

Homeserve GB Limited

Report and Accounts for the year ended

31 March 2006

Company Registration No: 2770612



Directors' Report

The directors have pleasure in submitting the Report and Accounts for the year to 31 March 2006.

Business Review and Principal Activities

The Company is a wholly owned subsidiary of its ultimate parent company, Homeserve plc, and operates as part of its Policy Membership division.

The Company's principal activity is that of retailing, through direct mail and telesales activity, affinity branded, domestic assistance insurance policies. The Company provides plumbing and drainage cover together with a range of other emergency policies to customers of water and energy companies and other affinity partners. There have not been any significant changes in the Company's principal activities in the period under review. The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

Business Review

This has been another record year for Homeserve GB. We combined the highest ever levels for new customer and policy numbers with excellent profits growth. We have continued to increase our penetration in the UK market where policies increased by 30% from 3.82m to 4.97m over the year:

- 3.35m in plumbing and drains and water supply pipe (2005: 2.76m)
- 0.76m in electrical (2005: 0.60m)
- 0.86m in other including gas supply pipe and housebuilder (2005: 0.46m)

The total number of new policies sold during the year in the UK set a new record at 1.63m (2005: 1.3m). The number of customers increased by 22% to 2.79m (2005: 2.29m) achieving 1.78 policies per customer compared to 1.66 in March 2005 and 1.73 in September 2005.

The final quarter mailing campaigns incorporated all of our relevant learning to date on direct mail and performed exceptionally well both for new customer acquisition and cross sell.

We have continued to support our direct mail campaigns with the use of cost effective outbound telesales for cross sell activity. The total number of call centre agents including outbound has increased to 497 from 436 last year, and our outbound agents achieved policy sales of 0.45m (2005: 0.4m). Average acquisition costs per policy have remained stable.

Underlying retention rates for the majority of customers in their second and subsequent year of membership on our standard plumbing and drains policies remains in excess of 88%. However, overall retention rates decreased from 88% to 87% reflecting the increased level of innovative new offers and promotions, which have achieved excellent response rates but with slightly reduced renewal rates for new customers at their first renewal. The proportion of customers using continuous payment methods such as direct debit increased to 89% (2005: 85%).

Directors' Report

Business Review and Principal Activities (continued)

Our 48 hour call backs to customers who have made a claim enable us to directly measure customer satisfaction following a repair and to monitor and improve the performance of our repair networks. Customer satisfaction for the core plumbing and drains product remains at a high level of 96% and importantly the proportion of customers rating our service as outstanding has increased from 15% to 20%.

The Homeserve plc Group manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Policy Business division of Homeserve plc, which includes the Company, is discussed in the Group's Annual Report which does not form part of this Report.

Principal Risks and Uncertainties

There are a number of risks and uncertainties that could have a material impact on the Company's future performance. Group risks are discussed in the Group's Annual Report which does not form part of this Report.

Financial Risk

As part of its ordinary activities, Homeserve GB Limited is exposed to a number of financial risks, including liquidity risk, credit risk and interest rate risk. The Company has policies and procedures on how each of these risks will be monitored and managed.

Liquidity risk relates to the Company's ability to meet the cash flow requirements of the operations, while avoiding excessive levels of debt.

Credit risk principally relates to trade receivables from customers. Detailed policies and procedures for the assessment of all customers are in place.

Interest rate risk is not considered to represent a significant risk at this time. However, this risk is kept under constant review and policies exist to mitigate them should they increase in significance.

Commercial Relationships

Homeserve GB Limited has close commercial relationships with a number of utility companies, household insurers and household appliance manufacturers. The loss of these contractual commercial relationships could have a significant effect on the Company's future profitability and cash flows. This risk is managed through regular reviews and contact with the senior management of these partners in order to ensure that Homeserve GB Limited responds to their needs and delivers the service that they expect.

Competitor Risk

There are a number of other businesses that provide services that are similar to those of the Company and as such could compete in one or more of our chosen markets. In order to address this risk a regular review of the market and our position is undertaken and the activities of the other participants are closely monitored. The development of innovative products and solutions, addressing the needs of our customers is seen as paramount to maintaining our competitive advantage.

Directors' Report

Principal Risks and Uncertainties (continued)

Acquisitions

The Company continues to expand through a combination of organic growth and acquisitions. The ability to effectively manage and integrate the acquired businesses represents a particular risk. Prior to making any acquisition approach a detailed assessment of the market and our existing position, together with that of the target, is undertaken. In addition, the ability to integrate the acquisitions into the existing operation is considered at the outset. Homeserve plc, the ultimate parent company has a dedicated acquisitions team which involves and coordinates functional managers from our existing businesses and draws on the services of independent advisers when necessary. Immediately post acquisition a full internal controls benchmarking assessment is undertaken and the Group's internal control requirements are communicated and implemented as soon as practicable. The performance of acquisitions is reported and reviewed by the Board on a monthly basis.

Financial Reporting Policies

The Company has opted to present its financial statements in accordance with International Financial Reporting Standards. Accordingly, the accounts for the year ended 31 March 2006 have been prepared in accordance with IFRS and the comparatives have been restated.

Details of the impact of the transition to IFRS is included in Note 28 to these financial statements. Other than in respect of the transition to IFRS, no other accounting policies have been changed during the year.

Environment

The Company is committed to environmental sustainability. Our business is largely service based and therefore exposure to environmental risk is low. However, we recognise that the Company has a responsibility to act in a way that respects the environment and as such, all our employees are encouraged to incorporate an awareness of environmental issues into decision-making processes.

The Company operates in accordance with Group Policies, which are described in the Group's Annual Report which does not form part of this Report.

Financial Results

The Company's results are shown in the income statement on page 10. The Directors declared a dividend to ordinary shareholders £40.0m (2005: £7.4m). The profit for the year of £38.7m (2005: £27.8m) has been transferred to reserves.

Directors' Report

Directors

The Directors who held office during the year, and subsequently, and their interests in the share capital of the Company at 31 March 2006 were as follows:

	31 March 2006	31 March 2005
Frank Robert Atkinson	-	-
Andrew John Belk	-	-
James Matthew Cashmore (resigned 27 July 2005)	-	-
Sion Padrig O'Connor	-	-
Andrew Patrick Ground (resigned 2 November 2005)	-	-
Richard David Harpin	-	-
David Martin Jackson (appointed 23 August 2006)	-	-
Jonathan Charles King (resigned 31 May 2005)	-	-
Geoffrey Adrian Love	-	-
Jo Simkins (appointed 27 April 2005)	-	-
Richard John Shepherd	-	-
Jennifer Synnott	-	-

None of the Directors had a material interest in any trading contract to which the Company was a party during the financial year.

