

Cavanagh Group plc

ANNUAL REPORT

for the year ended

31 December 2007

Cavanagh Group plc

ANNUAL REPORT

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Cavanagh Group plc

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P Sinnett – Non executive Chairman
A Fay
C Gillespie
I Henson
P Hogarth – Non-executive Director
S Redgrove
K Timmins

SECRETARY

I Henson

REGISTERED OFFICE

The Courtyard
Staplefield Road
Cuckfield
West Sussex
RH17 5JT

NOMINATED ADVISER AND BROKER

Brewin Dolphin Securities Limited
3 Lisbon Street
Leeds
LS1 4LX

SOLICITORS

Dundas & Wilson CS LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

AUDITORS

Baker Tilly UK Audit LLP
Chartered Accountants
Brazenose House
Lincoln Square
Manchester
M2 5BL

REGISTRARS

Capital Registrars
The Registry
34 Beckenham Road
Kent
BR3 4TU

Cavanagh Group plc

CHAIRMAN'S STATEMENT

Financial Results

I am pleased to report in my role as Acting Chairman, Cavanagh's results for the year ended 31 December 2007 which show profit before tax expense of £1,556,173 (2006: £1,046,401) on increased revenue of £16,638,681, 18% up on the previous year (2006: £14,112,186) and cash generated from operations of £1,817,428 (2006: £1,619,989). Having achieved the Board's aim of returning the Group to profitability in 2006, our key objective was to generate further profitable growth in 2007 and I believe that these results demonstrate that this has been successfully achieved.

Operations

In the Chairman's Interim statement for the six months ended 30 June 2007, he commented that the Board would consider suitable acquisitions that would fit Cavanagh's business model and enhance shareholder value – in November this led to the acquisition of JRG Financial Consultancy Limited ("JRG") which we believe satisfies both of these requirements. The integration process is well advanced and although only one month of JRG's trading is included in these results, the early indications are positive for 2008. Additionally we have the opportunity to offer wealth management advice to JRG clients which are currently predominantly corporate accounts. At a time of significant uncertainty in the capital markets I am pleased to note that this acquisition was partly funded by bank debt which underlines the level of confidence in the prospects of the combined business.

I anticipate that the Board will consider further appropriate opportunities during the coming year.

The Chief Executive's Review provides the detail of the Group's activities over the last year but I would like to briefly highlight a few points which help to differentiate Cavanagh from the majority of IFA operations. Firstly, the high level of average per capita revenue per consultant which has now reached £273,000, an increase of 14% over 2006 – this is not only attributable to the profile of the client base but also to the depth of technical support and knowledge which enables the consultants to be efficient; secondly, the high level of recurring and fee-based revenue which accounted for 40% of 2007 turnover and which is expected to increase as a full year of JRG's trading is included in 2008; and thirdly, the importance of the value of funds under advice which has increased to over £2 billion providing a solid base on which Cavanagh can obtain value for both clients and shareholders.

Reduction of Capital

As previously stated, we have been considering the possibility of obtaining shareholder approval to eliminate the deficit on the Company's income statement by means of a reduction in its share premium account so that it has the ability to make dividend payments in the future, subject to working capital and capital adequacy requirements. This is now to be proposed as a special resolution at the forthcoming Annual General Meeting, thereby negating the need for an extraordinary general meeting.

Adoption of International Financial Reporting Standards

These group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Board and Staff

At the end of what was the Group's most successful year John Campbell, our Chairman since flotation in 2001 announced his desire to focus on other business opportunities and resigned from the Board in January. More recently Neil Millard, one of the founders of the Group, decided that he would rather concentrate on client-facing activity and has stepped down from the Board. On behalf of both the Board and the Group I would like to formally thank them for their significant contributions to Cavanagh over the last few years.

As a result of John Campbell's departure at the request of the Board, I have taken on the role of Acting Chairman.

Cavanagh Group plc

CHAIRMAN'S STATEMENT

One of the other key differentiators of the Group is the enthusiasm, professionalism and dedication across all areas of its staff – I consider this to be an important reason as to why Cavanagh continues to be successful and I would like to take this opportunity to thank them, on behalf of the Board, for their contribution.

Outlook

Although we are operating in a particularly uncertain economic climate we anticipate that the demand for independent financial advice will remain strong and this, together with a number of ongoing initiatives, makes the Board cautiously optimistic about the current year.

Paul Sinnett
Chairman

22 April 2008

Cavanagh Group plc

CHIEF EXECUTIVE'S REVIEW

Overview

2007 has seen Cavanagh's strong organic growth continue and as a result we have enjoyed a positive twelve months with good performances across all areas of the business.

The Group's results for the year ended 31 December 2007 clearly demonstrate Cavanagh's progress over the past year, but as we move forward in the current challenging economic climate, we are taking nothing for granted.

We have delivered on all our key objectives for 2007 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 aims to continue 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

As is traditional, the headline financial results are reported in the Chairman's statement however, I feel it is appropriate to highlight our successes here - strong organic growth has seen pre tax profits up 49% year on year - with profits 19% up in the second half of the year over the first half.

Turnover was up 18% year on year - mainly from organic growth, although this does include one month's trading figures from JRG following the acquisition in late November.

The Group now has a strong infrastructure upon which it can provide a good platform for further growth both organically and through appropriate acquisitions.

Pensions and investments continue to be a key area of business, 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.

Cavanagh saw client assets on Wrap products increase from £55 million in 2006, to £90 million in 2007, with additional assets on other platforms in excess of £160m which builds up the base of recurring income in the year. This is an area that we still believe shows opportunity for significant growth. I am pleased to report that the first full year of our new investment process has yielded significant benefits helping to manage and develop our investment offerings and we continue to further build recurring incomes from our PFP, actuarial and corporate propositions. In addition, we will continue to focus on data cleansing and developing our client segmentation programmes in order to help enhance our service proposition.

The Group's average adviser productivity increased by 14% from £239,000 in 2006 to £273,000 in 2007. This average annual revenue per Cavanagh consultant is, when compared with 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 2008. 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.

CPRM, the Group's specialist actuarial and advisory service, continues to grow steadily and to attract new corporate clients on a regular basis. It has built a solid and regular income with recurring income accounting for 58% of its business compared with 53% in 2006.

Our internal processes can be seen to have helped increase the quality of work we undertake 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. To this end we have formalised our training and development structures and the initial results are encouraging.

There is a real sense of achievement throughout the Group for delivering this strong performance across all areas of business activity. But we cannot be complacent as we face fresh but exciting challenges in the coming year.

Cavanagh Group plc

CHIEF EXECUTIVE'S REVIEW

Organisation

In January 2008 our Chairman, John Campbell, stepped down to concentrate on other business interests and Paul Sinnett became Acting Chairman. We benefited enormously from John's increased involvement with the Group in 2007 and he was an important figure in the acquisition of JRG Financial Consultancy Limited. We wish him well.

Paul Sinnett has been a board member since September 2001 and is a member of the Remuneration Committee as well as being Chairman of the Audit Committee; he was also Group Finance Director of Lynx Group plc when it was a fully-listed company. We are looking forward to Paul continuing to contribute to the Group's success.

I am also pleased to report the Group opened two new offices, in Chichester and Cardiff, during the year. We merged our two Edinburgh offices in December following the acquisition of JRG Financial Consultancy Limited and also retained their two other offices in Reigate and Jedburgh. Our geographical coverage has therefore increased with nine offices in 2006 increasing to 13 offices in 2007. As a result, our staffing level has risen by 11 compared with last year.

Strategic Focus & Outlook

In 2008 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. Initiatives implemented by the FSA have been addressed and firmly remain part of our ongoing focus.

We are watching the Government's Retail Distribution Review (RDR) with interest, but feel Cavanagh is well placed to take advantage of any forthcoming changes, due to the strength of our team and our strong client relationships.

