

# Cavanagh Group plc

## FINANCIAL STATEMENTS

for the year ended

31 December 2006

# Cavanagh Group plc

## FINANCIAL STATEMENTS

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CONTENTS	PAGE
Officers and professional advisers	1
Chairman's statement	2
Chief executives review	4
Directors' report	6
Corporate Governance	10
Statement of directors' responsibilities	12
Independent auditors' report to the members	13
Group profit and loss account	15
Group statement of recognised gains and losses	16
Group balance sheet	17
Company balance sheet	18
Group cash flow statement	19
Accounting policies	20
Notes to the financial statements	23

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# Cavanagh Group plc

## OFFICERS AND PROFESSIONAL ADVISERS

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### DIRECTORS

J Campbell - Executive Chairman  
A Fay  
C Gillespie  
I Henson  
P Hogarth – Non-executive Director  
N Millard  
S Redgrove  
P Sinnett - Non-executive Director  
K Timmins

### SECRETARY

I Henson

### REGISTERED OFFICE

The Courtyard  
Staplefield Road  
Cuckfield  
West Sussex  
RH17 5JT

### AUDITORS

Baker Tilly  
Chartered Accountants  
& Registered Auditor  
Brazennose House  
Lincoln Square  
Manchester  
M2 5BL

### BANKERS

Bank of Scotland  
New Uberior House  
11 Earl Grey Street  
Edinburgh  
EH3 9BN

### SOLICITORS

Dundas & Wilson CS  
4<sup>th</sup> Floor  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EN

### REGISTRARS

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

# Cavanagh Group plc

## CHAIRMAN'S STATEMENT

### for the year ended 31 December 2006

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#### **Financial Results**

I am again extremely pleased to be able to report the Group's results which show an operating profit of £1,172,000 (2005: £30,000) before goodwill amortisation and share-based payment charges. This has been achieved on increased turnover of £14,112,000, 17% up on the previous year (2005: £12,053,000) and continued cost control of the overhead base.

This trading result is underpinned by the £1,620,000 cash generated from operating activities (2005: £451,000) which has enabled us to almost halve our net debt to £1,663,000 (2005: £3,194,000).

The Board's key objective for 2006 was to move the Group back into profitability by generating controlled and sustainable growth in our business. I am delighted to report that this has been achieved and 2006 was a year when Cavanagh delivered on its aims and saw significant progress in all areas of its performance, with the second half of the year outperforming the first, continuing to demonstrate that Cavanagh is now firmly established as one of the top IFA groups in the UK.

#### **Operations**

Client assets under advice continue to grow above £1 billion with recurring income, including annual fees and trail commissions, now in excess of £4 million per annum representing over 28% of the Group's turnover which is an area of the business that we anticipate further growth.

As I have stated in previous reports, attracting and retaining high quality consultants is a core part of our strategy. A demonstrable measure of both our success at this, and the calibre of our consultants is the fact that their average annual revenue generated in 2006 was in excess of £239,000, up from £191,000 in 2005, making our consultants among the highest producing individuals in the sector.

I am pleased to report that the continued development of our back office system is generating tangible benefits with management information becoming noticeably quicker, more accessible and more efficiently produced. The resulting benefits of running the business on one system has improved our ability to deliver new initiatives to market more quickly and has helped us to identify a number of new opportunities which we will continue to develop in the coming year.

A recent internal reorganisation has brought the IT and Technical Advisor departments closer to the administration function, resulting in the delivery of a more consistent and integrated process throughout the business.

With increased turnover and profit, the Group's specialist actuarial and advisory service, CPRM, which was launched in September 2004, made a significant contribution to the Group's overall progress in 2006 and we are anticipating further growth from CPRM as its expertise in this sector will be in demand as the pension landscape shows no sign of becoming easier to navigate for its corporate clients.

#### **Business Opportunities**

Our range of introducers is currently expanding faster than at any time in our history as Cavanagh's reputation of being able to deliver to the professional market continues to grow. In addition we are looking to generate additional profitability from our existing asset base by maximising our client funds under advice - this will be a key objective for 2007.

Our client base now numbers many exceptionally loyal professional and high net worth individuals with whom we can continue to offer ongoing planning opportunities. These include a number of professional connections with senior partners of law firms, an area which we anticipate will continue to flourish and grow.

# Cavanagh Group plc

## CHAIRMAN'S STATEMENT

### for the year ended 31 December 2006

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#### **Board and Staff**

In November 2006 we announced the strengthening of the Board with the appointment of Paul Hogarth as a non-executive director. I believe that his knowledge, experience and contacts in the financial services sector will be an invaluable asset to Cavanagh.

On a personal note I was delighted to be able to agree to step up from non-executive Chairman to executive Chairman and I look forward to working with my colleagues on the Board together with all the staff of the Group. I am confident that Cavanagh will continue on the path that has made it one of the top IFAs in the UK in terms of both financial performance and the quality of its client offering.

As mentioned above, one of the key differentiators of Cavanagh in the market is the high calibre of its consultants; however, I would like to take this opportunity to highlight the contributions made by the back office teams in making Cavanagh the successful business that it has become – without their commitment the consultants would be unable to operate so efficiently. On behalf of the Board I would like to thank all the staff in the various nationwide offices for their efforts during 2006.

#### **Reduction of Capital**

Although Cavanagh is now generating a satisfactory level of profits, the Company is unable to pay dividends due to accumulated losses from prior years. Therefore, the board is considering a proposal to reduce the company's share premium account so as to eliminate this deficit and, subject to the working capital requirements of the Group, to bring closer the prospective date on which the company can commence paying dividends. This exercise will not result in a reduction in the net assets of the company. A reduction of capital in this manner requires approval by the High Court following which a special resolution will be put to shareholders at an extraordinary general meeting to be convened later in the year if deemed appropriate following discussions with our professional advisers.

#### **Outlook**

The controlled growth demonstrated by the business over the past 12 months has allowed, and will continue to allow, the senior management to concentrate on new business developments. We anticipate that 2007 will be another year of growth for the Cavanagh Group.

**John Campbell**  
**Chairman**

14 March 2007

# Cavanagh Group plc

## CHIEF EXECUTIVE'S REVIEW

### for the year ended 31 December 2006

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#### **Overview**

2006 has seen Cavanagh's strategy of generating organic growth come to fruition and as a result we have enjoyed an excellent twelve months with a strong performance across all areas of our business activities. The Group has now returned to profit and the figures for year ended 31 December 2006 clearly demonstrate Cavanagh's progress over the past year.

