

Under embargo for 7am

8 September 2008

Davenham Group plc

Preliminary Results

For the year ended 30 June 2008

“Strong performance in challenging markets”

Davenham, a leading independent asset based lender to the UK SME sector, today announces its preliminary results, the first to be prepared under IFRS, for the year ended 30 June 2008.

Financial Highlights:

- Loan portfolio* at the year end of £284m (2007: £271m)
- Group revenue increased by 27% to £53.1m (2007: £41.8 m)
- Underlying profit before taxation**rose by 13% to £13.1m (2007: £11.6m)
- Statutory profit before tax rose by 9% to £12.7m (2007: £11.6m)
- Basic earnings per share increased by 7% to 35.75p (2007: 33.44p)
- Final recommended dividend of 7.0p gives a total dividend of 11.68p (2007: 14.83p)
- Impairment charge of £7.4m (2007: £6.3m)
- Net assets increased by 12% to £58.2m (2007: £51.9m)
- £300m borrowing facilities committed until December 2009; £211m drawn down at 30 June 2008

* including letters of credit

** before £0.3m exceptional costs in the year ended 30 June 2008 in relation to bid defence costs

Operational highlights:

- Continued strategic progress through an increased geographical footprint
- Strengthened management team; appointed new Directors of Property and Asset Finance
- Significantly enhanced risk management and information systems
- Tightened lending criteria in response to a more challenging environment

Current Trading

- Property portfolio has continued to see an increase in impairment and a reduction in new lending
- Increased new business in asset and trade finance

Commenting on the results and outlook, David Coates, Chief Executive, said:

“Davenham has delivered profit and earnings in the year ended 30 June 2008 which are significantly ahead of last year and in line with expectations, despite an increasingly challenging economic environment.

“We have taken decisive action to meet the challenges of this operating environment by consolidating our operations and controlling costs whilst focussing our resources on managing the business through these conditions.

“The combination of our strengthened credit and risk function, our solid balance sheet and our experienced management team both at Board and operational level, leaves Davenham, with a robust business model, well placed to rise to the near term challenges.”

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About Davenham:

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 £5 million. Davenham has a diverse loan portfolio, with its lending activities organised into the following divisions: property finance, asset finance and trade finance.

Davenham provides asset based lending to such organisations that are not adequately serviced by mainstream lenders, who tend to adopt a formulaic approach to lending decisions. This funding is used to finance short term property transactions, the acquisition of plant, machinery and equipment and the funding of stock, debtors and letters of credit.

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

Chairman's Statement

I am pleased to report that for the year ended 30 June 2008 the Group has performed ahead of the prior year and in line with expectations notwithstanding an increasingly challenging operating environment.

The Group's performance reflects management's actions in recent years to develop Davenham's infrastructure and risk controls, and the continued strengthening of the Group's position as the leading, independent asset-based lender to the UK SME sector.

Our Performance

These are the first full year results to be prepared under International Financial Reporting Standards (IFRS) and all figures for the comparative period are restated under IFRS.

In the year ended 30 June 2008, Group revenue increased by 27% to £53.1m (2007: £41.8m). Operating profit before taxation and before exceptional items, rose by 13% to £13.1m (2007: £11.6m) and earnings per share increased by 7% to 35.75p (2007: 33.44p).

At the year end, £211m had been drawn down from the Group's £300m funding facilities and the loan portfolio, including letters of credit, stood at £284m (2007: £271m).

The IFRS impairment charge for the year rose to £7.4m (2007: £6.3m), primarily driven by the weakness of the property market and the falling number of redemptions resulting from lower sales volumes.

Group net assets increased by 12% to £58.2m (2007: £51.9m).

Dividend Policy

The Board's stated progressive dividend policy takes account of the underlying growth in long-term earnings and the capital base of the Group, while acknowledging the requirement for continuing investment to underpin growth over the longer term. However, and as indicated in the Chief Executive's Statement below, the current economic downturn is expected to have an adverse effect on the Group's business, impacting earnings and the capital base of the Group. The Board has, therefore, concluded that it is prudent to take action ahead of an anticipated reduction in profitability and, accordingly, the Board is recommending a reduction in the final dividend to 7.00p (2007: 10.38p) per share. The total dividend for the year will be 11.68p per share (2007: 14.83p).

Subject to shareholder approval at the Group's Annual General Meeting, the final dividend will be payable on 31 October 2008 to shareholders on the register at close of business on 3 October 2008.

In future years, the Board intends to resume its progressive dividend policy from a lower base.

Our People

Our people are our most valued asset and on behalf of the Board I would like to thank all of our employees for their tremendous contribution and continued focus during these challenging times. We are confident that the professionalism of our high calibre and well-trained staff will continue to deliver the strong service and risk management culture which is the cornerstone of the Group's development.

Summary

We have made significant investment in the business over the past few years, continuing to strengthen our credit and risk processes following the appointment of our Risk Director, David Bowles, 18 months ago. Against the background of a challenging economic climate and an increase in the level of impaired debt, we have taken decisive action to consolidate the business, to control costs and to concentrate our resources on effectively managing the business through these conditions. We remain cautious for the medium term, but will continue to focus on achieving longer term shareholder value.

James Kerr-Muir
Chairman
8 September 2008

Chief Executive's Statement

Davenham has delivered profit and earnings in the year ended 30 June 2008 ahead of last year and in line with expectations despite an increasingly challenging economic environment.

We continue to make progress in consolidating the Group's position as the leading, independent asset based lender to the UK SME sector. Our recently added operations in Bristol and Glasgow achieved good growth and our investment in infrastructure continued to underpin progress.

Business Overview

Davenham is a secured lender, with relatively short term finance provided to SMEs for property transactions; the acquisition of plant, machinery and equipment; and the funding of stock, debtors and short term letters of credit. The Group has a diverse loan portfolio with lending activities organised into three product segments: property finance, asset finance and trade finance. The loan portfolio within each product segment is broadly spread by both sector and geography. A key indicator of the broad spread of our portfolio is that no individual customer exposure accounts for more than 1.4% of the overall portfolio.

Operational Review

The portfolio grew strongly in the first half of the year reducing in the second half reflecting Davenham's increasingly conservative approach to underwriting new business.

Since the start of the calendar year, Davenham has continued to experience credit slippage across its risk classifications in the property portfolio as disclosed in Note 8 of the Preliminary Results. The Board believes it is prudent to plan for continuing challenging economic conditions, and is budgeting for an increase in the level of impairment during the current financial year.

Since the autumn of 2007 we have tightened our lending criteria, particularly in respect to valuations, marketing periods and loan value metrics within the property book. We will continue to adapt our lending criteria to reflect the changing economic conditions.