At this early stage of 2008 I look forward to another successful year.

Andrew Fay
Chief Executive

22 April 2008

Cavanagh Group plc

DIRECTORS' REPORT

The directors submit their report and financial statements of Cavanagh Group plc for the year ended 31 December 2007.

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 and JRG Financial Consulting Limited both provide independent financial advice and CPRM Limited provides actuarial advice.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

These Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

REVIEW OF THE BUSINESS

The Group's results are set out in the Consolidated income statement on page 15. A full review of the Group's activities and future developments are incorporated into the Chairman's and Chief Executive's statements.

ACQUISITION

On 27 November 2007 the Group acquired 100% of the issued share capital of JRG Financial Consultancy Limited for a maximum consideration of £5.3million (excluding acquisition expenses).

DIRECTORS

The directors during the year were as follows:

J Campbell – resigned 9 January 2008
A Fay
C Gillespie
I Henson
P Hogarth
N Millard – resigned 25 February 2008
S Redgrove
P Sinnett
K Timmins

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

DIRECTORS' SHARE OPTIONS

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

	At 01.01.07	Number granted in year	At 31.12.07	Exercise price	Date exercisable
J Campbell	70,000	-	70,000	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 R Henson	83,000	-	83,000	60p	6 December 2008 – 5 December 2015

The market price of the shares at 31 December 2007 was 150p and the range during the year was 100p to 170p.

Cavanagh Group plc

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDINGS

At 31 March 2008 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
S Redgrove	2,170,754
N Millard	2,046,181
TD Waterhouse Nominees (Europe) Limited	630,793
Friends Provident Life & Pensions	526,316
Rock (Nominees) Limited	421,053
Vidacos Nominees Limited	402,292
S Taylor	<u>381,334</u>

SUPPLIER 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 1DSU.

At 31 December 2007 average creditor days were 28 days (2006: 29 days).

CASH AND BORROWINGS

During the year the Group renegotiated its existing facilities with its Bankers to enable the financing of the acquisition of JRG Financial Consultancy Limited and also to repay a loan from a third party.

TREASURY POLICIES AND FINANCIAL RISK

The Group manages its treasury function as part of the central finance function. There is no exposure to foreign currencies and associated exchange rate fluctuations. All borrowings are negotiated, approved and managed centrally. Further information in respect of the Group's treasury policies is contained in note 14, 'Financial liabilities'.

EMPLOYEE INVOLVEMENT

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, personal ability and 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.

Cavanagh Group plc

DIRECTORS' REPORT

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Group made charitable contributions totalling £4,593 which generally relate to charities local to our offices (2006: £2,295). The Group made no political donations in the year to 31 December 2007 (2006: Nil).

PROPOSED REDUCTION IN SHARE PREMIUM ACCOUNT

As at 31 December 2007, the Company had an accumulated deficit on its retained earnings of £1,850,810 which means that it has no ability to pay dividends.

A proposed special resolution is to be presented at the AGM to be held later this year, which will seek to cancel and extinguish this deficit by reducing the share premium account.

In order for the proposed reduction of the share premium account to take effect, confirmation from 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.

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	2007 £'000	2006 £'000
Revenue per Employee	105	95
Revenue per Adviser	273	239
Profit from operations * per employee	11	7
Administrative expenses per employee	35	33

* Before amortisation of intangible assets 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.

Cavanagh Group plc

DIRECTORS' REPORT

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 has 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.

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

UK Company law requires the directors to prepare Group and Company financial statements for each financial period. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the company.

In preparing each of the Group and Company 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 they have been prepared in accordance with IFRSs adopted by the EU;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company 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 Company 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 also responsible for the maintenance and integrity of the Cavanagh Group plc 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.

ANNUAL GENERAL MEETING

The Annual General Meeting is to be held at 10am on 29 May 2008 at The Courtyard, Staplefield Road, Cuckfield, West Sussex.

Cavanagh Group plc

DIRECTORS' REPORT

AUDITORS

Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

By order of the Board

I Henson
Company Secretary
22 April 2008

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 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 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 UK Audit LLP, 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 contributes 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 2007 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 Committees will be available at the Annual General Meeting to answer questions.

There is information for investors on the Group's website, 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAVANAGH GROUP PLC

We have audited the financial statements which comprise the Consolidated income statement, the Consolidated and Company Balance Sheet, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of Changes in Equity 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 auditors' 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Directors' Report and the Corporate Governance Statement. 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 Group's and 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 1985, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements 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 UK AUDIT LLP
Registered Auditor
Chartered Accountants
Brazenose House
Lincoln Square
Manchester
M2 5BL

22 April 2008

Cavanagh Group plc
CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2007

	<i>Notes</i>	2007 £	2006 £
REVENUE		16,638,681	14,112,186
Cost of sales		(9,293,158)	(7,773,821)
GROSS PROFIT		<u>7,345,523</u>	<u>6,338,365</u>
Administrative expenses excluding depreciation and amortisation		(5,569,557)	(4,937,909)
Share of joint venture profit after tax		123,238	126,190
EARNINGS BEFORE INTEREST, DEPRECIATION, AMORTISATION AND TAX	2	1,899,204	1,526,646
Finance costs	5	(116,260)	(207,031)
Depreciation	8	(176,771)	(268,587)
Amortisation	9	(50,000)	(4,627)
PROFIT BEFORE TAX EXPENSE		<u>1,556,173</u>	<u>1,046,401</u>
Tax expense	6	(483,917)	(397,439)
PROFIT FOR THE FINANCIAL YEAR		<u><u>1,072,256</u></u>	<u><u>648,962</u></u>
PROFIT ATTRIBUTABLE TO :			
Equity holders of Parent company		1,038,401	629,237
Minority Interests		33,855	19,725
		<u><u>1,072,256</u></u>	<u><u>648,962</u></u>
Basic earnings per share – pence	7	9.5	5.8
Fully diluted earnings per share – pence	7	9.4	5.8

The profit from operations arises from the Group's continuing operations.

Cavanagh Group plc
CONSOLIDATED BALANCE SHEET
As at 31 December 2007

	<i>Notes</i>	2007 £	2006 £
ASSETS			
Non-current assets			
Property plant and equipment	8	444,249	364,896
Intangible assets	9	7,190,566	1,532,350
Investment in joint venture	10	2,000	2,000
Deferred tax asset	16	243,631	659,069
		<u>7,880,446</u>	<u>2,558,315</u>
Current assets			
Trade and other receivables	11	2,249,127	1,636,048
Corporation tax receivable		-	3,547
Cash and cash equivalents	12	2,598,367	1,836,595
		<u>4,847,494</u>	<u>3,476,190</u>
TOTAL ASSETS		<u>12,727,940</u>	<u>6,034,505</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	3,117,560	1,807,162
Corporation tax payable		309,847	47,320
Financial liabilities	14	1,132,427	600,000
		<u>4,559,834</u>	<u>2,454,482</u>
Non-current liabilities			
Financial liabilities	14	4,386,700	2,900,000
Deferred tax liability	16	942,784	-
Provisions	15	209,340	231,365
		<u>5,538,824</u>	<u>3,131,365</u>
Total liabilities		<u>10,098,658</u>	<u>5,585,847</u>
NET ASSETS		<u>2,629,282</u>	<u>448,658</u>
Equity			
Issued share capital	20	115,205	108,684
Share premium account		3,742,647	2,705,800
Share based payment reserve		222,942	157,942
Retained earnings		(1,502,137)	(2,540,538)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		<u>2,578,657</u>	<u>431,888</u>
Minority interests		50,625	16,770
TOTAL EQUITY		<u>2,629,282</u>	<u>448,658</u>

These financial statements were approved by the Board of directors and authorised for issue on 22 April 2008 and are signed on their behalf by:

