc

*Past Directorships:*

Yates Group plc  
Wilson Connolly Holdings plc  
Ehrmanns Holdings Limited  
Birmingham Midshires  
Global Video plc  
Freeport Leisure plc  
Senior Trustee Limited

***Graham Lawrence (Sam) Footitt***

*In the Davenham Group:*

Davenham Group plc (appointed 12 September 2001)  
Davenham Group Trustees Limited

*Other:*

Challenge Energy Limited  
Quexco Inc (Non UK)

*Past Directorships:*

EcoBat Technologies plc  
Terra Solar IMC (Non UK)  
Birmingham Midshires Building Society  
Billiton Metals Limited  
Billiton Einthoven Metals Limited

***David Raiffe Coates***

*In the Davenham Group:*

Davenham Group plc (appointed 21 February 2005)  
Davenham Group Holdings plc

*Other:*

Nil

*Past Directorships:*

Experian Limited  
CallCredit plc  
Registry Trust Limited

***Paul Edward Burke***

*In the Davenham Group:*

Davenham Group plc (appointed 5 April 2005)

Davenham Group Holdings plc

*Other:*

Turnaround Management Association Limited

*Past Directorships:*

Finance for Assets Limited

State Securities plc

Sherwood Securities plc

State (EAF) Limited

***David Howat Stewart***

*In the Davenham Group:*

Davenham Group plc (appointed 17 October 2005)

*Other:*

Laird Capital Limited

Fletcher King plc

Independent Direction Directors Advisory Service Limited

*Past Directorships:*

Broadcastle Group plc

First National Bank Limited

(d) No Director:

- (i) has any convictions in relation to fraudulent or indictable offences; or
  - (ii) has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such Director; or
  - (iii) has been a director of any company which, while he was a director or within 12 months after he ceased to be a director, had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or
  - (iv) has been a partner of any partnership which, while he was a partner or within 12 months after he ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset: or
  - (v) has had any public criticism and/or sanction by statutory or regulatory authorities (including recognised professional bodies); or
  - (vi) has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- (e) The Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.
- (f) The Companies Act requires that where a person has a material holding of shares that represents over 3 per cent. of the Company's nominal share capital, that person must disclose that interest. Save as disclosed in paragraph 5(a) above, and as set out below, the Company is not aware of any person who, at the date of this document, is directly or indirectly interested in 3 per cent. or more of the issued share capital or voting rights of the Company:

	<i>Shares</i>	<i>%</i>
Dunedin <sup>(1)</sup>	5,655,260	45.17
Dunedin Enterprise Investment Trust plc	5,323,570	42.52
Davenham Group Trustees Limited	2,462,003	19.67
European Mezzanine Fund	1,482,726	11.84
Indigo <sup>(2)</sup>	1,482,726	11.84
Raymond Wise	538,953	4.30
Napier House Investments Limited	431,635	3.45

**Notes:**

- (1) Dunedin acts as investment manager for and on behalf of Dunedin Enterprise Investment Trust plc and Dunedin Buyout Fund LP.
- (2) Indigo acts as investment manager for and on behalf of European Mezzanine Fund.

Save as aforesaid, so far as the Directors are aware, no person, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

None of the Company's major holders of shares listed above has voting rights which are different from other holders of Ordinary Shares.

- (g) There are no loans made or guarantees granted or provided by any member of the Group to or for the benefit of any Director.
- (h) No Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Company or any of its subsidiaries during the current or immediately preceding financial year or which was effected by the Company or any of its subsidiaries during any earlier financial year and remains in any respect outstanding or unperformed.
- (i) In respect of the Directors, there are no conflicts of interest between any duties they have to the Company and their private interests and/or other duties they may have.

