



**Davenham Group plc**

**Interim Results**

**For the six months ended 31 December 2009**

Davenham, a leading independent asset based lender to the UK SME sector, today announces its interim results for the six months ended 31 December 2009.

**Financial performance summary:**

- Revenue was £17.4m (2008: £27.0m)
- Impairment charge of £1.8m (£11.7m inclusive of gross up)\* (2008: £31.3m (£37.9m inclusive of gross up)) of which c.75% is in relation to the impairment of the property portfolio.
- Pre-tax loss reduced to £8.0m (2008: pre-tax loss of £30.4m)\*\*
- Diluted loss per share reduced to 34.1p (2008: loss per share of 88.0p)
- Net asset value of £3.0m (2008 : £26.3m)
- David Coates stepped down as Chief Executive of the Group on 1 March. Paul Burke was appointed Group Managing Director

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

\*\* *After exceptional items including a profit on the de-designation of interest rate-swaps of £1.4 million (2008: £nil), redundancy and refinancing costs (the latter in the prior year period only) of £0.6 million (2008: £1.6 million) and deferred banking fees of £1.3 million (2008: £nil).*

**Strategic and restructuring update:**

- Continued progress in de-leveraging the business:
  - Loan portfolio reduced to £144.2m at 31 December 2009 (2008: £247.3m)
  - Cost base reduced substantially
    - Administrative expenses reduced to £6.2m (2008: £11.5m)
    - Annualised cost savings of £0.4m realised from redundancies during the period
- Rate of provisioning slowed; £7.9m of additional provisions (2008: £31.3m)
- Strategic review progressed to discussions with a small number of parties
- Whilst the strategic review process is yet to be concluded, the Board considers it likely that there will be little or no value remaining for ordinary shareholders in the Company
- Banking syndicate supportive of the strategic review process

**Commenting on strategy and outlook, Paul Burke, Group Managing Director, said:**

“We continue to focus on collecting-out our property book and cautiously underwriting selected business in our asset and trade books. Whilst we do not expect an uplift in the environment in which our clients operate in the near term, we are encouraged that the rate of provisioning across our property book has slowed significantly.

“Our banks remain supportive as we work with Hawkpoint to complete the strategic review and we will update shareholders on the outcome of that review as appropriate.”

**Davenham Group plc**

Paul Burke, Group Managing Director

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## **Chairman's and Group Managing Director's Statement**

### **Overview**

In the last nine months there has been considerable activity by the Board and management team to reduce the Group's operating costs, to realise cash from its loan portfolio thus reducing its borrowings, and to work closely with Hawkpoint, the Group's NOMAD and financial adviser, to undertake a strategic review of the Group's options.

Whilst the strategic review is yet to be concluded, the Board considers it likely that there will be little or no value remaining for ordinary shareholders in the Company.

### **Results summary**

The results for the six months ended 31 December 2009 reflect a continuation of the challenging trading conditions for our loan books. The property loan book has been particularly impacted, with the Group continuing to find it difficult to sell property assets, the vast majority of which are non-performing, resulting in reduced income and continued operating losses.

Revenue for the six months to 31 December 2009 was £17.4 million (2008: £27.0 million), Finance costs were slightly reduced to £7.4 million (2008: £8.0 million), reflecting the step down in the Group's bank facility. Our focus on reducing the cost base is reflected in a reduction in administrative expenses to £6.2 million (2008: £11.5 million).

The operating loss before taxation and exceptional items was reduced to £7.7 million (2008: £28.7 million), after a substantially reduced impairment charge for the period of £11.7 million (2008: £37.9 million).

Exceptional items comprised redundancy and refinancing costs (the latter in the prior year period only) of £0.4 million (2008: £1.7 million) and deferred banking fees of £1.3 million (2008: £nil) which were partially offset by a profit on the de-designated interest rate swaps of £1.4 million (2008: £nil). As a result of the redundancies made during the period, Davenham will realise annualised cost savings of £0.4m.

After exceptional items, the operating loss before taxation was £8.0 million (2008: £30.4 million). Fully diluted losses per share for the period were 34.06p (2008: 88.04p).