In addition, we are re-pricing our facilities to improve margins on more conservatively written loans to respond to the changing environment for credit risk and our clients' requirements.

Loan Portfolio

At the year end, the loan portfolio, including letters of credit, had increased year on year by approximately 5% to £284m (2007: £271m).

Over the year, our customer base grew from 4,814 to 5,050 accounts, representing a broad geographical and sector spread. The overall average exposure of the portfolio now stands at £64,000 (2007 : £65,000).

Property Finance

The Property Finance loan book stood at £155m at the year end (2007: £150m), representing 55% of the Group loan portfolio and generating 55% of the overall loan portfolio income for the year.

Typically, finance is provided for added value development, refurbishment and building projects with an average loan to value of 80% and an average loan size of £435,000. In most cases, loans are not only secured against the property being developed but also supported by personal guarantees and other properties and assets owned by the developer. The portfolio as at 30 June 2008 had a broad geographical spread, with 34% in the North West, 21% in the West and Midlands, 22% in Yorkshire and the North East, with the remainder across the South East 14%, South West 8% and Scotland 1%.

In October 2007, we promoted Anne Murray to the position of Divisional Director. She has eight years experience in the division and has been instrumental in managing our increasingly more cautious approach across the property loan portfolio.

As previously reported, we have decided to be far more selective in underwriting new business transactions through the adoption of more conservative lending criteria. This, combined with a significantly reduced volume of good quality new opportunities, is expected to reduce our overall income from the property book.

Asset Finance

Asset Finance performed well, with the loan book increasing from £65m to £71m, representing 25% of the Group's year end loan portfolio and 22% of the overall loan portfolio income during the year. During the year, the average loan size was £23,000 with an average duration of 41 months. Manor Credit, which was acquired in June 2007, was successfully integrated into the Group.

During the year, we appointed a new Divisional Director, Tim Morris, who has extensive experience and contacts in the credit industry and as a result we expect our business referrer contact base to increase.

We anticipate continuing growth in the asset portfolio in the short to medium term.

Trade Finance

The Trade Finance loan book grew by 4% from £56m to £58m (including letters of credit), representing 20% of the Group's year end loan portfolio and generating 23% of the Group's loan portfolio income during the year. It remains broadly spread in terms of its client sectors. The average loan size during the year was £389,000 with an average term of 90 days.

Within the context of the natural seasonality of the trade finance book, we saw subdued trading in the first few months of our financial year, reflecting the abundance of credit available at the top of the credit cycle for these types of deals. However, there has since been a marked reversal of this trend. As mainstream banks restrict overdraft financing at this stage in the economic cycle, and as our trade finance products offer an alternative to such funding, we expect to see increases in demand in this division.

National Footprint

During the year we consolidated our existing geographical expansion, growing our team across the UK from 179 to 184 as at 30 June 2008. We again saw growth in our London office, which increasingly contributed towards Group performance, as have the recently established offices in Bristol and Glasgow.

Investment in Operational Infrastructure

We have continued to expand our operational infrastructure:

Risk

We have expanded our risk and recoveries department to a total of 14 dedicated people, from diverse professional backgrounds including insolvency practitioners and valuers, and we have also enhanced our portfolio management information systems.

People

Davenham is defined by the skills and knowledge of its people; it is dependent on their talent and diligence in every aspect of the business. Recognising the need to compete for the highest calibre people at every level within the Group, we have continued to invest in training and infrastructure to support staff development. During the year, this has taken the form of implementing development and leadership programmes for our senior managers and the introduction of the employment and remuneration infrastructure required to support performance-based incentivisation structures for our middle tier managers.

Marketing & Brand Development

Our marketing and brand are an important support for our reputation as a leader in our field amongst our referrer network. During the year, we undertook some third party research which, encouragingly, highlighted Davenham's reputation for professionalism and the positive approach to dealing with its stakeholders. Following this research, we have updated our brand image and marketing literature, albeit at minimal investment cost.

Treasury & Funding

Under the governance of its Asset and Liability Committee (ALCO), the Group continues to use derivatives selectively. The ALCO continues to give direction to the Group treasury strategy, focusing on the management of the Group's balance sheet, its funding mix, liquidity needs and interest rate exposure.

Funding

At the year end, £211m had been drawn down from the Group's £300m borrowing facilities. The seasonal high was £235m.

Davenham's principal facilities are committed until December 2009 and they provide the Group with sufficient funding for its plans during 2009.

The Group continues to maintain close, long-standing relationships with its banking syndicate and aims to complete its refinancing early in 2009, resulting in an increase in the cost of funding, in line with the increase in financing costs seen across the credit industry.

Current Trading and Outlook

We see positive signs of increased new business within our asset and trade finance products as SMEs seek alternatives to increasingly scarce funding from mainstream banks. In particular, we see attractive opportunities for clients to release cashflow for working capital purposes from the assets they already hold.

However as highlighted by the more recent statistics and political commentary surrounding the property market, we are recording a continued increase in the level of impairment within our own property portfolio. This has been driven by increasing pressure on valuations, longer marketing periods and the decreasing number of property sales. Accordingly, this is currently expected to reduce profits through a combination of lower levels of new business and an increase in impairment.

We expect the current economic conditions to prevail for the medium term, with continuing weakness in the property market and the overall UK economy, creating a challenging operating environment.

We have therefore taken decisive action to meet the challenges of this operating environment by consolidating our operations and controlling costs whilst focussing our resources on managing the business through these conditions.

The combination of our strengthened credit and risk function, our solid balance sheet and our experienced management team, leaves Davenham, with a robust business model, well placed to rise to the near term challenges.

David Coates
Chief Executive
8 September 2008

Business Review

Financial Performance

The Group has prepared its first full set of consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) for the year ended 30 June 2008, as adopted by the EU. The Group has achieved its target trading results for the year ended 30 June 2008.

Financial Highlights

Group revenues increased by 27% to £53.1m (2007: £41.8m). The loan portfolio, including letters of credit, grew modestly by 5% to £284m (2007: £271m).

Profit before tax and exceptional items increased by 13% to £13.1m from £11.6m. Exceptional costs were incurred in respect of bid defence costs, reducing the statutory profit before tax to £12.7m.

The Group's impairment charge, net of recoveries increased to £7.4m (2007: £6.3m).

A share option charge of £0.2m (2007: £0.2m) was made during the current year.

The Group's effective tax rate during the year was 30.6% (2007: 29.3%). A full analysis of the tax charge for the year is set out in note 5 to the preliminary results.

Shareholders' Return

Fully diluted earnings per share were 35.17p (2007: 32.72p) with basic earnings per share being calculated at 35.75p (2007: 33.44p).