A Fay
Director

I Henson
Director

Cavanagh Group plc
COMPANY BALANCE SHEET
As at 31 December 2007

	<i>Notes</i>	2007 £	2006 £
ASSETS			
Non-current assets			
Investments	10	10,866,852	4,560,099
Deferred tax asset	16	4,587	-
		<u>10,871,439</u>	<u>4,560,099</u>
Current assets			
Amounts owed by group undertaking	11	70,000	611,722
		<u>70,000</u>	<u>611,722</u>
TOTAL ASSETS		<u>10,941,439</u>	<u>5,171,821</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	3,204,755	980,713
Financial liabilities	14	1,120,000	600,000
		<u>4,324,755</u>	<u>1,580,713</u>
Non-current liabilities			
Financial liabilities	14	4,386,700	2,900,000
Total liabilities		<u>8,711,455</u>	<u>4,480,713</u>
NET ASSETS		<u>2,229,984</u>	<u>691,108</u>
Equity			
Share capital	20	115,205	108,684
Share premium account		3,742,647	2,705,800
Share based payment reserve		222,942	157,942
Retained earnings		(1,850,810)	(2,281,318)
TOTAL EQUITY		<u>2,229,984</u>	<u>691,108</u>

These financial statements were approved by the Board of directors and authorised for issue on 22 April 2008 and are signed on their behalf by:

A Fay
Director

I Henson
Director

Cavanagh Group plc

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

Group

	Share Capital £	Share Premium Account £	Share Based Payment Reserve £	Retained Earnings £	Minority Interests £	Total £
At 1 January 2006	108,684	2,705,800	112,781	(3,169,775)	(2,955)	(245,465)
Profit for the year	-	-	-	629,237	19,725	648,962
Share based payment	-	-	45,161	-	-	45,161
At 31 December 2006	108,684	2,705,800	157,942	(2,540,538)	16,770	448,658
Other movements						
- Issue of new shares	6,521	1,036,847	-	-	-	1,043,368
- Share based payment	-	-	65,000	-	-	65,000
Profit for the year	-	-	-	1,038,401	33,855	1,072,256
At 31 December 2007	<u>115,205</u>	<u>3,742,647</u>	<u>222,942</u>	<u>(1,502,137)</u>	<u>50,625</u>	<u>2,629,282</u>

Company

	Share Capital £	Share Premium Account £	Share Based Payment Reserve £	Retained Earnings £	Total £
At 1 January 2006	108,684	2,705,800	112,781	(1,958,097)	969,168
Loss for the year	-	-	-	(323,221)	(323,221)
Share based payment	-	-	45,161	-	45,161
At 31 December 2006	108,684	2,705,800	157,942	(2,281,318)	691,108
Other movements					
- Issue of new shares	6,521	1,036,847	-	-	1,043,368
- Share based payment	-	-	65,000	-	65,000
Profit for the year	-	-	-	430,508	430,508
At 31 December 2007	<u>115,205</u>	<u>3,742,647</u>	<u>222,942</u>	<u>(1,850,810)</u>	<u>(2,229,984)</u>

On 26th November 2007 new shares were issued as part of the consideration in purchasing JRG Financial Consultancy Limited, see note 10.

Cavanagh Group plc
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2007

	2007 £	2006 £
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax	1,556,173	1,046,401
Share of profit in joint venture	(123,238)	(126,190)
Share based payment	65,000	45,161
Depreciation	176,771	268,587
Amortisation	50,000	4,627
(Decrease) / increase in trade and other receivables	(379,553)	600,161
Increase / (decrease) in trade and other payables	392,835	(409,472)
Decrease in provisions	(36,820)	(16,317)
Finance costs	116,260	207,031
NET CASH GENERATED FROM OPERATIONS	1,817,428	1,619,989
Income taxes paid	(18,284)	-
Interest paid	(241,993)	(266,102)
NET CASH FROM OPERATING ACTIVITIES	1,557,151	1,353,887
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire property, plant and equipment	(125,642)	(40,573)
Payments to acquire intangible assets	(72,500)	-
Payment to acquire subsidiary (net of cash acquired) - see note 10	(2,837,422)	-
Interest received	125,733	59,071
Income received from joint venture	95,325	157,738
NET CASH (USED IN) / FROM INVESTING ACTIVITIES	(2,814,506)	176,236
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of new borrowings	3,519,127	1,500,000
Repayment of borrowings	(1,500,000)	(2,100,000)
NET CASH INFLOW / (OUTFLOW) FROM FINANCING	2,019,127	(600,000)
Net increase in cash and cash equivalents	761,772	930,123
Cash & cash equivalents at the beginning of the financial year	1,836,595	906,472
Cash & cash equivalents at the end of the financial year	<u>2,598,367</u>	<u>1,836,595</u>

Cavanagh Group plc
COMPANY CASH FLOW STATEMENT
for the year ended 31 December 2007

	2007 £	2006 £
CASH FLOW FROM OPERATING ACTIVITIES		
Profit / (loss) before tax	425,861	(323,221)
Decrease / (increase) in trade and other receivables	541,722	(69,654)
Reversal of impairment	(797,975)	-
Increase in trade and other payables	(169,608)	380,713
Share based compensation	-	10,823
Movement in provisions	-	1,339
	<hr/>	<hr/>
CASH FLOW FROM OPERATIONS	-	-
Net increase in cash and cash equivalents	-	-
	<hr/>	<hr/>
Cash & cash equivalents at the beginning of the financial year	-	-
	<hr/>	<hr/>
Cash & cash equivalents at the end of the financial year	-	-
	<hr/> <hr/>	<hr/> <hr/>

Cavanagh Group plc

ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the European Union (EU) and in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRSs for the first time.

The Group has applied IFRS 1 'First time adoption of International Financial Reporting Standards' in these financial statements and they have been prepared in accordance with International Accounting Standards and IFRIC interpretations that were issued and effective at the balance sheet date. The Group has elected not to apply IFRS 3 'Business Combinations' retrospectively to past business combinations. Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS are given in note 23 of these financial statements.

Cavanagh Group plc is incorporated and domiciled in the United Kingdom.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated income statement from the date control is obtained to the date control is transferred to a third party.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Jointly controlled entities are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

The Company Income Statement has not been disclosed in accordance with section 230 of the Companies Act 1985. The profit for the year of the parent company amounted to £430,508 (2006: loss £323,221).

Cavanagh Group plc

ACCOUNTING POLICIES

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial information in conformity with IFRS requires management to make judgement, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results which form the basis of making the judgements about carrying values of assets and liabilities that are both readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting estimates concern the valuation of intangible assets arising on business combinations and provision for future clawback commission.

INTERPRETATIONS AND STANDARDS WHICH BECAME EFFECTIVE DURING THE YEAR

IFRS 7 Financial Instruments: Disclosures became effective for accounting periods commencing on or after 1 January 2007. The Group has adopted IFRS 7 accordingly. The accounting policy amendment affects disclosures only and has no material impact on the current or preceding periods' financial position and performance.

INTERPRETATIONS AND STANDARDS WHICH HAVE BEEN ISSUED AND ARE NOT YET EFFECTIVE

At the date of the authorisation of the financial information the following standards and interpretations, which have not been applied in the financial information, were in issue but not yet effective:

IFRS 8	Operating segments
IAS 1	Revised capital disclosures and other changes
IFRIC 10	Interim financial reporting and impairment
IFRIC 11	Group and treasury share transactions
IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 14	The limit on a Defined Benefit Asset, minimum funding requirement and their interaction
IAS 23	Amendment to IAS 23 Borrowing Cost
IAS 27	Amendment – Consolidated and Separate Financial Statements
IFRS 3	Amendment – Business Combinations
IFRS 2	Amendment – Share-based payment

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial information when the relevant standards and interpretations come into effect.