We have delivered on all our key objectives for 2006 and we continue to build brand awareness based on our strengthening reputation for delivering the right results to both our clients and shareholders.

The Group continues to develop long-term relationships with its clients by providing quality financial planning solutions tailored to professionals, high net worth individuals and corporates.

#### **Business Highlights**

The headline financial results are reported in the Chairman's statement, but I would like to point out the outstanding turnaround achieved by the business in the year which went from a Group operating loss of £230,000 to a Group operating profit of £931,000.

Over 80% of the Group's new business was generated from pensions and investments, and we see the future in these areas remaining very strong given the increasing need for professional advice due to the complexity of the market and the diversity of the products on offer.

We also saw considerable activity in the 'Wrap' market. The Group currently has £55 million of client assets on Wrap products with a similar amount in the pipeline, all of which attracted regular income during 2006. This is an area that we believe shows opportunity for growth with Cavanagh already being seen as a leader in this market sector.

CPRM, the Group's specialist actuarial and advisory service, continues to grow steadily and is now attracting new corporate clients on a regular basis. It has built a solid and regular income with recurring income accounting for 53% of its business compared to 45% in 2005.

The Group's average adviser productivity increased by 25% year-on-year, from £191,000 in 2005 to £239,000 in 2006. This average annual revenue per Cavanagh consultant is, when compared to the rest of the IFA marketplace, already at the top end of the productivity range and we are targeting a further increase in productivity in 2007. We continue to have a clear focus on increasing the quality and quantity of business that is generated by our consultants from advising high net worth clients and we remain committed to attracting and retaining the highest quality and level of staff, including the technical advisers who are a key part of our operations.

There is a real sense of achievement throughout the Group for delivering this strong performance across all areas of business activity.

#### **Organisation**

In 2006 there were two changes to the structure of the Board. We were delighted that John Campbell agreed to step up from being non-executive Chairman to being executive Chairman. We will benefit from his increased involvement in the activities of the Group.

November 2006 saw a further strengthening of the Board with the appointment of Paul Hogarth as a Non-executive Director. Paul is a well-known and respected figure in the financial services sector and was one of the founders of the Bankhall Group. Both John and Paul have many years experience in senior roles which I believe will contribute to the future success of Cavanagh.

**Cavanagh Group plc**  
**CHIEF EXECUTIVE'S REVIEW**  
**for the year ended 31 December 2006**

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I am pleased to report that the growth in turnover has been achieved with staff levels remaining unchanged from 2005; no new offices were opened in 2006, but the Group's geographical reach and coverage continues to expand from our nine regional offices (including our City office in London's Chancery Lane) and our Cuckfield base.

**Strategic Focus & Outlook**

In 2007 and beyond the Group will continue to look to grow organically; however, we will consider suitable acquisitions when and where the enhancement of business and shareholder value can clearly be demonstrated.

The concept of "treating customers fairly" (TCF) has always been part of the culture within Cavanagh and so I am pleased to report that the initiative implemented by the FSA has been largely completed.

Investment in new and improved systems to assist growth has been and will continue to be a priority for the Group. We will also look to develop our offerings to clients and the speed with which we can bring these to market and offer greater long-term value to our client base.

At this early stage of the 2007 we believe market conditions to be good for Cavanagh's key areas of activity and hence for further profitable growth.

**Andrew Fay**  
**Chief Executive**

14 March 2007

# Cavanagh Group plc

## DIRECTORS' REPORT

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The directors submit their report and financial statements of Cavanagh Group plc for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the company during the year was that of a holding company, providing management services to its trading subsidiaries. Cavanagh Financial Management Limited provides independent financial advice.

### RESULTS AND DIVIDENDS

The trading results for the year and the Group's financial position at the end of the year are shown in the attached financial statements.

Under FRS 20 (relating to the accounting treatment for share based payments) the Group has recognised a charge of £45,161 (2005: £57,739) in these accounts relating to share options issued on or after 2 November 2002. The results for 2005 have been restated.

The directors have not recommended a dividend.

### THE DIRECTORS AND THEIR INTERESTS

The directors who served the Company during the year together with their beneficial interests, including family holdings, in the shares of the Company were as follows:

	Ordinary Shares of £0.01 each	
	At 31 December 2006 No	At 1 January 2006 (or date of appointment, if later) No
A Fay	2,254,086	2,332,349
N Millard	2,186,181	2,292,350
S Redgrove	2,205,754	2,284,017
P Sinnott	100,000	100,000
J Campbell	30,000	30,000
K Timmins	-	-
C Gillespie	164,358	30,000
I Henson	103,152	10,000
P Hogarth (appointed 21 November 2006)	299,999	299,999

Third party indemnity provision for the benefit of the directors was in force during the financial year.

# Cavanagh Group plc

## DIRECTORS' REPORT

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### DIRECTORS' SHARE OPTIONS

The following directors have been granted options over the Company's shares:

	At 01.01.06	Number granted in year	At 31.12.06	Exercise price	Date exercisable
J Campbell	{46,667	-	46,667	150p	16 October 2004 – 16 October 2011
	{20,588	-	20,588	170p	9 October 2006 – 8 October 2013
P Sinnett	20,588	-	20,588	170p	9 October 2006 – 8 October 2013
K Timmins	18,518	-	18,518	162p	2 January 2007 – 1 January 2014
C Gillespie	18,518	-	18,518	162p	2 January 2007 – 1 January 2014
I Henson	83,000	-	83,000	60p	6 December 2008 – 5 December 2015

The market price of the shares at 31 December 2006 was 115p and the range during the year was 52p to 160p.

### SUBSTANTIAL SHAREHOLDINGS

At 31 December 2006 the following interests in three per cent or more of the issued ordinary share capital had been notified to the Company:

	Number of ordinary shares
A Fay	2,254,086
N Millard	2,186,181
S Redgrove	2,205,754
TD Waterhouse Nominees (Europe) Limited	672,043
Friends Provident Life & Pensions	526,316
Rock (Nominees) Limited	421,053
Vidacos Nominees Limited	402,292
S Taylor	381,334

### CREDITOR PAYMENT POLICY

It is Group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice. The Group supports the CBI Prompt Payers Code. A copy of the code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU.

