

ARBUTHNOT PENSIONS & INVESTMENTS LIMITED

Registered No. 1225876

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**



Report of the Directors

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

1. Activities

The principal activity of the Company during the year was that of an independent financial advisor and pensions consultant. The Company is authorised and regulated by the Financial Services Authority.

2. Results for the year and future developments

The profit for the year was £2,845,259 (2004: £142,830). The directors recommended payment of a dividend of £2,490,985. (2004: £nil).

On 31 December 2005, the Company entered into an agreement with Arbuthnot Latham & Co., Limited by which the business of the Company was transferred to Arbuthnot Latham & Co., Limited. In accordance with this agreement, Arbuthnot Latham & Co., Limited paid the Company a sum of £2,965,896. The Company has now ceased to trade.

3. Directors and Directors' Interests

The directors of the Company who served on the Board during the year were:

| | |
|---------------|----------------------------|
| J Reed | (Chairman) |
| ADS Miller | (Managing Director) |
| SH Aberdeen | |
| T Bowler | |
| JR Cornacchia | (resigned 31 October 2005) |
| AM James | |

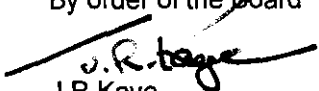
The directors had no interest in the ordinary £1 shares of the Company throughout the year.

The interests of J Reed in the shares of Arbuthnot Banking Group PLC are disclosed in the directors' report of that company.

5. Auditors

A resolution to re-appoint Rees Pollock as auditors of the Company will be proposed at the forthcoming Annual General Meeting at a fee to be agreed in due course by the Directors.

By order of the Board


J.R. Kaye
Secretary
22 March, 2006

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit of the Company for that period. In preparing those financial statements, the directors are required to:

- ♦ select suitable accounting policies and then apply them consistently;
- ♦ make judgements and estimates that are reasonable and prudent;
- ♦ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- ♦ prepare the financial statements on a going concern basis unless it is inappropriate to presume that 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Independent Auditors' Report to the members of
Arbuthnot Pensions & Investments Limited**

We have audited the financial statements of Arbuthnot Pensions & Investments Limited on pages 4 to 13 which have been prepared under the accounting policies set out therein.

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

Respective responsibilities of the directors and the auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) are set out in the Statement of Directors' Responsibilities on page 2.

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

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

We read the Directors' Report and 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.

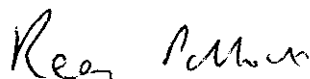
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the company's affairs as at 31 December 2005 and of the profit of the company for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



Rees Pollock
Chartered Accountants
Registered Auditor
London
22 March 2006

Income Statement

for the year ended 31 December 2005

| | Notes | 2005 £ | 2004 £ |
|--|-------|------------------|----------------|
| Net revenue | 3 | 2,495,939 | 2,680,916 |
| Other income | 4 | 2,965,896 | - |
| Administrative expenses | | (2,632,699) | (2,436,623) |
| Profit before tax and finance costs | | 2,829,136 | 244,293 |
| Finance costs | | (34,520) | (42,422) |
| Finance income | | 7,658 | 7,727 |
| Profit before taxation | 5 | 2,802,274 | 209,598 |
| Income tax credit/(charge) | 8 | 42,985 | (66,768) |
| Profit for the financial year | | 2,845,259 | 142,830 |

All operations are discontinued as the company's activities were transferred to a related party as is further disclosed in note 4

The notes on pages 8 to 13 form part of these financial statements.