In light of the current economic conditions, the Board is recommending a final dividend of 7.00p per share. Together with the interim dividend, this gives a total dividend for the year of 11.68p per share and dividend cover of 3.06.

Key Performance Indicators

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

Profit before tax and exceptional items

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

2004	UK GAAP	£5.4m
2005	UK GAAP	£8.1m
2006	UK GAAP	£10.4m
2007	IFRS	£11.6m
2008	IFRS	£13.1m

Revenue*

Measurement of income generated from the deployment of the Group's product portfolio. Income is calculated based upon the various product margins charged and fees applied and recognised in accordance with the group's income recognition policies.

2004	UK GAAP	£21.8m
2005	UK GAAP	£28.5m
2006	UK GAAP	£32.7m
2007	IFRS	£38.6m
2008	IFRS	£49.5m

*excluding the impact of gross-up adjustments

Loan Portfolio**

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

** including letters of credit

2004	UK GAAP	£128.1m	
2005	UK GAAP	£154.7m	
2006	IFRS	£187.3m	
2007	IFRS	£248.0m (organic)	£271.6m (including acquisition)
2008	IFRS	£284.4m	

Portfolio Mix

The portfolios for the three divisions within the Group have differing risk and margin characteristics. The portfolio proportions are monitored to ensure that risk is balanced across the divisions.

	Property	Trade	Asset
2004	£53.4m	£41.5m	£33.2m
2005	£68.7m	£46.2m	£39.8m
2006	£91.1m	£56.0m	£40.2m
2007	£150.4m	£56.0m	£65.2m
2008	£154.6m	£58.4m	£71.4m

Basic Earnings per share

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

2004	14.2p
2005	21.6p
2006	27.4p
2007	33.44p
2008	35.75p

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

- Arrears
- Non-performing debt
- Bad debt charge

As an asset based lender, the Group assesses the underlying value of the asset against which it advances funds using the asset held as collateral security. It is the detailed initial assessment of the underlying collateral that is so important in ensuring the levels of actual capital losses, reflected as a bad debt charge, are kept to a minimum.

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

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

While non performing accounts can result in a loss of income, this does not necessarily result in a capital loss as the Group looks to fully realise the value of underlying collateral and is an important differentiator between us and cashflow lenders.

A bad debt charge is incurred where there is insufficient collateral to offset the balance of funds.

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

Arrears, measured as the value of the Group's customers' accounts contractually in arrears shown as a percentage of the gross portfolio balance, are 12.4% (2007: 7.1%).

Non-performing debt, measured as the value of the Group's customers' accounts where the recognition of interest has been suspended shown as a percentage of the gross portfolio balance, is 13.6% (2007: 7.4%).

Bad debt charge, defined as the specific provisioning charge (net of recoveries and before the effects of discounting) is £3.1m (2007: £2.7m)

Risk Environment

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

The Board accepts these higher risks on the basis that they are controlled and yield an appropriate level of reward for the risk taken. The Group looks to optimise the level of reward achieved by allowing the differing products to operate within an agreed risk framework, specifying parameters and policies. This framework ensures consistency across the various product types, creating a collective approach to securing the Group's strategy and performance targets.

Risk Management Framework

The Group has developed a strong risk management framework which identifies, assesses, measures and manages risk. It seeks to maximise the return to shareholders by continually assessing the impact of legislation and market changes and how new methodologies and technologies can help to reduce risk and increase returns.

The management and maintenance of the risk framework is considered to be of such importance that in early 2007 the Board appointed an executive director responsible for risk.

Since that date the Group has continued to enhance its risk management capabilities, specifically through the development of its professional staff, deployment of risk control tools and technology and provision of both qualitative and quantitative management information to the Board. The continued development of the framework remains a key driver in the delivery of effective risk management and is reflective of the continual investment in technology, monitoring and policing processes.

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

The principal risk management groups and their responsibilities are:

Davenham Group plc Board

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

- Determines the overall risk strategy for the Group and associated lending policies;
- Sets the Group's risk appetite and required levels of reward;
- Determines risk classifications and ensures risks are correctly categorised, monitored and controlled within a defined structure that identifies, measures and manages the risk areas; and
- Reviews and approves significant decisions affecting the Group's risk profile or exposure.

The Board ensures adherence to the highest levels of risk governance through the use of various responsible risk groups:

The Audit Committee

The Audit Committee is a non-executive committee that works on behalf of the Board. Its key responsibilities include monitoring external auditor performance and ensuring the financial reporting, accounting policies and internal controls are monitored and assessed and correctly applied to the Group's reporting statements. The Committee actively adopts the use of external risk advisers, where appropriate, to ensure that the Board receives the required level of assurance.

Internal Audit

The Group has, with the help of external advisers, commenced the implementation of formal internal audit reviews in connection with its financial processes. Despite the relatively small nature of the Group, the Board, with the support of the Audit Committee, has begun a rolling review and implementation process which provides additional assurance to the Board surrounding financial risk issues. The instigation of these reviews will ensure the Group's governance processes are appropriate to a growing business.

Asset & Liability Management Committee (ALCO)

During 2007, the Group established an ALCO under the Chairmanship of David Stewart, Non-executive director. The committee is responsible for advising the Board on all matters relating to the balance sheet of the Group, specifically in relation to the following matters:

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

The committee advises the Board and recommends actions it considers necessary or desirable to establish that the Group's balance sheet matters are suitably understood and managed. The committee reports key recommendations and provides information to the Board.

Risk Committee

The Risk Committee is a committee of the executive directors and senior managers, chaired by the Risk Director. The purpose of the Risk Committee is to:

- Review and assess the effectiveness of risk controls;
- Identify and assess new and emerging risks;
- Manage adherence to the risk policies and procedures established by the Board;
- Ensure the prudent and transparent management of business risk and associated provisions in accordance with the lending policies and operational procedures; and
- Manage and co-ordinate operational risk, financial risk and business risk compliance.

Group Risk

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

Its role is to:

- Develop and implement risk management processes that are aligned with business requirements;
- Provide support to the Group to ensure the maintenance of the risk framework;
- Provide the necessary management information to the Group Risk Committee and the Board;
- To challenge and provide an independent assessment and audit of all business areas; and
- Enhance tools and technology to maximise financial returns from lending.

Risk Categorisation

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

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

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

Credit Risk

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

The Group's recognition that credit risk is an important aspect of its business model has and continues to ensure that risk management is central to the strategy of the business. Considerable investment continues to be made in people, technology and the provision of management information to optimise the risk infrastructure adopted by the Group. Central to this has been the development and provision of micro and macro level performance metrics, giving consideration to the entire credit lifecycle.