Trade creditor days of the Group, based on creditors at 31 December 2006 were 29 days (2005: 32 days).

### EMPLOYMENT POLICIES

The Group is committed to promoting policies to ensure that employees and applicants for employment are treated fairly and consistently. The Group has an equal opportunities policy, the aim of which is not to discriminate against employees or applicants for employment on the grounds of age, disability, ethnic origin, religion, race, gender, sexual orientation, marital status or family circumstances. Entry into and progression within the Group is determined solely by the job criteria and personal ability/competence.

# Cavanagh Group plc

## DIRECTORS' REPORT

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The Group also seeks to apply best practice in the employment, training, development and promotion of disabled persons. The Group takes seriously its statutory obligations relating to disabled persons and seeks not to discriminate against current or prospective employees because of a reason relating to their disability. If an existing employee becomes disabled, such steps that are practical and reasonable are taken, in respect of adjustments to premises or employment arrangements, to retain him/her in employment. Where appropriate, rehabilitation and suitable training are given.

Employees are regularly updated on the performance of the Group. This is achieved through a series of communications including staff briefings and announcements. Employees' views are sought through regular staff meetings and appraisals.

### EMPLOYEE SHARE SCHEMES

Employee involvement in the Group's financial performance is encouraged through participation in the Company's share option schemes. At 31 December 2006, 61 employees, including directors, held options over 800,566 ordinary shares in the Company under the approved and unapproved share option schemes. Further information on share option arrangements is shown in note 20.

### CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Group made charitable contributions totalling £2,295 (2005: £504). The Group made no political donations in the year to 31 December 2006 (2005: Nil).

### SHARE PREMIUM ACCOUNT

As at 31 December 2006, the Company had an accumulated deficit on its profit and loss account of £2,281,318 which means that it has no ability to pay dividends. A proposed special resolution is expected to be presented at an EGM to be held later this year, which will seek to cancel and extinguish this deficit by reducing the share premium account by an equal amount.

In order for the proposed reduction of the share premium account to take effect, confirmation of the High Court is required. The Court will be concerned to protect the interest of creditors of the Company in connection with the proposed reduction of the share premium account.

### BUSINESS RISKS

Risk management is an important element of the management process throughout the Group, and internal controls have been developed to address the main business risks which are considered to be:

#### Strategic

The Group operates in a dynamic market and consistently seeks to ensure the advice and solutions it offers to its clients are well researched. To ensure this advice is consistent and compliant, within the FSA framework within which we operate, the Group employs a team of technical advisors who are instrumental in the report writing, research and implementation of our advice.

#### Operational

The Group's most important assets are its employees, and the market for skilled staff is competitive. Recruiting, developing, retaining and motivating staff remains a key management challenge, which is addressed by competitive remuneration packages coupled with a good professional working environment.

The Group also recognises the importance of its IT infrastructure and the back office system and so has the appropriate controls in place to secure data and maximise the uptime of its systems.

# Cavanagh Group plc

## DIRECTORS' REPORT

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### Financial

Controls exist to ensure information is made available to enable management to monitor the performance of the Group. In particular the following key performance indicators ("KPI's") are used:

Indicator	2006 £'000	2005 £'000
Revenue per Employee	95	81
Revenue per Adviser (including self employed)	239	191
Operating profit * per employee	78	n/a
Administrative expenses per employee	35	37

\* Before amortisation of goodwill and share based payments.

As well as the above the Company monitors the KPI's outlined by the Financial Services Authority to ensure the advice given and our training and competency levels meet the highest standards.

### Health and Safety

The Group ensures that a safe and comfortable working environment is provided to its employees.

### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

### AUDITORS

A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

By order of the board

**I Henson**  
**Company Secretary**

14 March 2007

### PRINCIPLES OF CORPORATE GOVERNANCE

The Company's board of directors appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business prosperity. It believes that corporate governance involves more than a simple "box ticking" approach to establish whether a company has met the requirements of a number of specific rules and regulations. Rather the issue is one of applying corporate governance principles (including those set out in the Corporate Governance Guidelines for AIM companies published by the Quoted Companies' Alliance in July 2005) in a sensible and pragmatic fashion having regard to the individual circumstances of the Group's business. The key objective is to enhance and protect shareholder value.

### BOARD STRUCTURE

The Board is responsible to shareholders for the proper management of the Group. A statement of directors' responsibilities in respect of the accounts is set out on page 12.

The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. The non-executive directors are considered by the Board to be independent of management and free of any relationship, which could materially interfere with the exercise of their independent judgement. All non-executives receive a fixed fee for their services.

To enable the Board to discharge its duties, all directors have full and timely access to all relevant information and there is a procedure for all directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group. The Board has a formal schedule of matters reserved to it and meets monthly. It is responsible for overall group strategy, approval of major capital expenditure projects and consideration of significant financing matters.

The following committees have been set up, which have written terms of reference and deal with specific aspects of the Group's affairs.

1. The Remuneration Committee, consisting of the non-executive directors and chaired by P Hogarth, is responsible for making recommendations to the Board on the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the executive directors, including pension rights and compensation payments. The Board itself determines the remuneration of the non-executive directors. The Committee meets at least twice a year including immediately before the submission of the annual and interim financial statements to the Board.
2. The Audit Committee comprises the non-executive directors and is chaired by P Sinnett. Its prime tasks are to review the scope of the external audit, to receive regular reports from Baker Tilly, and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and areas of management judgment and estimation. The committee is responsible for monitoring the controls, which are in force to ensure the integrity of the information reported to the shareholders. The committee acts as a forum for discussion of internal control issues and contribute to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes. It advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. It reviews and monitors the independence of the auditors especially with regard to non-audit work. It meets at least twice a year.

Any new non-executive directors will be asked to join both committees.

No formal Nomination Committee exists in view of the stage of growth of the Group. Instead, appointments to the Board are considered by the Chief Executive and other executive directors, and discussed with the non executive directors. Appointments are made after an evaluation of the skills, knowledge and expertise required to ensure that the Board as a whole has the ability to ensure that the Group can continue to compete effectively in its market place.