## **6 Directors service contracts**

- (a) David Raiffe Coates has entered into a service agreement with the Company dated 7 February 2005 which continues until termination upon 12 months' notice by either party. The agreement currently provides for an annual salary of £160,000, a car allowance of £12,000 per annum, membership of a private medical scheme, permanent health insurance and pension contributions of 12.5 per cent. of his salary.
- (b) Steven Robert Marsh has entered into a service agreement with the Company dated 16 June 2000 which continues until terminated upon 12 months' notice by either party. The agreement currently provides for an annual salary of £130,000, a car allowance of £18,000 per annum, membership of a private medical scheme, permanent health insurance and pension contributions of 12.5 per cent. of his salary.
- (c) Paul Edward Burke has entered into a service contract with the Company dated 22 March 2005 which continues until terminated upon 12 months' notice by either party. The agreement currently provides for an annual salary of £120,000, a car allowance of £12,000 per annum, membership of a private medical scheme, permanent health insurance and pension contributions of 12.5 per cent. of his salary.
- (d) The services of James Rodier Kerr-Muir as non-executive Director and Chairman are provided under the terms of an appointment letter from the Company to him dated 30 October 2005, which provides for an initial fee of £50,000 per annum, such appointment being terminable upon six months notice.
- (e) The services of Graham Lawrence Footitt as non-executive Director are provided under the terms of an appointment letter from the Company to him dated 30 October 2005, which provides for an initial fee of £25,000 per annum, such appointment being terminable upon three months notice.
- (f) The services of David Howat Stewart as non-executive Director are provided under the terms of an appointment letter from the Company to him dated 17 October 2005 which provides for an initial fee of £25,000 per annum, such appointment being terminable upon three months notice.

- (g) Save as set out in paragraphs (a) to (f) above, there are no service agreements in existence between any of the Directors and the Company or any of its subsidiaries which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.

## **7 The Board and corporate governance**

### ***Directors details***

Details of expiration of each Director's current term is provided in paragraph 6 above. Dates of appointment of the Directors are set out in paragraph 5 above.

### ***Corporate Governance***

The Board supports the highest standards of corporate governance and bases its arrangements on the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ("the Code") and intends, following Admission to comply with the Code in so far as the Directors consider appropriate for a company of the size of Davenham.

Directors have been made aware of the Code recommendation that, where they have concerns that cannot be resolved about the running of the Company or a proposed action, they should ensure that their concerns are recorded in the Board minutes. Non-executive directors have also been made aware of the recommendation that, on resignation, they should provide a written statement to the Chairman, for circulation to the Board, if they have any such concerns.

The Code attaches importance to Boards having processes for individual and collective performance evaluation. The Board has accordingly reviewed and updated existing processes for evaluating its operation and performance, including committees.

For the individual performance evaluation, executive Directors are assessed by the Remuneration Committee against annual performance targets. The Chairman talks to each non-executive director at least annually about a review of their performance, and the senior independent Director leads an evaluation process of the performance of the Chairman in discussion with the other non-executives and taking account of the views of the executives.

Where a non-executive director stands for re-election, the Chairman will confirm to Shareholders whether he is satisfied from formal performance evaluation that the person's performance continues to be effective and to demonstrate commitment to the role.

## **8. Related party transactions**

Davenham Group Trustees Limited has an inter-company loan from Davenham Group plc, currently totalling approximately £2.4 million (equivalent to 8.29 per cent. of the Company's turnover for the year ended 30 June 2005) of which upon Admission approximately £1.0 million will be repaid. This loan was made to facilitate the purchase of shares from employees and former employees plus stamp duty, legal fees and other charges.

## **9 Material contracts**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries during the two years preceding the date of this document and are or may be material.

- (a) The Placing Agreement between the Company, the Directors, the Selling Shareholders, Hawkpoint and Panmure Gordon pursuant to which Panmure Gordon has agreed, as agent for the Company and the Selling Shareholders to use its reasonable endeavours to procure subscribers and purchasers for the Placing Shares at the Placing Price.

The Placing Agreement is conditional, *inter alia*, upon Admission becoming effective by not later than 8.30 a.m. on 22 November 2005 (or such later time and/or date as the Company, Hawkpoint and Panmure Gordon may agree, being not later than 3.00 p.m. on 16 December 2005).