Adverse changes in the credit quality of the Group's portfolio through a general deterioration in economic conditions, such as higher interest rates or a reduction in asset prices could affect the recoverability and value of the Group's assets, including its loans and receivables and therefore its financial performance.

A robust risk management process has been developed across each of the product types to ensure an appropriate level of reward is achieved within the Group's risk appetite. The Board controls the balance between credit risk and reward through the establishment of a credit risk framework which is established as part of overall governance. The framework is implemented and administered through the use of credit risk policies, credit systems and processes which when combined are used to measure, mitigate and manage credit risk within the Group's risk appetite.

Risk Management

The Group has developed and maintains a strong risk management ethic and framework, core to the strategy and culture of the business. The risk functions' approach is to drive business success within the following remit:

- To earn competitive returns from the business's lending activities at acceptable risk levels.
- To provide oversight and transparency in the management of risk associated with all business activities in the political, economic, market environment and operating conditions in which it operates
- To ensure that risks taken are taken within prudent boundaries

In the management of these risks Davenham relies upon the competence, experience and dedication of its trained professional staff operating with appropriate segregation of duties, utilising specialist risk management tools and technology. Key to the management of this risk is a deep understanding of the market in which the business operates, developed and enhanced over many years as an asset backed credit provider.

Portfolio Meetings

A key risk management control is the monthly portfolio meeting, used to discuss actions required on delinquent accounts, trends, recommendations for policy changes and provisions. The meetings are used to closely monitor account level losses and to mitigate against future losses.

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

Risk Control

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

Specialist underwriters work in the divisions where they are closest to their markets. The underwriters have complete independence from the sales process to ensure that lending practices are rigorously adhered to. External professionals are used in combination with this internal expertise to conduct extensive due diligence on the equity value of the assets being considered for finance, the customer's financial position and the ability of the commercial entity to repay any facility provided. A variety of credit and fraud management tools, including detailed consumer and commercial credit reference information is used to assist in the decision making process. This ensures that credit risks are fully understood, using all available market knowledge, before an offer of credit is made.

On approval, credit risk is closely monitored by account managers. A rigorous control framework exists to escalate account level risk from an individual to the divisional management team and then to Group Risk. All accounts are

reviewed for emerging risks on at least a monthly basis. This is managed through the production of account level exception reports and their subsequent discussion at the portfolio meeting, where all credit specialists are present and where actions are agreed and escalated as appropriate. Where necessary, accounts are passed to and managed by specialist recoveries teams, who engage the wider professional community to optimise the return and minimise financial loss to the business.

Risk Classification and Monitoring

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

- Performing
- Arrears
- Impaired

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

Detailed account level exception reports are produced monthly to clarify the status of known risks to the Group and highlight potential emerging and new risks. The detailed account level information is collated in order for the Group to clarify its position on account level risk but also to build a picture of the portfolio trends. These trends are used to provide insight to and enable the Board to manage the risk appetite of the business, through monitoring and stress testing against pre-set tolerances. Where these tolerances are exceeded, appropriate risk treatment plans are invoked.

Risk Audit

In addition to the monthly committee meetings, an independent audit of performing and non performing accounts is carried out by the risk teams to challenge and ensure that the lending policy and procedures are being adhered to. Any remedial action is recorded and escalated through the Group Risk function. This provides a second level of independence and assurance to support the operational process of managing risk.

Treasury Risk

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

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

Liquidity Risk

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

These constituent parts of liquidity risk could mean that funding for expansion may not be available or may prove more expensive, with these forms of market risk being very visible in the current capital markets. In addition, insufficient levels of capital could result in the Group being unable to support current and anticipated business growth plans impacting on future dividend payments.

The Group funds its business through syndicated and bilateral facilities with major UK and international banks. The current syndicated facilities have original maturities extending out to December 2009.

The Group is currently entering into discussions with the banking syndicate regarding the renewal of its facilities. Whilst the current lines do not mature until December 2009, the Board believe it is prudent in the current economic conditions to look to renegotiate the current facilities and bring certainty to the Group's funding sources.

Details of current bank facilities and their maturity dates are set out in Note 10.

The Group continues to adopt a conservative approach to its funding and liquidity requirements. The banking arrangements are subject to covenants which are considered to be typical for facilities of this size, nature, commencement date and term. The covenants, the forecast and existing headroom levels are reviewed by the Board on a monthly basis to ensure compliance and to assess the Group's performance against each of the covenants. There were no covenant breaches in the year. The covenants remain fixed irrespective of the general economic climate. The Group plans ahead to try to avoid any potential breaches of the key covenants but during a downturn in the economy, there is a risk that the Group may breach a covenant and, in particular, the senior interest cover covenant.

In addition, an ALCO meeting is held every two months to consider the key treasury indicators, including forecast deviances from budget if expected. Annual liquidity requirements are reviewed and agreed on an annual basis as part of the Group's formal budgetary process.

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

Interest Rate Risk

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

The implementation and monitoring of the Group's treasury strategy and overall management is monitored and directed by the ALCO. The Group looks to fix that element of its floating rate borrowings against its fixed rate lending thus locking in its profit element.

The Group has minimal risk to revenue from changes in market interest rates as the majority of advances made to the Group's customers are at rates of interest that are fixed over the term of the contract.

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

As a result of the Group using various financial derivatives, it limits exposure to movements in bank funding rates in the short term to medium term. As at 30 June 2008 95% (2007: 57%) of the Group's bank funding was protected against future interest rate volatility.

Consequently, based upon the contractual maturities of the swap portfolio at the end of the year, a hypothetical increase of 1% in three month LIBOR would increase the Group's annual interest charge by around £0.3m (2007: £1.0m).

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

Currency Risk

The Group has very little exposure to currency risk with all product foreign exchange transactional risk being the responsibility of the customer. However certain funding received or deposits held by the Group at times may not be in sterling. This creates a potential exposure to accounting risk of adverse changes in exchange rate movements on re-translation. As at the 30 June 2008 the Group had foreign currency cash balances equivalent to £0.8m. The Group believes its exposure to foreign exchange movements is minimal and therefore does not use any formal hedging techniques.

Capital Risk

The Group is not subject to any external regulatory capital requirements. The Group continues to manage its strong capital base to ensure that future growth and planned distributions to shareholders through an appropriate level of dividend are maintained. However the Group is required, under its banking agreement, to maintain a gearing ratio that does not exceed five times. Throughout the year under review, the Group complied with this covenant. The covenant is tested on a quarterly basis but is reported on to both the Board and the banking syndicate on a monthly basis.

Operational Risk

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

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

The Group manages these risks through a variety of controls and processes, and mitigation actions including insurance. The implementation and monitoring of these actions are reviewed by each of the individual divisional risk functions which then report into Group Risk.