### INTERNAL CONTROL

The directors are responsible for the Group's system of internal control and reviewing its effectiveness. The Board has designed the Group's system of internal control in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

The key elements of the control system in operation are:

- a. The Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clear lines of responsibility defined and with appropriate delegation of authority;
- b. There are procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the Group's financial performance against approved budgets and forecasts;

The process adopted by the Group accords with the guidance contained in the document "Internal Control Guidance for Directors on the Combined Code" issued by the ICAEW.

The Audit committee receives reports from the external auditors on a regular basis and from executive directors of the Group. During the year, the Board has reviewed the effectiveness of the system of internal control as described above. The Board receives periodic reports from all committees.

The Board has considered whether the Group's internal controls processes would be significantly enhanced by an internal audit function and has taken the view that at the Group's current stage of development, this is not required. The Board will continue to review this matter each year.

There are no significant issues disclosed in the financial statements for the year ended 31 December 2006 and up to the date of approval of the report and financial statements that have required the Board to deal with any related material internal control issues.

### RELATIONS WITH SHAREHOLDERS

The Group values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy. During the year the directors have had meetings with analysts and institutions and will continue to do so.

There is also an opportunity, at the Company's Annual General Meeting for individual shareholders to raise general business matters with the full Board and notice of the Company's Annual General Meeting is circulated to all shareholders at least 20 working days before such meeting. The Chairmen of the Audit and Remuneration Committee will be available at the Annual General Meeting to answer questions.

There is information for investors on the Group's web site, [www.cavanagh.co.uk](http://www.cavanagh.co.uk).

### GOING CONCERN

The directors confirm that they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

# Cavanagh Group plc

## DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the annual report includes information required by the AIM Rules.

The directors are also responsible for the maintenance and integrity of the Cavanagh Group plc website. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAVANAGH GROUP PLC

We have audited the financial statements which comprise the Group Profit and Loss Account, the Group Statement of Recognised Gains and Losses, the Group Balance Sheet, the Company Balance Sheet, the Group Cash Flow Statement, and the related notes.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985, and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, Chairman's Statement, Chief Executive's Review and Corporate Governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAVANAGH GROUP PLC

## **Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the company and the group as at 31 December 2006 and of profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

## **BAKER TILLY**

Registered Auditor  
Chartered Accountants  
Brazenose House  
Lincoln Square  
Manchester  
M2 5BL

14 March 2007

**Cavanagh Group plc**  
**GROUP PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2006

		2006	2005
	<i>Notes</i>	£	(restated) £
TURNOVER: Group and share of joint venture's turnover		14,271,544	12,160,516
Less: share of joint venture's turnover		<u>(159,358)</u>	<u>(107,088)</u>
<b>TURNOVER</b>		<b>14,112,186</b>	<b>12,053,428</b>
Cost of sales		<u>7,773,821</u>	<u>6,617,198</u>
Gross profit		<u>6,338,365</u>	<u>5,436,230</u>
Administrative expenses			
- goodwill amortisation		195,900	201,660
- share based payment charges		45,161	57,739
- other		<u>5,165,962</u>	<u>5,406,422</u>
Total administrative expenses		<u>5,407,023</u>	<u>5,665,821</u>
Operating profit before goodwill amortisation and share based payment charges		1,172,403	29,808
- share based payment charges		(45,161)	(57,739)
- goodwill amortisation		<u>(195,900)</u>	<u>(201,660)</u>
<b>GROUP OPERATING PROFIT/(LOSS)</b>	<b>2</b>	<b>931,342</b>	<b>(229,591)</b>
Share of joint venture operating profit		<u>157,738</u>	<u>105,202</u>
<b>TOTAL OPERATING PROFIT/(LOSS)</b>		<b>1,089,080</b>	<b>(124,389)</b>
Net interest payable	5	<u>(207,031)</u>	<u>(263,569)</u>
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>882,049</b>	<b>(387,958)</b>
Tax on profit/(loss) on ordinary activities	6	<u>(428,987)</u>	<u>(123,552)</u>
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>		<b>453,062</b>	<b>(511,510)</b>
Minority interest		<u>(19,725)</u>	<u>(2,334)</u>
<b>RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>		<b><u>433,337</u></b>	<b><u>(513,844)</u></b>
Basic earnings/(loss) per share (pence)	8	<u>3.99</u>	<u>(4.73)</u>
Fully diluted earnings/(loss) per share (pence)	8	<u>3.98</u>	<u>(4.73)</u>

The operating profit for the year arises from the Group's continuing operations.

# Cavanagh Group plc

## GROUP STATEMENT OF RECOGNISED GAINS AND LOSSES for the year ended 31 December 2006

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	2006	2005
	£	(restated) £
Total recognised gains and losses relating to the year	433,337	<u>(513,844)</u>
Prior year adjustment *	<u>(55,042)</u>	
Total recognised gains and losses since last annual report	<u>378,295</u>	

\* Impact of adopting FRS 20 "Share based payment"

# Cavanagh Group plc

## GROUP BALANCE SHEET

31 December 2006

	Notes	2006 £	2005 (restated) £
<b>FIXED ASSETS</b>			
Intangible assets	9	1,329,510	1,525,410
Tangible assets	10	371,836	604,477
Share of assets of joint venture	11	2,000	2,000
		<u>1,703,346</u>	<u>2,131,887</u>
<b>CURRENT ASSETS</b>			
Debtors	12	2,298,664	3,280,492
Cash at bank and in hand		1,836,595	906,472
		<u>4,135,259</u>	<u>4,186,964</u>
CREDITORS: amounts falling due within one year	14	<u>(2,454,482)</u>	<u>(2,816,634)</u>
NET CURRENT ASSETS		<u>1,680,777</u>	<u>1,370,330</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,384,123	3,502,217
CREDITORS: amounts falling due after more than one year	14	(2,900,000)	(3,500,000)
PROVISIONS FOR LIABILITIES AND CHARGES			
Other provisions	15	<u>(231,365)</u>	<u>(247,682)</u>
		<u>252,758</u>	<u>(245,465)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	20	108,684	108,684
Share premium account	21	2,705,800	2,705,800
Other reserve	21	157,942	112,781
Profit and loss account	21	<u>(2,736,438)</u>	<u>(3,169,775)</u>
EQUITY SHAREHOLDERS' FUNDS/(DEFICIT)	21	235,988	(242,510)
Minority interests		16,770	(2,955)
		<u>252,758</u>	<u>(245,465)</u>