Mr Belk and Mr Harpin were Directors of Homeserve plc, the ultimate parent company, during the year, and their interests in the share capital of that company are shown in its Annual Report.

The beneficial interests of the remaining Directors in the ordinary share capital of Homeserve plc are listed below:

	31 March 2006	31 March 2005
Frank Robert Atkinson	37	37
Geoffrey Adrian Love	537	537
Richard John Shepherd	2,037	1,037
Jo Simkins	37	37
Jennifer Synnott	488	488

Directors' Report

Directors (continued)

Details of share options in respect of the shares of Homeserve plc are shown below:

		Balance at Scheme 31.03.06	Granted during year	Exercised during year	Balance at 31.03.05	Option price	Date of grant	Exercisable from
F R Atkinson	ESOP	10,000	-	-	10,000	£6.610	27.05.04	27.05.07
	SAYE	697	-	-	697	£5.430	30.12.04	01.03.08
	SAYE	611	611	-	-	£9.180	23.12.05	01.03.09
	KEIP	9,500	9,500	-	-	£9.610	28.06.05	01.07.08
	KEIP	9,500	9,500	-	-	£9.610	28.06.05	01.07.10
S O'Connor	KEIP	11,250	11,250	-	-	£9.610	28.06.05	01.07.08
	KEIP	11,250	11,250	-	-	£9.610	28.06.05	01.07.10
	SAYE	1,753	1,753	-	-	£9.180	23.12.05	01.03.11
G A Love	ESOP	10,000	-	-	10,000	£6.610	27.05.04	27.05.07
	KEIP	16,500	16,500	-	-	£9.610	28.06.05	01.07.08
	KEIP	16,500	16,500	-	-	£9.610	28.06.05	01.07.10
	SAYE	1,744	-	-	1,744	£5.430	30.12.04	01.03.08
R J Shepherd	ESOP	12,500	-	-	12,500	£4.700	01.07.03	01.07.06
	ESOP	20,000	-	-	20,000	£6.610	27.05.04	27.05.07
	KEIP	16,750	16,750	-	-	£9.610	28.06.05	01.07.08
	KEIP	16,750	16,750	-	-	£9.610	28.06.05	01.07.10
	SAYE	1,744	-	-	1,744	£5.430	30.12.04	01.03.08
J Simkins	KEIP	9,000	9,000	-	-	£9.610	28.06.05	01.07.08
	KEIP	9,000	9,000	-	-	£9.610	28.06.05	01.07.10
	SAYE	697	-	-	697	£5.430	30.12.04	01.03.08
	SAYE	611	611	-	-	£9.180	23.12.05	01.03.09
J Synnott	ESOP	12,500	-	-	12,500	£3.775	23.06.00	23.06.03
	ESOP	10,000	-	-	10,000	£5.500	17.07.01	17.07.04
	ESOP	10,000	-	-	10,000	£5.890	08.07.02	08.07.05
	ESOP	12,500	-	-	12,500	£4.700	01.07.03	01.07.06
	ESOP	20,000	-	-	20,000	£6.610	27.05.04	27.05.07
	KEIP	13,000	13,000	-	-	£9.610	28.06.05	01.07.08
	KEIP	13,000	13,000	-	-	£9.610	28.06.05	01.07.10

ESOP options are exercisable for a 7 year period from the date shown. SAYE options are exercisable for a 6-month period from the date shown. KEIP options are exercisable from the date of exercise until 28 June 2015.

Payment of Creditors

The Company's policy is to pay suppliers in line with the terms of payment agreed with each of them when contracting for their products or services. Trade creditors at 31 March 2006 represent 59 days of purchases during the year (2005: 66 days).

Directors' Report

Employment policies

It is the Company's policy that all persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes, regardless of physical ability, age, gender, sexual orientation, religion or ethnic origin.

The Company applies employment policies that are fair and equitable for all employees and which ensure entry into and progression within the Company are determined solely by application of job criteria and personal ability and competency.

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons. The Company's training and development policies make it clear that it will take all steps practicable to ensure that employees who become disabled during the time they are employed by the Company are able to continue to perform their duties.

Internal circulars and newsletters are issued on a regular basis and consultation between management and staff is an ongoing process. Employees are consulted on issues directly affecting them wherever practicable.

Auditors

Each of the directors confirms that as far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and he has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Caroline Emma Roberts Thomas

Company Secretary

15 December 2006

Registered Office: Cable Drive, Walsall, West Midlands, WS2 7BN

Registered in England and Wales

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare financial statements for the Company in accordance with International Financial Reporting Standards (IFRS). Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume 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, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

Independent auditors' report to the members of Homeserve GB Limited

We have audited the financial statements of Homeserve GB Limited for the year ended 31 March 2006 which comprise the income statement, statement of changes in equity, balance sheet, cash flow statement, and the related notes 1 to 28. These financial statements 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 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 for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read 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.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, 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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with those IFRSs as adopted for use in the European Union, of the state of the company's affairs as at 31 March 2006 and of its profit for the year then ended;
- 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.

As explained in Note 2, the company, in addition to complying with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs as at 31 March 2006 and of its profit for the year then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Birmingham

15 December 2006

Income Statement

year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Revenue	3	117,930	90,750
Operating costs:			
Amortisation of intangible assets on acquisition	12	(326)	(134)
Other operating costs		(65,458)	(51,867)
Operating costs	5	(65,784)	(52,001)
Operating profit		52,146	38,749
Investment income	7	2,399	1,074
Finance costs	8	(168)	-
Profit before tax and amortisation of intangible assets on acquisition		54,703	39,957
Amortisation of intangible assets on acquisition	12	(326)	(134)
Profit before tax		54,377	39,823
Tax	9	(15,645)	(12,019)
Profit for the year being attributable to equity holders of the parent	21	38,732	27,804

