

Cavanagh Group plc

FINANCIAL STATEMENTS

for the year ended

31 December 2005

Cavanagh Group plc

FINANCIAL STATEMENTS

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Cavanagh Group plc

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

SECRETARY

I R Henson

REGISTERED OFFICE

The Courtyard
Staplefield Road
Cuckfield
West Sussex
RH17 5JT

AUDITORS

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

BANKERS

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

SOLICITORS

Dundas & Wilson CS
4th 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 2005

FINANCIAL PERFORMANCE

I am pleased to report on a year of significant progress for Cavanagh with the financial performance turnaround achieved in the first six months continuing into the second half of the year.

The results for the 12 months ended 31st December 2005 show turnover of £12.2million, up by 16% from the pro rata equivalent achieved in the previous year. EBITDA (earnings before interest, tax, depreciation, amortisation and exceptional items) for 2005 was £0.4 million against a pro rata loss of £2.3 million in 2004.

As well as increasing turnover, we have continued to make substantial savings in our overheads and gross margins have improved to 44.7%. I am pleased to report that we are now focused on generating controlled, profitable growth in our business.

Client assets invested by the Group now exceed £1.0 billion providing both trail commission and additional business opportunities. Indeed, our recurring income, including annual fees and trail commission, is approaching £4 million per annum, representing approximately 33% of Group turnover.

Also, in line with my half year report, I can report that CPRM, our actuarial and advisory service which was launched in September 2004, produced a modest pre tax profit thereby truly contributing to the Group's performance with its recurring income totalling approximately 40% of its total revenue.

OPERATIONS

In the first quarter of 2005 we rationalised the finance function by centralising it in Cuckfield and we also appointed Ian Henson as Finance Director.

In mid 2005 we introduced a new back office system which has enabled us to continue to drive operational efficiencies through the business and generate improved management information which has contributed to the overall progress achieved in the year. This is reflected in the pro rata reduction in overheads of approximately 20% from 2004 to 2005. We anticipate further improvement during 2006.

The average revenue per consultant is now around £190,000, which when compared to the industry puts our advisors at the top end of the range, supported by their colleagues from the technical and administrative departments.

BUSINESS OPPORTUNITIES

The outlook for 2006 continues to be promising for a number of reasons. The positive equity markets indicate that retail investment business will continue to grow. Additionally, planning for pensions "A-day" has provided the Group's consultants with considerable opportunities to offer advice to High Net Worth clients at a time of significant change in pension regulation.

We continue to advance our professional connections, especially with senior partners of law firms and we anticipate further growth in this area.

Another core area of development for Cavanagh is servicing the corporate market, which is a significant focus for our Glasgow, Birmingham and London offices.

Since the year end we have strengthened our Management team by making a key appointment who will be responsible in coordinating the growth of three offices in our central region. This will enable greater focus to be given to our other regional offices by our existing management team.

We believe that these activities, together with our growing introducer network, will continue to assist in growing our revenue streams.

Cavanagh Group Plc
CHAIRMAN'S STATEMENT
for the year ended 31 December 2005

GROUP STRATEGY

Cavanagh's strategic objective is to become one of the top 10 IFA groups in the UK, with a profitable business model. We will achieve this by a combination of increasing the number of top quality advisers, improving our operational efficiencies and selectively looking at suitable acquisition opportunities.

STAFF

I would like to thank all the Cavanagh staff and the product providers who have supported us for their contribution throughout 2005. I would also like to thank my colleagues on the Board for their hard work and commitment in what has been a successful year.

John Campbell
Chairman
11 April 2006

Cavanagh Group plc

DIRECTORS' REPORT

The directors submit their report and financial statements of Cavanagh Group plc for the year ended 31 December 2005.

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.

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 2005 (or date of resignation, if earlier) No	At 1 January 2005 No
A Fay	2,332,349	2,313,660
N Millard	2,292,350	2,294,327
S Redgrove	2,284,017	2,307,017
P Sinnett	100,000	100,000
J Campbell	30,000	–
K Timmins	–	–
C Gillespie	30,000	–
I R Henson (appointed 4 April 2005)	10,000	–

No qualifying third party indemnity provision for the benefit of any of the directors was in force at any time during the financial year nor at the date of approval of these financial statements.

