

positive thinking in business finance

Davenham Group plc Interim Report 2008



trade finance
property finance
asset finance

davenham 
positive thinking in business finance

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Highlights

for the six months ended 31 December 2008

Financial performance summary:

- **Loan portfolio* reduced to £249 million at 31 December 2008**
(at 30 June 2008: £284 million)
- **Revenue increased by 4% to £27.0 million** (2007: £26.0 million)
- **Pre-tax loss of £30.4 million** (2007: pre-tax profit of £5.8 million)
- **Diluted loss per share of 88.0p** (2007: earnings per share of 16.3p)
- **Impairment charge of £31.3 million (£37.9 million inclusive of gross up)**
(2007 : £1.5 million (£3.0 million inclusive of gross up)) of which c.90% is in relation to the impairment of the property portfolio
- **Net asset value £26.3 million** (2007: £51.0 million)

Strategic and restructuring update:

- **Successful £215 million refinancing of the Group's banking facilities to support new strategy**
- **Extensive strategic review carried out, resulting in focus on:**
 - operating trade and asset portfolios within appropriate parameters; and
 - ceasing writing new facilities whilst optimising recoveries from property portfolio
- **Good progress with de-leveraging the business to a smaller operating and cost base**
 - Loan portfolio* reduced further to £221 million as at close of business on 25 March 2009
 - Sales offices in Scotland, Liverpool, Newcastle and Bristol closed
 - Headcount reduced by 31%
- **Annualised cost savings of £3.1 million are expected to be realised**
- **£1.7 million of exceptional restructuring costs incurred in the reporting period**

* including letters of credit

Commenting on strategy and outlook, David Coates, Chief Executive, said:

"The Board's decisive action in changing Davenham's strategy has enabled the Group to reduce its credit risks, operating costs and financial leverage as well as to optimise its property recoveries, thereby delivering the Group to a position where it has successfully gained the support of its Banking Group.

"The Group's ongoing core asset and trade divisions are expected to be able to steer a sensible but cautious route through the remainder of the current financial year.

"The economic environment remains challenging but our successful refinancing positions Davenham to deliver on its new strategy."

Chairman's Statement

Introduction

The six months since my annual statement in September have seen unprecedented instability within the global financial system, culminating in the collapse of a number of US investment banks and the part nationalisation of certain British Banks. The UK economy and banking system have, arguably, not seen such a severe economic crisis since the beginning of the First World War. The economy is likely to remain in recession for the foreseeable future.

In late 2007 the Board instigated various initiatives which have over the past months resulted in a full strategic review of the business being undertaken in consultation with its advisors. This review has now been completed and has received the full support of our banking syndicate through a new two year banking agreement, putting the Group on a sound footing for the future.

It is against this backdrop that we report the Group's results for the six months ended 31 December 2008.

Performance Summary

The results for the six months ended 31 December 2008 showed a pre-tax loss of £30 million (31 December 2007 a pre-tax profit of £6 million), after a £31 million impairment charge, before gross up, for the period.

Revenue for the six months to 31 December 2008 increased by 4% to £27million (2007: £26 million).

Impairment charge for the six months to 31 December 2008, before gross up, of £31 million (2007: £1.5 million).

Fully diluted losses per share for the six months ended 31 December 2008 were 88.0p (2007: earnings per share of 16.3p).

The net assets of the Group were £26 million (2007: £51 million), primarily reflecting an

increased level of impairment in relation to the property portfolio.

Dividend policy

As stated in the recent Trading Statement the Group has agreed with its Banking Group not to make dividend distributions in the short term. This followed the withdrawal on 20 October 2008 of the Board's recommendation for a final dividend of 7p per share which had been due to be approved by shareholders at the Annual General Meeting on Friday 24 October 2008.

The suspension of dividend payments has the benefit of conserving cash for the Group during these uncertain times. In the longer term, the Board intends to return to a progressive dividend policy subject to the Group's profitability and cash position.

Our People

We are confident that the professionalism of our high calibre and well-trained staff will support our strong service and risk management culture during this challenging economic climate. We thank all our staff who have contributed to the business during the period under review.