Statement of Changes in Equity

year ended 31 March 2006

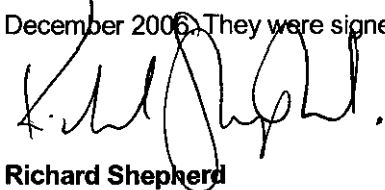
	Note	Total equity £'000
At 1 April 2004		35,146
Dividends		(7,449)
Profit for the period		27,804
Share based payment charge		77
Deferred tax asset on share option gains taken directly to reserves		223
At 1 April 2005		55,801
Dividends		(40,000)
Profit for the period		38,732
Share based payment charges in the year		251
Deferred tax asset on share option gains taken directly to reserves		185
At 31 March 2006	21	54,969

Balance Sheet

31 March 2006

	Note	2006 £'000	2005 £'000
Non-current assets			
Goodwill	11	3,228	1,029
Other intangible assets	12	4,134	1,551
Property, plant and equipment	13	16,528	9,367
Investment in subsidiaries	14	8	8
		23,898	11,955
Current assets			
Trade and other receivables	15	77,612	59,928
Cash and cash equivalents	15	34,911	48,789
		112,523	108,717
Total assets		136,421	120,672
Current liabilities			
Trade and other payables	18	(70,192)	(55,605)
Current tax liabilities		(8,527)	(8,711)
Loan notes	16	(1,980)	-
		(80,699)	(64,316)
Net current assets		31,824	44,401
Non-current liabilities			
Other financial liabilities	19	(249)	(509)
Deferred tax liabilities	17	(504)	(46)
		(753)	(555)
Total liabilities		(81,452)	(64,871)
Net assets		54,969	55,801
Equity			
Share capital	20	109	109
Share premium account	21	6,355	6,355
Share incentive reserve	21	292	92
Capital redemption reserve	21	12	12
Retained earnings	21	48,201	49,233
Total equity		54,969	55,801

The financial statements were approved by the board of directors and authorised for issue on 15 December 2006. They were signed on its behalf by:



Richard Shepherd
Director
15 December 2006

Cash Flow Statement

year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Net cash from operating activities	23	33,832	34,921
Investing activities			
Interest received		2,399	1,064
Disposal of subsidiary undertakings		-	2,580
Proceeds on disposal of property, plant and equipment		16	44
Purchases of intangible assets	12	(726)	(395)
Purchases of property, plant and equipment	13	(8,194)	(2,313)
Repayment of loan to joint venture		-	529
Acquisition of subsidiary undertakings	22	(1,205)	(1,394)
Net cash (used in)/from investing activities		(7,710)	115
Financing activities			
Dividends paid		(40,000)	(7,479)
Net cash used in financing activities		(40,000)	(7,479)
Net (decrease)/increase in cash and cash equivalents		(13,878)	27,557
Cash and cash equivalents at beginning of year		48,789	21,232
Cash and cash equivalents at end of year		34,911	48,789

Notes to the Accounts

year ended 31 March 2006

1. General information

Homeserve GB Limited is a Company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given in note 27.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRSs are given in note 28.

The financial statements have also been prepared in accordance with IFRSs, adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation. There are no adjustments required to these financial statements in respect of standards that have been issued but not yet enacted. In addition, at this time standards that have been issued but not yet enacted are not expected to have an impact on the Company.

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

Goodwill

Goodwill arising on acquisitions represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets and liabilities acquired.

Goodwill is recognised as an asset and reviewed for impairment annually or more frequently if there is an indication that it may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to each of the Company's cash generating units expected to benefit from the synergies of the combination. If the recoverable amount is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Notes to the Accounts

year ended 31 March 2006

2. Significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable from the sale of policies, stated net of underwriting, commissions payable and Insurance Premium Tax.

Revenue is recognised on the sale of a policy except where an obligation exists to provide future services where an appropriate proportion of monies received in advance are treated as deferred income and recognised over the relevant period.

During the year, estimates regarding revenue recognition on certain promotional policies were aligned with those of our standard policies, resulting in an increase in revenue and profit of £750,000.

Investment income is recognised in the income statement in the period in which it is earned.

Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Operating profit

Operating profit is stated after charging all operating costs but before investment income and finance costs.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Contributions to defined benefit retirement schemes are charged to the profit and loss account on a systematic basis over the service lives of the employees.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Accounts

year ended 31 March 2006

2. Significant accounting policies (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation.

Depreciation is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method, on the following bases:

Computer equipment	3 - 5 years
Motor vehicles	2 years
Furniture, fixtures and equipment	7 years
Buildings	25 - 50 years

Intangible assets

Intangible assets that are acquired on acquisition of a subsidiary undertaking or business are stated at their fair value and are amortised over their useful lives as follows:

Customer databases	3 - 10 years
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Computer software and the related licences are stated at cost and amortised over their useful lives of 3 - 5 years.

Notes to the Accounts

year ended 31 March 2006

2. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets 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. Where the asset does not generate cash flows that are independent from other assets, the Company 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 assets for which the estimates of future cash flows have not 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 or 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 or 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 or cash generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Company are recorded at proceeds received net of direct issue costs.

Notes to the Accounts

year ended 31 March 2006

2. Significant accounting policies (continued)

Share-based payments

The Company has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provision, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2005.

Homeserve plc, the ultimate parent company, issues equity-settled share-based payments to certain employees of Homeserve GB Limited. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Fair value is measured by use of the Black-Scholes model or Monte Carlo Simulation models depending on the type of scheme.

The Company also provides employees with the ability to purchase ordinary shares in the ultimate parent company, Homeserve plc, at a discount to the current market value through Save As You Earn schemes. The Company records an expense, based on its estimate of the discount related to shares expected to vest on a straight-line basis over the vesting period.

Judgements

Revenue recognition

An appropriate proportion of revenue is deferred to future periods when the Company has obligations extending to future periods. As a result, judgement is required in assessing the extent and associated costs of fulfilling those future obligations. The Company uses historical experience and forecast activity levels in determining the appropriate amount of revenue to recognise in the current period and how much to defer to future periods.

Estimation of uncertainty

Impairment of goodwill

The annual impairment assessment in respect of goodwill requires estimates of the value in use of cash generating units to which goodwill has been allocated to be calculated. As a result, estimates of future cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows. The carrying value of goodwill is £3,228,000 (2005: £1,029,000).

Notes to the Accounts

year ended 31 March 2006

3. Revenue

An analysis of the Company's revenue is as follows:

	2006 £'000	2005 £'000
Provision of services	117,930	90,750
Investment income (note 7)	2,399	1,074
	120,329	91,824

4. Business and geographical segments

The Company operates in one business segment and operates solely within the United Kingdom.