Under the Placing Agreement:

- (i) the Company has agreed to pay Hawkpoint a fee of approximately £600,000 plus any applicable VAT;
- (ii) the Company and the Selling Shareholders have agreed to pay Panmure Gordon a total commission of approximately £1.35 million (plus any applicable VAT) of which approximately £0.6 million (plus any applicable VAT) is payable by the Company and approximately £0.75 million (plus any applicable VAT) is payable by the Selling Shareholders;
- (iii) the Company has agreed to pay all other costs and expenses of and incidental to the Placing and/or the application for Admission (plus any applicable VAT) but excluding the stamp duty payable on the transfer of any Existing Shares (which is payable by the Selling Shareholders);
- (iv) the Company, the Directors, certain members of the Company's key management (the "Key Management") and Colin Davenport and Mike Hamlyn (the "Founders") have given certain representations and warranties to Panmure Gordon and Hawkpoint as to the accuracy of information in this document and as to other matters relating to the Group and its business and these representations and warranties are repeated at Admission; and
- (v) the Selling Shareholders who are not Directors, Key Management or the Founders have provided more limited warranties in relation to the title to the Existing Shares that will form part of the Placing.

The maximum aggregate liability for each Director, member of Key Management and Founder for all claims under the Placing Agreement is limited to an agreed sum for each such person. The maximum aggregate liability of certain institutional Selling Shareholders for all claims against them under the Placing Agreement is limited to the value of the shares sold by them as part of the Placing calculated at the Placing Price. The Company's liability under the Placing Agreement is unlimited.

The Placing Agreement also contains an indemnity from the Company, to both Hawkpoint and Panmure Gordon (and their associated companies, directors, partners, officers, employees, agents and advisers) in respect of certain liabilities arising out of or in connection with the carrying out, by Hawkpoint and Panmure Gordon, of their obligations in connection with the Placing and an indemnity by the Executive Directors, Key Management and the Founders to the Company, Hawkpoint and Panmure Gordon, in relation to certain tax liabilities of the Group.

The Placing Agreement also contains the lock-up arrangements referred to elsewhere in this document in relation to the Selling Shareholders and the Directors.

- (b) A nominated adviser agreement between the Company and Hawkpoint by which Hawkpoint is appointed as nominated adviser to the Company for the purposes of the AIM Rules on Admission. The Company has agreed to pay Hawkpoint an annual fee for its services under this agreement. The nominated adviser agreement contains certain undertakings and indemnities given by the Company in respect of, among other things, compliance with applicable laws and regulations.
- (c) A broker agreement between the Company and Panmure Gordon by which Panmure Gordon is appointed as broker to the Company for a period of 12 months commencing on the date of Admission, and thereafter automatically for subsequent 12 month periods but at any time subject to three months' notice of termination by either party. The Company has agreed to pay Panmure Gordon an annual fee for its services under the agreement.
- (d) An amendment and restatement agreement to amend and restate the Senior Facilities Agreement which becomes effective on Admission to deal with the following:
  - (i) the extension of the facilities by 12 months to 26 September 2007;
  - (ii) certain amendments be made to the financial covenants to reflect (*inter alia*) the post-Admission position of the Company and its subsidiaries;

- (iii) certain amendments be made to the Senior Facilities Agreement to make it more appropriate for a quoted company; and
  - (iv) consents/waivers/amendments required to allow the flotation to proceed and the repayment of the mezzanine and investor debt.
- (e) An amendment to the Intercreditor Agreement to deal with the repayment of mezzanine and investor debt.
- (f) By an agreement dated 16 November 2005 between David Raiffe Coates (1) the Trustee (2) and the Company (3) David Raiffe Coates agreed to apply approximately £144,000 of the bonus of £444,226 due to him (pursuant to an agreement entered into with him when he joined the Group) upon Admission to acquire 56,729 Shares at the Placing Price under the Placing.