Summary

Much progress has been made since the Autumn of last year: we have conducted an extensive and detailed strategic review of the business and our restructuring initiatives have been implemented, with the full support of our syndicate of banks.

The economic environment remains uncertain but the successful refinancing and restructuring leaves Davenham better placed to meet the continuing challenges.

James Kerr-Muir

Chairman

26 March 2009

Chief Executive's Statement

Introduction

The worldwide credit crunch has led to significant stock market and financial losses, a severe shortage of capital, poor liquidity and a material lack of confidence amongst all financial institutions worldwide. The UK, like most western economies, is now in the grip of recession, with rising unemployment and increasing personal and company insolvencies.

Inevitably, the markets in which Davenham operates have been exposed to this rapidly deteriorating climate and unprecedented turmoil. We have spent the period since the Autumn of 2008 handling the resulting impact on the business.

Trading Overview

Since the Autumn of 2008 the deteriorating economy has affected Davenham in three principal ways:

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

As reported in our preliminary results in September 2008, the Board had been adopting an increasingly cautious approach to new

business criteria for some time. However, it soon became apparent that we were going to experience a much deeper and quicker economic downturn than expected in many of our core markets. This caused a significant rise in the level of loan impairment of Davenham's property loan portfolio, as a result of its client base experiencing problems either selling or refinancing their assets.

With the above in mind, Davenham instigated an extensive and detailed strategic review of its operations in late 2008, seeking to re-set its strategy in line with the revised trading conditions.

Strategic Review

In this context, during the last few months we have carried out a thorough review of the business, leading to our decision to focus on operating our trade and asset portfolios within appropriate parameters, whilst optimising recoveries from our property portfolio.

The review confirmed that the Group's business model is still strategically sound. However, it became clear that the business was too highly geared given the outlook for capital markets over the next few years. Furthermore, the business was considered to be overly dependent on its property division and to have marginal areas of activity, such as small ticket leasing and professional loans. At the same time the trade and asset divisions, whilst enjoying high levels of new business proposals, had to be cautiously operated in view of their vulnerability to the economic downturn of their customer base of SMEs.

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

Chief Executive's Statement continued

Operating Review

As announced on 20 October 2008, the Board enacted a number of restructuring initiatives during the period. In conjunction with this review, further restructuring actions have been subsequently initiated. The Group has:

- ceased writing new facilities in property and is applying highly selective criteria to trade and asset lending, to exclude new small ticket leasing and professional loans facilities;
- substantially increased the resources in our recovery teams, notably in property;
- closed sales offices in Scotland, Liverpool, Bristol and Newcastle; and
- reduced headcount across the Group by 31% to reflect the reduced scale of the business.

As a result of these actions:

- the overall net loan book, including letters of credit, has reduced from £284 million at 30 June 2008 to £249 million at 31 December 2008, with a further reduction to £221 million at close of business on 25 March 2009;
- the net property loan portfolio represented £130 million at 31 December 2008 compared to £155 million at 30 June 2008; and
- we expect to realise annualised cost savings of £3.1 million, with exceptional costs of £1.7 million in relation to the restructuring having been incurred in the first six months of the current financial year.

We have also conducted a comprehensive assessment of our portfolio, which has resulted in a £31 million impairment charge (pre gross up) during the period, c.90% of which is in relation to the impairment of our property loans.

As at the Balance Sheet date, Davenham's net asset value of £26 million equated to approximately 100p per share.

The de-leveraging will continue with the intention of reducing our gross property book over the next two years from £161 million to circa £30 million. As at the Balance Sheet date, the Group had made a total loan loss provision of £31 million against its property portfolio.

The Group has incurred one off costs in respect of the restructuring covering redundancy, banking, office closure and other restructuring costs. The Group anticipates having to incur holding costs in respect of financing the increased levels of non-performing assets.

Finally, as a result of the Group's new strategy, the three loan portfolios will be more evenly balanced:

Asset Division

The Group is now focused on larger asset backed transactions and the Asset business, which spans a broad selection of assets, continues to trade at satisfactory levels.

Trade Division

The Group is enjoying a higher quality of new business particularly across invoice finance in response to the increasing caution of the clearing banks. The fall in the value of sterling against both the US dollar and Euro has reduced the division's trade finance activities.