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

Strategic Risk

This is the risk to earnings or capital through taking adverse business decisions, or the unsuccessful implementation of those decisions both in the short and long term. The Group mitigates such risks through the close monitoring and management of the various related projects that form part of the implementation of the strategic goals.

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

**Consolidated Income Statement
for the year ended 30 June 2008**

	Notes	30 June 2008 £'000	30 June 2007 £'000
Revenue	2	53,148	41,798
Finance costs	4	(16,391)	(11,202)
Gross profit		36,757	30,596
Administrative expenses		(24,022)	(18,995)
Operating profit		12,735	11,601
Operating profit before exceptional items		13,053	11,601
Exceptional costs: relating to bid defence		(318)	-
Operating profit		12,735	11,601
Taxation	5	(3,891)	(3,397)
Profit for the financial year	12	8,844	8,204
Earnings per share			
- Basic	7	35.75p	33.44p
- Diluted	7	35.17p	32.72p
Dividends per share			
- Paid during the period	6	15.06p	12.16p
- Proposed	6	7.00p	10.38p

There is no difference between the operating profit and the retained profit for the period stated above and their historical cost equivalents.

There have been no other gains or losses in the period other than those shown in the income statement.

All results are from continuing operations.

**Consolidated Balance Sheet
as at 30 June 2008**

	Note	30 June 2008	30 June 2007
		£'000	£'000
ASSETS			
Non-current assets			
Goodwill		1,909	1,909
Other Intangible assets		780	796
Property, plant & equipment		1,023	1,052
Loans & advances to customers	8	53,808	58,066
Deferred taxation asset		1,594	1,307
Derivative financial instruments		1,853	1,221
		60,967	64,351
Current assets			
Loans & advances to customers	8	222,778	208,326
Other receivables, prepayments & accrued income	9	1,151	1,516
Derivative financial instruments		995	1,057
Cash and cash equivalents		2,416	7,094
		227,340	217,993
Total assets		288,307	282,344
LIABILITIES			
Current liabilities			
Borrowings	10	9,195	10,801
Current Tax Liabilities		4,835	2,205
Derivative financial instruments		10	235
Trade and other payables	11	6,000	6,291
		20,040	19,532
Non-current liabilities			
Borrowings	10	210,030	210,349
Derivative financial instruments		29	543
		210,059	210,892
Total liabilities		230,099	230,424
Net Assets		58,208	51,920
SHAREHOLDERS' EQUITY			
Share capital	12	261	260
Share premium	12	26,528	26,503
Own shares held reserve	12	(1,507)	(1,507)
Retained earnings	12	30,427	25,307
Share based payment reserve	12	477	277
Hedging reserve	12	2,022	1,080
Total Shareholders' equity		58,208	51,920

**Consolidated Statement of Recognised Income & Expense
For the year ended 30 June 2008**

	30 June 2008	30 June 2007
	£'000	£'000
Profit for the year	8,844	8,204
Cash flow hedges :		
- fair value adjustment	1,309	1,422
- tax on fair value adjustment	(367)	(398)
Net gains recognised directly in equity	9,786	9,228

**Consolidated Cash Flow Statement
for the year ended 30 June 2008**

	30 June 2008 £'000	30 June 2007 £'000
Note		
Cash flows from operating activities		
Cash generated from operations	13 3,206	31,094
Tax paid	(1,915)	(3,049)
Net cash inflow from operating activities	1,291	28,045
Cash flows from investing activities		
Acquisition of business and subsidiary undertakings net of cash acquired	(240)	(25,126)
Purchase of property, plant and equipment	(168)	(264)
Proceeds from sale of property, plant and equipment	4	34
Purchase of intangible assets	(261)	(353)
Bank interest received	-	4
Net cash outflow from investing activities	(665)	(25,705)
Cash flows from financing activities		
Proceeds from issue of share capital	26	34
Exercise of own shares for Employee Benefit Trust	-	696
Dividends paid to shareholders	6 (3,724)	(3,157)
Net cash outflow from financing activities	(3,698)	(2,427)
Net decrease in cash and cash equivalents	(3,072)	(87)
Cash and cash equivalents at 1 July	(3,707)	(3,620)
Cash and cash equivalents at 30 June	(6,779)	(3,707)
For the purposes of the cash flow statement, cash and cash equivalents comprise:		
Cash at bank and in hand	2,416	7,094
Bank overdrafts included within current borrowings	(9,195)	(10,801)
	(6,779)	(3,707)

Notes to the Financial Statements for the year ended 30 June 2008

1. Accounting Policies

Basis of preparation

This preliminary announcement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial information for the years ended 30 June 2008 and 30 June 2007 has been extracted from the consolidated financial statements on which we expect the auditors to give unqualified opinions and which do not contain statements under Sections 237(2) or 237(3) of the Companies Act 1985. The announcement has been agreed with the company's auditors for release.

The financial information included in this preliminary announcement does not include all the disclosures required by International Financial Reporting Standard (IFRS) or the Companies Act 1985 and accordingly it does not itself comply with IFRS or the Companies Act 1985.

The group's financial statements for the year ended 30 June 2008 will be delivered to the Registrar of Companies.

The financial information included in this preliminary announcement has been prepared under the accounting policies set out below and the historical cost convention.

This preliminary announcement will be published on the Company's website.

The maintenance and integrity of the website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Basis of consolidation

A business combination is recognised where separate entities or businesses have been brought together within the Group. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The purchase method of accounting is used to account for business combinations made by the Group. The cost of a business combination is measured as the fair value of the assets acquired and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination.

Identifiable assets, liabilities and contingent liabilities acquired in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Intra group transactions, including income and profits, are eliminated fully on consolidation.

Segmental reporting

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

Financial assets

Management determines the classification of the Group's financial assets at initial recognition into one of the following categories:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a customer with no intention of trading the

receivable. Loans and receivables are initially recorded at fair value including any transaction costs and are subsequently measured at amortised cost using the effective interest rate (EIR) method.

Financial assets at fair value through profit or loss

This category comprises derivatives that are not designated as hedges, and any financial assets that are designated as fair value through the profit and loss on inception. These financial assets are initially recognised at fair value, with transaction costs recorded immediately in the income statement, and are subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in the income statement.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has a positive intention and ability to hold to maturity. Were the Group to sell a significant amount of held-to-maturity assets the entire category would be tainted and reclassified as available-for-sale.

Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates.

The Group has not held any held-to-maturity investments or available-for-sale financial assets at any point during the reporting periods.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable, net of value added tax, and is recognised as follows:

Interest and similar income

Interest income is recognised in the income statement for all financial assets measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash receipts through the expected life, or contractual term if shorter, of the financial asset to the net carrying amount of the financial asset. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the financial instruments, such as early settlement income, but does not include an expectation for future credit losses. The calculation includes all fees charged to customers, such as acceptance or similar fees and direct and incremental transaction costs, such as broker commissions.