REVENUE

Revenue represents commissions and consultancy fees and is recorded at the fair value of the consideration, excluding value added tax. Revenue is recognised on the following basis:

- initial commission is recognised as revenue 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

Cavanagh Group plc

ACCOUNTING POLICIES

- any fees charged for consultancy are recognised as revenue during the period in which the consultancy is provided.

SEGMENTAL REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is a group of assets and operations that provide a product or service within a particular economic environment and that is subject to risks and returns that are different from segments operating in different environments. The directors consider that the Group operates in only one geographic segment, being the United Kingdom.

INTANGIBLE ASSETS

Intangible assets such as computer software and web sites which have finite useful lives, are measured at cost, net of any amortisation and any provision for impairment. Amortisation 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:

Web sites	over 7 years on a straight line basis
Software	over 3 years on a straight line basis

Websites acquired during the period have been recognised as intangible assets in accordance with the principles outlined in SIC Interpretation 32 (Intangible Assets – Web Site Costs).

All intangible assets are externally generated.

INTANGIBLE ASSETS ACQUIRED AS PART OF A BUSINESS COMBINATION

The value of acquired customer relationships is determined by estimating the net present value of the future profits expected from those customer relationships which have finite useful lives. The resultant carrying value is amortised over its expected useful economic life as follows:

Acquired customer relationships	over 7 years on a straight line basis
---------------------------------	---------------------------------------

GOODWILL

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair share of the identifiable assets and liabilities of the business combination.

Goodwill on acquisition of subsidiaries is separately disclosed, as an intangible asset.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

CONTINGENT CONSIDERATION

Deferred and contingent consideration payable in cash is recorded at fair value and is shown as other payables within current or non current liabilities, as appropriate, on the balance sheet to the extent that a contractual obligation exists and there is a probable transfer of economic benefit.

Cavanagh Group plc

ACCOUNTING POLICIES

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Cost comprises purchase price and other directly attributable costs. Depreciation is charged so as to write off the cost or valuation of assets to their residual values over their estimated useful lives, on the following bases:

Freehold property	2% per annum straight line
Leasehold improvements	over the term of the lease
Fixtures and fittings	20% on reducing balance method
Equipment	over 3 years on a straight line basis

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangibles with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Goodwill is tested for impairment annually. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

FINANCIAL ASSET INVESTMENTS

Investments consist of the Group's subsidiary undertakings. Investments are initially recorded at cost, being the fair value of the consideration given and including directly attributable expenses associated with the investment. Subsequently they are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Financial assets and financial liabilities are recognised on the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for

Cavanagh Group plc

ACCOUNTING POLICIES

impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Any provision is recognised in a separate allowance account and any impairment loss is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and deposits held at call with banks.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Financial liabilities

Financial liabilities consist of bank borrowings and other loans. Financial liabilities are classified according to the substance of the contractual arrangements entered into. An instrument will be classified as a financial liability when there is a contractual obligation to deliver cash or another financial asset to another enterprise.

Borrowings

Borrowings comprise of interest-bearing bank loans and overdrafts. Interest-bearing bank loans are initially recorded at fair value, which represents the fair value of the consideration received, net of any directly attributable issue costs. Borrowings are subsequently stated at amortised cost.

Finance charges are allocated over the term of the instrument using the effective rate of interest, and are recognised in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

LEASING COMMITMENTS

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Cavanagh Group plc

ACCOUNTING POLICIES

TAXATION

The tax expense represents the sums of the current tax expense and deferred tax expense.

Current tax is the expected corporation tax payable or receivable in respect of the taxable profit for the financial year using tax rates enacted or substantively enacted at the balance sheet date, less any adjustments to tax payable or receivable in respect of previous periods.

Deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities included in the financial statements and the amounts used for tax purposes that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

No provision is made relating to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than those acquired as part of a business combination.

Provision is made for deferred tax that would arise on all taxable temporary differences associated with investments in joint ventures, except where the Group can control the reversal of the temporary differences.

Deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences and unused tax losses and credits can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Provision is made for future clawback commission to cover the liability of repayments in the event of premiums ceasing within the indemnity period.

Provision is made for dilapidations where the Group has a contractual obligation to restore leasehold properties to the condition on commencement of each lease and is included in other payables.

DEFINED CONTRIBUTION PENSION PLANS

Obligations for contributions to defined contribution retirement benefit plans are charged as an expense as they fall due.

SHARE-BASED PAYMENT

The Group has applied the requirements of IFRS 2 Share-based payment.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of share options that will eventually vest and a corresponding amount credited to share based payments reserve.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 SEGMENTAL INFORMATION

The directors are of the opinion that there are two business segments within the activities of the Group. Activities of independent financial advisers and also actuarial services. All operations are carried out within the United Kingdom.

	2007 Total £	2007 IFA £	2007 Actuarial £	2006 Total £	2006 IFA £	2006 Actuarial £
Revenue	16,638,681	15,209,201	1,429,480	14,112,186	12,993,090	1,119,096
Profit before tax expense	<u>1,556,173</u>	<u>1,408,533</u>	<u>147,640</u>	<u>1,046,401</u>	<u>969,286</u>	<u>77,115</u>
Tax expense	<u>(483,917)</u>	<u>(444,181)</u>	<u>(39,736)</u>	<u>(397,439)</u>	<u>(380,754)</u>	<u>(16,685)</u>
Profit for the financial year	<u>1,072,256</u>	<u>964,352</u>	<u>107,904</u>	<u>648,962</u>	<u>588,532</u>	<u>60,430</u>
Trade receivables	<u>1,904,375</u>	<u>1,530,179</u>	<u>374,196</u>	<u>1,130,943</u>	<u>846,140</u>	<u>284,803</u>
Total net assets	<u>2,629,282</u>	<u>2,457,269</u>	<u>172,013</u>	<u>448,658</u>	<u>391,759</u>	<u>56,899</u>
Average number of staff employed	<u>159</u>	<u>143</u>	<u>16</u>	<u>148</u>	<u>133</u>	<u>15</u>

2 PROFIT BEFORE TAX EXPENSE

Profit before tax expense is stated after charging:

	2007 £	2006 £
Depreciation of owned property, plant and equipment	176,771	268,587
Amortisation of owned intangible assets	50,000	4,627
Auditor's remuneration		
- as auditor, Baker Tilly UK Audit LLP	38,525	-
- as auditor, Baker Tilly	-	33,025
Operating lease costs:		
Land and buildings	456,904	335,235
Other	<u>128,560</u>	<u>122,162</u>

Amounts payable to Baker Tilly UK Audit LLP and their associates in respect of both audit and non-audit services:

	2007 £	%
Audit services		
- Statutory audit	11,975	31.1
Other services		
The auditing of accounts of associates of the Company pursuant to legislation.	1,800	4.7
- Audit of subsidiaries where such services are provided by Baker Tilly UK Audit LLP and their associates	18,350	47.6

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

2 PROFIT BEFORE TAX EXPENSE (Continued)

	2007 £	%
Tax services		
- Advisory services	6,400	16.6
	<u>38,525</u>	<u>100</u>

Amounts payable to Baker Tilly and their associates in respect of both audit and non-audit services:

	2006 £
Audit services	
- Statutory audit	8,250
Other services	
The auditing of accounts of associates of the Company pursuant to legislation.	1,700
- Audit of subsidiaries where such services are provided by Baker Tilly and their associates	17,000
Tax services	
- Advisory services	6,075
	<u>33,025</u>

3 PARTICULARS OF EMPLOYEES

The average number of staff employed by the Group, including executive directors, during the financial year amounted to:

	2007 No	2006 No
Executive Directors	6	6
Consultants / Technical	84	69
Administration	69	73
	<u>159</u>	<u>148</u>

The aggregate payroll costs, including directors' emoluments, of the above were:

	2007 £	2006 £
Wages and salaries	7,439,664	6,715,889
Social security costs	824,939	726,125
Other pension costs	342,180	311,221
Share based compensation	65,000	45,161
	<u>8,671,783</u>	<u>7,798,396</u>

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

4 DIRECTORS' EMOLUMENTS

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

	2007	2006
	£	£
Directors' remuneration	1,274,641	999,336
Pension contributions	29,395	35,408
Total emoluments	<u>1,304,036</u>	<u>1,034,744</u>
Other short term benefits and share based compensation		
Share based payment compensation	-	16,148
Employers' national insurance contributions	136,423	108,160
Total key management compensation	<u>1,440,459</u>	<u>1,159,052</u>

The emoluments of the highest paid director were:

	2007	2006
	£	£
Directors' remuneration	<u>239,575</u>	<u>199,508</u>

The number of directors to whom retirement benefits were accruing was as follows:

	2007	2006
	No	No
Executive directors	<u>2</u>	<u>3</u>

5 FINANCE COSTS

	2007	2006
	£	£
Bank - interest receivable	(125,733)	(59,071)
Bank loans – interest payable	156,234	252,102
Other loan – interest payable	85,759	14,000
	<u>116,260</u>	<u>207,031</u>

6 TAXATION ON ORDINARY ACTIVITIES

	2007	2006
	£	£
Current tax:		
Corporation tax at 30% (2006: 30%)	68,471	16,285
Adjustment in respect of prior years	8	(513)
Total current tax	<u>68,479</u>	<u>15,772</u>
Deferred tax:	<u>415,438</u>	<u>381,667</u>
Income tax expense	<u>483,917</u>	<u>397,439</u>

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

6 TAXATION ON ORDINARY ACTIVITIES (continued)

The charge for the year can be reconciled to the profit per the Income Statement as follows:

	2007 £	2006 £
Profit before tax expense	1,072,256	648,962
Total income tax expense	483,917	397,439
Profit for the financial year	<u>1,556,173</u>	<u>1,046,401</u>
Tax at the UK corporation tax rate of 30% (2006: 30%)	466,852	313,920
Expenses not deductible for tax purposes	5,857	2,907
Unrelieved tax losses and other deductions in the year	77,761	77,034
Other	(22,353)	(10,865)
Over provision in prior year	(40,770)	14,443
Marginal relief	(3,430)	-
Total current tax	<u>483,917</u>	<u>397,439</u>

7 EARNINGS PER SHARE

	2007 £	2006 £
Profit for the financial year after taxation attributable to Equity holders	1,038,401	629,237
Share based compensation charge	65,000	45,161
Adjusted profit after taxation	<u>1,103,401</u>	<u>674,398</u>
Weighted average number of shares (No)		
For basic earnings per ordinary share	10,930,952	10,868,421
Exercise of share options	122,013	33,109
For fully diluted earnings per ordinary share	<u>11,052,965</u>	<u>10,901,530</u>
Earnings per ordinary share – basic	<u>9.5p</u>	<u>5.8p</u>
Earnings per ordinary share – adjusted	<u>10.1p</u>	<u>6.2p</u>
Earnings per ordinary share – fully diluted	<u>9.4p</u>	<u>5.8p</u>

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

8 PROPERTY, PLANT & EQUIPMENT

Group	Leasehold improvements £	Freehold property £	Office equipment £	2006 Total £
Cost				
At 1 January 2006	201,058	-	1,096,197	1,297,255
Additions	3,029	-	37,544	40,573
At 31 December 2006	<u>204,087</u>	<u>-</u>	<u>1,133,741</u>	<u>1,337,828</u>
Depreciation				
At 1 January 2006	56,060	-	648,285	704,345
Charge for the year	25,754	-	242,833	268,587
At 31 December 2006	<u>81,814</u>	<u>-</u>	<u>891,118</u>	<u>972,932</u>
Net book value				
At 31 December 2006	<u>122,273</u>	<u>-</u>	<u>242,623</u>	<u>364,896</u>
	Leasehold improvements £	Freehold property £	Office equipment £	2007 Total £
Cost				
At 1 January 2007	204,087	-	1,133,741	1,337,828
Additions	12,784	-	112,858	125,642
Arising on acquisition of subsidiary undertaking (see note 10)	-	89,643	40,839	130,482
At 31 December 2007	<u>216,871</u>	<u>89,643</u>	<u>1,287,438</u>	<u>1,593,952</u>
Depreciation				
At 1 January 2007	81,814	-	891,118	972,932
Charge for the year	30,722	120	145,929	176,771
At 31 December 2007	<u>112,536</u>	<u>120</u>	<u>1,037,047</u>	<u>1,149,703</u>
Net book value				
At 31 December 2007	<u>104,335</u>	<u>89,523</u>	<u>250,391</u>	<u>444,249</u>

In the opinion of the directors, there were no indications of any impairment of property, plant and equipment therefore an impairment review has not been undertaken.

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

9 INTANGIBLE ASSETS

Group	Goodwill £	Other Intangible assets £	2006 Total £
Cost			
At 1 January 2006 and at 31 December 2006	<u>1,525,410</u>	<u>13,881</u>	<u>1,539,291</u>
Amortisation			
At 1 January 2006	-	2,314	2,314
Charge for the year	-	4,627	4,627
At 31 December 2006	<u>-</u>	<u>6,941</u>	<u>6,941</u>
Net book value			
At 31 December 2006	<u>1,525,410</u>	<u>6,940</u>	<u>1,532,350</u>

Group	Goodwill £	Other Intangible assets £	Acquired Customer Relationships £	2007 Total £
Cost				
At 1 January 2007	1,525,410	13,881	-	1,539,291
Additions	-	72,500	-	72,500
Arising on acquisition of subsidiary undertaking (see note 10)	2,286,356	-	3,349,360	5,635,716
At 31 December 2007	<u>3,811,766</u>	<u>86,381</u>	<u>3,349,360</u>	<u>7,247,507</u>
Amortisation				
At 1 January 2007	-	6,941	-	6,941
Charge for the year	-	10,127	39,873	50,000
At 31 December 2007	<u>-</u>	<u>17,068</u>	<u>39,873</u>	<u>56,941</u>
Net book value				
At 31 December 2007	<u>3,811,766</u>	<u>69,313</u>	<u>3,309,487</u>	<u>7,190,566</u>

In the opinion of the directors, there were no indications of any impairment of other intangible assets therefore an impairment review has not been undertaken.

An impairment review was undertaken by the directors to assess the carrying value of goodwill and it was concluded that no impairment was required.

10 FINANCIAL ASSET INVESTMENTS

GROUP

Investment in joint venture		
	2007	2006
	£	£
Share of gross assets	65,266	48,345
Share of gross liabilities	(63,266)	(46,345)
Share of net assets	<u>2,000</u>	<u>2,000</u>

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

10 FINANCIAL ASSET INVESTMENTS (continued)

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 four directors, two from Cavanagh Group plc and two from its other investor, Place Campbell Chartered Accountants.

COMPANY	Shares in subsidiary undertakings £
Cost	
At 1 January 2006	5,323,733
Share based payment relating to subsidiaries	34,338
	<hr/>
At 31 December 2006	5,358,071
	<hr/>
Provisions	
At 1 January 2006 and 31 December 2006	797,972
	<hr/>
Net book value	
At 31 December 2006	4,560,099
	<hr/> <hr/>
Cost	
At 1 January 2007	5,358,071
Additions	5,443,781
Share based payment relating to subsidiaries	65,000
	<hr/>
At 31 December 2007	10,866,852
	<hr/>
Provisions	
At 1 January 2007	797,972
Reversal of impairment	(797,972)
	<hr/>
At 31 December 2007	-
	<hr/>
Net book value	
At 31 December 2007	10,866,852
	<hr/> <hr/>

The reversal of the impairment is a result of the improvement in the trading performance of Cavanagh Financial Management Limited for which this impairment was originally created.