Property Division

Davenham is writing no new business apart from honouring existing loan commitments and draw downs sanctioned prior to October 2008.

Refinancing

Davenham has agreed a new two year facility, with effect from March 2009, which is 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 commences at £215 million and contains covenants and other undertakings (including the need to obtain Banking Group consent to the payment of any dividends) that the Board considers acceptable and appropriate in the context of the new strategy. It is Davenham's objective that the banking facility shall be reduced to approximately £90 million over the next two years.

The new facility has been arranged by the Royal Bank of Scotland ("RBS") with the support of the existing syndicate of banks and Davenham's advisory team. The Board of Davenham is grateful to all those involved in the refinancing process and thank them for their support.

The interest rate of the new agreement is 3% over Libor. We are ensuring that our margins are maintained by pricing new client facilities to reflect our current financing costs.

Outlook

The Board's decisive action in changing Davenham's strategy is enabling the Group to reduce its credit risks, operating costs and financial leverage as well as to optimise its property recoveries.

The Group's ongoing core asset and trade divisions are expected to be able to steer a sensible but cautious route through the remainder of the current financial year, benefiting from lower overheads.

The economic environment remains challenging but our successful refinancing positions Davenham to deliver on its new strategy.

David Coates
Chief Executive

26 March 2009

Consolidated Income Statement

for the six months ended 31 December 2008

	Notes	6 months ended 31 December 2008 £'000*	6 months ended 31 December 2007 £'000*	Year ended 30 June 2008 £'000*
Revenue	4	27,024	25,969	53,148
Finance costs		(7,996)	(8,174)	(16,391)
Gross profit		19,028	17,795	36,757
Administrative expenses		(49,424)	(12,011)	(24,022)
Operating (loss)/profit		(30,396)	5,784	12,735
Operating (loss)/profit before exceptional items		(28,743)	6,102	13,053
Exceptional costs relating to				
Bid defence		–	(318)	(318)
Redundancy & refinancing		(1,653)	–	–
Operating (loss)/profit		(30,396)	5,784	12,735
Taxation	5	8,511	(1,666)	(3,891)
(Loss)/Profit for the period		(21,885)	4,118	8,844
Earnings per share	6			
– Basic		(88.38p)	16.66p	35.75p
– Diluted		(88.04p)	16.29p	35.17p
Dividends per Share	7			
– Paid during the period		Nil	10.38p	15.06p
– Proposed		Nil	4.68p	7.00p

* The figures contained within the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement and related notes for the six months ended 31 December 2008 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 2007 are unaudited. Those in respect of the year ended 30 June 2008 have been extracted from the Group's audited consolidated financial statements.

Consolidated Balance Sheet

as at 31 December 2008

	Notes	31 December 2008 £'000	31 December 2007 £'000	30 June 2008 £'000
ASSETS				
Non-current assets				
Goodwill		1,909	1,909	1,909
Other intangible assets		748	837	780
Property, plant & equipment		820	1,098	1,023
Loans & advances to customers	8	75,248	86,290	53,808
Deferred taxation asset		8,293	2,651	1,594
Derivative financial instruments		520	235	1,853
		87,538	93,020	60,967
Current assets				
Loans & advances to customers	8	172,066	196,493	222,778
Other receivables, prepayments & accrued income		1,150	1,375	1,151
Current tax asset		1,630	–	–
Derivative financial instruments		69	114	995
Cash and cash equivalents		8,577	5,936	2,416
		183,492	203,918	227,340
Total assets		271,030	296,938	288,307
LIABILITIES				
Current liabilities				
Borrowings	9	842	3,339	9,195
Current tax liabilities		–	4,210	4,835
Derivative financial instruments		5,533	804	10
Trade and other payables		9,731	6,152	6,000
		16,106	14,505	20,040
Non-current liabilities				
Borrowings	9	222,261	229,810	210,030
Derivative financial instruments		6,328	1,629	29
		228,589	231,439	210,059
Total liabilities		244,695	245,944	230,099
Net Assets		26,335	50,994	58,208
SHAREHOLDERS' EQUITY				
Share capital		261	261	261
Share premium		26,528	26,523	26,528
Own shares held reserve		(1,507)	(1,370)	(1,507)
Retained earnings		8,542	26,724	30,427
Share based payment reserve		627	356	477
Hedging reserve		(8,116)	(1,500)	2,022
Total Shareholders' equity	10	26,335	50,994	58,208