Amounts due from lessees under finance leases and hire purchase contracts are recorded as receivables at the amount of the Group's net investment in the contract. Finance income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment (before tax) outstanding in respect of the lease.

Interest income continues to be recognised at the EIR once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, irrespective of the terms of the loan and whether interest has been suspended on the customer's account. A gross-up adjustment to income is offset by a corresponding gross-up adjustment to the loan loss charge (refer to the accounting policy entitled 'Impairment of loans and receivables').

Fee and Commissions income

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

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

Impairment of loans and receivables

In respect of loans and receivables, the Group assesses on an ongoing basis whether there is objective evidence that

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

The Group reviews its leasing and loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss is to be recorded in the income statement the Group makes judgements as to whether there is observable data indicating that there is a measurable decrease in the estimated cash flows from an individual lease or loan. This evidence can be as a result of non-payment or other evidence of a deterioration of the financial status of the customer. The Group takes account of the value of collateral held and also any movements in market conditions that impact on the value of collateral when calculating the level of impairment loss to be charged to the income statement.

The Group first assesses whether objective evidence of impairment exists individually for loan assets that are individually significant, and either individually or collectively for loan assets that are not individually significant.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loan asset's original EIR. The carrying amount of the asset is reduced through the use of a loan loss provision. The amount of the loss is recognised in the income statement as a loan loss charge within administrative expenses.

For the purposes of a collective evaluation of impairment, loan assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of loan assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The accuracy of the allowances and provisions made depends on how accurately the Group estimates future cash flows for specific counterparty allowances and provisions and the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgement, the Group believes that its allowances and provisions are reasonable and supportable.

Where interest income continues to be recognised on impaired loans, which cannot be collected from the customer due to the interest being fixed at the outset or interest having been suspended on the customer's account, referred to as the 'gross-up adjustment' to income, a corresponding loan loss charge is made. This is referred to as the 'gross-up adjustment' to the loan loss charge (refer to the revenue recognition accounting policy entitled 'Interest and similar income').

Impairment of non-financial assets

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

Interest payable

Interest payable is stated after charging amortisation of loan arrangement fees. Loan arrangement fees are deducted from the liability recorded in the balance sheet and amortised over the life of the relevant arrangement

Operating leases – as lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a systematic straight line basis over the period of the lease.

Foreign currency

The Group's financial statements are presented in Pounds Sterling, which is the Group's functional and presentational currency. All subsidiaries of the Group have Pounds Sterling as their functional currency. Foreign exchange gains and losses resulting from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement as part of finance costs.

Exceptional Items

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

Intangible assets

Goodwill and Other Intangible Assets

Goodwill arising on acquisition represents the excess of the cost of a business combination over the fair values of the Group's share of the identifiable net assets acquired. Goodwill is not amortised, but is reviewed annually for impairment. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

Other intangible assets, including customer relationships, are valued on acquisition and shown separately from goodwill. These intangibles are amortised over their estimated useful lives (5 – 10 years).

Computer software

Acquired software licenses are capitalised as intangible assets and amortised over their useful lives, 3 years, on a straight line basis.

Costs that are directly attributable with the creation of identifiable software, which meet the development asset recognition criteria as laid out in IAS 38 'Intangible assets', are recognised as internally generated intangible assets.

Direct costs include the employment costs of internal software developers, consultancy costs and borrowing costs. Borrowing costs are capitalised until such time as the internally generated software is substantially ready for its intended use.

Computer software development costs recognised as assets are amortised over their estimated useful lives (3 years) on a straight line basis. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

All other software development and maintenance costs are recognised as an expense as incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost represents expenditure that is directly attributable to the purchase of the asset.

Land and buildings are not subject to regular revaluations.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the item can be measured reliably.

Land is not depreciated. Depreciation on other assets is calculated using the straight line basis on tangible fixed assets at rates calculated to write off the assets over their anticipated useful lives as follows:

Freehold buildings	50 years
Fixtures and fittings	4 - 5 years
Computer and ancillary equipment	3 years
Motor vehicles	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held with banks, which have a residual maturity of 3 months at the date of acquisition, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Employee benefits

Pension obligations

The Group operates a money purchase pension scheme for the members of the Group. The assets of the scheme are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the scheme.

The Group provides no other post-retirement benefits to its employees or directors.

Share-based payments

The Group operates a number of share based payment award schemes. The fair value of the options is measured at grant date and spread over the vesting period through the Income Statement with a corresponding increase in equity. The fair value of the share options and awards are measured using an option-pricing model taking into account the terms and conditions of the individual schemes. The fair value of the options awarded under the schemes with market based performance conditions is estimated using a Monte-Carlo simulation model. The fair value of options awarded under schemes with market and non-market based performance conditions is estimated using the Binomial and Black-Scholes models respectively.

The Group makes charges to the income statement for employer's National Insurance liabilities on options granted as incurred.

Borrowings

Borrowings include bank borrowings and other borrowings, overdrafts and obligations under finance leases and hire purchase contracts.

Bank borrowings and other borrowings are recognised initially at fair value, being their issue proceeds net of any transaction costs incurred. These borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Current tax

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowed. It is calculated using rates of tax that have been enacted by the balance sheet date.

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is determined using tax rates and laws that have been enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Share capital

Ordinary shares are classified as equity.

Shares are recorded at their nominal value with any surplus received on their issue taken to the share premium account. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's

equity holders, via the own shares held reserve, until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividend distribution

Final dividends payable to the Group's shareholders are recognised in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders. Interim dividends payable are recognised in the period in which the dividends are paid.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value. The fair value of derivatives is determined by using a valuation model and is primarily based on observable market data. The method of recognising the resulting gain or loss from the re-measurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group's policy is to designate derivatives on the date that the derivative contract is committed to. The Group designates its derivatives as a hedge of the variability of cash flows associated with highly probable forecast transactions and recognised assets and liabilities ('cash flow hedging instrument').

To qualify for hedge accounting, the Group is required, at inception, to document prospectively the relationship between the item being hedged and the hedging instrument. The Group is also required to document and perform an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective in offsetting changes in cash flows of the hedged item on an ongoing basis. This effectiveness testing is re-performed at each reporting date to ensure that the hedge remains highly effective.

The effective portion of changes in the fair value of derivatives designated as cash flow hedging instruments is recognised in equity within the hedging reserve. The change in the fair value relating to the ineffective portion is recognised immediately in the income statement within finance costs.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit, i.e. when the forecast interest payment that is hedged is expensed.