5. Profit for the year

Profit for the year has been arrived at after charging:

	2006 £'000	2005 £'000
Included in operating costs:		
Depreciation of property, plant and equipment	1,010	1,932
Amortisation of software licences	410	104
Staff costs (note 6)	23,833	16,555
Auditors' remuneration for audit services	36	33
Loss on disposal of property, plant and equipment	7	317
Amortisation of acquired intangibles	326	134
Other operating costs	40,162	32,926
	65,784	52,001

	2006 £'000	2005 £'000
Audit services - statutory audit	36	33
Tax services - compliance services	4	6
	40	39

6. Staff costs

The average monthly number of employees (including directors) was:

	2006 Number	2005 Number
Average number of employees	785	663
	£'000	£'000
Their aggregate remuneration comprised:		
Wages and salaries	20,875	14,825
Social security costs	2,247	1,443
Other pension costs (note 26)	711	287
	23,833	16,555

Directors remuneration is disclosed in note 27.

Notes to the Accounts

year ended 31 March 2006

7. Investment income

	2006	2005
	£'000	£'000
Interest on bank deposits	2,399	1,074

8. Finance costs

	2006	2005
	£'000	£'000
Interest on loan notes	168	-

9. Tax

	2006	2005
	£'000	£'000
Current tax	15,747	12,320
Deferred tax (note 17)	(102)	(301)
	15,645	12,019

UK corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2006	2005
	£'000	£'000
Profit before tax	54,377	39,823
Tax at the UK corporation rate of 30% (2005: 30%)	16,313	11,947
Tax effect of expenses that are not deductible in determining taxable profit	139	71
Adjustments in respect of prior years – current tax	(808)	1
Adjustments in respect of prior years – deferred tax	1	-
Tax expense for the year	15,645	12,019

10. Dividends

	2006	2005
	£'000	£'000
Amounts recognised as distributions to equity holders in the year:		
Dividend for the year ended 31 March 2006 of £365.97 (2005: £68.15) per share	40,000	7,449

In the prior year, a dividend of £68.15 per share was paid in respect of the year ended 31 March 2004.

Notes to the Accounts

year ended 31 March 2006

11. Goodwill

	£'000
Cost	
At 1 April 2004	-
Recognised on acquisition of subsidiary	1,029
At 1 April 2005	1,029
Recognised on acquisition of subsidiary (note 22)	2,199
At 31 March 2006	3,228
Carrying amount	
At 31 March 2006	3,228
At 31 March 2005	1,029

The Company tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on detailed business plans. Changes in selling prices and direct costs are based on expectations of future changes in the market.

The Company prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next three years and extrapolates cash flows based on an estimated growth rate of 2.5%. The post tax rate used to discount the forecast cash flows for all CGUs is 12.0%.

Notes to the Accounts

year ended 31 March 2006

12. Other intangible assets

	Customer databases £'000	Software licences £'000	Total £'000
Cost			
At 1 April 2004	-	1,346	1,346
Additions	-	395	395
Acquisition of subsidiary	747	-	747
At 1 April 2005	747	1,741	2,488
Additions	-	726	726
Acquisitions of subsidiary (note 22)	2,524	69	2,593
At 31 March 2006	3,271	2,536	5,807
Accumulated amortisation			
At 1 April 2004	-	699	699
Charge for the year	134	104	238
At 1 April 2005	134	803	937
Charge for the year	326	410	736
At 31 March 2006	460	1,213	1,673
Carrying amount			
At 31 March 2006	2,811	1,323	4,134
At 31 March 2005	613	938	1,551

Notes to the Accounts

year ended 31 March 2006

13. Property, plant and equipment

	Land and buildings £'000	Motor vehicles £'000	Furniture, fixtures and equipment £'000	Computer equipment £'000	Total £'000
Cost					
At 1 April 2004	7,114	56	769	4,240	12,179
Additions	1,264	-	406	643	2,313
Reclassification	229	-	(229)	-	-
Disposals	(65)	(56)	(12)	(1,304)	(1,437)
Transfer to fellow group undertaking	-	-	(78)	-	(78)
At 1 April 2005	8,542	-	856	3,579	12,977
Additions	7,196	-	237	761	8,194
Disposals	-	-	(43)	-	(43)
At 31 March 2006	15,738	-	1,050	4,340	21,128
Accumulated depreciation					
At 1 April 2004	430	11	159	2,232	2,832
Charge for the year	272	-	233	1,427	1,932
Reclassification	54	-	(54)	-	-
Disposals	(4)	(11)	(5)	(1,093)	(1,113)
Transfer to fellow group undertaking	-	-	(41)	-	(41)
At 1 April 2005	752	-	292	2,566	3,610
Charge for the year	357	-	140	513	1,010
Disposals	-	-	(20)	-	(20)
At 31 March 2006	1,109	-	412	3,079	4,600
Carrying amount					
At 31 March 2006	14,629	-	638	1,261	16,528
At 31 March 2005	7,790	-	564	1,013	9,367

Notes to the Accounts

year ended 31 March 2006

14. Investments in Subsidiaries

Details of the Company's subsidiaries at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation ownership (or registration) and operation	Proportion of voting interest %	Proportion of power held %
Tradehill Limited	England	100	100
National Property Solutions Limited	England	100	100
National Property Solutions 24/7 Limited	England	100	100

The movement in investments is as follows:

	Total £'000
Cost and net book value	
At 1 April 2004	-
Additions	8
At 1 April 2005 and 31 March 2006	8

15. Financial assets

Trade and other receivables

	2006 £'000	2005 £'000
Amounts receivable for the provision of services	43,404	28,790
Amounts owed by other Group undertakings	421	98
Other debtors	33,514	30,326
Prepayments and accrued income	273	714
	77,612	59,928

No interest is charged on the receivables. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £379,783 (2005: £177,176). This allowance has been determined by reference to past default experience.

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

Cash balances and cash equivalents

Cash balances and cash equivalents of £34,911,000 (2005: £48,789,000) comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Notes to the Accounts

year ended 31 March 2006

15. Financial assets (continued)

Credit risk

The Company's principal financial assets are bank balances and cash and trade and other receivables, which represent the Company's maximum exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

16. Loan notes

	2006 £'000	2005 £'000
Loan notes	1,980	-

The sterling loan notes were issued as part of the consideration on the acquisition of National Property Solutions limited, as detailed in note 22. The loan notes are repayable on demand, subject to a minimum initial maturity of 6 months. The weighted average loan note interest rate was 4.0% (2005: nil).