DIRECTORS' SHARE OPTIONS

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

	At 01.01.05	Number granted in year	At 31.12.05	Exercise price	Date exercisable
J Campbell	46,667	-	46,667	150p	16 October 2004 – 16 October 2013
	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 R Henson	-	83,000	83,000	60p	6 December 2008 – 5 December 2015

The market price of the shares at 31 December 2005 was 55.5p and the range during the year was 50.5p to 100.5p.

Cavanagh Group plc

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDINGS

At 31 December 2005 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	2,332,349
N Millard	2,292,350
S Redgrove	2,284,017
TD Waterhouse Nominees (Europe) Limited	729,543
Friends Provident Life & Pensions	526,316
Rock (Nominees) Limited	421,053
Vidacos Nominees Limited	402,292
S Taylor	<u>381,334</u>

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 company 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 based on creditors at 31 December 2005 were 32 days (2004: 30 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.

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 financial performance is encouraged through participation in the Company's share option schemes. At 31 December 2005, 57 employees, including directors, held options over 758,090 ordinary shares in the Company under the approved and unapproved share option schemes. Further information on share options is shown in note 20.

Cavanagh Group plc

DIRECTORS' REPORT

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Group made charitable contributions totalling £504 to local children's charities and the Tsunami Appeal.

The Group made no political donations in the year to 31 December 2005 (2004: Nil).

AUDITORS

A resolution to re-appoint Baker Tilly as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

By order of the board

I R Henson

Company Secretary

11 April 2006

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 Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003) 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 9.

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 J Campbell, 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 including immediately before the submission of the annual and interim financial statements to the Board.

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

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 2005 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.

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

CORPORATE GOVERNANCE

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

The directors have voluntarily undertaken to adopt and comply with the provisions set out in Section 1 of the Combined Code insofar as they apply to the Group given its size and structure. The only areas of the Code with which the directors believe the Group does not currently comply are the annual evaluation of the performance of its committees and its directors, the number of independent non executive directors, the appointment of a senior independent director and the need to establish a procedure for the appointment and induction of new directors. The Board, having considered these matters, does not believe that, at this stage in the Group's development, the additional expense which would be incurred in order to comply in these areas could be justified by any enhancement in governance arising from these measures.

Cavanagh Group plc

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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 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. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 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.

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 Company's affairs and the Group at 31 December 2005 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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

18 April 2006

Cavanagh Group plc
GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2005

	<i>Notes</i>	Year to 31 31 Dec 05 £	14 months to 31 Dec 04 £
TURNOVER: Group and share of joint venture's turnover		12,160,516	12,328,006
Less: share of joint venture's turnover		<u>(107,088)</u>	<u>(110,922)</u>
TURNOVER	1	12,053,428	12,217,084
Cost of sales		<u>6,617,198</u>	<u>6,833,221</u>
Gross profit		<u>5,436,230</u>	<u>5,383,863</u>
Administrative expenses			
- exceptional items	2	-	644,684
- goodwill amortisation		201,660	201,660
- other		<u>5,406,422</u>	<u>7,837,584</u>
Total administrative expenses		<u>5,608,082</u>	<u>8,683,928</u>
Operating profit/(loss) before exceptional items and goodwill amortisation		29,808	(2,453,721)
- exceptional items		-	(644,684)
- goodwill amortisation		<u>(201,660)</u>	<u>(201,660)</u>
OPERATING LOSS	2	(171,852)	(3,300,065)
Share of joint venture operating profit		105,202	109,478
Interest receivable		33,698	107,095
Interest payable	5	<u>(297,267)</u>	<u>(332,205)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(330,219)	(3,415,697)
Tax on loss on ordinary activities	6	<u>(123,552)</u>	<u>1,064,555</u>
LOSS FOR THE FINANCIAL YEAR	7	(453,771)	(2,351,142)
Minority interest		<u>(2,334)</u>	<u>5,289</u>
RETAINED LOSS FOR THE FINANCIAL YEAR	7	<u>(456,105)</u>	<u>(2,345,853)</u>
Basic loss per share (pence)	8	<u>(4.20)</u>	<u>(22.62)</u>
Fully diluted loss per share (pence)	8	<u>(4.20)</u>	<u>(22.62)</u>