The net assets of the Group were £3.0 million as at 31 December 2009 (as at 31 December 2008: £26.3 million), primarily reflecting impairment in the property portfolio and the impact of continuing trading losses.

Our work to realise cash from the loan book has resulted in a net cash inflow from operating activities of £6.2 million in the period (2008: £14.5 million). Net cash at the period end was £6.9 million (2008: £7.7 million).

### **Loan portfolio, loss provisioning and recoveries**

Overall the net loan book has reduced from £247.3 million at 31 December 2008 to £144.2million at 31 December 2009.

The net property loan portfolio represented £81.0 million at 31 December 2009 (2008: £130.3 million), the net trade loan portfolio represented £20.1 million (2008: £47.5 million) and the net asset loan portfolio represented £43.0 million (2008: £69.6 million). The movements in the books between the comparative period reflect a combination of collecting out the property book, cautious underwriting of new business in the trade and asset books, and the write off of impaired assets.

Loan loss provisions stood at £44.0 million at 31 December 2009 (2008: £35.7 million), representing £37.5 million in the property book (2008: £30.7 million), £2.4 million in the trade book (2008: £3.4 million), and £4.1 million in the asset book (2008: £1.6 million).

The rate of provisioning slowed overall, with additional provisions during the six months to 31 December 2009 accounting for £7.9 million (2008: £31.3 million), driven by slower rates of provisioning in the property book of £2.7 million (2008: £27.7 million) and in the trade book of £1.7 million (2008: £2.2 million). The asset book, however, saw an increase in the rate of provisioning, as our SME customer base and asset prices came under increasing pressure as a result of the recession, to £3.5 million (2008: £1.5 million).

### **Strategic review**

As a result of deteriorating economic conditions in late 2008, Davenham instigated an extensive and detailed review of its operations leading to its decision to focus on operating its trade and asset portfolios cautiously, whilst optimising recoveries from its property portfolio. It was also clear at that time that the business was too highly geared, given the outlook for capital markets.

Since that time, the business has been significantly de-leveraged to a smaller operating and cost base, a smaller loan portfolio and a smaller balance sheet and, having slowed the rate of provisioning in our property book considerably, we announced in our final results statement in September 2009, and in our 2009 Annual Report and Accounts, that we had appointed Hawkpoint to evaluate the Group's strategic options.

Davenham updated shareholders on 8 January 2010, confirming that, as part of that strategic review, the Company was seeking indicative expressions of interest in elements of the Group (or in raising finance for them).

The strategic review has now progressed to discussions with a small number of parties and the Board intends to continue to run a thorough and orderly process. However, there remains material uncertainty as to the outcome of the strategic review and the Board now considers it likely that there will be little or no value remaining for ordinary shareholders in the Company.

### **Funding and covenant waivers**

In March 2009, Davenham negotiated a two year facility, which was tailored to support the asset and trade divisions' working capital requirements whilst reflecting the recovery of cash from the downsizing of the property loan book.

The facility commenced at £215 million with a quarterly step down to £90 million by 30 September 2010.

The Group continues to work closely with the banking syndicate, which has granted appropriate waivers and extensions under the facility, in order to allow the strategic review to be conducted in a thorough and orderly manner.

### **Serious Loss of Capital**

Due to the continuing losses incurred by the Group, the Company will shortly be required to convene a General Meeting of shareholders pursuant to section 656 of the Companies Act 2006 (which requires the directors of a public company to call a general meeting where the net assets of that company are half or less of its called up share capital). The purpose of the meeting is to allow shareholders to consider whether any, and if so what, steps should be taken to deal with the situation – applicable documentation will be dispatched to shareholders within the timeframes laid down by the Companies Act 2006.

## **Dividend**

Davenham is not in a position to pay a dividend during the current financial year.

## **People**

On 1 March 2010, Davenham announced that David Coates would step down as Chief Executive of the Group, with immediate effect, and that Paul Burke, the Group Finance Director, would assume David's responsibilities and be appointed Group Managing Director.

On 29 September 2009, the Board announced that, given the downsizing of the Group and the contraction of its asset base, the risk management function would be embraced within the operating divisions and that, in line with that change, David Bowles had resigned from the Group.