The directors consider that the carrying amount of borrowings approximates their fair value.

17. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior year.

	Accelerated tax depreciation £'000	Share Schemes £'000	Acquired intangible assets £'000	Total £'000
At 1 April 2004	(584)	83	-	(501)
Credit to income	258	23	20	301
Credit to equity	-	223	-	223
Acquisition of subsidiary	-	-	(69)	(69)
At 1 April 2005	(326)	329	(49)	(46)
(Charge)/credit to income	(63)	75	90	102
Credit to equity	-	185	-	185
Acquisition of subsidiary	-	-	(745)	(745)
At 31 March 2006	(389)	589	(704)	(504)

Notes to the Accounts

year ended 31 March 2006

17. Deferred tax (continued)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2006 £'000	2005 £'000
Deferred tax liabilities	(1,093)	(375)
Deferred tax assets	589	329
Net deferred tax liability	(504)	(46)

18. Current liabilities – Trade and other payables

	2006 £'000	2005 £'000
Trade creditors and accruals	24,404	16,570
Amounts owed to other Group undertakings	5,753	3,751
Taxes and social security, excluding current tax	829	491
Other creditors	39,206	34,793
	70,192	55,605

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 59 days (2005: 66 days).

The directors consider that the carrying amount of trade payables approximates their fair value.

19. Non current liabilities – Other financial liabilities

	Deferred income £'000	Deferred consideration £'000	Total £'000
At 1 April 2005	188	321	509
Movement in year	61	(321)	(260)
At 31 March 2006	249	-	249

Deferred income represents turnover where an obligation exists to provide future services. An appropriate proportion of monies received in advance are treated as deferred and recognised over the relevant period.

Notes to the Accounts

year ended 31 March 2006

20. Share capital

	2006 £'000	2005 £'000
Authorised:		
112,000 (2005: 112,000) ordinary shares of £1 each	112	112
Issued and fully paid:		
109,300 (2005: 109,300) ordinary shares of £1 each	109	109

The Company has one class of ordinary shares, which carry no right to fixed income.

Share capital represents consideration received for the nominal value of £1 per share on all issued and fully paid shares.

21. Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share incentive reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2004	109	6,355	12	15	28,655	35,146
Dividends	-	-	-	-	(7,449)	(7,449)
Profit for the period	-	-	-	-	27,804	27,804
Share based payment charge	-	-	-	77	-	77
Deferred tax asset on share option gains taken directly to reserves	-	-	-	-	223	223
At 1 April 2005	109	6,355	12	92	49,233	55,801
Dividends	-	-	-	-	(40,000)	(40,000)
Profit for the period	-	-	-	-	38,732	38,732
Share based payment charges in the year	-	-	-	251	-	251
Share options exercised in the year	-	-	-	(51)	51	-
Deferred tax asset on share option gains taken directly to reserves	-	-	-	-	185	185
At 31 March 2006	109	6,355	12	292	48,201	54,969

Notes to the Accounts

year ended 31 March 2006

21. Statement of changes in equity (continued)

Reserves

The share premium account represents consideration received for authorised shares in excess of the nominal value of £1 per share.

The share incentive reserve represents the cumulative charges to income under IFRS 2 'Share Based Payments' on all share options and schemes granted after 7 November 2002 that had not vested as at 1 January 2005, net of share option exercises.

The capital redemption reserve arose on the redemption of 12,000 £1 redeemable preference shares on 1 July 2002.

22. Acquisition of subsidiary

On 2 August 2005, the Company acquired 100% of the share capital of National Property Solutions Limited, a company which manages insured home assistance policies. This acquisition has been accounted for by the purchase method of accounting. The fair value of the identifiable assets and liabilities of the acquisitions were:

	National Property Solutions Limited
	£'000
Net assets acquired:	
Other intangible assets	69
Trade and other receivables	418
Cash and cash equivalents	50
Trade and other payables	(1,690)
Deferred tax liability	(656)
	(1,809)
Intangible assets identified on acquisition	2,185
Goodwill	2,199
Total consideration	2,575
Satisfied by:	
Cash	551
Loan notes	1,980
Directly attributable costs	44
	2,575
Net cash outflow arising on acquisition:	
Cash consideration	595
Cash and cash equivalents acquired	(50)
	545

Notes to the Accounts

year ended 31 March 2006

22. Acquisition of subsidiary (continued)

Total fair value adjustments of £171,000 were made on the acquisition of National Property Solutions Limited reducing the net assets to align accounting policies and reflect the fair value of certain non-current and current assets. Intangible assets identified on acquisition represents the directors' estimate of the value of the acquired customer database lists. Goodwill represents future cross sell opportunities, efficiency savings and synergies.

In addition to the net cash outflow arising on acquisition above of £545,000, there were further cash outflows in respect of individually immaterial acquisitions amounting to £339,000 all of which was attributable to intangible assets. The Company also paid deferred consideration of £321,000 in the year.

If the acquisitions had been completed on the first day of the financial year, Company revenues for the period and Company operating profit attributable to equity holders of the parent would have been £119,782,000 and £52,668,000 respectively.

The post acquisition operating loss arising from the acquisitions in the year ended 31 March 2006 was £385,000.

23. Notes to the cash flow statement

	2006 £'000	2005 £'000
Operating profit	52,146	38,749
Adjustments for:		
Depreciation of property, plant and equipment	1,010	1,932
Amortisation of intangible assets	736	238
Share based payments expense	251	77
Loss on disposal of property, plant and equipment and software licences	7	317
Operating cash flows before movements in working capital	54,150	41,313
Increase in receivables	(17,266)	(13,267)
Increase in payables	12,958	16,398
Cash generated by operations	49,842	44,444
Income taxes paid	(15,842)	(9,523)
Interest paid	(168)	-
Net cash from continuing operating activities	33,832	34,921

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term bank deposits with an original maturity of three months or less.

Notes to the Accounts

year ended 31 March 2006

24. Operating lease arrangements

The Company as lessee

	2006 £'000	2005 £'000
Minimum lease payments under operating leases recognised in income for the year	202	158

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2006 £'000	2005 £'000
Within one year	188	187
In the second to fifth years inclusive	133	320
	321	507

Operating lease payments principally represent rentals payable by the Company for motor vehicles and office equipment.