The financial statements were approved by the board of directors and authorised for issue on 14 March 2007 and are signed on its behalf by:

**A Fay**  
Director

**I Henson**  
Director

**Cavanagh Group plc**  
**COMPANY BALANCE SHEET**  
**31 December 2006**

	<i>Notes</i>	2006 £	2005 (restated) £
<b>FIXED ASSETS</b>			
Investments	11	4,560,099	4,525,761
<b>CURRENT ASSETS</b>			
Debtors	12	611,722	543,407
CREDITORS: amounts falling due within one year	14	(1,580,713)	(600,000)
<b>NET CURRENT LIABILITIES</b>		<u>(968,991)</u>	<u>(56,593)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,591,108	4,469,168
CREDITORS: amounts falling due after more than one year	14	(2,900,000)	(3,500,000)
		<u>691,108</u>	<u>969,168</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	20	108,684	108,684
Share premium account	21	2,705,800	2,705,800
Other reserve	21	157,942	112,781
Profit and loss account	21	(2,281,318)	(1,958,097)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>691,108</u>	<u>969,168</u>

The financial statements were approved by the board of directors and authorised for issue on 14 March 2007 and are signed on its behalf by:

**A Fay**  
**Director**

**I Henson**  
**Director**

**Cavanagh Group plc**  
**GROUP CASH FLOW STATEMENT**  
for the year ended 31 December 2006

	<i>Notes</i>	2006 £	2005 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	1,619,989	450,927
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends received from joint venture		157,738	88,786
Interest received		59,071	33,698
Interest paid		<u>(266,102)</u>	<u>(297,267)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(49,293)	(174,783)
TAXATION		-	-
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		<u>(40,573)</u>	<u>(159,382)</u>
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		(40,573)	(159,382)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertaking		-	67,602
NET CASH INFLOW FROM ACQUISITIONS		-	67,602
CASH INFLOW BEFORE FINANCING		<u>1,530,123</u>	<u>184,364</u>
FINANCING			
New long term loans		1,500,000	-
Repayment of bank loans		<u>(2,100,000)</u>	<u>(400,000)</u>
NET CASH OUTFLOW FROM FINANCING		(600,000)	(400,000)
INCREASE/(DECREASE) IN CASH IN THE YEAR	22	<u>930,123</u>	<u>(215,636)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
		2006 £	2005 £
Increase/(decrease) in cash in the year		930,123	(215,636)
Cash flow in respect of long term loans		<u>600,000</u>	<u>400,000</u>
CHANGE IN NET FUNDS		1,530,123	184,364
NET DEBT AT 1 JANUARY 2006		<u>(3,193,528)</u>	<u>(3,377,892)</u>
NET DEBT AT 31 DECEMBER 2006		<u>(1,663,405)</u>	<u>(3,193,528)</u>

# Cavanagh Group plc

## ACCOUNTING POLICIES

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### BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention.

### CHANGE IN ACCOUNTING POLICIES

The Group has consistently applied all relevant accounting standards except for the change in accounting standards detailed below.

FRS 20 "Share based payments" is effective for unlisted companies (including AIM companies) for accounting periods beginning on or after 1 January 2006. In accordance with the standard, the cost of share options awarded to employees measured by reference to their fair value at the date of grant is recognised over the vesting period of the options based on the number of options which in the opinion of the Directors will ultimately vest.

An analysis of the impact of FRS 20 is as follows:

#### Profit and loss account

	2006	2005
	£	£
Profit/(loss) before adoption of new accounting standard	478,498	(456,105)
Impact of FRS 20	(45,161)	(57,739)
Restated profit/(loss) after adoption of new accounting standard	<u>433,337</u>	<u>(513,844)</u>

There is a corresponding credit to an Other reserve and there is no impact on the Group's cash position. The prior year adjustment and corresponding credit to the other reserve at 1 January 2005 amounted to £55,042.

### BASIS OF CONSOLIDATION

The consolidated accounts incorporate the accounts of the Company and all Group undertakings. These are adjusted, where appropriate, to conform to Group accounting policies. Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over ten years from the year of acquisition. It is reviewed at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group accounts by virtue of section 230 of the Companies Act 1985.

### JOINT VENTURES

Undertakings in which the Group has a long term interest and shares control under a contractual arrangement are defined as joint ventures. Joint ventures are accounted for using the gross equity method.

# Cavanagh Group plc

## ACCOUNTING POLICIES

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### TURNOVER

Turnover represents commissions income and consultancy fees, recognised on the following basis:

- initial commission is recognised as income on the date that the relevant policy is placed on risk with the insurance company;
- some initial commission is paid on indemnity terms. As a result, commission may subsequently be clawed back by the insurance companies. Provision is made for future clawback commission to cover the liability of repayments in the event of premiums ceasing within the indemnity period;
- renewals commission is recognised when it is receivable; and
- any fees charged for consultancy are recognised as turnover during the period in which the consultancy is provided.

### DEPRECIATION

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold improvements	-	straight line over the period of the lease
Fixtures & fittings	-	20% on reducing balance method
Equipment	-	straight line over 3 years.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

### OPERATING LEASE AGREEMENTS

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

### PENSION COSTS

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The annual contributions payable are charged to the Group profit and loss account.

### SHARE-BASED COMPENSATION

The Group operates an equity-settled, share based compensation plan. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to reserves over the remaining vesting period.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognized in the financial statements.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying tax differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

# Cavanagh Group plc

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2006

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#### 1 TURNOVER

The Group's turnover and profit before taxation were all derived from its principal activity wholly undertaken in the United Kingdom.