We would like to take this opportunity to thank all of our staff for their continued hard work and commitment to the Group, during this challenging period.

## **Summary**

We continue to focus on collecting-out our property book and cautiously underwriting selected business in our asset and trade books. Whilst we do not expect an uplift in the environment in which our clients operate in the near term, we are encouraged that the rate of provisioning across our property book has slowed significantly.

Our banks remain supportive as we work with Hawkpoint to complete the strategic review and we will update shareholders on the outcome of that review as appropriate.

**Consolidated Income Statement**  
**For the six months ended 31 December 2009**

	Notes	6 months ended 31 December 2009 £'000 *	6 months ended 31 December 2008 £'000*	Year ended 30 June 2009 £'000*
<b>Revenue</b>	4	<b>17,423</b>	27,024	49,074
Finance costs		<b>(7,444)</b>	(7,996)	(15,907)
<b>Gross profit</b>		<b>9,979</b>	19,028	33,167
Administrative expenses		<b>(6,204)</b>	(11,519)	(21,861)
Loan loss impairment	8	<b>(11,726)</b>	(37,905)	(66,713)
<b>Operating loss before taxation</b>		<b>(7,951)</b>	(30,396)	(55,407)
Operating loss before exceptional items		<b>(7,719)</b>	(28,743)	(48,928)
Exceptional costs relating to Profit/(loss) on de-designated interest rate swaps		<b>1,449</b>	-	(3,012)
Redundancy & refinancing		<b>(372)</b>	(1,653)	(3,467)
Deferred banking fees		<b>(1,309)</b>	-	-
<b>Operating loss before taxation</b>		<b>(7,951)</b>	(30,396)	(55,407)
Taxation	5	<b>(484)</b>	8,511	14,800
<b>Loss for the period</b>		<b>(8,435)</b>	(21,885)	(40,607)
<b>Loss per share</b>	6			
- Basic		<b>(34.06p)</b>	(88.38p)	(163.99p)
- Diluted		<b>(34.06p)</b>	(88.04p)	(163.99p)
<b>Dividends per share</b>	7			
- Paid during the period		<b>Nil</b>	Nil	Nil
- Proposed		<b>Nil</b>	Nil	Nil

\* The figures contained within the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cashflow and related notes for the six months ended 31 December 2009 have been reviewed by the auditors and are unaudited. The figures contained in the same statements in respect of the six months to 31 December 2008 are unaudited. Those in respect of the year ended 30 June 2009 have been extracted from the Group's audited consolidated financial statements.

**Consolidated Statement of Comprehensive Income  
For the six months ended 31 December 2009**

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	<b>6 months ended 31 December 2009</b>	6 months ended 31 December 2008	Year ended 30 June 2009
	<b>£'000</b>	£'000	£'000
<b>Loss for the period</b>	<b>(8,435)</b>	(21,885)	(40,607)
Other comprehensive income:			
Effective portion of changes in fair value of interest rate cashflow hedges:			
- Fair value adjustment	<b>524</b>	(14,081)	(9,590)
- Tax on fair value adjustment	<b>(147)</b>	3,943	2,686
<b>Total comprehensive income for the period</b>	<b>(8,058)</b>	(32,023)	(47,511)

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**Consolidated Balance Sheet**  
**As at 31 December 2009**