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

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

Cavanagh Group plc

GROUP BALANCE SHEET

31 December 2005

	<i>Notes</i>	2005 £	2004 £
FIXED ASSETS			
Intangible assets	9	1,525,410	1,794,672
Tangible assets	10	604,477	705,628
Share of assets of joint venture	11	2,000	2,000
		<u>2,131,887</u>	<u>2,502,300</u>
CURRENT ASSETS			
Debtors	12	3,280,492	3,232,959
Cash at bank and in hand		906,472	1,122,108
		<u>4,186,964</u>	<u>4,355,067</u>
CREDITORS: Amounts falling due within one year	14	(2,816,634)	(2,242,533)
NET CURRENT ASSETS		<u>1,370,330</u>	<u>2,112,534</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,502,217	4,614,834
CREDITORS: Amounts falling due after more than one year	14	(3,500,000)	(4,100,000)
PROVISIONS FOR LIABILITIES AND CHARGES			
Other provisions	15	(247,682)	(306,528)
		<u>(245,465)</u>	<u>208,306</u>
CAPITAL AND RESERVES			
Called-up equity share capital	20	108,684	108,684
Share premium account	21	2,705,800	2,705,800
Profit and loss account	21	(3,056,994)	(2,600,889)
Minority interest		(2,955)	(5,289)
SHAREHOLDERS' (DEFICIT)/FUNDS	21	<u>(245,465)</u>	<u>208,306</u>

These financial statements were approved by the Board on 11 April 2006 and are signed on its behalf by:

A Fay
Director

I Henson
Director

Cavanagh Group plc
COMPANY BALANCE SHEET
31 December 2005

	<i>Notes</i>	2005 £	2004 £
FIXED ASSETS			
Investments	11	4,437,417	4,526,996
CURRENT ASSETS			
Debtors	12	543,407	2,029,839
CREDITORS: Amounts falling due within one year	14	(600,000)	(400,000)
NET CURRENT (LIABILITIES)/ASSETS		(56,593)	1,629,839
TOTAL ASSETS LESS CURRENT LIABILITIES		4,380,824	6,156,835
CREDITORS: Amounts falling due after more than one year	14	(3,500,000)	(4,100,000)
		880,824	2,056,835
CAPITAL AND RESERVES			
Called-up equity share capital	20	108,684	108,684
Share premium account	21	2,705,800	2,705,800
Profit and loss account	21	(1,933,660)	(757,649)
SHAREHOLDERS' FUNDS		880,824	2,056,835

These financial statements were approved by the Board on 11 April 2006 and are signed on its behalf by:

A Fay
 Director

I Henson
 Director

Cavanagh Group plc
GROUP CASH FLOW STATEMENT
for the period ended 31 December 2005

	<i>Notes</i>	Year to 31 Dec 05 £	14 months to 31 Dec 04 £
Net cash inflow/(outflow) from operating activities	22	450,927	(2,363,864)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends received from joint venture		88,786	104,500
Interest received		33,698	107,095
Interest paid		<u>(297,267)</u>	<u>(332,205)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(174,783)	(120,610)
TAXATION		-	(13,217)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		<u>(159,382)</u>	<u>(780,745)</u>
NET CASH (OUTFLOW)/INFLOW FROM CAPITAL EXPENDITURE		(159,382)	(780,745)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertaking		67,602	(3,565,301)
Net cash acquired with subsidiary		<u>-</u>	<u>1,322,186</u>
NET CASH INFLOW/(OUTFLOW) FROM ACQUISITIONS		67,602	(2,243,115)
CASH OUTFLOW BEFORE FINANCING		184,364	(5,521,551)
FINANCING			
Issue of equity share capital		-	1,649,999
New long term loans		-	4,500,000
Repayment of long term loans		(400,000)	-
Capital element of hire purchase		<u>-</u>	<u>(578)</u>
NET CASH (OUTFLOW)/INFLOW FROM FINANCING		(400,000)	6,149,421
(DECREASE)/INCREASE IN CASH IN THE PERIOD	22	<u><u>(215,636)</u></u>	<u><u>627,870</u></u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
		2005 £	2004 £
(Decrease)/increase in cash in the period		(215,636)	627,870
Cash inflow in respect of hire purchase		-	578
Cash flow in respect of bank loans		400,000	(4,500,000)
CHANGE IN NET FUNDS		<u>184,364</u>	<u>(3,871,552)</u>
NET (DEBT)/FUNDS AT 1 JANUARY 2005		<u>(3,377,892)</u>	<u>493,660</u>
NET DEBT AT 31 DECEMBER 2005		<u><u>(3,193,528)</u></u>	<u><u>(3,377,892)</u></u>