#### 2 OPERATING PROFIT/(LOSS)

Operating profit / (loss) is stated after charging:

	2006	2005
	£	£
Amortisation of goodwill	195,900	201,660
Depreciation	273,214	260,533
Auditors' remuneration		
- as auditors	26,950	27,500
- tax services	6,075	4,500
Operating lease costs:		
- land and buildings	335,235	313,942
- other	122,162	120,364
	<u>7,798,396</u>	<u>6,923,873</u>

#### 3 PARTICULARS OF EMPLOYEES

The average monthly number of staff employed by the Group was:

	2006	2006
	No	No
Executive Directors	6	6
Consultants / Technical	69	74
Administration	73	68
	<u>148</u>	<u>148</u>

The aggregate payroll costs of the above were:

	2006	2005
	£	(restated) £
Wages and salaries	6,715,889	5,929,492
Social security costs	726,125	647,496
Other pension costs	311,221	289,146
Share based compensation	45,161	57,739
	<u>7,798,396</u>	<u>6,923,873</u>

**Cavanagh Group plc**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2006

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**4 DIRECTORS' EMOLUMENTS**

The directors' aggregate emoluments in respect of qualifying services were:

	2006 £	2005 £
Emoluments receivable	994,299	721,936
Pension contributions	35,408	48,198
	<u>1,029,707</u>	<u>770,134</u>

Emoluments of highest paid director:

	2006 £	2005 £
Total emoluments (excluding pension contributions):	198,487	123,200
Pension contributions	-	22,345
	<u>198,487</u>	<u>145,545</u>

**5 NET INTEREST PAYABLE**

	2006 £	2005 £
Bank interest payable	252,102	297,267
Other loan interest payable	14,000	-
	<u>266,102</u>	<u>297,267</u>
Bank interest receivable	(59,071)	(33,698)
	<u>207,031</u>	<u>263,569</u>

**6 TAXATION ON ORDINARY ACTIVITIES**

(a) Analysis of charge in the year

	2006 £	2005 £
Current tax:		
UK Corporation tax based on the results for the year at 30% (2005: 30%)	16,285	-
Share of joint venture corporation tax	31,035	16,416
Total current tax	<u>47,320</u>	<u>16,416</u>
Deferred tax:		
Decrease in deferred tax asset	381,667	107,136
Tax on profit/(loss) on ordinary activities	<u>428,987</u>	<u>123,552</u>

**Cavanagh Group plc**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2006

6 TAX ON PROFIT /(LOSS) ON ORDINARY ACTIVITIES (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2005: 30%).

	2006	2005 (restated)
	£	£
Profit/(loss) on ordinary activities before taxation	<u>882,049</u>	<u>(387,958)</u>
Profit/(loss) on ordinary activities by rate of tax	264,615	(116,387)
Decelerated capital allowances	39,011	7,902
Expenses disallowed	61,677	119,733
Income not taxable	-	(475)
Unrelieved tax losses	108,069	25,999
Losses utilised in the year	(432,012)	(5,281)
Difference in rates	(8,483)	(11,589)
Other	14,443	115
Over provision in prior year	-	(3,601)
Total current tax (note 6(a))	<u>47,320</u>	<u>16,416</u>

7 LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt within the accounts of the parent company was £323,221 (2005: loss £1,187,638).

8 EARNINGS/(LOSS) PER SHARE

	2006	2005 (restated)
	£	£
Profit/(loss) on ordinary activities after taxation	433,337	(513,844)
Share based compensation charge	45,161	57,739
Adjusted profit/(loss) after taxation	<u>478,498</u>	<u>(456,105)</u>
Weighted average number of shares (No)		
For basic earnings/(loss) per ordinary share	10,868,400	10,868,400
Exercise of share options	33,109	-
For fully diluted earnings/(loss) per ordinary share	<u>10,901,509</u>	<u>10,868,400</u>
Earnings/(loss) per ordinary share – basic	<u>3.99p</u>	<u>(4.73)p</u>
Earnings/(loss) per ordinary share – adjusted	<u>4.40p</u>	<u>(4.20)p</u>
Earnings/(loss) per ordinary share – basic fully diluted	<u>3.98p</u>	<u>(4.73)p</u>

The loss for the year and the weighted average number of ordinary shares for calculating the diluted loss per share for the year ended 31 December 2005 are identical to those used for the basic loss per share. This is because the outstanding share options and warrants would have the effect of reducing the profit per ordinary share and would therefore not be dilutive under the terms of FRS 22.

# Cavanagh Group plc

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2006

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#### 9 INTANGIBLE FIXED ASSETS

GROUP	Goodwill £
Cost	
At 1 January 2006 and 31 December 2006	<u>1,948,996</u>
Amortisation	
At 1 January 2006	423,586
Charge for the year	<u>195,900</u>
At 31 December 2006	<u>619,486</u>
Net book value	
At 31 December 2006	<u>1,329,510</u>
At 31 December 2005	<u>1,525,410</u>

#### 10 TANGIBLE FIXED ASSETS

GROUP	Leasehold improvements £	Office equipment £	Total £
Cost			
At 1 January 2006	201,058	1,110,078	1,311,136
Additions	<u>3,029</u>	<u>37,544</u>	<u>40,573</u>
At 31 December 2006	<u>204,087</u>	<u>1,147,622</u>	<u>1,351,709</u>
Depreciation			
At 1 January 2006	56,060	650,599	706,659
Charge for the year	<u>25,754</u>	<u>247,460</u>	<u>273,214</u>
At 31 December 2006	<u>81,814</u>	<u>898,059</u>	<u>979,873</u>
Net book value			
At 31 December 2006	<u>122,273</u>	<u>249,563</u>	<u>371,836</u>
At 1 January 2006	<u>144,998</u>	<u>459,479</u>	<u>604,477</u>

# Cavanagh Group plc

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2006

#### 11 INVESTMENTS

##### GROUP

Share of assets of joint ventures

	2006	2005
	£	£
Share of gross assets	48,345	31,718
Share of gross liabilities	(46,345)	(29,718)
Share of net assets	<u>2,000</u>	<u>2,000</u>

The Company owns 50% of the issued share capital of the joint venture, Place Campbell Cavanagh Limited. This company's principal place of business is Wilmington House, High Street, East Grinstead, Sussex. Its principal activity is that of an independent financial advisor. This company is jointly managed by its six directors, three from Cavanagh Group plc and three from its other investor, Place Campbell Chartered Accountants.

##### COMPANY

Shares in  
subsidiary  
undertakings

Cost	£
At 1 January 2005 – as previously reported	5,235,389
FRS 20 adjustment relating to subsidiaries	42,232
As restated	5,277,621
FRS 20 adjustment for 2005 relating to subsidiaries	46,112
At 1 January 2006	5,323,733
FRS 20 adjustment for 2006 relating to subsidiaries	34,338
At 31 December 2006	<u>5,358,071</u>
Provisions	
At 1 January 2006 and 31 December 2006	<u>797,972</u>
Net book value	
At 31 December 2006	<u>4,560,099</u>
At 31 December 2005 (restated)	<u>4,525,761</u>

Shares in subsidiary undertakings are stated at cost. Cavanagh Group plc owns directly or indirectly the following principal subsidiaries which are all included in the consolidated accounts.