	Notes	31 December 2009	31 December 2008	30 June 2009
		£'000	£'000	£'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill		1,909	1,909	1,909
Other intangible assets		324	748	415
Property, plant & equipment		800	820	868
Loans & advances to customers	8	52,421	75,248	68,635
Deferred taxation asset		13,892	8,293	14,451
Derivative financial instruments		224	520	155
		<b>69,570</b>	<b>87,538</b>	<b>86,433</b>
<b>Current assets</b>				
Loans & advances to customers	8	91,744	172,066	122,309
Other receivables, prepayments & accrued income		326	1,150	827
Current tax asset		-	1,630	-
Derivative financial instruments		34	69	63
Cash and cash equivalents		6,926	8,577	2,562
		<b>99,030</b>	<b>183,492</b>	<b>125,761</b>
<b>Total assets</b>		<b>168,600</b>	<b>271,030</b>	<b>212,194</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowings	9	148,891	842	82,879
Current tax liabilities		2,898	-	2,396
Derivative financial instruments		4,825	5,533	6,051
Trade and other payables		5,719	9,731	7,319
		<b>162,333</b>	<b>16,106</b>	<b>98,645</b>
<b>Non-current liabilities</b>				
Borrowings	9	-	222,261	98,707
Derivative financial instruments		3,253	6,328	3,920
		<b>3,253</b>	<b>228,589</b>	<b>102,627</b>
<b>Total liabilities</b>		<b>165,586</b>	<b>244,695</b>	<b>201,272</b>
<b>Net Assets</b>		<b>3,014</b>	<b>26,335</b>	<b>10,922</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital		261	261	261
Share premium		26,528	26,528	26,528
Own shares held reserve		(1,507)	(1,507)	(1,507)
Retained earnings		(18,319)	8,542	(9,884)
Share based payment reserve		556	627	406
Hedging reserve		(4,505)	(8,116)	(4,882)
<b>Total Shareholders' equity</b>		<b>3,014</b>	<b>26,335</b>	<b>10,922</b>

**Consolidated Statement of Changes in Equity  
For the six months ended 31 December 2009**

Group	Called up share capital	Share premium account	Own shares held reserve	Profit and loss account	Share based payment reserve	Hedging Reserve	Total equity
6 months to 31 December 2009	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of the period	261	26,528	(1,507)	(9,884)	406	(4,882)	10,922
<b>Comprehensive Income</b>							
Loss for the financial period	-	-	-	(8,435)	-	-	(8,435)
<b>Other comprehensive income</b>							
Fair value gains on cash flow hedges	-	-	-	-	-	524	524
Tax on fair value gains on cash flow hedges	-	-	-	-	-	(147)	(147)
<b>Total comprehensive income</b>	-	-	-	(8,435)	-	377	(8,058)
Increase in Share Based Payment Reserve	-	-	-	-	150	-	150
<b>Closing shareholders' equity at 31 December 2009</b>	<b>261</b>	<b>26,528</b>	<b>(1,507)</b>	<b>(18,319)</b>	<b>556</b>	<b>(4,505)</b>	<b>3,014</b>

Group	Called up share capital	Share premium account	Own shares held reserve	Profit and loss account	Share based payment reserve	Hedging Reserve	Total equity
6 months to 31 December 2008	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of the period	261	26,528	(1,507)	30,427	477	2,022	58,208
<b>Comprehensive Income</b>							
Loss for the financial period	-	-	-	(21,885)	-	-	(21,885)
<b>Other comprehensive income</b>							
Fair value gains on cash flow hedges	-	-	-	-	-	(14,081)	(14,081)
Tax on fair value gains on cash flow hedges	-	-	-	-	-	3,943	3,943
<b>Total comprehensive income</b>	-	-	-	(21,885)	-	(10,138)	(32,023)
Increase in Share Based Payment Reserve	-	-	-	-	150	-	150
<b>Closing shareholders' equity at 31 December 2008</b>	<b>261</b>	<b>26,528</b>	<b>(1,507)</b>	<b>8,542</b>	<b>627</b>	<b>(8,116)</b>	<b>26,335</b>

Group	Called up share capital	Share premium account	Own shares held reserve	Profit and loss account	Share based payment reserve	Hedging Reserve	Total equity
Year ended 30 June 2009	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of the year	261	26,528	(1,507)	30,427	477	2,022	58,208
<b>Comprehensive Income</b>							
Loss for the financial year	-	-	-	(40,607)	-	-	(40,607)
<b>Other comprehensive income</b>							
Transfer of share based payments reserve for expired options	-	-	-	296	(296)	-	-
Fair value losses on cash flow hedges	-	-	-	-	-	(9,590)	(9,590)
Tax on fair value losses on cash flow hedges	-	-	-	-	-	2,686	2,686
<b>Total comprehensive income</b>	-	-	-	(40,311)	(296)	(6,904)	(47,511)
Increase in Share Based Payment Reserve	-	-	-	-	225	-	225
<b>Closing shareholders' equity at 30 June 2009</b>	<b>261</b>	<b>26,528</b>	<b>(1,507)</b>	<b>(9,884)</b>	<b>406</b>	<b>(4,882)</b>	<b>10,922</b>