Cavanagh Group plc

ACCOUNTING POLICIES

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 changes in accounting standards as detailed below.

FRS 21 "Events after the Balance Sheet Date" and FRS 22 "Earnings Per Share" and the disclosure requirements of FRS 25 "Financial Instruments: Disclosure and Presentation" are effective for accounting periods beginning on or after 1 January 2005 but have had no impact on the financial statements.

GOING CONCERN

The group has incurred a loss of £456,105 for the period, and has net liabilities at the balance sheet date of £245,465. The directors have prepared projections for the group for the current financial year. These demonstrate that the group can continue to meet its liabilities as they fall due for a period of at least twelve months from the date of signing these financial statements. On this basis, the directors consider it appropriate to prepare the financial statements on a going concern basis.

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 respectively.

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.

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 received; and
- any fees charged for consultancy are recognised as turnover during the period in which the consultancy is provided.

Cavanagh Group plc

ACCOUNTING POLICIES

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
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.

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 period ended 31 December 2005

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 LOSS

Operating loss is stated after charging:

	Year to 31 Dec 05	14 months to 31 Dec 04
	£	£
Amortisation of goodwill	201,660	201,660
Depreciation	260,533	251,742
Exceptional items	-	644,684
Auditors' remuneration		
- as auditors	27,500	22,950
- for other services	4,500	6,300
Operating lease costs:		
Land and buildings	313,942	252,906
	<u>313,942</u>	<u>252,906</u>

During the year to 31 December 2005 the Group incurred exceptional costs of £nil (2004 £644,684). The costs incurred in the period ended 31 December 2004 related to redundancy costs following the acquisition Cavanagh Financial Management Limited by Cavanagh Group plc in December 2003.

3 PARTICULARS OF EMPLOYEES

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

	Year to 31 Dec 05	14 months to 31 Dec 04
	No	No
Executive Directors	6	5
Consultants / Technical	74	61
Administration	68	134
	<u>148</u>	<u>200</u>

The aggregate payroll costs of the above were:

	Year to 31 Dec 05	14 months to 31 Dec 04
	£	£
Wages and salaries	5,929,492	7,622,777
Social security costs	647,496	746,321
Other pension costs	289,146	525,383
	<u>6,866,134</u>	<u>8,894,481</u>

Cavanagh Group plc
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2005

4 DIRECTORS' EMOLUMENTS

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

	Year to 31 Dec 05	14 months to 31 Dec 04
	£	£
Emoluments receivable	721,936	866,849
Pension contributions	48,198	105,080
	<u>770,134</u>	<u>971,929</u>

Emoluments of highest paid director:

	Year to 31 Dec 05	14 months to 31 Dec 04
	£	£
Total emoluments (excluding pension contributions):	123,200	143,372
Pension contributions	22,345	17,203
	<u>145,545</u>	<u>160,575</u>

5 INTEREST PAYABLE

	Year to 31 Dec 05	14 months to 31 Dec 04
	£	£
Bank interest and similar charges	297,267	332,205
	<u>297,267</u>	<u>332,205</u>