25. Share Based Payments

During the year ended 31 March 2006, the Company participated in 3 share based payment arrangements through its ultimate parent company, Homeserve Plc, which are described below:

i) Executive Share Option Plan ("ESOP")

The ESOP provides for a grant price equal to the closing quoted market price of Homeserve plc shares on the day before the date of grant. The vesting period is three years and is dependent upon the real increase in Earnings Per Share over the vesting period. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

ii) 2005 Key Executive Incentive Plan ("KEIP")

The KEIP provides for a grant price equal to the closing quoted market price of Homeserve plc shares on the day before the date of grant. The awards vest in two tranches, the first being between three and four years from the date of grant and the second being on the second anniversary of the vesting of the first tranche. The number of awards vesting is dependent upon the Profit Before Tax of the Homeserve plc Group for the year ending 31 March 2008 and is subject to a minimum share price criteria during the year ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iii) Save As You Earn Scheme ("SAYE")

The SAYE is open to almost all employees and provides for an exercise price equal to the closing quoted market price of Homeserve plc shares on the day before the date of grant, less a discount. The options can be exercised during a six month period following the completion of either a three or five year savings period.

Notes to the Accounts

year ended 31 March 2006

25. Share Based Payments (continued)

The estimated fair values are calculated by applying a Black Scholes option pricing model for the ESOP and SAYE and Monte Carlo simulations for the KEIP. The assumptions used in the models are as follows:

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	20% - 30%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk free interest rate	4.2% - 5.1%

Levels of early exercises and lapses are estimated using historical averages.

The Company recognised total expenses of £251,000 (2005: £77,000) related to equity-settled share-based payment transactions.

	ESOP	KEIP	SAYE
2005			
Number			
Outstanding at 1 April	120,000	-	221,070
Granted	80,000	-	95,835
Lapsed	-	-	(68,348)
Exercised	-	-	(89,662)
Outstanding at 31 March	200,000	-	158,895
Exercisable at 31 March	45,000	-	13,457
Weighted average exercise price (£)			
Outstanding at 1 April	£4.99	-	£4.28
Granted	£6.61	-	£5.43
Lapsed	-	-	£4.40
Exercised	-	-	£4.13
Outstanding at 31 March	£5.64	-	£5.01
Exercisable at 31 March	£4.54	-	£3.26
Range of exercise prices for options outstanding at 31 March 2005	£3.78-£6.61	-	£3.00-£5.43
Weighted average remaining contractual life	8	-	3
Weighted average fair value of options awarded in 2005	£1.88	-	£2.71

Notes to the Accounts

year ended 31 March 2006

25. Share Based Payments (continued)

	ESOP	KEIP	SAYE
2006			
Number			
Outstanding at 1 April	200,000	-	158,895
Granted	110,000	317,000	62,774
Lapsed	(5,000)	(50,500)	(40,259)
Exercised	-	-	(33,002)
Outstanding at 31 March	305,000	266,500	148,407
Exercisable at 31 March	80,000	-	398
Weighted average exercise price (£)			
Outstanding at 1 April	£5.64	-	£5.01
Granted	£9.61	£10.09	£9.18
Lapsed	£9.61	£9.61	£5.08
Exercised	-	-	£4.23
Outstanding at 31 March	£7.00	£10.18	£7.10
Exercisable at 31 March	£5.13	-	£4.66
Range of exercise prices for options outstanding at 31 March 2006	£3.78-£9.61	£9.61-£12.77	£4.66-£9.18
Weighted average remaining contractual life	8	10	4
Weighted average fair value of options awarded in 2006	£3.18	£1.12	£2.87

26. Retirement benefit scheme

The employees of the Company participate in two funded pension schemes. A small number of employees participate in a defined benefit retirement scheme. The Company operates a defined contribution Money Plan Pension scheme for the majority of employees.

Defined contribution schemes

The Company operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions paid by the Group are forfeited by the employee.

The total cost charged to income of £274,000 (2005: £177,000) represents contributions payable to these schemes by the Company at rates specified in the rules of the schemes. At 31 March 2006, contributions of £nil (2005: £nil) due in respect of the current reporting period had not been paid over to the schemes.

Notes to the Accounts

year ended 31 March 2006

26. Retirement benefit scheme (continued)

Defined benefit scheme

The Company participates in a defined benefit scheme, the Water Companies Pension Scheme, for a small number of employees. This is a sectionalised final salary scheme and the Company participates in the Homeserve plc Group Section of the Scheme. The Section funds are administered by the trustees and are independent of the Company's finances. Contributions are paid to the Section in accordance with the recommendations of an independent actuarial adviser. The Section has a history of raising pensions in line with price inflation, and these increases are reflected in the measurement of the obligation.

The results of the actuarial valuation as at 1st April 2005 were updated to the accounting date by an independent qualified actuary in accordance with IAS19. As required by IAS19, the value of the defined benefit obligation, the past service cost and the current service cost have been measured using the projected unit credit method.

	Valuation at	
	2006	2005
	£'000	£'000
Key assumptions used:		
Discount rate at 31 March	4.9%	5.4%
Retail price inflation	3.0%	2.9%
Expected rate of salary increases	5.0%	4.9%
Future pension increases	3.0%	2.9%
Expected rate of return on scheme assets at 31 March	6.9%	7.7%
Life expectancy of male aged 60 at balance sheet date	25.6 years	25.5 years

Amounts recognised in the Homeserve plc Group accounts income in respect of these defined benefit schemes are as follows:

	2006	2005
	£'000	£'000
Current service cost	449	437
Interest cost	549	457
Expected return on scheme assets	(579)	(461)
Past service cost	119	-
Curtailement gain	-	(220)
	538	213

The actual return on scheme assets was £2,207,000 (2005: £667,000).

