

# **Cavanagh Group plc**

("Cavanagh" or "The Group")

## **Unaudited Interim Results for the six months ended 30 June 2007**

Cavanagh Group PLC, one of the leading firms of Independent Financial Advisers, announces its interim results for the six months to 30<sup>th</sup> June 2007.

### **Highlights**

- Turnover up to £7,739,000 (2006: £7,068,000)
- Pre-tax profit of £712,000 up by 38% from £517,000 in 2006
- Operating cash inflow of £927,000

### **Cavanagh Group plc**

Andrew Fay (Chief Executive)

01444 475400

# **Cavanagh Group plc**

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## **Unaudited Interim Results for the six months ended 30 June 2007**

### **Chairman's Statement**

I am pleased to report with these interim results a continued improvement in the Group's financial performance for the six months ended 30<sup>th</sup> June 2007 which show a group operating profit of £704,000 (2006: £543,000) on a turnover of £7,739,000 (2006: £7,068,000). All the results are reported under IFRS for the first time.

The business has generated an operating cash inflow of £927,000 (2006: £1,026,000) in the first six months of the year, which has enabled us to further decrease our net debt to £801,000 (2006: £1,663,000).

The Board's key objective for 2007 is to continue to generate profitable growth in our business. As can be seen from the figures reported above, this has been achieved during the first six months of 2007 with a 30% increase in operating profits.

### **Operations**

The results outlined in this statement are against a backdrop of the earlier business decision of improving the recurring income model, by reducing initial commission and placing greater emphasis on fund based and recurring commissions- indeed recurring income revenue represents in excess of a quarter of the Group's turnover. This, we believe, will help make Cavanagh a lasting success in the financial intermediary market.

The initiative of "treating customers fairly" (TCF) remains core to our principals and I am pleased to report that the implementation as directed by the FSA has now been completed and will remain under regular review.

The Group has enjoyed considerable success in providing employee benefit propositions to the corporate sector and is looking to further increase the proportion of its business generated from this area. This can also be demonstrated by CPRM, our actuarial subsidiary, which has continued to make a good contribution to the Group's overall progress, with revenue up by 35%, and pre tax profits up fourfold on the same period last year. We look to further its success in the future by advising corporates in what is an increasingly complex area of the market.

With the improvement in our management information systems I am able to report that senior management is now able to focus on new business opportunities, thereby targeting more productive activities without negatively impacting on the service delivered to our client base.

### **Business Opportunities**

Our range of introducers is expanding further as Cavanagh's reputation of being able to deliver a high level of specialist advice to the professional market grows. As we move into the second half of the year we are continuing to build the support functions in the business to maximise the opportunities that are becoming available to us.

Additionally, we are looking to generate incremental profitability from our existing clients' asset base by increasing the proportion of their assets under advice – currently we have over £1.5 billion of client funds under advice.

As is well documented, a significant part of Cavanagh's client base emanates from the legal sector, and as a sign of our continuing commitment to this area the Cavanagh Group will again be a major sponsor of the annual Bar Conference.

Much has been written about the adoption of Wrap products in the market – we see further significant growth opportunities within our client base for these products and continue to look for developments which can enhance client service while generating incremental income for the Group.

### **Reduction in Capital**

As previously reported, the Board intends at an appropriate future date to obtain shareholder approval to eliminate the deficit on the Company's profit and loss account by means of a reduction in its share premium account so it may, subject to working capital requirements of the Group, commence the payment of dividends.

### **Outlook**

The recent 'Retail Distribution Review' ('RDR') published by the FSA this summer has presented a number of interesting issues to the investment market place; we are considering these and intend to provide a formal response to the FSA. However, I am pleased to say that Cavanagh does not regard RDR as the potential threat that other firms seemingly do, primarily in view of our position in the market and our relatively high proportion of qualified consultants.

The improved financial performance demonstrated by the Group over the past 18 months, and the resultant stability that this has generated, will continue to permit the senior management team to concentrate on new business opportunities. The Board believe that this is likely to result in further organic growth and the consideration of suitable acquisitions which fit our business model and enhance shareholder value.

After a strong first six months, I anticipate that 2007 will be a year of solid growth for the Cavanagh Group.