Name	Country of incorporation	Activity	Holding
Cavanagh Financial Management Ltd	Scotland	Independent financial advisor	100%
CPRM Limited $\Phi$	Scotland	Independent actuarial consultancy	70%
Cavanagh Financial Services Ltd	England & Wales	Dormant	100%

$\Phi$  Held by subsidiary undertaking

**Cavanagh Group plc**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2006

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12 DEBTORS

	GROUP		COMPANY	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	1,130,943	1,557,891	-	-
Amounts owed by group undertaking	-	-	611,722	542,068
Deferred tax (note 13)	659,069	1,040,736	-	1,339
Corporation tax repayable	3,547	3,547	-	-
Prepayments and accrued income	505,105	678,318	-	-
	<u>2,298,664</u>	<u>3,280,492</u>	<u>611,722</u>	<u>543,407</u>

13 DEFERRED TAXATION

The movement in the deferred taxation asset during the year was:

	GROUP		COMPANY	
	2006	2005	2006	2005
	£	£	£	£
Asset brought forward 1 January 2006	1,040,736	1,147,872	1,339	1,339
Decrease in asset	<u>(381,667)</u>	<u>(107,136)</u>	<u>(1,339)</u>	<u>-</u>
Asset carried forward 31 December 2006	<u>659,069</u>	<u>1,040,736</u>	<u>-</u>	<u>1,339</u>

	GROUP		COMPANY	
	2006	2005	2006	2005
	£	£	£	£
Accelerated/(decelerated) capital allowances	48,014	(8,089)	-	-
Tax losses available	611,055	1,048,825	-	1,339
	<u>659,069</u>	<u>1,040,736</u>	<u>-</u>	<u>1,339</u>

**Cavanagh Group plc**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2006

14 CREDITORS

Amounts falling due within one year

	GROUP		COMPANY	
	2006	2005	2006	2005
	£	£	£	£
Bank loans	600,000	600,000	600,000	600,000
Amounts owed to group undertaking	-	-	966,713	-
Trade creditors	164,657	225,850	-	-
Amounts owed to joint venture	52,629	48,219	-	-
Corporation tax	47,320	-	-	-
Taxation and social security	348,563	354,667	-	-
Other creditors	321,304	394,276	-	-
Accruals and deferred income	920,009	1,193,622	14,000	-
	<u>2,454,482</u>	<u>2,816,634</u>	<u>1,580,713</u>	<u>600,000</u>

Amounts falling due after more than one year

	GROUP		COMPANY	
	2006	2005	2006	2005
	£	£	£	£
Bank loan	1,400,000	3,500,000	1,400,000	3,500,000
Other loan	1,500,000	-	1,500,000	-
	<u>2,900,000</u>	<u>3,500,000</u>	<u>2,900,000</u>	<u>3,500,000</u>

	GROUP		COMPANY	
	2006	2005	2006	2005
	£	£	£	£
Amounts payable:				
Within one to two years	600,000	600,000	600,000	600,000
Within two to five years	2,300,000	1,800,000	2,300,000	1,800,000
In over five years	-	1,100,000	-	1,100,000
	<u>2,900,000</u>	<u>3,500,000</u>	<u>2,900,000</u>	<u>3,500,000</u>

A bank loan is repayable in monthly instalments of £50,000, interest is charged on the loan at 2% over base rate. The other loan of £1,500,000 is repayable in November 2009, on which interest is charged at 7 ½%.

15 OTHER PROVISIONS

Provisions have been made at the year end for indemnity commission received but which is potentially repayable to product providers.

	2006	2005
	£	£
Balance brought forward at 1 January 2006	247,682	306,528
Movement for the year	(16,317)	(58,846)
	<u>231,365</u>	<u>247,682</u>

# Cavanagh Group plc

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2006

#### 16 PENSIONS

The Group operates a defined contribution pension scheme for employees. The total contributions paid during the year were £311,221 (2005: £289,146). £20,616 was outstanding at the year end (2005: £15,643).

#### 17 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2006 the Group had annual commitments under non-cancellable operating leases as set out below:

GROUP	2006		2005	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within 1 year	60,000	-	-	37,620
Within 2 to 5 years	228,250	174,123	203,250	81,198
After more than 5 years	56,960	-	117,960	-
	<u>345,210</u>	<u>174,123</u>	<u>321,210</u>	<u>118,818</u>

#### 18 FINANCIAL INSTRUMENTS

As permitted by FRS13, short-term creditors and debtors have been excluded from the disclosures.

The Group's policy during the year ended 31 December 2006 to achieve its financial and operational objectives was to use cash, short term deposits and long term loans. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes.

The Group did not use financial instruments during the year to hedge against interest rate movements, interest on the Group's borrowings are fixed or linked to LIBOR.

##### *Interest rate risk profile of financial assets*

The interest rate profile of financial assets of the Group as at 31 December 2006 is as follows:

	Fixed rate financial assets £	Floating rate financial assets £	Financial assets on which no interest is paid £	Total £
2006 Sterling	<u>-</u>	<u>1,836,595</u>	<u>-</u>	<u>1,836,595</u>
2005 Sterling	<u>-</u>	<u>906,472</u>	<u>-</u>	<u>906,472</u>

# Cavanagh Group plc

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2006

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#### 18 FINANCIAL INSTRUMENTS (continued)

##### *Interest rate risk profile of financial liabilities*

The interest rate profile of the financial liabilities of the Group as at 31 December 2006 is as follows:

	Fixed rate financial liabilities £	Floating rate financial liabilities £	Financial liabilities on which no interest is paid £	Total £
2006 Sterling	<u>1,500,000</u>	<u>2,000,000</u>	<u>-</u>	<u>3,500,000</u>
2005 Sterling	<u>-</u>	<u>4,100,000</u>	<u>-</u>	<u>4,100,000</u>

The maturity profile of the Group's financial liabilities as at 31 December 2006 was as follows:

	2006 £	2005 £
Payable within one year	600,000	600,000
Payable between one and two years	600,000	600,000
Payable between two and five years	2,300,000	1,800,000
Payable in more than five years	-	1,100,000
	<u>3,500,000</u>	<u>4,100,000</u>

##### *Currency exposures*

The Group has no overseas assets or liabilities.