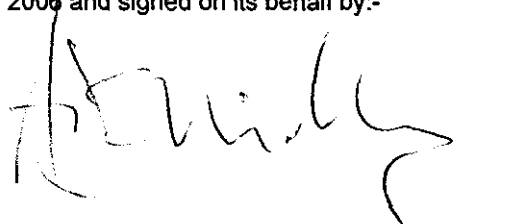
Balance sheet

as at 31 December 2005

| | Notes | 2005 £ | 2004 £ |
|---------------------------------------|-------|---------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Trade and other receivables | 10 | 40,000 | 867,429 |
| Cash and short term deposits | | - | 183,183 |
| TOTAL ASSETS | | <u>40,000</u> | <u>1,050,612</u> |
| EQUITY AND LIABILITIES | | | |
| Issued capital | 12 | 40,000 | 40,000 |
| Retained earnings | | - | (354,274) |
| Total equity | | <u>40,000</u> | <u>(314,274)</u> |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 13 | - | 610,000 |
| | | <u>-</u> | <u>610,000</u> |
| Current liabilities | | | |
| Trade & other payables | 11 | - | 686,968 |
| Income tax payable | 11 | - | 67,918 |
| | | <u>-</u> | <u>754,886</u> |
| TOTAL LIABILITIES | | <u>-</u> | <u>1,364,886</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>40,000</u> | <u>1,050,612</u> |

The notes on pages 8 to 13 form part of these financial statements which were approved by the Board of Directors on 22 March, 2006 and signed on its behalf by:-

ADS Miller - Director



Cash Flow

for the year ended 31st December 2005

| | 2005 £ | 2004 £ |
|---|--------------------|-----------------------|
| Cash flows from operating activities | | |
| Receipts from customers | 3,172,563 | 2,014,021 |
| Payments to suppliers and employees | (3,245,187) | (2,184,286) |
| Borrowing costs | (34,520) | (42,422) |
| Group relief received | 51,392 | 129,921 |
| Net cash flows from operating activities | <u>(55,752)</u> | <u>(82,766)</u> |
| Cash flows from investing activities | | |
| Disposal of business to group company | 2,965,896 | - |
| Interest received | 7,658 | 7,727 |
| Net cash flow from investing activities | <u>2,973,554</u> | <u>7,727</u> |
| Proceeds from borrowings | - | 45,000 |
| Repayment of borrowed funds | (610,000) | - |
| Dividends paid to equity holders | (2,490,985) | - |
| Net cash flows (used in)/from financing activities | <u>(3,100,985)</u> | <u>45,000</u> |
| Net decrease in cash and cash equivalents | (183,183) | (30,039) |
| Cash and cash equivalents at 1st January | 183,183 | 213,222 |
| Cash and cash equivalents at 31st December | <u><u>-</u></u> | <u><u>183,183</u></u> |

The notes on pages 8 to 13 form part of these financial statements.

Statement of changes in equity
for the year ended 31st December 2005

| | Issued Capital £ | Retained earnings £ | Total equity £ |
|------------------------------|---------------------|------------------------|-------------------|
| At 1st January 2004 | 40,000 | (497,104) | (457,104) |
| Net profit for the year | - | 142,830 | 142,830 |
| | <hr/> | <hr/> | <hr/> |
| At 31st December 2004 | 40,000 | (354,274) | (314,274) |
| Net profit for the year | - | 2,845,259 | 2,845,259 |
| Equity dividends | - | (2,490,985) | (2,490,985) |
| | <hr/> | <hr/> | <hr/> |
| At 31st December 2005 | <u>40,000</u> | <u>-</u> | <u>40,000</u> |

The notes on pages 8 to 13 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2005 (Continued)

1 Corporate information

The financial statements of Arbuthnot Pensions & Investments Limited for the year ended 31 December 2005 were authorised for issue in accordance with resolution of the directors on 22 March 2006. Arbuthnot Pensions & Investments Limited is a limited company incorporated in England and Wales and is a wholly owned subsidiary of Arbuthnot Banking Group PLC, whose shares are publicly traded.

The principal activity of the company is an independent financial adviser and pensions consultant. The company is authorised and regulated by the Financial Services Authority.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Changes in accounting policies

The Company has adopted those standards designed to form the 'stable platform' intended to be mandatory for financial years beginning on or after 1 January 2005. No other International Financial Reporting Standards have been adopted early and these will have no effect on the company as its trade was discontinued as is disclosed further in note 4.