Notes to the Accounts

year ended 31 March 2006

26. Retirement benefit scheme (continued)

Defined benefit scheme (continued)

The amount included in the Homeserve plc balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2006 £'000	2005 £'000
Present value of defined benefit obligations	(13,200)	(9,854)
Fair value of scheme assets	12,044	7,276
Deficit in scheme	(1,156)	(2,578)
Past service cost not yet recognised in balance	-	-
Liability recognised in the balance sheet	(1,156)	(2,578)

The amount is presented in the balance sheet as follows:

Non-current liabilities	(1,156)	(2,578)
	(1,156)	(2,578)

Movements in the present value of defined benefit obligations in the current period were as follows:

	2006 £'000	2005 £'000
At 1 April	9,854	131,586
Demerger of Water Supply business	-	(123,106)
Employer's part of the current service cost	449	437
Interest cost	549	457
Contributions from scheme members	106	121
Actuarial gains and losses	2,050	578
Benefits paid	73	1
Past service cost	119	-
Acquisition of subsidiary	-	(220)
At 31 March	13,200	9,854

Movements in the fair value of scheme assets in the current period were as follows:

	2006 £'000	2005 £'000
At 1 April 2005	7,276	118,776
Demerger of Water Supply business	-	(112,650)
Expected return on scheme assets	579	461
Actuarial gains and losses	1,628	206
Contributions from the sponsoring companies	2,382	361
Contributions from scheme members	106	121
Benefits paid	73	1
At 31 March	12,044	7,276

Note – "benefits paid" represents an inflow into the Section as a result of transfer payments received.

Notes to the Accounts

year ended 31 March 2006

26. Retirement benefit scheme (continued)

Defined benefit scheme (continued)

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Expected return		Fair value of assets	
	2006	2005	2006	2005
	%	%	£'000	£'000
Equity instruments	7.4%	7.7%	10,057	7,198
Other assets	4.2%	4.7%	1,987	78
At 31 March			12,044	7,276

The overall expected rate of return on assets for the financial year ending 31 March 2006 was 7.7% pa (2005: 7.9% pa). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the Section was invested in at 31 March 2005.

The history of experience adjustments is as follows:

	2006	2005
	£'000	£'000
Present value of defined benefit obligations	(13,200)	(9,854)
Fair value of scheme assets	12,044	7,276
Deficit in the scheme	(1,156)	(2,578)
	2006	2005
Experience adjustments on scheme liabilities		
Amount of (gain)/loss (£'000)	95	(107)
Percentage of scheme liabilities (%)	1%	(1%)
Experience adjustments on scheme assets		
Amount of (gain)/loss (£'000)	(1,628)	(206)
Percentage of scheme liabilities (%)	(14%)	(3%)

In subsequent accounting periods a history (building up to 5 years) of the Section's experience will be illustrated.

27. Related party transactions

Ultimate Parent Company

The immediate parent company is Homeserve Assistance Limited. The ultimate parent and controlling party is Homeserve plc registered in England and Wales. The only group in which the results of Homeserve GB Limited are consolidated is that headed by Homeserve plc. The consolidated accounts of the Group and the accounts of the Company are available to the public and may be obtained from Cable Drive, Walsall, West Midlands, WS2 7BN.

Notes to the Accounts

year ended 31 March 2006

27. Related party transactions (continued)

Trading transactions

During the year, the Company entered into the following transactions with other Group Companies:

Company	Provision of goods		Purchase of services	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Homeserve Servowarm	122	-	169	49
Homeserve Claims Management	-	-	1,099	109
	122	-	1,268	158

The Company incurred a management recharge of £4,100,000 from Homeserve plc (2005: £2,953,000).

Company	Amounts owed by related parties		Amounts owed to related parties	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Homeserve Servowarm Limited	-	-	1,603	1,366
Homeserve Claims Management Limited	409	53	-	-
Homeserve plc	-	-	4,111	204
Homeserve Enterprise Limited	-	36	14	-
Homeserve Assistance Limited	-	-	17	-
Homeserve International Limited	12	9	-	-
Trade Hill Limited	-	-	8	8
Affinity Partners Limited	-	-	-	2,173
	421	98	5,753	3,751

Provision of services to and the purchase of services from related parties were made at arm's length prices. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Directors' transactions

During the year, the Company purchased consultancy services from The Open Consultancy Limited, a company connected to a close family member of Frank Atkinson. The total value of purchases amounted to £40,000 (2005: £6,000) and the balance due to The Open Consultancy Limited at the year end amounted to £nil (2005: £nil).

Except as noted above there were no transactions with directors requiring disclosure.

Notes to the Accounts

year ended 31 March 2006

27. Related party transactions (continued)

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures:

	2006 £'000	2005 £'000
Short-term employee benefits	1,078	1,153
Post-employment benefits	94	100
Share-based payment	73	52
	1,245	1,305

28. Explanation of transition to IFRSs

This is the first year that the Company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 March 2005 and the date of transition to IFRSs was therefore 1 April 2004.

IFRS 1 'First-time Adoption of International Financial Reporting Standards'

IFRS 1 establishes the transitional requirements for the preparation of financial statements in accordance with IFRS for the first time. The general principle is that the IFRS effective at the first-time adoption reporting date (31 March 2006 for the Company) are to be applied retrospectively to the opening IFRS balance sheet (1 April 2004), the comparative period (year ended 31 March 2005) and the reporting period (year ended 31 March 2006).

Outlined below is the Company's position in relation to key exemptions and exceptions that are available under IFRS.

Share-based Payment

IFRS 2 'Share-based Payments' has only been applied to grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005. Accordingly, IFRS 2 has not been applied to the grants of equity instruments before 7 November 2002 or for those instruments that have vested or lapsed prior to 1 January 2005.

Notes to the Accounts

year ended 31 March 2006

28. Explanation of transition to IFRSs (continued)

Reconciliation of equity at 1 April 2004 (date of transition to IFRSs)

Note		UK GAAP £'000	Effect on transition to IFRSs £'000	IFRSs £'000
a	Property, plant and equipment	9,994	(647)	9,347
a	Intangible assets	-	647	647
	Investments	2,580	-	2,580
	Total non-current assets	12,574	-	12,574
	Trade and other receivables	47,180	-	47,180
	Cash and cash equivalents	21,232	-	21,232
	Total current assets	68,412	-	68,412
	Total assets	80,986	-	80,986
b	Trade and other payables	(48,053)	8,628	(39,425)
	Current tax liability	(5,914)	-	(5,914)
c,e	Deferred tax liability	(457)	(44)	(501)
	Total liabilities	(54,424)	8,584	(45,840)
	Net assets	26,562	8,584	35,146
	Share capital	109	-	109
	Share premium account	6,355	-	6,355
d	Share incentive reserve	-	15	15
	Capital redemption reserve	12	-	12
	Retained earnings	20,086	8,569	28,655
	Total equity	26,562	8,584	35,146

Note		£'000
	Total equity UK GAAP	26,562
b	Dividend not recognised as liability until declared	7,449
e	Deferred tax asset on share scheme charges taken directly to reserves	83
f	Reversal of UK GAAP share charges (Quest)	1,179
c	Derecognition of discount on deferred tax provision	(127)
		8,584
	Tax effect of the above	-
	Total adjustment to equity	8,584
	Total equity IFRS	35,146