6 TAX ON LOSS ON ORDINARY ACTIVITIES

(a) Taxation

	Year to 31 Dec 05	14 months to 31 Dec 04
	£	£
Current tax:		
UK Corporation tax based on the results for the period at 30% (2004 - 30%)	-	-
Share of joint venture corporation tax	16,416	17,707
Over provision in prior year	-	(4,490)
Total current tax	<u>16,416</u>	<u>13,217</u>
Deferred tax:		
Decrease/(increase) in deferred tax asset	107,136	(1,077,772)
Tax on loss on ordinary activities	<u>123,552</u>	<u>(1,064,555)</u>

Cavanagh Group plc
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2005

6 TAX ON 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% (2004 - 30%).

	Year to 31 Dec 05	14 months to 31 Dec 04
	£	£
Loss on ordinary activities before taxation	(330,219)	(3,415,697)
Loss on ordinary activities by rate of tax	(99,066)	(1,024,709)
Decelerated/(accelerated) capital allowances	7,902	(9,676)
Expenses disallowed	102,412	60,104
Income not taxable	(475)	-
Unrelieved tax losses	25,999	994,376
Losses utilised in the year	(5,281)	-
Difference in rates	(11,589)	-
Other	115	-
Over provision in prior year	(3,601)	(6,878)
Total current tax (note 6(a))	<u>16,416</u>	<u>13,217</u>

7 LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt within the accounts of the parent company was £1,176,011 (2004 – loss £707,054).

8 LOSS PER SHARE

Losses per share are calculated in accordance with FRS 22. The calculation of basic loss per ordinary share is based on losses of £456,105 (2004 - £2,345,853) and on 10,868,400 ordinary shares (2004 - 10,372,181) being the weighted average number of shares in issue during the year.

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 loss per ordinary share and would therefore not be dilutive under the terms of Financial Reporting Standard FRS 22.

Cavanagh Group plc
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2005

9 INTANGIBLE FIXED ASSETS

GROUP	Goodwill £
Cost	
At 1 January 2005	2,016,598
Fair value adjustment	(67,602)
At 31 December 2005	<u>1,958,996</u>
Amortisation	
At 1 January 2005	221,926
Charge for the year	201,660
At 31 December 2005	<u>423,586</u>
Net book value	
At 31 December 2005	<u>1,525,410</u>
At 31 December 2004	<u>1,794,672</u>

10 TANGIBLE FIXED ASSETS

GROUP	Leasehold improvements £	Fixtures & fittings £	Equipment £	Total £
Cost				
At 1 January 2005	141,691	197,235	816,176	1,155,102
Reclassification	43,566	(197,235)	153,669	-
Additions	15,801	-	143,581	159,381
Disposals	-	-	(3,348)	(3,348)
At 31 December 2005	<u>201,058</u>	<u>-</u>	<u>1,110,078</u>	<u>1,311,136</u>
Depreciation				
At 1 January 2005	19,102	84,009	346,363	449,474
Reclassification	11,896	(84,009)	72,113	-
Charge for the year	25,062	-	235,471	260,533
Disposals	-	-	(3,348)	(3,348)
At 31 December 2005	<u>56,060</u>	<u>-</u>	<u>650,599</u>	<u>706,659</u>
Net book value				
At 31 December 2005	<u>144,998</u>	<u>-</u>	<u>459,479</u>	<u>604,477</u>
At 31 December 2004	<u>122,589</u>	<u>113,226</u>	<u>469,813</u>	<u>705,628</u>

Cavanagh Group plc

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2005

11 INVESTMENTS

Share of assets of joint ventures

	2005	2004
	£	£
Share of gross assets	31,718	22,294
Share of gross liabilities	(29,718)	(20,294)
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 and 31 December 2005	<u>5,235,389</u>
Provisions	
At 1 January 2005	708,393
Provided in the year	89,579
At 31 December 2005	<u>797,972</u>
Net book value	
At 31 December 2005	<u>4,437,417</u>
At 31 December 2004	<u>4,526,996</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 Φ	Scotland	Independent actuarial consultancy	70%
Cavanagh Financial Services Ltd	England and Wales	Dormant	100%