## 10 Taxation

The following comments are intended as a general guide to the position under current United Kingdom tax legislation and what is understood to be the current practice of HM Revenue & Customs in the United Kingdom at the date of this document, and may not apply to certain classes of people (such as dealers in securities). **Shareholders who are in any doubt about their tax position should consult their professional adviser immediately.**

### (a) *Taxation of dividends*

Under current United Kingdom taxation legislation the Company will not be required to withhold tax at source on any dividends it pays to its shareholders.

An individual shareholder who is resident in the United Kingdom for tax purposes will generally be entitled to a notional tax credit in respect of that dividend, currently equal to one-ninth of the cash dividend received or ten per cent. of the aggregate of the cash dividend received and the related tax credit (the “gross dividend”). The related tax credit can be set against the individual shareholder’s total liability to income tax on the dividend.

An individual shareholder who is liable to income tax at no more than the basic rate will be subject to income tax at the rate of ten per cent. on the gross dividend and so the tax credit should satisfy in full that individual shareholder’s liability to income tax on the dividend received.

An individual shareholder who is liable to income tax at the higher rate will be subject to tax at the rate of 32.5 per cent. on the gross dividend to the extent that the gross dividend, when treated as the top slice of that shareholder’s income, falls above the threshold for higher rate income tax. The related tax credit will therefore not fully satisfy that individual shareholders liability to income tax on the gross dividend and the shareholder will have to account for additional tax equal to 22.5 per cent. of the gross dividend (or 25 per cent. of the cash dividend received).

Subject to certain exceptions for traders in securities and insurance companies, a corporate shareholder resident in the United Kingdom for tax purposes will generally not be subject to corporation tax on dividends received from the Company.

A non-United Kingdom resident shareholder may be subject to foreign tax on the dividend received. Such shareholder should consult his own tax adviser concerning his liabilities to tax on dividends received from the Company. The right of such shareholder to claim repayment from HM Revenue and Customs of any part of the tax credit attaching to dividends paid by the Company will depend on the existence and the terms of any applicable double tax treaty between the United Kingdom and the country in which the shareholder is resident.

### (b) *Stamp duty and stamp duty reserve tax*

**The statements below summarise the current position and are intended as a general guide only to stamp duty and SDRT. Special rules apply to agreements made by broker dealers and market**

**makers in the ordinary course of their business and to certain categories of person (such as depositaries and clearance services) who may be liable to stamp duty or SDRT at a higher rate.**

No stamp duty or SDRT will generally be payable on the issue of Ordinary Shares pursuant to the Placing.

Any existing Ordinary Shares being transferred pursuant to the Placing will generally be subject to stamp duty or SDRT. Stamp duty will arise on the execution of an instrument to transfer Ordinary Shares and is a liability of the agreement, normally paid by the purchaser. The amount of stamp duty or SDRT payable on the consideration for the transfer is generally calculated at 0.5 per cent. of the consideration paid (with stamp duty rounded up to the nearest £5).

SDRT is a liability of the purchaser, however, the following arrangements have been made for the discharge of stamp duty and SDRT which may arise on the transfer of existing Ordinary Shares pursuant to the Placing.

Any stamp duty or SDRT payable by transferees in respect of the purchase of existing Ordinary Shares will be paid by the Nominated Adviser on behalf of the selling shareholders or the Company, as the case may be. Transferees therefore need take no action with regard to such stamp duty or SDRT. These arrangements do not apply to any charge to stamp duty or SDRT under section 67, 70, 93 or 96 of the Finance Act 1986, which broadly apply where a transferee is a provider of clearance services or an issuer of depository receipts or a nominee for such a person. Such transferees will be responsible for discharging the whole of their liability to stamp duty or SDRT.

**(c) *Capital Gains***

A subsequent disposal of Ordinary Shares by persons resident or ordinarily resident in the United Kingdom in a tax year which gives rise to a capital gain may be liable to capital gains tax (individuals and trustees) or corporation tax (companies). Liability to tax and the rate of tax will depend on the shareholder's circumstances and the availability of exemptions and allowable losses.

Indexation allowance, which increases the acquisition cost of an asset in line with the rise in the retail price index, is available for corporate shareholders during the period of ownership.