These financial statements are the first full financial statements prepared by the Company in accordance with IFRS. The impact of the change from UK Generally Accepted Accounting Policies (UK GAAP) is summarised in Note 18. Comparative information for 2004 has been restated to comply with IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Basis of consolidation

The financial statements present information on the individual company only and no consolidated financial statements are prepared in accordance with section 228 of the Companies Act 1985 and the exemption in IAS 27.

Foreign currency translation

The functional and presentation currency of Arbuthnot Pensions & Investment Limited is pounds sterling (£). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Notes to the financial statements

for the year ended 31 December 2005 (Continued)

Fee and commission income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commissions arising from negotiating a transaction for a third party are recognised on completion of the underlying transaction. Asset and other management, advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and loans and advances to banks and building societies.

Post-retirement benefits

The Company contributes to a defined contribution scheme and to individual defined contribution schemes for the benefit of certain employees. The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees.

The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

There are no post-retirement benefits other than pensions.

Share capital

Dividends on ordinary shares are recognised in equity in the period in which they are approved.

Fiduciary activities

The Company commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Company.

3 Revenue

Revenue represents commissions and fees earned during the year.

| | 2005 £ | 2004 £ |
|-------------|------------------|------------------|
| Fees | 304,919 | 387,114 |
| Commissions | 2,191,020 | 2,293,802 |
| | <u>2,495,939</u> | <u>2,680,916</u> |

Notes to the financial statements

for the year ended 31 December 2005 (Continued)

4 Transfer of business

For a number of years the Company has been a wholly owned subsidiary of Arbuthnot Latham & Co., Limited which is, in turn, a wholly owned subsidiary of Arbuthnot Banking Group PLC. Following a review of the structure of the Group, a decision was taken to move the business undertaken by the Company into Arbuthnot Latham & Co., Limited.

Consequently, on 31st December 2005, Arbuthnot Latham & Co., Limited sold its investment in the Company to Arbuthnot Banking Group PLC and then immediately purchased from the Company its goodwill, for a consideration of £2,965,896. In the future the activities undertaken by the Company will be carried out by Arbuthnot Latham & Co., Limited.

5 Profit on ordinary activities before taxation

| | 2005 £ | 2004 £ |
|--------------------------------|-----------|-----------|
| This is stated after charging: | | |
| Operating lease rentals | - | 37,000 |
| Auditors' remuneration | 11,300 | 11,300 |

6 Directors' remuneration

| | 2005 £ | 2004 £ |
|--|----------------|----------------|
| Remuneration of directors for services to the Company: | | |
| Management remuneration | 282,165 | 265,344 |
| Pension contributions | <u>32,370</u> | <u>29,584</u> |
| | <u>314,535</u> | <u>294,928</u> |

7 Information on Employees including Executive Directors

| | 2005 £ | 2004 £ |
|-----------------------|------------------|------------------|
| Staff costs: | | |
| Wages and salaries | 1,195,606 | 1,252,031 |
| Social security costs | 176,198 | 165,798 |
| Pension costs | <u>135,553</u> | <u>112,819</u> |
| | <u>1,507,357</u> | <u>1,530,648</u> |

The average number of staff remunerated by the Company during the year was 32 (2004: 31)

Notes to the financial statements

for the year ended 31 December 2005 (Continued)

8 Taxation

The tax (credit)/charge for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

| | 2005 £ | 2004 £ |
|--|------------------|----------------|
| Profit on ordinary activities before tax | <u>2,802,274</u> | <u>209,598</u> |
| Profit on ordinary activities multiplied by the standard rate of corporation tax | 840,682 | 62,880 |
| Adjustment for sale of business to fellow group company | (889,769) | - |
| Expenses not deductible for tax purposes | 6,102 | 3,888 |
| | <u>(42,985)</u> | <u>66,768</u> |