Φ Held by subsidiary undertaking

12 DEBTORS

	GROUP		COMPANY	
	2005	2004	2005	2004
	£	£	£	£
Trade debtors	1,557,891	1,403,918	-	-
Amounts owed by group undertaking	-	-	542,068	2,028,500
Deferred tax (Note 13)	1,040,736	1,147,872	1,339	1,339
Corporation tax repayable	3,547	3,547	-	-
Prepayments and accrued income	678,318	677,622	-	-
	<u>3,280,492</u>	<u>3,232,959</u>	<u>543,407</u>	<u>2,029,839</u>

Cavanagh Group plc
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2005

13 DEFERRED TAXATION

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

	GROUP		COMPANY	
	2005	2004	2005	2004
	£	£	£	£
Asset brought forward	1,147,872	70,100	1,339	-
(Decrease)/increase in asset	(107,136)	1,077,772	-	1,339
Asset carried forward	<u>1,040,736</u>	<u>1,147,872</u>	<u>1,339</u>	<u>1,339</u>

	GROUP		COMPANY	
	2005	2004	2005	2004
	£	£	£	£
Excess of taxation allowances over depreciation on fixed assets	(8,089)	(4,000)	-	-
Tax losses available	1,048,825	1,151,872	1,339	1,339
	<u>1,040,736</u>	<u>1,147,872</u>	<u>1,339</u>	<u>1,339</u>

14 CREDITORS

Amounts falling due within one year

	GROUP		COMPANY	
	2005	2004	2005	2004
	£	£	£	£
Bank loans	600,000	400,000	600,000	400,000
Trade creditors	225,850	64,402	-	-
Amounts owed to joint venture	48,219	38,730	-	-
Taxation and social security	354,667	291,482	-	-
Other creditors	394,276	531,197	-	-
Accruals and deferred income	1,193,622	916,722	-	-
	<u>2,816,634</u>	<u>2,242,533</u>	<u>600,000</u>	<u>400,000</u>

Amounts falling due after more than one year

	GROUP		COMPANY	
	2005	2004	2005	2004
	£	£	£	£
Amounts payable:				
Within one to two years	600,000	600,000	600,000	600,000
Within two to five years	1,800,000	1,800,000	1,800,000	1,800,000
In over five years	1,100,000	1,700,000	1,100,000	1,700,000
	<u>3,500,000</u>	<u>4,100,000</u>	<u>3,500,000</u>	<u>4,100,000</u>

The bank loan is repayable in monthly instalments of £50,000 which commenced in May 2005. Interest is charged on the loan at 2% over base rate.

Cavanagh Group plc

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2005

15 OTHER PROVISIONS

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

	2005 £	2004 £
Balance brought forward at 31 December 2004	306,528	190,570
Arising on acquisition of subsidiary undertaking	-	73,054
Movement for the period	(58,846)	42,904
	<u>247,682</u>	<u>306,528</u>

16 PENSIONS

The Group operates a defined contribution pension scheme for employees. The total contributions paid during the year were £289,146 (2004 - £525,383). There were no amounts outstanding at the year end.

17 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2005 the Group had annual commitments under non-cancellable operating leases as set out below:

GROUP	2005		2004	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within 1 year	-	37,620	-	-
Within 2 to 5 years	203,250	81,198	79,500	-
After more than 5 years	117,960	-	110,015	45,198
	<u>321,210</u>	<u>118,818</u>	<u>189,515</u>	<u>45,198</u>

18 FINANCIAL INSTRUMENTS

As permitted by FRS13, short-term creditors and debtors have been excluded from the disclosures, with the exception of the currency profile.

The Group's policy during the year ended 31 December 2005 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; the Group's borrowings are linked to LIBOR.