**Consolidated Statement of Cashflow**  
**For the six months ended 31 December 2009**

	<b>6 months ended 31 December 2009</b>	6 months ended 31 December 2008	Year ended 30 June 2009
	<b>£'000</b>	£'000	£'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	5,816	15,237	5,414
Tax repaid/(paid)	429	(712)	2,188
<b>Net cash inflow from operating activities</b>	<b>6,245</b>	14,525	7,602
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(7)	(6)	(113)
Proceeds from sale of property, plant and equipment	5	4	16
Interest received	-	4	-
Purchase of intangible assets	-	(13)	(43)
<b>Net cash outflow from investing activities</b>	<b>(2)</b>	(11)	(140)
<b>Net increase in cash and cash equivalents</b>	<b>6,243</b>	14,514	7,462
Cash and cash equivalents at the beginning of the period	683	(6,779)	(6,779)
<b>Cash and cash equivalents at the end of the period</b>	<b>6,926</b>	7,735	683
For the purposes of the cash flow statement, cash and cash equivalents comprise:			
Cash at bank and in hand	6,926	8,577	2,562
Bank overdrafts included within current borrowings	-	(842)	(1,879)
<b>Total</b>	<b>6,926</b>	7,735	683

**Notes to the Interim Report  
For the six months ended 31 December 2009**

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**1. Basis of preparation**

The interim report has been prepared in accordance with the Alternative Investment Market (AIM) Rule 18 and the accounting policies described below.

The Group is required to prepare its annual consolidated financial statements and its interim report in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

The financial information included in this interim report for the six months ended 31 December 2009 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006 and is unaudited, but subject to a review opinion. The comparative figures for the six months ended 31 December 2008 were also subject to a review opinion. The comparative figures for the year to 30 June 2009 have been extracted from the Group's consolidated financial statements, on which the auditors gave an unqualified opinion and did not make a statement under section 498 of the Companies Act 2006, which were approved by the Board on 29 September 2009 and delivered to the Registrar of Companies.

The interim report has been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments.

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

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

In late 2008 the Group conducted a review of its business activities concluding that the business was overly dependent on its property division and had marginal areas of activity, such as small ticket leasing and professional loans. The Group therefore ceased writing new business in these areas putting the portfolios into run – off. At the same time the trade and asset divisions continued to cautiously operate in view of their vulnerability to the economic downturn of their customer base of SMEs.

The Group's then strategy of focusing on its trade and asset portfolio whilst at the same time ceasing new facilities in property and recovering the current portfolio was supported by the Group's Banking Group with the agreement of a new two year financing facility in March 2009.

The facility contains covenants and other undertakings that were considered acceptable and appropriate to the revised strategy and were based upon detailed forecasts and an operational assessment of the business.

However, the sectors in which the Group operates have continued to present a challenging environment; especially those directly related to the property market which has seen a further decline in the division's trading performance and expected cash inflows below those originally assumed at the point of refinancing. This continued decline is reflective of the levels of non-performing debt within the division which has resulted in reduced income and difficulty in selling property assets. In addition, this slower pace of recovery of property loans has resulted in a continued funding cost burden in excess of that originally envisaged.

The debt burden is further impacting on the Group's profitability through the carrying of its swap portfolio. The strategy of the Group was to ensure the interest rate risk in relation to its fixed rate lending portfolios, i.e. property loans and asset finance loans, was mitigated through the use of fixed interest rate swaps. This of course was predicated upon the Group's portfolio remaining at or above those levels achieved during 2007/08 and did not anticipate that the Group would be faced with the current run down of its property portfolio.

The Group has therefore suffered both from being locked into funding cost rates in excess of current market rates (the weighted average of the swap portfolio is c.5.5% compared to 0.6% 3 month Sterling LIBOR rates) and also being in an over-hedged position whereby the notional swap values are in excess of the Group's debt levels.