Consolidated Statement of Recognised Income and Expense

for the six months ended 31 December 2008

	6 months ended 31 December 2008 £'000	6 months ended 31 December 2007 £'000	Year ended 30 June 2008 £'000
(Loss)/Profit for the period	(21,885)	4,118	8,844
Cash flow hedges:			
– Fair value adjustment	(14,081)	(3,584)	1,309
– Tax on fair value adjustment	3,943	1,004	(367)
Net (losses)/gains recognised directly in equity	(32,023)	1,538	9,786

Consolidated Cash Flow Statement

for the six months ended 31 December 2008

	6 months ended 31 December 2008 £'000	6 months ended 31 December 2007 £'000	Year ended 30 June 2008 £'000
Cash flows from operating activities			
Cash generated from operations	15,237	9,153	3,206
Tax paid	(712)	–	(1,915)
Net cash inflow from operating activities	14,525	9,153	1,291
Cash flows from investing activities			
Acquisition of business and subsidiary undertakings	–	–	(240)
Purchase of property, plant and equipment	(6)	(145)	(168)
Proceeds from sale of property, plant and equipment	4	4	4
Interest received	4	–	–
Purchase of intangible assets	(13)	(165)	(261)
Net cash outflow from investing activities	(11)	(306)	(665)
Cash flows from financing activities			
Proceeds from issue of share capital	–	21	26
Exercise of own shares for Employee Benefit Trust	–	137	–
Dividends paid to shareholders	–	(2,701)	(3,724)
Net cash outflow from financing activities	–	(2,543)	(3,698)
Net increase/(decrease) in cash and cash equivalents	14,514	6,304	(3,072)
Cash and cash equivalents at the beginning of the period	(6,779)	(3,707)	(3,707)
Cash and cash equivalents at the end of the period	7,735	2,597	(6,779)

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

Cash at bank and in hand	8,577	5,936	2,416
Bank overdrafts included within current borrowings	(842)	(3,339)	(9,195)
Total	7,735	2,597	(6,779)

Notes to the Interim Report

for the six months ended 31 December 2008

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 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and is unaudited, but subject to a review opinion. The comparative figures for the six months ended 31 December 2007 were also subject to a review opinion. The comparative figures for the year to 30 June 2008 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 237 of the Companies Act 1985, which were approved by the Board on 8 September 2008 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.

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

The Group's new strategy of focusing on its trade and asset portfolio whilst at the same time ceasing new facilities in property and recovering the current portfolio has been supported by the Banking Group with the agreement of a new two year financing facility. The facility contains covenants and other undertakings that are considered acceptable and appropriate to the revised strategy and are based upon a detailed strategic and operational assessment of the business which is supported by the Banking Group.

The Group is in compliance with its banking facility at the date of approval of the interim report and the Group's internal forecasts indicate that it will remain in compliance for the foreseeable future.

The sectors in which the Group operates, especially the property market, continue to present a challenging environment. If the conditions in the economic environment, especially those directly related to the property sector were to decline below those that have been assumed in the Group's current forecasts, notwithstanding any proactive management action, then there is a risk that the Group may generate lower than forecast cashflow levels or experience further levels of impairment over and above those currently anticipated. This risk represents a material uncertainty which may give rise to the Group revisiting its covenant package with the Banking Group. In this instance the Group may be unable to reset its covenants or obtain other funding, which may then cast significant doubt about the entity's ability to continue as a going concern such that the Group could be unable to realise its assets and discharge its liabilities in the normal course of business. The interim report does not contain the adjustments that would result if the Group was unable to continue as a going concern.

1. Basis of preparation continued

The Directors have concluded however that they have a reasonable expectation, based upon the Group's current trading, cashflow forecasts and the actions taken as highlighted in the Chief Executive's Report, notwithstanding additional mitigating actions that could be taken, that the Group will continue to have adequate resources to continue in operational existence for the foreseeable future. The Group continues to comply with its facility agreement and enjoys a close working relationship with its Banking Group who fully understand the dynamics of the business model.