##### *Borrowing facility*

The Group had no undrawn borrowing facilities at 31 December 2006.

##### *Fair values of financial assets and financial liabilities*

The fair value, based upon the market value or discounted cashflows of the financial instruments detailed above, was not materially different from their book values.

# Cavanagh Group plc

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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### 19 RELATED PARTY TRANSACTIONS

During the year the Group paid Tricom Services Limited £6,500 (2005: £4,232), a company owned by the wife of P Sinnett, for payroll services. The amount outstanding at the year end to Tricom Services Limited was £425 (2005: £888).

During the year the Group paid £22,618 (2005: £2,236) for marketing services to Brand 20:20 Limited, a company registered in Scotland. J Campbell is a controlling director of Brand 20:20 Limited. The amount outstanding at the year end owed to Brand 20:20 Limited was £478 (2005: £239).

During the year the Group paid commissions amounting to £9,278 (2005: £6,310) to BCL Financial Services Limited, a company that acts as an agent to the Group. A Fay is a director of BCL Financial Services Limited. The balance outstanding at the year end was £28,909 (2005: £10,336).

All transactions with related parties are carried out on an arms length basis.

### 20 SHARE CAPITAL

	2006 £	2005 £
Authorised:		
50,000,000 Ordinary shares of £0.01 each	<u>500,000</u>	<u>500,000</u>
Allotted, called up and fully paid:		
10,886,400 Ordinary share capital of £0.01 each	<u>108,684</u>	<u>108,684</u>

# Cavanagh Group plc

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 31 December 2006

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#### 20 SHARE CAPITAL (continued)

At 31 December 2006 there were options over 800,566 (2005: 786,660) ordinary shares of 1p each which are exercisable at prices in the range from 60p to 210p under the company's various share option scheme exercisable at various times analysed as follows:

During the year 54,655 options were issued, 40,749 options lapsed and no options were exercised.

Grant date	Subscription price per share	Period over which options are exercisable	Number of shares for which rights are exercisable 31 December 2006
<b>Unapproved share options:</b>			
October 2001	150p	October 2004 – October 2011	80,000
February 2003	155p	February 2006 – February 2013	91,011
October 2003	170p	October 2006 – October 2013	50,620
April 2005	93p	April 2008 – April 2015	65,809
April 2006	76p	April 2009 – April 2016	42,891
<b>Approved share options:</b>			
October 2001	150p	October 2004 – October 2011	26,666
February 2003	155p	February 2006 – February 2013	45,159
October 2003	170p	October 2006 – October 2013	30,592
January 2004	162p	January 2007 – January 2014	55,554
April 2004	210p	April 2007 – April 2014	2,862
September 2004	175p	September 2007 – September 2014	28,570
November 2004	115p	November 2007 – November 2014	186,067
December 2005	60p	December 2008 – December 2015	83,000
June 2006	85p	June 2009 – June 2016	11,765

There are 800,566 options outstanding at 31 December 2006. The weighted average fair value of options granted using the Black Scholes valuation model was in the range 16.43p – 55.82p per share. The significant inputs into the model were weighted average share price of 55p – 210p at the grant date, exercise price shown above, standard deviation of expected share returns of 36.6% - 39.2%, expected option life of 5 – 6 years, and risk free interest rate of UK government gilt edged stock. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of monthly share prices over the last 4 years.

**Cavanagh Group plc**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2006

21 RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

GROUP	Share capital £	Share premium account £	Other reserve £	Profit and loss account £	Total £
At 1 January 2005 – as previously reported	108,684	2,705,800	-	(2,600,889)	213,595
FRS 20 adjustment	-	-	55,042	(55,042)	-
As restated	108,684	2,705,800	55,042	(2,655,931)	213,595
Loss for the year	-	-	-	(513,844)	(513,844)
Share based compensation	-	-	57,739	-	57,739
At 31 December 2005	108,684	2,705,800	112,781	(3,169,775)	(242,510)
Profit for the year	-	-	-	433,337	433,337
Share based compensation	-	-	45,161	-	45,161
At 31 December 2006	<u>108,684</u>	<u>2,705,800</u>	<u>157,942</u>	<u>(2,736,438)</u>	<u>235,988</u>
COMPANY	Share capital £	Share premium account £	Other reserve £	Profit and loss account £	Total £
At 1 January 2005 – as previously reported	108,684	2,705,800	-	(757,649)	2,056,835
FRS 20 adjustment	-	-	55,042	(12,810)	42,232
As restated	108,684	2,705,800	55,042	(770,459)	2,099,067
Loss for the year	-	-	-	(1,187,638)	(1,187,638)
Share based compensation	-	-	57,739	-	57,739
At 31 December 2005	108,684	2,705,800	112,781	(1,958,097)	969,168
Loss for the year	-	-	-	(323,221)	(323,221)
Share based compensation	-	-	45,161	-	45,161
At 31 December 2006	<u>108,684</u>	<u>2,705,800</u>	<u>157,942</u>	<u>(2,281,318)</u>	<u>691,108</u>

The Other reserve relates to share based compensation charges.

22 NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £	2005 £
Total operating profit/(loss)	1,089,080	(124,389)
Share of joint venture operating profit	(157,738)	(105,202)
Amortisation of goodwill	195,900	201,660
Share based compensation	45,161	57,739
Depreciation	273,214	260,533
Decrease/(increase) in debtors	600,161	(154,669)
(Decrease)/increase in creditors	(409,472)	374,101
Decrease in provisions	(16,317)	(58,846)
Net cash inflow from operating activities	<u>1,619,989</u>	<u>450,927</u>

# Cavanagh Group plc

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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### 22 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

#### ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 2006 £	Cash flows £	At 31 Dec 2006 £
Net cash:			
Cash in hand and at bank	906,472	930,123	1,836,595
Debt:			
Bank loans	(4,100,000)	2,100,000	(2,000,000)
Other loans	-	(1,500,000)	(1,500,000)
Net debt	<u>(3,193,528)</u>	<u>1,530,123</u>	<u>(1,663,405)</u>

### 23 CONTROL

The Group is under the control of its directors, who owned the majority of its issued share capital throughout the whole of the current and previous year.