John Campbell  
Chairman  
7 September 2007

**Cavanagh Group plc**  
**Group Income Statement**

	Note	6 Months 30-Jun-07 Unaudited	6 Months 30-Jun-06 Unaudited Restated *	Year ended 31-Dec-06 Unaudited Restated *
		£'000	£'000	£'000
REVENUE:				
Group and share of joint venture's revenue		7,822	7,154	14,271
Less: share of joint venture's revenue		(83)	(86)	(159)
REVENUE		<u>7,739</u>	<u>7,068</u>	<u>14,112</u>
GROUP OPERATING PROFIT		704	543	1,127
Share of joint venture operating profit		82	85	158
Finance cost		(74)	(111)	(207)
PROFIT BEFORE TAXATION		<u>712</u>	<u>517</u>	<u>1,078</u>
Income tax expense		(238)	(143)	(429)
PROFIT FOR THE PERIOD		<u>474</u>	<u>374</u>	<u>649</u>
Profit attributable to :				
Equity holders of Parent company	4	452	369	629
Minority Interests		22	5	20
		<u>474</u>	<u>374</u>	<u>649</u>
Earnings per share – basic (pence)	3	4.16p	3.39p	5.78p
Earnings per share – fully diluted (pence)	3	4.12p	3.38p	5.76p

The profit for the period arises from the group's continuing operations. Accordingly no Statement of Recognised Income and Expenditure has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

\*Restated to reflect the adoption of IFRS as per note 1

**Cavanagh Group plc**  
**Group Balance Sheet**

	30-Jun-07 Unaudited	30-Jun-06 Unaudited Restated*	31-Dec-06 Unaudited Restated *
	£'000	£'000	£'000
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Intangible assets	1,565	1,525	1,525
Tangible assets	315	494	372
Deferred tax	445	916	659
Investments	2	2	2
	<u>2,327</u>	<u>2,937</u>	<u>2,558</u>
<b>CURRENT ASSETS</b>			
Trade receivables	1,375	1,945	1,131
Other receivables	211	177	508
Cash	2,399	1,563	1,837
	<u>3,985</u>	<u>3,685</u>	<u>3,476</u>
<b>TOTAL ASSETS</b>	<u>6,312</u>	<u>6,622</u>	<u>6,034</u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	109	109	109
Share premium account	2,706	2,706	2,706
Share based payment reserve	184	10	158
Profit and loss account	(2,089)	(2,688)	(2,541)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<u>910</u>	<u>137</u>	<u>432</u>
Non-equity interests	39	2	17
<b>TOTAL EQUITY</b>	<u>949</u>	<u>139</u>	<u>449</u>
<b>NON CURRENT LIABILITIES</b>			
Loans	2,600	3,200	2,900
<b>CURRENT LIABILITIES</b>			
Other Liabilities	2,551	3,035	2,454
Provisions	212	248	231
<b>TOTAL LIABILITIES</b>	<u>5,363</u>	<u>6,483</u>	<u>5,585</u>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<u>6,312</u>	<u>6,622</u>	<u>6,034</u>

\*Restated to reflect the adoption of IFRS as per note 1

**Group Cash Flow Statement**

For the period to 30 June 2007

	6 Months 30-Jun-07 Unaudited £'000	6 Months 30-Jun-06 Unaudited Restated* £'000	Year ended 31-Dec-06 Unaudited Restated* £'000
NET CASH FROM OPERATIONS	927	1,026	1,620
INVESTING ACTIVITIES			
Acquisition of tangible non current assets	(32)	(27)	(40)
Acquisition of intangible non current assets	(40)	-	-
CASH USED IN INVESTING ACTIVITIES	(72)	(27)	(40)
FINANCING			
New borrowing	-	-	1,500
Repayment of bank loans	(300)	(300)	(2,100)
Dividends from joint venture	82	69	158
Net interest paid	(74)	(111)	(207)
NET CASH OUTFLOW FROM FINANCING	(292)	(342)	(649)
Increase in cash and cash equivalents	562	657	931
Opening cash and cash equivalents	1,837	906	906
Closing cash and cash equivalents	2,399	1,563	1,837

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	6 Months 30-Jun-07 Unaudited £'000	6 Months 30-Jun-06 Unaudited Restated* £'000	Year ended 31-Dec-06 Unaudited Restated* £'000
Increase in cash in the period	562	657	931
Net cash outflow from debt financing	300	300	600
Change in net funds resulting from cashflows	862	957	1,531
Net debt at beginning of period	(1,663)	(3,194)	(3,194)
Net debt at end of period	(801)	(2,237)	(1,663)

\*Restated to reflect the adoption of IFRS as per note 1

## Notes to the Interim Financial Statements

### 1. Basis of preparation of interim financial information

The group's previous financial statements have been prepared under UK Generally Accepted Accounting Principles (UK GAAP). For the financial year ended 31 December 2007, the group will prepare its annual consolidated financial statements in accordance with IFRS as adopted by the European Union (EU) and implemented in the UK.