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

This interim report will be published on the Group's website, 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 2008 Annual Report and Accounts on pages 30 to 35.

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 page 12 of our 2008 Annual Report and Accounts. These risks remain relevant for the foreseeable future and comprise primarily of Credit and Treasury Risk, including Counterparty Risk.

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.

Notes to the Interim Report continued

for the six months ended 31 December 2008

4. Segmental reporting

A business segment is a distinguishable component of the Group that provides products that are subject to risks and returns that are different from those of other business segments. For management purposes the Group is organised into three operating segments: Property Finance, Trade Finance and Asset Finance, 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 2008 are as follows:

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
Income					
Revenue	15,310	6,217	5,497	–	27,024
Finance costs	(4,511)	(1,416)	(1,889)	(180)	(7,996)
Gross Profit	10,799	4,801	3,608	(180)	19,028
Result					
Segment result	(25,718)	392	280	(180)	(25,226)
Central expenses					(3,517)
Loss before taxation and before exceptional items					(28,743)
Exceptional items					(1,653)
Taxation					8,511
Loss for the period attributable to equity holders of the Group					(21,885)

The segmental income and results for the six months ended 31 December 2007 were as follows:

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
Income					
Revenue	14,017	6,282	5,670	–	25,969
Finance costs	(4,241)	(1,815)	(1,839)	(279)	(8,174)
Gross Profit	9,776	4,467	3,831	(279)	17,795
Result					
Segment result	6,106	1,686	982	(279)	8,495
Central expenses					(2,393)
Profit before taxation and before exceptional items					6,102
Exceptional items					(318)
Taxation					(1,666)
Profit for the period attributable to equity holders of the Group					4,118

4. Segmental reporting continued

The segmental income and results for the year ended 30 June 2008 were as follows:

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
Income					
Revenue	29,273	12,187	11,688	–	53,148
Finance costs	(7,668)	(2,530)	(5,634)	(559)	(16,391)
Gross Profit	21,605	9,657	6,054	(559)	36,757
Result					
Segment result	12,583	4,036	1,245	(559)	17,305
Central expenses					(4,252)
Profit before taxation and before exceptional items					13,053
Exceptional items					(318)
Taxation					(3,891)
Profit for the year attributable to equity holders of the Group					8,844

5. Taxation

Taxation for the six month period to 31 December 2008 is based upon the effective rate of taxation (28%) that is estimated to apply for the year ending 30 June 2009.

6. Earnings per share

	6 months ended 31 December 2008 £'000	6 months ended 31 December 2007 £'000	Year ended 30 June 2008 £'000
Earnings attributable to all equity shareholders	(21,885)	4,118	8,844
Weighted average number of shares:	'000	'000	'000
Ordinary shares	24,762	24,715	24,740
Basic EPS	(88.38p)	16.66p	35.75p
Dilutive impact of share options:	'000	'000	'000
Ordinary shares	24,859	25,279	25,148
Diluted EPS	(88.04p)	16.29p	35.17p

Notes to the Interim Report continued

for the six months ended 31 December 2008

7. Dividends

6 months ended 31 December 2008 £'000	6 months ended 31 December 2007 £'000	Year ended 30 June 2008 £'000
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Amounts recognised as a distribution in the period in respect of:

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

The Directors do not propose to pay an interim dividend in respect of the six month period to 31 December 2008. Included in the dividend payment of £3.9m were dividends of £0.2m paid to the Employee Benefit Trust.