9 Dividends paid and proposed

| | 2005 £ | 2004 £ |
|--|------------------|-----------|
| Declared and paid during the period | | |
| Interim dividend for 2005: £9.963939 per share | <u>2,490,985</u> | <u>-</u> |

10 Trade and other receivables

| | 2005 £ | 2004 £ |
|---------------------------------|---------------|----------------|
| Amounts owed by group companies | 40,000 | 114,480 |
| Group relief receivable | - | 76,325 |
| Prepayments and accrued income | - | 676,624 |
| | <u>40,000</u> | <u>867,429</u> |

11 Trade & other payables

| | 2005 £ | 2004 £ |
|------------------------------------|-----------|----------------|
| Corporation tax payable | - | 67,918 |
| Other taxation and social security | - | 19,872 |
| Other creditors | - | 24,753 |
| Accruals and deferred income | - | 642,343 |
| | <u>-</u> | <u>754,886</u> |

Notes to the financial statements

for the year ended 31 December 2005 (Continued)

12 Called up share capital

| | 2005 £ | 2004 £ |
|--|----------------|----------------|
| Authorised: | | |
| Ordinary shares of £1 each | | |
| At 1st January and 31st December | <u>250,000</u> | <u>250,000</u> |
| Allotted, called up and fully paid: | | |
| Ordinary shares of £1 each | | |
| At 1st January and 31st December | <u>40,000</u> | <u>40,000</u> |

13 Interest-bearing loan

As party of the exercise to transfer the business of the Company to Arbuthnot Latham & Co., Limited (See note 4), the sub-ordinated loan was repaid.

14 Operating lease obligations

| | 2005 £ | 2004 £ |
|--|-----------|---------------|
| At the year end, annual commitments under non-cancellable operating leases on land and buildings were: | | |
| Expiring: | | |
| - within one year | <u>-</u> | <u>37,000</u> |

15 Ultimate parent company

The company is a wholly owned subsidiary of Arbuthnot Banking Group PLC, which is also the ultimate parent company and the company which heads both the smallest and largest group for which consolidated financial statements are prepared at 31 December 2005. Arbuthnot Banking Group PLC is incorporated in Great Britain and registered in England. Copies of the accounts of Arbuthnot Banking Group PLC are available from One Arlestone Way, Solihull, B90 4LH.

16 Pension scheme

The Company is a member of the Secure Trust Pension Scheme, a defined contribution scheme whose membership is open to all companies in the Arbuthnot Banking Group.

17 Related party transactions

Premises

The Company occupies premises owned by Arbuthnot Latham & Co., Limited, and is charged rental based on the space occupied. For the year ended 31st December 2005, the Company was charged rental of £267,996 (2004: £156,629)

Fixed assets and software

The fixed assets and software used by the Company are owned by Arbuthnot Latham & Co., Limited, who charge back to the Company the depreciation charge on the assets. For the year ended 31st December 2005, the Company was charged £47,043 (2004: £29,177)

Notes to the financial statements

for the year ended 31 December 2005 (Continued)

18 Reconciliation of UK GAAP to IFRS

Profit

Set out below is the reconciliation of the profit reported under IFRS to the profit under UK GAAP for the year ended 31st December 2004

| | 2004 £ |
|---|----------------|
| Profit for the period - UK GAAP | 135,872 |
| Timing of revenue recognition, net of tax | 6,958 |
| Profit for the period - IFRS | <u>142,830</u> |

Equity

Set out below is the reconciliation of equity reported under IFRS to the equity reported under UK GAAP as at 1st January and 31st December 2004

| | 1 January 2004 | 31 December 2004 |
|---|-------------------|---------------------|
| Total equity - UK GAAP | (459,788) | (323,916) |
| Effect of revenue recognition, net of tax | 2,684 | 9,642 |
| Total equity - IFRS | <u>(457,104)</u> | <u>(314,274)</u> |