For individuals and trustees, taper relief may be available to reduce the amount of a chargeable gain according to how long the asset has been held (i.e. 2005/06).

Individuals and certain trusts have an overall annual exemption from capital gains tax for the first £8,500 of chargeable gains in the current year.

Losses realised on the disposal of assets may be set against other gains made during the tax year or carried forward and set against gains in future tax years.

Different tax treatment applies to persons who trade in securities.

Persons who are neither resident nor ordinarily resident in the United Kingdom will not normally be liable to tax in the United Kingdom in respect of any capital gains accruing to them on a disposal of Ordinary Shares. The terms of a relevant double taxation treaty may apply to persons with dual residence.

**Any person who is in any doubt as to his tax position or who may be subject to tax in any other jurisdiction should consult his professional adviser.**

## **11 Investments**

There are no investments being made by the Company or to be made in the future in respect of which firm commitments have been made.

## **12 Working capital**

In the opinion of the Directors, having made due and careful enquiry taking into account the bank facilities available to the Group, the working capital available to the Group is sufficient for its present requirements, that is for at least the next twelve months from the date of Admission.

## **13 Litigation**

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings and the Company is not aware of any such proceedings pending or threatened by or against the Group during the 12 months preceding the date of this document either of which may have or have had in the recent past a significant effect on the financial position or profitability of the Company:

## **14 General**

- (a) Save as disclosed in the financial information on the Company set out in Part IV of this document, there has been no significant change in the financial or trading position of the Group since 30 June 2005, the date to which the Group's most recent audited accounts have been drawn up.
- (b) KPMG has given and has not withdrawn its written consent to the issue of this document with the inclusion in this document of its report and references thereto and to its name in the form and context in which they appear, and has authorised the contents of those parts of this document for the purposes of the AIM Rules.
- (c) Hawkpoint which is regulated by the Financial Services Authority, has given and has not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.
- (d) Panmure Gordon which is regulated by the Financial Services Authority, has given and has not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.
- (e) The expenses of and incidental to the Placing payable by the Company are estimated to amount to approximately £4.2 million (excluding VAT).
- (f) Hawkpoint has been appointed nominated adviser to the Company. Under the AIM Rules the nominated adviser owes certain responsibilities to London Stock Exchange. In accordance with these rules, Hawkpoint Partners Limited has confirmed to London Stock Exchange that it has satisfied itself that the Directors have received independent advice and guidance as to the nature of their responsibilities and obligations under the AIM Rules.
- (g) Save for the information set out on pages 27 to 48 in Part IV of this document there is no other information in this document which has been audited or reviewed by statutory auditors.
- (h) There are no patents or other intellectual property rights, licences or (save as disclosed in paragraph 9 above) particular contracts which are material to the Group's business or profitability.
- (i) There are no arrangements under which future dividends are waived or agreed to be waived.
- (j) The annual accounts of the Company have been audited in accordance with national law for the years ended 30 June 2003, 30 June 2004 and 30 June 2005 by PricewaterhouseCoopers, Chartered Accountants, of 101 Barbirolli Square, Lower Mosley Street, Manchester M2 3PW.
- (k) The financial information set out in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act. Statutory accounts have been delivered to the registrar of companies for the periods ended 30 June 2003, 30 June 2004 and 30 June 2005. Auditors' reports in respect of each statutory accounts have been made under section 235 of the Companies Act and each such report was an unqualified report and did not contain any statement under section 237(2) or (3) of the Companies Act.
- (l) The Ordinary Shares will only be admitted to trading on AIM.

- (m) The Company's registrar and paying agent for the payment of dividends is Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA.
- (n) Except for fees payable to the professional advisers whose names are set out on page 3 of this document, payments to trade suppliers, payments to Pinsent Masons of £81,092.50 in respect of legal advice received and except as otherwise disclosed in this document, no person has received any fees, securities in the Company or other benefit to a value of £10,000 or more, whether directly or indirectly, from the Company within the 12 months preceding the application for Admission, or has entered into any contractual arrangement to receive from the Company, directly or indirectly, any such fees, securities or other benefit on or after Admission save the following:
- upon Admission, each of Paul Edward Burke, Dawn Smethurst and Malcolm Flannery is entitled to a bonus of £80,000 from the Company; and
  - upon Admission, David Raiffe Coates is entitled to a bonus of £444,226 from the Company, of which the sum of approximately £144,000 is to be applied by him to acquire 56,729 Ordinary Shares at the Placing Price in accordance with the agreement described in paragraph 9(f) of Part VI of this document.
- (o) The ISIN number for the Ordinary Shares is GB00B0P32071.