The impact of continuing losses and a substantial loss of capital, primarily driven by a lower than expected realisation of the property portfolio both in terms of value and timing, led the Board to engage Hawkpoint, the Group's financial adviser, to conduct a strategic review process.

The process considered various scenarios including injecting new equity into the business, selling certain of its portfolios and the potential outcome of a managed run – off of the Group. The review has now progressed to discussions with a small number of parties and the Board will continue to run a thorough and orderly process. However, there remains material uncertainty as to the outcome of the strategic review and the Board now considers it likely that there will be little or no value remaining for ordinary shareholders in the Company.

The Group has retained the support of the Banking Group during the strategic review process and has proactively entered into detailed on-going discussions with them in considering the various strategic options. As part of this on-going support the Banking Group has granted appropriate waivers and extensions under the facility, currently until 30 April 2010, in order to allow the strategic review to be conducted in a thorough and orderly manner.

One of the key banking covenants relates to the quarterly step-downs of the Group's facility from the original level of £215m to £90m by 30 September 2010. Based upon the Group's current cashflow forecasts it is expected that the Group will continue to require ongoing banking support during the current financial year in respect of the further step-down requirements.

In addition, the Group has a tangible net worth covenant, calculated in accordance with UK GAAP principles, which requires the Group to have a tangible net worth (as defined within the terms of banking agreement) equal to or in excess of £20m as from the first testing point of 31 March 2010 and quarterly thereafter. The tangible net worth of the business as at 31 March 2010 (as defined under the terms within the banking agreement) is expected to be in the region of £12m.

The Board expects that the uncertainty surrounding the various potential outcomes of the strategic review will not be concluded for several months and thus on-going support will be required from the Banking Group.

Failure to obtain a covenant waiver would render the facilities in default and repayable on demand unless those members of the Banking Group who provided two thirds or more of the value of the facility chose not to accelerate the repayment of the facilities.

Although the Directors remain confident of an orderly outcome for the current strategic review process, it is not entirely within the Group's control, indicating a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

If this is the case, the Group and the Company may be unable to continue to realise assets and discharge liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

The Directors have concluded however that they have a reasonable expectation, based upon its current assessment of the Strategic Review that the Group will continue to have adequate resources to continue in operational existence for the foreseeable future under each of the strategic options currently being considered.

The Directors have, therefore, formed a judgment that it is appropriate to continue to adopt the fundamental going concern accounting concept and that the interim report can be prepared on a going concern basis.

As highlighted in the Chairman's and Group Managing Director's Statement, the Board considers it likely that a "serious loss of capital" as defined by S656 of the Companies Act has occurred. Whilst this is reflective of the Groups current trading position, this is not considered to impact on whether it is appropriate to prepare the Groups accounts on a going concern basis.

This interim report will be published on the Group's website, [www.davenham.co.uk](http://www.davenham.co.uk), in addition to the paper version posted to shareholders. The maintenance and integrity of the Group's website is the responsibility of the directors. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **2. Accounting Policies**

The accounting policies applied are consistent with those set out in the 2009 Annual Report and Accounts on pages 32 to 37.

## **3. Risks and uncertainties**

The Group is exposed to a number of risks arising from the nature of its business and the environment in which it operates. The Group operates in an environment that potentially exposes it to higher risks than other mainstream business to business asset secured finance providers, this being especially true of the Group's exposure to the property sector.

The principal risk categories facing the Group are outlined on pages 10 to 14 of our 2009 Annual Report and Accounts. These risks remain relevant for the foreseeable future and comprise primarily of Credit and Treasury Risk, including Counterparty Risk. In addition, risks associated with the funding position of the Group are set out in Note 1 above "Basis of Preparation".

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

As a result, Davenham's actual financial condition, performance and results may differ materially from the plans, goals and expectations set out in its forward looking statements contained in this document or any other forward-looking statement it may make.

#### 4. Segmental Information

A business segment is a distinguishable component of the Group that provides products that are subject to risks and returns that are different from those of other business segments. For management purposes the Group is organised into three operating segments: Property Finance, Trade Finance and Asset Finance, with funding and overheads being managed and accounted for through a central function.

The segmental income and results for the six months ended 31 December 2009 are as follows:

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
<b>Income</b>					
Revenue	9,932	2,995	4,490	6	17,423
Finance costs	(5,294)	(427)	(1,232)	(491)	(7,444)
<b>Gross Profit</b>	<b>4,638</b>	<b>2,568</b>	<b>3,258</b>	<b>(485)</b>	<b>9,979</b>
<b>Result</b>					
Segment result	(5,625)	252	179	(2,525)	(7,719)
Exceptional items					(232)
Taxation					(484)
<b>Loss for the period</b>					<b>(8,435)</b>

The segmental income and results for the six months ended 31 December 2008 were as follows:

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
<b>Income</b>					
Revenue	15,310	6,217	5,497	-	27,024
Finance costs	(4,511)	(1,416)	(1,889)	(180)	(7,996)
<b>Gross Profit</b>	<b>10,799</b>	<b>4,801</b>	<b>3,608</b>	<b>(180)</b>	<b>19,028</b>
<b>Result</b>					
Segment result	(25,718)	392	280	(3,697)	(28,743)
Exceptional items					(1,653)
Taxation					8,511
<b>Loss for the period</b>					<b>(21,885)</b>

The segmental income and results for the year ended 30 June 2009 were as follows:

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

## 5. Taxation

Following ongoing discussions with its advisors the Group has continued to maintain its position of no longer recognising any incremental increase in its deferred tax asset position from 1 July 2009. Accordingly, the amount of deferred tax not recognised amounted to £3m (£2008: £nil). The tax charge year to date reflects a deferred tax charge of £412k in relation to the positive movement of the IFRS portfolio adjustments and cashflow hedging positions and a £72k adjustment in respect of a prior year corporation tax debtor.

## 6. Earnings per share

	<b>6 months ended 31 December 2009 £'000</b>	6 months ended 31 December 2008 £'000	Year ended 30 June 2009 £'000
Loss attributable to all equity shareholders	<b>(8,435)</b>	(21,885)	(40,607)
Weighted average number of shares:	'000	'000	'000
Ordinary shares	<b>24,762</b>	24,762	24,762
Basic EPS	<b>(34.06p)</b>	(88.38p)	(163.99p)
Dilutive impact of share options:	'000	'000	'000
Ordinary shares	<b>24,762</b>	24,859	24,762
Diluted EPS	<b>(34.06p)</b>	(88.04p)	(163.99p)

## 7. Dividends

The Directors do not propose to pay an interim dividend in respect of the six month period to 31 December 2009 (period ended 31 December 2008 and year ended 30 June 2009: Nil).

## 8. Loans and receivables

	<b>31 December 2009 £'000</b>	31 December 2008 £'000	30 June 2009 £'000
Property Finance	81,043	130,285	110,071
Trade Finance	20,096	47,463	27,666
Asset Finance	43,026	69,566	53,207
Total loans and receivables	<b>144,165</b>	<b>247,314</b>	<b>190,944</b>
Comprising :			
Current assets	91,744	172,066	122,309
Non-current assets	52,421	75,248	68,635
	<b>144,165</b>	<b>247,314</b>	<b>190,944</b>

## Loan loss provision

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

<b>Group</b>	Property Finance	Trade Finance	Asset Finance	<b>Total</b>
<b>Six months ended 31 December 2009</b>	£'000	£'000	£'000	<b>£'000</b>
At 1 July 2009	39,798	2,917	5,408	48,123
Utilised	(5,008)	(2,143)	(4,881)	(12,032)
Recoveries of amounts previously written off	2,561	1,173	2,438	6,172
Charged to the income statement:				
Additional provisions created	2,735	1,671	3,527	7,933
Recoveries of amounts previously written off	(2,561)	(1,173)	(2,438)	(6,172)
	174	498	1,089	1,761
<b>At 31 December 2009</b>	<b>37,525</b>	<b>2,445</b>	<b>4,054</b>	<b>44,024</b>
Loan loss charge before gross-up adjustment	174	498	1,089	1,761
Gross-up adjustment	8,740	404	821	9,965
<b>Loan loss impairment charge</b>	<b>8,914</b>	<b>902</b>	<b>1,910</b>	<b>11,726</b>