When a cash flow hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. Any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

2. Revenue

	2008	2007
	£'000	£'000
Interest and similar income receivable from customers	38,430	27,893
Fees and commissions income	14,718	13,901
Interest receivable from banks	-	4
	53,148	41,798

3. Segmental information

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

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

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

	Property finance £'000	Trade finance £'000	Asset finance £'000	Central £'000	Group £'000
Segment assets and liabilities					
Segment assets	154,644	50,567	71,375	11,721	288,307
Total assets					288,307
Segment liabilities	117,431	38,399	54,200	20,069	230,099
Total liabilities					230,099
Other segment items					
Capital expenditure	99	99	135	96	429
Depreciation	50	50	50	49	199
Amortisation - other intangible assets	57	57	107	56	277
Loan loss charge	4,382	1,473	1,583	-	7,438

The loan loss charge includes the 'gross-up adjustment' of £3,662,000 (note 8).

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

The segmental income and results for the year ended 30 June 2007 and segment assets and liabilities as at that date are as follows:

	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Central £'000	Group £'000
Income					
Revenue	22,477	11,182	8,135	4	41,798
Finance costs	(6,325)	(2,136)	(2,741)	-	(11,202)
Gross profit	16,152	9,046	5,394	4	30,596
Result					
Segment result	9,170	4,021	553	4	13,748
Central expenses					(2,147)
Profit before taxation					11,601
Taxation					(3,397)
Profit for the financial year					8,204

	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Central £'000	Group £'000
Segment assets and liabilities					
Segment assets	150,411	50,785	65,196	15,952	282,344
Total assets					282,344
Segment liabilities	118,768	40,101	51,480	20,075	230,424
Total liabilities					230,424

Other segment items

Capital expenditure	56	57	388	476	977
Depreciation	50	49	49	49	197
Amortisation - other intangible assets	32	32	31	31	126
Loan loss charge	3,059	756	2,445	-	6,260

The loan loss charge includes the 'gross-up adjustment' of £3,237,000 (note 8).

During the year ended 30 June 2008, the Group restructured its Treasury function in relation to intra-group lending. The Group's external borrowings are all held within Davenham Treasury Services Limited, a wholly owned subsidiary of the Group, which subsequently lends monies across the Group at commercial interest rates. This process was only fully effective during 2008 and therefore the finance costs shown within the business segments above are not directly comparable with those for 2007. Prior to this the total Group's external finance costs were re-apportioned across the three divisions based upon a weighted average, calculated by reference to loan portfolio size.

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

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

4. Finance Costs

	2008	2007
	£'000	£'000
Interest payable on bank loans and overdrafts	16,391	11,202

5. Taxation

5(a) Analysis of tax charge in the period

	2008 £'000	2007 £'000
Current tax		
– United Kingdom corporation tax on profits of the period	4,545	4,064
– Adjustments in respect of previous periods	-	22
Total current tax	<u>4,545</u>	<u>4,086</u>
Deferred tax		
Current year deferred tax expense	(592)	(474)
Adjustment in respect of prior periods	(192)	(345)
Change in tax rate	130	130
Deferred tax	<u>(654)</u>	<u>(689)</u>
Tax on profit on ordinary activities	<u><u>3,891</u></u>	<u><u>3,397</u></u>

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

5(b) Factors affecting tax charge for the period

	2008 £'000	2007 £'000
Profit before tax	12,735	11,601
at the UK tax rate 29.5% (2007 : 30%)	3,757	3,480
Income not subject to tax	(12)	-
Expenses not deductible for tax purposes	173	132
Adjustment in respect of prior periods	(192)	(345)
Change in tax rate – current year	35	-
Change in tax rate – prior year	130	130
Total tax charge For the year	<u><u>3,891</u></u>	<u><u>3,397</u></u>

The standard rate of current tax for the year is 29.5% (2007: 30%), based on the weighted average, which reflects the reduction in the rate of UK standard rate corporation tax to 28%, effective from 1 April 2008, and which is deemed an appropriate 'standard' rate of tax for the Group.

6. Dividends

	2008 £'000	2007 £'000
Ordinary shares - Final 2006 paid - 7.71p per share	-	2,001
Ordinary shares - Interim 2007 paid - 4.45p per share	-	1,156
Ordinary shares - Final 2007 paid - 10.38p per share	2,701	-
Ordinary shares - Interim 2008 paid - 4.68p per share	1,219	-
	<u><u>3,920</u></u>	<u><u>3,157</u></u>

The Directors have proposed a final dividend of 7.00p per Ordinary share, payable on 31 October 2008 to shareholders on the register at the close of business on 3 October 2008. In accordance with IAS 10, the dividend has not been included as a liability as at 30 June 2008.

Included in the dividend payment of £3.9m, dividends of £0.2m (2007: £0.2m) have been paid to the Employee Benefit Trust.

7. Earnings per share

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

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

	Earnings £'000	2008 Weighted average number of shares '000	Earnings per share pence	Earnings £'000	2007 Weighted average number of shares '000	Earnings per share pence
Shares in issue during the year		26,061			26,009	
Own shares held		(1,321)			(1,474)	
Basic EPS	8,844	24,740	35.75	8,204	24,535	33.44
Effect of dilutive securities :						
Options	-	408	(0.58)	-	538	(0.72)
Diluted EPS	8,844	25,148	35.17	8,204	25,073	32.72

8. Loans and advances to customers

Credit risk

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

A description of the Group's objectives, policies and processes for managing credit risk and how it is measured is set out in the Business Review on pages 7 to 14 in the section entitled 'Credit risk'.

Maximum exposure to credit risk

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

	2008 £'000	2007 £'000
Group		
Property Finance	154,644	150,411
Trade Finance	50,567	50,785
Asset Finance	71,375	65,196
Total loans and receivables	276,586	266,392
Comprising:		
Current assets	222,778	208,326
Non-current assets	53,808	58,066
	276,586	266,392

Other financial assets subject to credit risk include derivative financial instruments of £2,848,000 (2007: £2,278,000) and other debtors of £365,000 (2007: £524,000). These are subject to a maximum exposure to credit risk equal to their carrying value.