#### **15. Availability of this document**

Copies of this document will be available free of charge to the public at the registered office of Eversheds LLP, 85 Queen Victoria Street, London EC4V 4JL.

Dated: 17 November 2005

## DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“Act” or “Companies Act”	the Companies Act 1985 (as amended by the Companies Act 1989)
“Admission”	admission of the entire ordinary share capital of the Company issued and to be issued pursuant to the Placing, to trading on AIM becoming effective in accordance with the AIM Rules
“AIM”	AIM, a market operated by the London Stock Exchange plc
“AIM Rules”	the AIM rules for companies published by the London Stock Exchange, as amended
“A Ordinary Shares”	A ordinary shares of 1p each in the capital of the Company
“Approved Scheme”	the Davenham Group Inland Revenue Approved Discretionary Share Option Scheme
“Articles”	the articles of association of the Company which take effect from Admission as described in paragraph 3 of Part VI of this document
“Audit Committee”	a committee of the Board appointed to consider matters relating to financial controls and reporting
“BML”	the business of Booker Montague Leasing Limited, a company incorporated in England and Wales with registered number 02606769
“Board of Directors” or “Board”	the board of directors of the Company as constituted from time to time
“B Ordinary Shares”	B ordinary shares of 1p each in the capital of the Company
“certificated” or “in certificated form”	not in uncertificated form (that is, not in CREST)
“Combined Code”	the Principles of Good Governance and Code of Best Practice maintained by the Financial Reporting Council
“Company” or “Davenham”	Davenham Group plc, a company incorporated in England and Wales with registered number 3976032
“Company Secretary”	the company secretary of the Company
“CREST”	the computerised settlement system operated by CRESTCo Limited which facilitates the transfer of shares
“Davenham Group” or “Group”	the Company and its subsidiary undertakings
“Davenham Group Holdings plc”	Davenham Group Holdings plc, a company incorporated in England and Wales with registered number 2537684
“Davenham Group Trustees Limited” or “the Trustee”	Davenham Group Trustees Limited, a company incorporated in England and Wales with registered number 40211288, the trustee of the EBT
“Davenham Trust plc”	Davenham Trust plc, a company incorporated in England and Wales with registered number 16441925
“Davenham Trade Finance Limited”	Davenham Trade Finance Limited, a company incorporated in England and Wales with registered number 1908417