Notes to the Accounts

year ended 31 March 2006

28. Explanation of transition to IFRSs (continued)

Notes to the reconciliation of equity at 1 April 2004

- a) IAS 38 'Intangible Assets' requires software applications or licences that are not an inherent part of the IT hardware, for example the operating system, to be recognised as an intangible asset. The effect of this is to reclassify assets from property, plant and equipment to other intangible assets. Net assets are not affected by this adjustment.
- b) Under IAS 10 'Events After the Balance Sheet Date', liabilities for proposed dividends are not recorded until the dividend is announced. This adjustment represents the reversal of the final proposed dividend for 2004.
- c) Under IAS 12 'Income Taxes', deferred tax liabilities cannot be discounted as permitted by UK GAAP. The Company historically adopted a policy of discounting and this adjustment represents the reversal of the cumulative discount on deferred tax provisions.
- d) IFRS 2 'Share Based Payments' requires the recognition of an expense in relation to all share-based payments such as the Group's share and share option schemes. The adjustment represents the additional charge of share based payments to the date of transition.
- e) Gains associated with share option schemes generate deferred tax assets which can offset the income statement charge under IFRS2 'Share Based Payments'. The deferred tax credit taken to the income statement is restricted to the cumulative income statement charge under IFRS2. Any additional deferred tax asset is taken directly to reserves. This adjustment represents the surplus deferred tax asset in excess of the IFRS 2 charge.
- f) Under UK GAAP share option charges were recorded under the Group's Quest scheme. This charge and accrual have been reversed as part of the transition to IFRS and replaced with the IFRS 2 charge.

Notes to the Accounts

year ended 31 March 2006

28. Explanation of transition to IFRSs (continued)

Reconciliation of equity at 31 March 2005

Note		UK GAAP £'000	Effect on transition to IFRSs £'000	IFRSs £'000
a	Goodwill	1,429	(400)	1,029
b	Intangible assets	-	1,551	1,551
b	Property, plant and equipment	10,305	(938)	9,367
	Investments	8	-	8
	Total non-current assets	11,742	213	11,955
	Trade and other receivables	59,928	-	59,928
	Cash and cash equivalents	48,789	-	48,789
	Total current assets	108,717	-	108,717
	Total assets	120,459	213	120,672
f	Trade and other payables	(59,105)	3,500	(55,605)
	Other financial liabilities	(509)	-	(509)
	Current tax liability	(8,747)	36	(8,711)
c,e	Deferred tax liability	(199)	153	(46)
	Total liabilities	(68,560)	3,689	(64,871)
	Net assets	51,899	3,902	55,801
	Share Capital	109	-	109
	Share premium account	6,355	-	6,355
d	Share incentive reserve	-	92	92
	Capital redemption reserve	12	-	12
	Retained earnings	45,423	3,810	49,233
	Total equity	51,899	3,902	55,801

Note		£'000
	Total equity UK GAAP	51,899
a	Goodwill not amortised after date of transition	278
b	Intangible asset amortisation	(134)
c	Derecognition of discount on deferred tax provision	(127)
f	Reversal of UK GAAP share charges (Quest)	3,500
e	Deferred tax asset on share scheme charges taken directly to reserves	329
		3,846
	Tax effect of the above	56
	Total adjustment to equity	3,902
	Total equity IFRS	55,801

Notes to the Accounts

year ended 31 March 2006

28. Explanation of transition to IFRSs (continued)

Reconciliation of Income Statement for 2005

	UK GAAP £'000	Effect on transition to IFRSs £'000	IFRSs £'000
Revenue	90,750	-	90,750
Operating costs	(54,389)	2,388	(52,001)
Operating profit	36,361	2,388	38,749
Investment income	1,074	-	1,074
Profit before tax	37,435	2,388	39,823
Tax	(12,098)	79	(12,019)
Profit for the period	25,337	2,467	27,804

Reconciliation of profit or loss for 2005

Note	Continuing Operating Profit £'000	Profit before tax £'000	Profit for the period £'000
Profit previous GAAP	36,361	37,435	25,337
d Additional charge for share based payments	(77)	(77)	(54)
f Reversal of UK GAAP share charges (Quest)	2,321	2,321	2,321
a Goodwill amortisation	278	278	278
b Intangible asset amortisation	(134)	(134)	(78)
Total adjustment to profit	2,388	2,388	2,467
Profit IFRS	38,749	39,823	27,804

Notes for the reconciliation of equity at 31 March 2005 and for the reconciliation of profit or loss for 2005

- IFRS 3 'Business Combinations' prohibits the amortisation of goodwill as it is considered to have an indefinite life. This adjustment represents the reversal of the goodwill amortisation charge under UK GAAP for the year ended 31 March 2005.
- Customer databases and customer relationships which meet the criteria of identifiable non-monetary assets are classified as an intangible asset in accordance with IAS 38 'Intangible Assets' and amortised over their useful economic life.
- Under IAS 12 'Income Taxes', deferred tax liabilities cannot be discounted as permitted by UK GAAP. The Company historically adopted a policy of discounting and this adjustment represents the reversal of the cumulative discount on deferred tax provisions.
- IFRS 2 'Share Based Payments' requires the recognition of an expense in relation to all share-based payments such as the Group's share and share option schemes. The balance sheet adjustment represents the cumulative charge of share based payments. The income statement adjustment represents the charge in the period.

Notes to the Accounts

year ended 31 March 2006

28. Explanation of transition to IFRSs (continued)

Notes for the reconciliation of equity at 31 March 2005 and for the reconciliation of profit or loss for 2005 (continued)

- e) Gains associated with share option schemes generate deferred tax assets which can offset the income statement charge under IFRS2 'Share Based Payments'. The deferred tax credit taken to the income statement is restricted to the cumulative income statement charge under IFRS2. Any additional deferred tax asset is taken directly to reserves. This adjustment represents the surplus deferred tax asset in excess of the IFRS 2 charge.
- f) Under UK GAAP share option charges were recorded under the Group's Quest scheme. This charge and accrual have been reversed as part of the transition to IFRS and replaced with the IFRS 2 charge.

Explanation of material adjustments to the cash flow statement for 2005

There have been no material adjustments to the cash flows of the Company as a result of the implementation of IFRS.