Credit quality

A summary of the arrears status of the Group's loans and receivables, by class, is shown below as at 30 June 2008 and 2007:

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

Group 2007	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Total £'000
Neither past due nor impaired	127,410	47,480	56,696	231,586
Past due but not impaired	14,294	-	5,105	19,399
Impaired	10,197	4,152	5,617	19,966
Outstanding customer balance	151,901	51,632	67,418	270,951
Unamortised fees and costs and accrued interest	63	(11)	316	368
Gross loans and receivables	151,964	51,621	67,734	271,319
Loan loss provision	(1,553)	(836)	(2,538)	(4,927)
Total loans and receivables	150,411	50,785	65,196	266,392

Loans and receivables – past due but not impaired

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

Group 2007	Property Finance £'000	Trade Finance £'000	Asset Finance £'000	Total £'000
Past due up to 31 days	2,869	-	4,591	7,460
Past due 32-65 days	5,254	-	190	5,444
Past due 66-95 days	757	-	93	850
Past due 96 days or more	5,414	-	231	5,645
Total	14,294	-	5,105	19,399

Renegotiated loans and receivables

In Property, Trade and Asset, renegotiated loans that would otherwise be past due or impaired totalled £1.0m, £nil and £2.6m at 30 June 2008 (2007: £nil, £nil and £2.3m) respectively.

Collateral

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

In accordance with IFRS 7 paragraph 36(b), as at 30 June 2008 the Group has not disclosed the fair value of the collateral held as security in respect of its past due secured loan, hire purchase or lease receivables on the basis that it would be impractical to do so and instead provided below is an explanation of the nature of the collateral held. It would be impractical to fair value the collateral held because information on the current value of customers' assets and first charge liabilities is not maintained for all past due loans.

- Secured loans

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

These additional forms of security are impractical to fair value as valuations of the guarantees are not capable of being accurately determined at any point during the agreement.

- Hire purchase & Lease

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

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

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

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

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

- Trade Finance

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

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	Trade Finance	Asset Finance	Total
2008	£'000	£'000	£'000	£'000
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

Group	Property Finance	Trade Finance	Asset Finance	Total
2007	£'000	£'000	£'000	£'000
At 1 July 2006	1,295	1,653	1,358	4,306
Utilised	(311)	(1,293)	(895)	(2,499)
Recoveries of amounts previously written off	-	-	97	97
Charged to the income statement:				
Additional provisions created	569	476	2,075	3,120
Recoveries of amounts previously written off	-	-	(97)	(97)
	569	476	1,978	3,023
At 30 June 2007	1,553	836	2,538	4,927
Loan loss charge before gross-up adjustment	569	476	1,978	3,023
Gross-up adjustment	2,490	280	467	3,237
Total bad and doubtful debt charge	3,059	756	2,445	6,260

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

Gross investment in finance leases receivable:

	2008	2007
	£'000	£'000
No later than 1 year	19,286	7,372
Later than 1 year and no later than 5 years	67,606	69,645
Later than 5 years	-	1,674
	86,892	78,691
Unearned future finance income on finance leases	(15,517)	(13,495)
Net investment in finance leases	71,375	65,196
Net investment in finance leases receivable:		
No later than 1 year	17,567	7,130
Later than 1 year and no later than 5 years	53,808	56,781
Later than 5 years	-	1,285
	71,375	65,196

Fair Value

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

9. Other receivables, prepayments and accrued income

	Group	Group
	2008	2007
	£'000	£'000
Other debtors	365	524
Other taxation	18	256
Prepayments and accrued income	768	736
	1,151	1,516

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

10. Borrowings

	Group	Group
	2008	2007
	£'000	£'000
Current		
Secured bank overdraft	9,195	10,801
	9,195	10,801
Non-current		
Secured bank loan	210,030	210,349
Total borrowings	219,225	221,150

The secured bank loan included within non-current bank borrowings is stated net of £970,000 (2007: £951,000) of unamortised loan arrangement fees.

11. Trade and other payables

Current	Group 2008 £'000	Group 2007 £'000
Trade payables	2,115	1,524
Accruals	3,885	4,767
	6,000	6,291

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

12. Statement of changes in Shareholders' equity

	Called up share capital £'000	Share premium account £'000	Own shares held reserve £'000	Profit and loss account £'000	Share based payment reserve £'000	Hedging Reserve £'000	Total 2008 equity £'000
Group 2008							
At beginning of the year	260	26,503	(1,507)	25,307	277	1,080	51,920
New shares issued	1	25	-	-	-	-	26
Profit for the financial year	-	-	-	8,844	-	-	8,844
Dividends	-	-	-	(3,724)	-	-	(3,724)
Increase in Share Based Payment Reserve	-	-	-	-	200	-	200
Fair value gains on cash flow hedges	-	-	-	-	-	924	924
Tax on fair value gains on cash flow hedges	-	-	-	-	-	18	18
Closing shareholders' equity	261	26,528	(1,507)	30,427	477	2,022	58,208

	Called up share capital £'000	Share premium account £'000	Own shares held reserve £'000	Profit and loss account £'000	Share based payment reserve £'000	Hedging Reserve £'000	Total 2007 equity £'000
Group 2007							
At beginning of the year	259	26,470	(2,203)	20,260	94	56	44,936
New shares issued	1	33	-	-	-	-	34
Decrease in own shares held	-	-	696	-	-	-	696
Profit for the financial year	-	-	-	8,204	-	-	8,204
Dividends	-	-	-	(3,157)	-	-	(3,157)
Increase in Share Based Payment Reserve	-	-	-	-	183	-	183
Fair value gains on cash flow hedges	-	-	-	-	-	1,422	1,422
Tax on fair value gains on cash flow hedges	-	-	-	-	-	(398)	(398)
Closing shareholders' equity	260	26,503	(1,507)	25,307	277	1,080	51,920

Own Shares Held Reserve

The Own Shares Held reserve represents the cost of funding the purchase, by the Trustees of the Employee Benefit Trust, of ordinary shares in the Davenham Group plc's at an open market value. The decrease in the amount held in the Own Shares Held reserve reflects the transfer of the balance to other group companies.

Share Based Payment Reserve

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

Hedging Reserve

From 1 July 2006 the Group achieved hedge accounting such that the hedging reserve includes the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

13. Reconciliation of profit before taxation to cash flows from operations

	Group	Group
	2008	2007
	£'000	£'000
Profit on ordinary activities before taxation	12,735	11,601
Add back : share based payments	200	183
<hr/> Operating profit before share based payments	<hr/> 12,935	<hr/> 11,784
Depreciation of property, plant and equipment	197	197
Amortisation of intangible assets	277	126
Amortisation of loan arrangement fees	550	296
(Increase)/Decrease in other receivables, prepayments and accrued income	365	(1,032)
Increase/(Decrease) in other creditors, trade and other payables	(51)	1,654
Profit on disposal of property, plant and equipment	(4)	(10)
<hr/> Net cash inflow from trading activities	<hr/> 14,269	<hr/> 13,015
Increase in loans and advances to customers	(10,194)	(60,560)
Increase in borrowings	(869)	78,639
<hr/> Net cash inflow from operating activities	<hr/> 3,206	<hr/> 31,094