“Directors”	the directors of the Company
“Dunedin”	Dunedin Capital Partners Limited, a company incorporated in Scotland with registered number SC082727
“EBT”	the Davenham Group Employee Benefit Trust established by the Company by a trust deed dated 25 September 2000
“European Mezzanine Fund”	European Mezzanine Fund III LP
“Executive Directors”	the executive directors of the Company
“Existing Shares”	the existing Ordinary Shares and those Ordinary Shares resulting from the reclassification of A Ordinary Shares and B Ordinary Shares described in paragraph 2(f) of Part VI of this document
“FSA”	the Financial Services Authority
“Hawkpoint”	Hawkpoint Partners Limited, a company incorporated in England and Wales with registered number 3875835 and regulated by the Financial Services Authority
“ICTA”	the Income and Corporation Taxes Act 1988
“Indigo”	Indigo Capital Limited, a company incorporated in England and Wales with registered number 03703002
“Institutional Shareholders”	Dunedin Buyout Fund LP, Dunedin Enterprise Investment Trust plc, European Mezzanine Fund, Napier House Investments Limited and Uberior
“Intercreditor Agreement”	an intercreditor agreement dated 16 June 2000 (as amended) between The Royal Bank of Scotland Plc as Senior Agent, the RCF Banks named therein, the L/C Banks, the F/X Banks, The Royal Bank of Scotland Plc as Security Trustee, Indigo as Mezzanine Agent, the Mezzanine Lenders named therein, Dunedin Capital Partners Limited, the Investors named therein and the Initial Charging Companies (as defined therein)
“Lloyds TSB Registrars”	Lloyds TSB Registrars, a division of Lloyds TSB Bank plc
“London Stock Exchange”	London Stock Exchange plc
“Loan Notes”	the 5% £5,450,000 secured loan stock 2009 issued to Dunedin Enterprise Investment Trust plc and Dunedin Buyout Fund LP and European Mezzanine Fund by the Company
“Mezzanine Debt”	the debt owed by the Company pursuant to (a) a loan agreement dated 16 June 2000 (as amended on 29 April 2002, 26 September 2003 and 31 March 2005) between (1) the Company, (2) Indigo, (3) the lenders named therein as mezzanine lenders and (4) The Royal Bank of Scotland plc as security trustee for the mezzanine lenders and (b) a loan facility agreement dated 29 April 2002 between Dunedin as arranger (1) Dunedin and European Mezzanine Fund and Dunedin Buyout Fund LP as lenders (2) and the Company as borrower (3)
“New Shares”	new Ordinary Shares in the capital of the Company to be issued pursuant to the Placing

“Nominations Committee”	a committee of the Board appointed to consider the size, structure and composition of the Board
“Non-Approved Scheme”	the Davenham Group Non-Approved Discretionary Share Option Scheme
“Official List”	the official list of the London Stock Exchange
“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Panmure Gordon” or “Panmure Gordon & Co”	Panmure Gordon (Broking) Limited, a company incorporated in England and Wales with registered number 1742592 regulated by the Financial Services Authority and a member of the London Stock Exchange
“Placing”	the placing by Panmure Gordon, under the terms of the Placing Agreement of 6,653,637 Existing Shares and 10,922,777 New Shares as described in Part III of this document
“Placing Agreement”	the agreement dated 17 November 2005 between (1) the Company, (2) the Selling Shareholders, (3) the Directors, (4) Panmure Gordon and (5) Hawkpoint further details of which are set out in paragraph 9 of Part VI of this document
“Placing Price”	the price of 254p per Ordinary Share
“Placing Shares”	Ordinary Shares which are the subject of the Placing
“Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
“Remuneration Committee”	a committee of the Board appointed to deal with the remuneration and incentives of the Executive Directors and senior management
“SAYE Scheme”	the Davenham Group Savings Related Share Option Scheme
“Selling Shareholders”	the Shareholders of the Company selling Ordinary Shares in the Placing
“Senior Facilities Agreement”	an agreement dated 16 June 2000 (as amended) between (1) the Company as principal borrower, (2) Davenham Trust Plc and Davenham Trade Finance Limited, (3) Royal Bank of Scotland Plc as agent, (4) the banks named therein as RCF banks, (5) the banks named therein as L/C Banks, (6) the banks named therein as Senior Hedging Banks, (7) Royal Bank of Scotland Plc as Security Trustee (as defined therein)
“Shareholder”	a holder of Ordinary Shares in the capital of the Company
“Share Plan”	the Davenham Group Employee Share Plan established by the Company on 25 September 2000
“Share Option Schemes”	the Approved Scheme, the SAYE Scheme and the Unapproved Scheme
“Shares”	Ordinary Shares, A Ordinary Shares and B Ordinary Shares
“SMEs”	small to medium sized enterprises
“St John’s Street Holdings Limited”	St John’s Street Holdings Limited, a company incorporated in the Cayman Islands with registered number CR82198

“Uberior”	Uberior Trading Limited, a company incorporated in Scotland with registered number SC102957 and a wholly owned subsidiary of HBOS plc
“uncertificated” or “in uncertificated form”	recorded on the relevant register of Ordinary Shares as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia