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

10 FINANCIAL ASSET INVESTMENTS (continued)

Details of subsidiaries included in the consolidated financial statements are as follows:

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Cavanagh Financial Management Limited	Scotland	Ordinary shares	100%	Independent Financial Advisor
CPRM Limited *	Scotland	Ordinary shares	70%	Independent Actuarial Consultancy
SA Trustees Limited *	Scotland	Ordinary shares	100%	Dormant
Cavanagh Financial Services Limited	England & Wales	Ordinary shares	100%	Dormant
Web Based Leads Limited	England & Wales	Ordinary shares	76%	Web sites generating marketing leads
JRG Financial Consultancy Limited	Scotland	Ordinary shares	100%	Independent Financial Advisor

* Held by subsidiary undertaking

On 27 November 2007, the Company purchased 100% of the issued ordinary shares in JRG Financial Consultancy Limited for a maximum total consideration of £5,300,000 plus costs which was satisfied by £3,500,000 in cash, the issue of 652,105 new shares and contingent consideration of £750,000 payable after one year subject to certain profit targets being met.

At the date of acquisition JRG Financial Consultancy Limited had assets made up as follows:

	Book value £	Fair value adjustment £	Fair Value £
Intangible assets	-	3,349,360	3,349,360
Property, plant and equipment	95,173	35,309	130,482
Receivables	233,526	-	233,526
Cash and cash equivalents	812,988	-	812,988
Payables	(411,355)	-	(411,355)
Deferred taxation	-	(942,784)	(942,784)
Provisions	(14,795)	-	(14,795)
	<u>715,537</u>	<u>2,441,885</u>	<u>3,157,422</u>
Goodwill arising on acquisition			2,286,356
			<u>5,443,778</u>
Settled by:			
Shares issued			1,043,368
Cash consideration			3,500,000
Acquisition costs			150,410
Contingent consideration			750,000
Total			<u>5,443,778</u>

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

10 FINANCIAL ASSET INVESTMENTS (continued)

Cash Outflow	£
Cash consideration	3,500,000
Acquisition costs	150,410
Less cash and cash equivalents acquired	(812,988)
	<u>2,837,422</u>

- Customer relationships acquired as part of the business combination have been valued using the multi-period excess earnings method.
- The freehold property was independently revalued as at 27 November 2007 to open market value
- Deferred taxation has been recognised in respect of the temporary difference between the carrying amount of the freehold property and its tax base. Deferred taxation is also recognised in respect of future taxable profits anticipated to be generated from the acquired customer relationships.

Due to the proximity of the business combination to the year end, management continues to assess information to support the assumptions that are currently being used to calculate the amount of goodwill attributable to the value of customer relationships.

The results of the entities acquired during the year were:

	Revenue		Post tax profit	
	Year to	Post	Year to	Post
	31 December	acquisition	31 December	acquisition
	£	£	£	£
JRG Financial Consultancy Limited	<u>3,564,000</u>	<u>302,000</u>	<u>594,000</u>	<u>40,000</u>

Web Based Leads Limited was incorporated during the year.

11 TRADE AND OTHER RECEIVABLES

	Group	Group	Company	Company
	2007	2006	2007	2006
	£	£	£	£
Trade receivables	1,904,375	1,130,943	-	-
Amounts owed by group undertaking	-	-	70,000	611,722
Prepayments and accrued income	344,752	505,105	-	-
	<u>2,249,127</u>	<u>1,636,048</u>	<u>70,000</u>	<u>611,722</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The Group's credit risk is primarily attributable to trade receivables. The amounts presented in the balance sheet are net of allowances for impairment losses. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash held by the Group. The carrying amount of the asset approximates the fair value. All balances are held in sterling.

13 TRADE AND OTHER PAYABLES

	Group 2007	Group 2006	Company 2007	Company 2006
	£	£	£	£
Current:				
Trade payables	384,495	164,657	-	-
Other payables	42,051	321,304	-	-
Amounts owed to joint venture	53,624	81,538	-	-
Contingent consideration	750,000	-	750,000	-
Other taxes and social security	636,697	348,563	-	-
Accruals and deferred income	1,250,693	891,100	-	-
Amounts owed to Group undertakings	-	-	2,454,755	980,713
	<u>3,117,560</u>	<u>1,807,162</u>	<u>3,204,755</u>	<u>980,713</u>

The carrying amount of trade and other payables approximates to their fair values.

The contingent consideration represents the maximum liability due to the shareholders of JRG Financial Consultancy Limited and is dependent on certain profit targets being achieved. There is no interest payable on the contingent consideration.

14 FINANCIAL LIABILITIES

The Group's treasury policy and management of financial instruments, which form part of these financial statements, are summarised in the directors' report.

Interest rate risk

The interest rate risks are limited to the floating rate term loan.

Liquidity risk

It is the Group's policy to manage liquidity in order to achieve continuity of funding. As part of the Board's assessment of liquidity risk, regular cashflow forecasts are received which estimate the short term cashflows to ensure there is sufficient financing in place for the Group. In addition, the Board produces regular information to its bankers to demonstrate compliance with the financial covenants contained in the loan agreement. As part of the FSA's requirements, the Group reports on a quarterly basis to confirm that the necessary financial resource tests are complied with.

Foreign currency risk

The Group has no overseas assets or liabilities.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. Credit risk is managed by monitoring the amount and duration of exposure to any one customer. The amounts presented in the balance sheet are net of provisions for impairment estimated by management based on prior experience and the assessment of the prevailing economic environment.

The credit risk associated with liquid funds is limited given the use of HBOS who also provide the Group with its long term financial funding.

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

14 FINANCIAL LIABILITIES (Continued)

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Current liabilities:				
Bank borrowings	<u>1,132,427</u>	<u>600,000</u>	<u>1,120,000</u>	<u>600,000</u>
Non current liabilities:				
Bank borrowings	4,386,700	1,400,000	4,386,700	1,400,000
Other borrowings	-	1,500,000	-	1,500,000
	<u>4,386,700</u>	<u>2,900,000</u>	<u>4,386,700</u>	<u>2,900,000</u>

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31 December 2007 is as follows:

	Non interest bearing financial liabilities £	Fixed rate financial liabilities £	Floating rate financial liabilities £	Total £
2007 Sterling	<u>-</u>	<u>-</u>	<u>5,519,127</u>	<u>5,519,127</u>
2006 Sterling	<u>-</u>	<u>1,500,000</u>	<u>2,000,000</u>	<u>3,500,000</u>

The floating rate financial liabilities relates to a term loan. The term loan attracts interest at 1.75% above base rate. The term loan is secured by a legal charge over the assets of the Company. The fixed rate financial liabilities were confined to other loans.

The following is the maturity profile of the Group's floating rate financial liabilities as at 31 December:

	2007 £	2006 £
Maturity profile of floating rate financial liabilities		
On demand or within 1 year	1,132,427	600,000
Within 2 - 5 years	<u>4,386,700</u>	<u>1,400,000</u>
	<u>5,519,127</u>	<u>2,000,000</u>

The following is the maturity profile of the Group's fixed rate financial liabilities as at 31 December:

	2007 £	2006 £
Maturity profile of fixed rate financial liabilities		
Within 2 - 5 years	<u>-</u>	<u>1,500,000</u>

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

14 FINANCIAL LIABILITIES (Continued)

Fair values of financial liabilities and financial assets

The fair values based upon the market value or discounted cash flows of financial liabilities and financial assets, held in the Group was not materially different from their book values.