The Group's date of transition to IFRS was 1 January 2006 at which date the Group prepared its opening IFRS balance sheet. The financial information for the six months ended 30 June 2007 is unaudited and has been prepared in accordance with the Group's accounting policies, based on IFRS standards that are expected to apply for the financial year 2007. The financial information for the six months ended 30 June 2006 and the twelve months ended 31 December 2006 is also unaudited and has been restated under IFRS. The Group has not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK Groups, in the preparation of these interim financial statements.

The presentation of financial information under IFRS is governed by IAS 1. In some cases this will require the presentation of an item in a different position, or the use of a different description in the IFRS income statement or balance sheet to that adopted in the UK GAAP profit and loss account or balance sheet. These reclassifications have been described in the explanatory notes.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's results and income statements for the period ended 30 June 2006 and the year ended 31 December 2006 and the equity and balance sheets as at 1 January 2006 (the date of transition), 30 June 2006 and 31 December 2006 is set out below.

With the exception of IAS 38 – Intangible Assets, the principal accounting policies of the Group have remained materially unchanged from those set out in the Group's 2006 Annual Report and Financial Statements. The interim results include the impact of IAS 36 and both comparative 2006 results have been restated to reflect the change in accounting policy.

Intangible assets are stated at cost less provisions for impairments. The Group has elected not to apply IFRS 3 Business Combinations retrospectively to transactions that took place prior to the transition date. Consequently, goodwill arising on business combinations before the transition date remains at its previous UK GAAP carrying value as at the date of transition. The reconciliation between UK GAAP and IFRS for the Group is presented below :

	6 Months 30-Jun-06 Unaudited £'000	12 Months 31-Dec-06 Unaudited £'000
Profit after tax and minority interests under GAAP	269	433
Amortisation of Goodwill	100	196
Profit after tax and minority interests under IFRS	<u>369</u>	<u>629</u>

There have been no changes to the Group's cash flows as a result of this adjustment.

The financial information contained in this interim report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The figures for the year ended 31 December 2006 have been extracted from the statutory financial statements which have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 237(2) or 237 (3) of the Companies Act 1985. The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The Board of Directors approved the interim financial statements on 7 September 2007

## 2. Revenue

The Group operates in the United Kingdom in one principal area of activity, that of an Independent Financial Advisor.

## 3. Earnings per share

The calculation of basic earnings per share are based on :

	6 Months 30-Jun-07 Unaudited £'000	6 Months 30-Jun-06 Unaudited* £'000	12 Months 31-Dec-06 Unaudited* £'000
Earnings			
Profit on ordinary activities after taxation	452	369	629
Weighted average number of shares	Number	Number	Number
For basic earnings per ordinary share	10,868,400	10,868,400	10,868,400
Dilutive potential ordinary shares:			
Exercise of share options	81,495	14,310	33,109
	10,967,895	10,882,710	10,901,509

\*Basic, adjusted and fully diluted earnings per share for the 6 months ended 30 June 2006 and the year ended 31 December have been restated to reflect the adoption of IAS 38 as per note 1.

#### 4. Reconciliation of equity shareholders' funds

	6 Months 30-Jun-07 Unaudited	6 Months 30-Jun-06 Unaudited*	12 Months 31-Dec-06 Unaudited*
	£'000	£'000	£'000
Profit for the period	452	369	629
Share based payment	26	10	45
Increase in period	478	379	674
Opening balance	432	(242)	(242)
Closing balance	910	137	432

\*Restated to reflect the adoption of IFRS as per note 1

#### 5. Reconciliation of profit from operations to net cash from operating activities

	6 Months 30-Jun-07 Unaudited	6 Months 30-Jun-06 Unaudited*	12 Months 31-Dec-06 Unaudited*
	£'000	£'000	£'000
Profit from operations	786	628	1,285
Share based compensation	26	10	45
Share of joint venture operating profit	(82)	(85)	(158)
Depreciation	89	138	273
Decrease in trade and other receivables	54	116	600
Increase/(decrease) in trade and other payables	73	219	(409)
Decrease in provisions	(19)	-	(16)
Net cash from operating activities	927	1,026	1,620

\*Restated to reflect the adoption of IFRS as per note 1

#### 6. Analysis of net debt

	1-Jan-07 £'000	Cash Flow £'000	Non-cash movements £'000	30-Jun-07 £'000
Cash at bank	1,837	562	-	2,399
Bank loan	(2,000)	300	-	(1,700)
Other loan	(1,500)	-	-	(1,500)
Net debt	(1,663)	862	-	(801)

Copies of this report will be sent to shareholders shortly and available from The Courtyard, Staplefield Road, Cuckfield, West Sussex RH17 5JT.