8. Loans and receivables

	31 December 2008 £'000	31 December 2007 £'000	30 June 2008 £'000
Property Finance	130,285	154,908	154,644
Trade Finance	47,463	60,947	50,567
Asset Finance	69,566	66,928	71,375
Total loans and receivables	247,314	282,783	276,586
Comprising:			
Current assets	172,066	196,493	222,778
Non-current assets	75,248	86,290	53,808
	247,314	282,783	276,586

Loan loss provision

The following tables provide an analysis of the movement of the Group's loan loss provision and charge during 2008 and 2007:

Group	Property finance £'000	Trade finance £'000	Asset finance £'000	Total £'000
Six months ended 31 December 2008				
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
At 31 December 2008	30,716	3,422	1,559	35,697
Loan loss charge before gross-up adjustment	27,663	2,168	1,466	31,297
Gross-up adjustment	5,410	808	390	6,608
Total bad and doubtful debt charge	33,073	2,976	1,856	37,905

8. Loans and receivables continued

Group	Property finance £'000	Trade finance £'000	Asset finance £'000	Total £'000
Six months ended 31 December 2007				
At 1 July 2007	1,553	836	2,538	4,927
Utilised	(879)	9	(1,236)	(2,106)
Recoveries of amounts previously written off	9	99	126	234
Charged to the income statement:				
Additional provisions created	427	505	777	1,709
Recoveries of amounts previously written off	(9)	(99)	(126)	(234)
	418	406	651	1,475
At 31 December 2007	1,101	1,350	2,079	4,530
Loan loss charge before gross-up adjustment	418	406	651	1,475
Gross-up adjustment	928	275	280	1,483
Total bad and doubtful debt charge	1,346	681	931	2,958

Group	Property finance £'000	Trade finance £'000	Asset finance £'000	Total £'000
Year ended 30 June 2008				
At 1 July 2007	1,553	836	2,538	4,927
Utilised	(231)	(573)	(2,457)	(3,261)
Recoveries of amounts previously written off	9	99	155	263
Charged to the income statement:				
Additional provisions created	1,828	1,038	1,173	4,039
Recoveries of amounts previously written off	(9)	(99)	(155)	(263)
	1,819	939	1,018	3,776
At 30 June 2008	3,150	1,301	1,254	5,705
Loan loss charge before gross-up adjustment	1,819	939	1,018	3,776
Gross-up adjustment	2,563	534	565	3,662
Total bad and doubtful debt charge	4,382	1,473	1,583	7,438

Notes to the Interim Report continued

for the six months ended 31 December 2008

9. Borrowings

	31 December 2008 £'000	31 December 2007 £'000	30 June 2008 £'000
Current			
Secured bank overdraft	842	3,339	9,195
Non-current			
Secured bank loan	222,261	229,810	210,030
Total borrowings	223,103	233,149	219,225

The Group has agreed a new two year facility, with effect from March 2009, which is 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 commences at £215 million and contains covenants and other undertakings (including the need to obtain Banking Group consent to the payment of any dividends) that the Board considers acceptable and appropriate in the context of the new strategy. It is the Group's objective that the banking facility shall be reduced to approximately £90 million over the next two years.

10. Reconciliation of movements in Shareholders' equity

	6 months ended 31 December 2008 £'000	6 months ended 31 December 2007 £'000	Year ended 30 June 2008 £'000
At beginning of period	58,208	51,920	51,920
New shares issued (net of associated costs)	–	21	26
Decrease in own shares held reserve	–	137	–
Increase in Share Based Payment Reserve	150	79	200
(Loss)/Profit for the period	(21,885)	4,118	8,844
Dividends	–	(2,701)	(3,724)
Fair value gains on cash flow hedges	(14,081)	(3,584)	1,309
Tax on fair value gains on cash flow hedges	3,943	1,004	(367)
Closing shareholders' equity	26,335	50,994	58,208

Independent review report to Davenham Group plc

Introduction

We have been engaged by the company to review the condensed set of consolidated financial statements in the interim report for the six months ended 31 December 2008, which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules for Companies which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the company's annual financial statements.

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 interim 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 consolidated financial statements in the interim 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 consolidated financial statements in the interim report for the six months ended 31 December 2008 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

Without qualifying our conclusion, we have considered the adequacy of the disclosures in note 1 to the interim report which indicate the risk of conditions in the economic environment and their impact on the property sector declining beyond the levels assumed in the Group's forecasts. These conditions indicate, along with all other matters set out in note 1, the existence of a material uncertainty, which may require the Group to revisit its covenants. In this instance, the failure to agree a revision or obtain other funding may cast significant doubt upon the Group's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants
Manchester

26 March 2009

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