Cavanagh Group plc
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2005

18 FINANCIAL INSTRUMENTS (continued)

Interest rate risk profile of financial assets

The interest rate profile of financial assets of the Group as at 31 December 2005 is as follows:

	Fixed rate financial assets £	Floating rate financial assets £	Financial assets on which no interest is paid £	Total £
2005				
Sterling	-	-	906,472	906,472
2004				
Sterling	-	-	1,122,108	1,122,108

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31 December 2005 is as follows:

	Fixed rate financial liabilities £	Floating rate financial liabilities £	Financial liabilities on which no interest is paid £	Total £
2005				
Sterling	-	4,100,000	-	4,100,000
2004				
Sterling	-	4,500,000	-	4,500,000

The maturity profile of the Group's financial liabilities as at 31 December 2005 was as follows:

	2005 £	2004 £
Payable within one year, or on demand	600,000	600,000
Payable between one and two years	600,000	600,000
Payable between two and five years	1,800,000	1,800,000
Payable in more than five years	1,100,000	1,100,000
	<u>4,100,000</u>	<u>4,500,000</u>

Currency exposures

The Group has no overseas assets or liabilities.

Borrowing facility

The Group had no undrawn borrowing facilities at 31 December 2005.

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 period ended 31 December 2005

19 RELATED PARTY TRANSACTIONS

During the year the Group paid Tricom Services Limited £4,232 (2004 - £13,257), a company owned by the wife of P Sinnett, for accountancy services. The amount outstanding at the year end to Tricom Services Limited was £888 (2004 - £nil)

During the year the Group paid £2,236 (2004 - £17,957) 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 £239 (2004 - £nil).

During the year the Group paid commissions amounting to £6,310 (2004 - £10,974) 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 £10,336 (2004 - £17,096).

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

20 SHARE CAPITAL

	2005	2004
	£	£
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>

At 31 December 2005 there were options over 758,090 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:

Grant date	Subscription price per share	Period over which options are exercisable	Number of shares for which rights are exercisable 31 December 05
Unapproved share options:			
October 2001	150p	October 2004 – October 2011	90,000
February 2003	155p	February 2006 – February 2013	93,573
October 2003	170p	October 2006 – October 2013	50,620
April 2005	93p	April 2008 – April 2015	65,809
Approved share options:			
October 2001	150p	October 2004 – October 2011	29,999
February 2003	155p	February 2006 – February 2013	45,804
October 2003	170p	October 2006 – October 2013	30,592
January 2004	162p	January 2007 – January 2014	74,072
April 2004	210p	April 2007 – April 2014	3,339
November 2004	115p	November 2007 – November 2014	191,282
December 2005	60p	December 2008 – December 2015	83,000

Cavanagh Group plc
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 December 2005

21 RESERVES

GROUP	Share premium account £	Profit and loss account £
Balance brought forward	2,705,800	(2,600,889)
Loss for the year	-	(456,105)
Balance carried forward	<u>2,705,800</u>	<u>(3,056,994)</u>
COMPANY	Share premium account £	Profit and loss account £
Balance brought forward	2,705,800	(757,649)
Loss for the year	-	(1,176,011)
Balance carried forward	<u>2,705,800</u>	<u>(1,933,660)</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £	2004 £
Loss for the financial year	(456,105)	(2,345,853)
New equity share capital subscribed	-	8,684
Premium on new share capital subscribed	-	1,641,315
Net addition to funds	<u>(456,105)</u>	<u>(695,854)</u>
Minority interest	2,334	(5,289)
Opening shareholders' equity funds	208,306	909,449
Closing shareholders' equity (deficit)/funds	<u>(245,465)</u>	<u>208,306</u>

22 NOTES TO THE CASH FLOW STATEMENT

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

	Year to 31 Dec 05 £	14 months to 31 Dec 04 £
Operating loss	(171,852)	(3,300,065)
Amortisation of goodwill	201,660	201,660
Depreciation	260,533	251,742
(Increase)/decrease in debtors	(154,669)	137,965
Increase in creditors	374,101	344,834
(Decrease) in provisions	(58,846)	-
Net cash inflow/(outflow) from operating activities	<u>450,927</u>	<u>(2,363,864)</u>

Cavanagh Group plc

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2005

22 NOTES TO THE STATEMENT OF CASH FLOWS (continued)

ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 2005 £	Cash flows £	At 31 Dec 2005 £
Net cash:			
Cash in hand and at bank	1,122,108	(215,636)	906,472
Debt:			
Bank loans	(4,500,000)	400,000	(4,100,000)
Net debt	<u>(3,377,892)</u>	<u>184,364</u>	<u>(3,193,528)</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.