15 PROVISIONS

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

	2007 £	2006 £
Balance brought forward at 1 January 2007	231,365	247,682
New provisions	42,491	45,000
Utilised in the year	(79,311)	(61,317)
Arising from acquisition of subsidiary undertaking	14,795	-
	<u>209,340</u>	<u>231,365</u>

16 DEFERRED TAXATION

Group

	2007 £	2006 £
Analysis for financial reporting purposes:		
Deferred tax liabilities		
- non current	(942,784)	-
Deferred tax assets		
- non current	243,631	659,069
Net position at 31 December	<u>(699,153)</u>	<u>659,069</u>

Company

	2007 £	2006 £
Analysis for financial reporting purposes:		
Deferred tax assets		
- non current	4,587	-
Net position at 31 December	<u>4,587</u>	<u>-</u>

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

16 DEFERRED TAXATION (Continued)

The movement in the year in the Group's net deferred tax position was as follows:

	2007	2006
	£	£
At 1 January	659,069	1,040,736
Charge to income for the year	(415,438)	(381,667)
Credit arising on the initial recognition of deferred tax separable intangibles acquired on acquisition of subsidiary	(937,820)	-
Credit arising on temporary differences on valuation of property acquired on acquisition of subsidiary	(4,964)	-
At 31 December	<u>(699,153)</u>	<u>659,069</u>

The movement in the year in the Company's net deferred tax position was as follows:

	2007	2006
	£	£
At 1 January	-	1,339
Charge to income for the year	-	(1,339)
Credit arising on other timing difference	(4,587)	-
At 31 December	<u>(4,587)</u>	<u>-</u>

The following are the major deferred tax liabilities and assets recognised by the Group and the movements thereon during the period:

Deferred tax liabilities	Recognition of intangible fixed asset on business combination	Revaluation of properties	Total
	£	£	£
At 1 January 2006 and 31 December 2006	-	-	-
Arising on acquisition of subsidiary	(937,820)	(4,964)	(942,784)
At 31 December 2007	<u>(937,820)</u>	<u>(4,964)</u>	<u>(942,784)</u>

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

16 DEFERRED TAXATION (continued)

Deferred tax assets	Capital allowances and other short term temporary differences	Tax losses	Total
	£	£	£
At 1 January 2006	(8,089)	1,048,825	1,040,736
Charge to income for the year	56,103	(437,770)	(381,667)
At 31 December 2006	48,014	611,055	659,069
Charge to income for the year	45,094	(460,532)	(415,438)
At 31 December 2007	<u>93,108</u>	<u>150,523</u>	<u>243,631</u>

At the balance sheet date, the Group has unused tax losses of £537,580 (2006: £2,166,391) available for offset against future profits. A deferred tax asset of £150,523 (2006: £611,055) has been recognised in respect of such losses on the basis that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences and utilised tax losses and credits can be deducted.

Deferred tax liabilities have not been recognised in respect of the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Temporary differences arising in connection with and interests in joint ventures are insignificant.

17 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2007 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings		Plant and equipment	
	2007	2006	2007	2006
	£	£	£	£
Within 1 year	95,065	39,224	71,556	-
Between 1 and 5 years	534,996	678,515	58,929	259,045
	<u>630,061</u>	<u>717,739</u>	<u>130,485</u>	<u>259,045</u>

Operating lease charges for the year can be found in note 2.

Other than an office acquired in the purchase of JRG Financial Consultancy Limited, the Group leases offices under operating leases. The minimum period of the leases is normally between 6 months and 5 years.

The majority of the liability for plant and equipment is for photocopiers and scanning devices.

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

18 SHARE-BASED PAYMENT

The Company has granted equity settled share options. The exercise price is the market value of the shares at the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire.

Details of the share options outstanding during the year are as follows:

	2007		2006	
	Number of share options	Weighted average exercise price (in p)	Number of share options	Weighted average exercise price (in p)
Outstanding at beginning of year	823,899	128	809,993	131
Granted during the year	14,182	110	54,655	85
Lapsed during the year	(7,430)	115	(40,749)	152
Outstanding at the end of the year	<u>830,651</u>	<u>128</u>	<u>823,899</u>	<u>128</u>
			2007 £	2006 £
Charged to Consolidated Income Statement			<u>65,000</u>	<u>45,161</u>

The options outstanding at 31 December 2007 had a weighted average exercise price of 128p and a weighted average remaining contractual life of 6-7 years.

On 16 March 2007 Cavanagh Group plc granted options over 14,182 Ordinary shares of 1p each at an exercise price of 110p. The aggregate of the estimated fair values of the options granted on this date is £15,600.

The fair value of options granted under the scheme is measured by use of the Black-Scholes model. The inputs into the Black-Scholes model are as follows:

2006

Grant date	Exercise price per share (p)	Share price (p)	Expected volatility (%)	Expected life (years)	Risk free rate (%)	Expected dividend (%)
April 2006	76	77	39	3	6	0
June 2006	85	85	39	3	6	0

2007

Grant date	Exercise price per share (p)	Share price (p)	Expected volatility (%)	Expected life (years)	Risk free rate (%)	Expected dividend (%)
March 2007	110	110	32	3	4	0

Expected volatility was based upon the historical volatility over the expected life of the schemes. The expected life is based upon historical data and has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

19 RELATED PARTY TRANSACTIONS

Group

The Company has a related party relationship with its subsidiaries, its directors and other employees of the Company with management responsibility for the Company's affairs. In the opinion of the directors there are no members of key management, as defined by IAS 24 (Related Party Disclosures), who were not also directors of the Company during either 2006 or 2007.

During the year the Group paid Tricom Services Limited £6,429 (2006: £6,500), a company owned by the wife of P Sinnett, for payroll services. The amount outstanding at the year end to Tricom Services Limited was £492 (2006: £425).

During the year the Group paid £3,165 (2006: £22,618) 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 £107 (2006: £478).

During the year the Group paid commissions amounting to £1,550 (2006: £9,278) 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 £24,734 (2006: £28,909).

During the year the Group paid commissions amounting to £296,265 (2006: £361,061) to Place Campbell Cavanagh Limited ("PCC"), a company that acts as an agent to the Group. The balance outstanding at the year end was £28,890 (2006: £52,629). Mr Millard is a director of PCC Limited.

Company

Transactions between Group companies

During the year the Company charged Cavanagh Financial Management Limited £1,198,827 (2006: £1,021,696) for management services in relation to the costs of the executive directors of Cavanagh Group plc.

20 SHARE CAPITAL

	2007 £	2006 £
Authorised:		
50,000,000 Ordinary shares of £0.01 each	<u>500,000</u>	<u>500,000</u>
	No	£
Issued and fully paid:		
10,868,421 Ordinary shares of £0.01 each	10,868,421	108,684
Issue of new shares	<u>652,105</u>	<u>6,521</u>
	<u>11,520,526</u>	<u>115,205</u>

On 27 November 652,105 new shares were issued as part of the consideration to purchase JRG Financial Consultancy Limited.

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

20 SHARE CAPITAL (Continued)

Options

At 31 December 2007 there were options over 830,651 (2006: 823,899) ordinary shares of 1p each which are exercisable at prices in the range from 60p to 210p under the Company's various share option schemes exercisable at various times. The following share options were granted during the year:

Grant date	Subscription price per share	Period over which options are exercisable	Number of options 31 December 2007
Unapproved share options:			
October 2001	150p	October 2004 – October 2011	103,333
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
Approved share options:			
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	2,385
September 2004	175p	September 2007 – September 2014	28,570
November 2004	115p	November 2007 – November 2014	179,114
December 2005	60p	December 2008 – December 2015	83,000
June 2006	85p	June 2009 – June 2016	11,765
March 2007	110p	March 2010 – March 2017	14,182

21 CONTINGENT LIABILITIES

Group

At 31 December 2007 there were no contingent liabilities (2006: Nil).

Company

A Group VAT registration is operated by the Company and its Group undertakings in respect of which the Company is jointly and severally liable for all amounts due to HM Revenue and Customs under the arrangement.