<b>Group</b>	Property Finance	Trade Finance	Asset Finance	<b>Total</b>
<b>Six months ended 31 December 2008</b>	£'000	£'000	£'000	<b>£'000</b>
At 1 July 2008	3,150	1,301	1,254	5,705
Utilised	(97)	(47)	(1,161)	(1,305)
Recoveries of amounts previously written off	-	-	-	-
Charged to the income statement:				
Additional provisions created	27,663	2,168	1,466	31,297
Recoveries of amounts previously written off	-	-	-	-
	27,663	2,168	1,466	31,297
<b>At 31 December 2008</b>	<b>30,716</b>	<b>3,422</b>	<b>1,559</b>	<b>35,697</b>
Loan loss charge before gross-up adjustment	27,663	2,168	1,466	31,297
Gross-up adjustment	5,410	808	390	6,608
<b>Loan loss impairment charge</b>	<b>33,073</b>	<b>2,976</b>	<b>1,856</b>	<b>37,905</b>

<b>Group</b>	Property Finance	Trade Finance	Asset Finance	<b>Total</b>
<b>Year ended 30 June 2009</b>	£'000	£'000	£'000	<b>£'000</b>
At 1 July 2008	3,150	1,301	1,254	5,705
Utilised	(5,011)	(2,313)	(5,286)	(12,610)
Recoveries of amounts previously written off	1,972	1,179	2,633	5,784
Charged to the income statement:				
Additional provisions created	41,659	3,929	9,440	55,028
Recoveries of amounts previously written off	(1,972)	(1,179)	(2,633)	(5,784)
	39,687	2,750	6,807	49,244
<b>At 30 June 2009</b>	<b>39,798</b>	<b>2,917</b>	<b>5,408</b>	<b>48,123</b>
Loan loss charge before gross-up adjustment	39,687	2,750	6,807	49,244
Gross-up adjustment	14,711	1,332	1,426	17,469
<b>Loan loss impairment charge</b>	<b>54,398</b>	<b>4,082</b>	<b>8,233</b>	<b>66,713</b>

## 9. Borrowings

	<b>31 December 2009</b>	31 December 2008	30 June 2009
	<b>£'000</b>	£'000	£'000
Current			
Secured bank overdraft	-	842	1,879
Secured bank loan	<b>148,891</b>	-	81,000
	<b>148,891</b>	842	82,879
Non-current			
Secured bank loan	-	222,261	98,707
<b>Total borrowings</b>	<b>148,891</b>	223,103	181,586

In light of the recent covenant waivers granted and the Group's expectation that further covenant waivers may be required the loan facility has been classified as repayable within 12 months.

### **Serious Loss of capital**

Due to the continuing losses incurred by the Group, the Company will shortly be required to convene a General Meeting of shareholders pursuant to section 656 of the Companies Act 2006 (which requires the directors of a public company to call a general meeting where the net assets of that company are half or less of its called up share capital). The purpose of the meeting is to allow shareholders to consider whether any, and if so what, steps should be taken to deal with the situation – applicable documentation will be despatched to shareholders within the timeframes laid down by the Companies Act 2006.

## **Independent review report to Davenham Group plc**

### **Introduction**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2009, which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flow and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the basis of preparation set out in note 1.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the AIM Rules for Companies and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2009 is not prepared, in all material respects, in accordance with the basis set out in note 1 and the AIM Rules for Companies.

### **Emphasis of matter – going concern**

In forming our review conclusion, which is not qualified, we have considered the adequacy of the disclosures in note 1 to the condensed set of financial statements which explain that continuing experience of losses and a substantial loss of capital, primarily driven from exposures in the property sector, have led the directors to undertake a strategic review process. The Group is dependent on the continued support of the Banking Group or success in achieving alternative finance. These circumstances, along with other matters set out in note 1, indicate the existence of a material uncertainty which may cast significant doubt upon the Group's ability to continue as a going concern. The condensed set of financial statements does not include any adjustments that would be necessary if the Group were unable to continue as a going concern.

PricewaterhouseCoopers LLP  
Chartered Accountants  
31 March 2010  
Manchester