22 POST BALANCE SHEET EVENTS

As a result of options being exercised on 6 March 2008 70,000 new shares were issued at 150p each.

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

23 EXPLANATION OF TRANSITION TO IFRS

This is the first year that the Group has presented its financial statements under IFRS. The last financial statements under UK GAAP were for the year ended 31 December 2006 and the date of transition to IFRS was therefore 1 January 2006.

For all periods up to and including the year ended 31 December 2006 the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practices (UK GAAP).

In preparing these financial statements, the Group has started from an opening balance sheet as at 1 January 2006, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS.

IFRS 1 allows first time adopters certain exemptions from the general requirements to retrospectively apply IFRS as effective for the 31 December 2005 year end. The optional exemptions taken by the Group are as follows:

Business Combinations: The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business that took place prior to the transition date. Consequently goodwill arising on business combinations before transition date remains at its previous UK GAAP carrying value as at the date of transition.

The entity has also elected to apply IFRS 2 to equity instruments granted on or after 7 November 2002 that had not vested as at the transition date as permitted by IFRS 1.

The reconciliation between UK GAAP and IFRS for the Group's profit/(loss), income statement, balance sheet and total equity are presented below:

Reconciliation of equity as at 31 December 2006

	Year ended 31 December 2006 £
Total equity under UK GAAP	252,758
Amortisation of goodwill	195,900
	<hr/>
Total equity under IFRS	<u>448,658</u>

The principal effects identified on adoption of IFRS are discussed below:

Goodwill

IFRS 3 'Business Combinations', IAS 36 and IAS 38 resulted in a change to the carrying values of Goodwill. Until 31 December 2005, goodwill was amortised on a straight line basis over a period of up to 10 years from the year of acquisition and assessed for an indication of impairment at each balance sheet date.

Under IFRS 3, goodwill is no longer amortised and, instead, is assessed annually for impairment. As a result of this change, the goodwill asset was increased by £195,900.

Intangible Assets.

IAS 38 resulted in a change of classification of computer software. Under UK GAAP, computer software was classified as a tangible non current asset. Under IAS 38, computer software is classified as an intangible non current asset.

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

23 EXPLANATION OF TRANSITION TO IFRS (continued)

Joint Ventures

IAS 1 resulted in a change to the presentation of profits attributable to joint venture operations. Under UK GAAP, the proportion of turnover, profits from operations and taxation arising from joint venture operations were disclosed separately.

Reconciliation of balance sheet at 1 January 2006 (date of transition to IFRS)

	As previously restated under UK GAAP 1 January 2006 £	Effect of transition to IFRS £	As restated under IFRS 1 January 2006 £
Non-current assets			
Property plant and equipment	604,477	-	604,477
Intangible assets	1,525,410	-	1,525,410
Investment in joint venture	2,000	-	2,000
Deferred tax asset	1,040,736	-	1,040,736
	<u>3,172,623</u>	-	<u>3,172,623</u>
Current assets			
Trade and other receivables	2,236,209	-	2,236,209
Corporation tax receivable	3,547	-	3,547
Cash and cash equivalents	906,472	-	906,472
	<u>3,146,228</u>	-	<u>3,146,228</u>
Total assets	<u>6,318,851</u>	-	<u>6,318,851</u>
Current liabilities			
Trade and other payables	2,216,634	-	2,216,634
Financial liabilities	600,000	-	600,000
	<u>2,816,634</u>	-	<u>2,816,634</u>
Non current liabilities			
Financial liabilities	3,500,000	-	3,500,000
Provisions	247,682	-	247,682
	<u>3,747,682</u>	-	<u>3,747,682</u>
Total liabilities	<u>6,564,316</u>	-	<u>6,564,316</u>
Net liabilities	<u>(245,465)</u>	-	<u>(245,465)</u>
Equity			
Issued share capital	108,684	-	108,684
Share premium account	2,705,800	-	2,705,800
Share based payment reserve	112,781	-	112,781
Retained earnings	(3,169,775)	-	(3,169,775)
Minority interests	(2,955)	-	(2,955)
Total equity	<u>(245,465)</u>	-	<u>(245,465)</u>

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NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

23 EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of balance sheet at 31 December 2006 (date of last UK GAAP Statements)

	As previously stated under UK GAAP 31 December 2006 £	IAS 38 Intangible assets £	IFRS 3 Business combinations £	As restated under IFRS 31 December 2006 £
Non-current assets				
Property, plant and equipment	371,836	(6,940)	-	364,896
Intangible assets	1,329,510	6,940	195,900	1,532,350
Share of assets in joint venture	2,000	-	-	2,000
Deferred tax asset	659,069	-	-	659,069
	<u>2,362,415</u>	<u>-</u>	<u>195,900</u>	<u>2,558,315</u>
Current assets				
Trade and other receivables	1,636,048	-	-	1,636,048
Corporation tax receivables	3,547	-	-	3,547
Cash and cash equivalents	1,836,595	-	-	1,836,595
	<u>3,476,190</u>	<u>-</u>	<u>-</u>	<u>3,476,190</u>
Total assets	<u>5,838,605</u>	<u>-</u>	<u>195,900</u>	<u>6,034,505</u>
Current liabilities				
Trade and other payables	1,807,162	-	-	1,807,162
Corporation tax payable	47,320	-	-	47,320
Financial liabilities	600,000	-	-	600,000
	<u>2,454,482</u>	<u>-</u>	<u>-</u>	<u>2,454,482</u>
Non-current liabilities				
Financial liabilities	2,900,000	-	-	2,900,000
Provisions	231,365	-	-	231,365
	<u>3,131,365</u>	<u>-</u>	<u>-</u>	<u>3,131,365</u>
Total liabilities	<u>5,585,847</u>	<u>-</u>	<u>-</u>	<u>5,585,847</u>
Net assets	<u>252,758</u>	<u>-</u>	<u>195,900</u>	<u>448,658</u>
Equity				
Issued Share capital	108,684	-	-	108,684
Share premium account	2,705,800	-	-	2,705,800
Share based payment reserve	157,942	-	-	157,942
Retained earnings	(2,736,438)	-	195,900	(2,540,538)
Minority interests	16,770	-	-	16,770
Total equity	<u>252,758</u>	<u>-</u>	<u>195,900</u>	<u>448,658</u>

Cavanagh Group plc

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

23 EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of income statement at 31 December 2006

	As previously stated under UK GAAP 31 December 2006 £	IAS 31 Interest in Joint Ventures and IAS 38 Intangible assets £	IFRS 3 Business combinations £	As restated under IFRS 31 December 2006 £
Revenue	14,112,186	-	-	14,112,186
Cost of Sales	(7,773,821)	-	-	(7,773,821)
Gross Profit	<u>6,338,365</u>	<u>-</u>	<u>-</u>	<u>6,338,365</u>
Administrative expenses excluding depreciation and amortisation	4,937,909	-	-	4,937,909
Share of joint venture profit after tax	(157,738)	31,548	-	(126,190)
Earnings before finance costs, depreciation and tax	<u>1,558,194</u>	<u>(31,548)</u>	<u>-</u>	<u>1,526,646</u>
Finance Costs	207,031	-	-	207,031
Depreciation	273,214	(4,627)	-	268,587
Amortisation	195,900	4,627	(195,900)	4,627
Profit before tax expense	<u>882,049</u>	<u>-</u>	<u>195,900</u>	<u>1,046,401</u>
Tax expense	(428,987)	31,548	-	(397,439)
Profit attributable to equity holders of parent	<u><u>453,062</u></u>	<u><u>-</u></u>	<u><u>195,900</u></u>	<u><u>648,962</u></u>

Reconciliation of Cash Flow at 31 December 2006 (date of last UK GAAP Statements)

There are no adjustments to Cash Flow resulting from the transition to IFRS.