

**KESTREL FINANCIAL MANAGEMENT LIMITED**

**Report and Financial Statements**

**31 May 2003**



# KESTREL FINANCIAL MANAGEMENT LIMITED

## DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 May 2003.

### PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company is to supply services to Independent Financial Advisers. The Company continues to trade in line with the Directors' expectations.

It is anticipated that, as part of a restructuring within the Misys Life and Pensions division, the Company will increase its customer base by purchasing the trade and assets of fellow subsidiaries within the forthcoming year.

### RESULTS AND DIVIDENDS

The results and dividends of the Company for the year are set out in detail on page 5. The Directors do not recommend the payment of a dividend for the year (2002 : £nil). Losses of £121,000 (2002: Profits of £123,000) were transferred to reserves.

### DIRECTORS AND THEIR INTERESTS

The Directors who served during the period and the interests of those serving at the end of the period in the shares of the ultimate parent company, Misys plc, were as follows:

	Misys plc Ordinary shares of 1p each 2003	2002 or date of appointment
M Couzens	3,951	-
M T Wadelin (Appointed 11 June 2003)		
P N C Gale (Appointed 11 June 2003)		
J White (Resigned 1 July 2002)		
K J Budge (Resigned 30 August 2002)		
I Martin (Resigned 28 October 2002)		
A J Wood (Resigned 4 April 2003)		

The options held by Directors over shares of the ultimate parent company, Misys plc, were as follows:

	Non performance related options	Performance related options	Savings related options	2003 Total	2002 or date of appointment Total
M Couzens	20,000	79,916	-	99,916	64,916

M Couzens was granted 35,000 performance related options at an exercise price of 205p per share on 25 July 2002.

The number of share awards held by Directors under the Misys Annual Award Plan was as follows:

	M Couzens		
	Annual Award	Matching Award	Deferred Award
Awarded on 25 July 2002 and as at 31 May 2003	3,951	6,585	6,585

Details of all the Share Option Schemes and the Share Plans together with performance criteria, where applicable, are disclosed in the Report and Financial Statement of the ultimate parent company, Misys plc.

No director had any interest in shares of the company or any other group undertaking except as disclosed above.

## KESTREL FINANCIAL MANAGEMENT LIMITED

### DIRECTORS' REPORT

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#### PAYMENTS TO SUPPLIERS

It is the Company's policy to agree terms and conditions for its business transactions with its suppliers. The Company seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has abided by its contractual obligations. The trade creditors of the Company at 31 May 2003 represent 8 days (2002: 85 days) as a proportion of the total amount invoiced by suppliers during the year.

#### AUDITORS

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 21 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the next annual general meeting.

Approved by the Board of Directors on 16 July 2003 and signed on its behalf by



M T WADELIN  
Director

## **KESTREL FINANCIAL MANAGEMENT LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 May 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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.

## KESTREL FINANCIAL MANAGEMENT LIMITED

### INDEPENDENT AUDITORS' REPORT

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#### Independent auditors' report to the members of Kestrel Financial Management Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

#### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

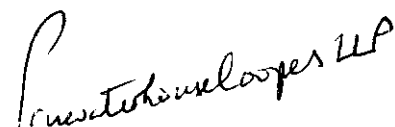
#### Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 of the state of the company's affairs at 31 May 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
1 Embankment Place  
London  
WC2N 6RH

16 July 2003

**KESTREL FINANCIAL MANAGEMENT LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**Year ended 31 May 2003**

	Note	2003 £'000	2002 £'000
<b>TURNOVER</b>	1	16,628	22,966
Cost of sales		(14,914)	(20,552)
<b>GROSS PROFIT</b>		<u>1,714</u>	<u>2,414</u>
<b>Operating costs</b>			
Administrative expenses		(1,722)	(2,221)
<b>OPERATING (LOSS) PROFIT</b>		<u>(8)</u>	<u>193</u>
Interest payable and similar charges	3	(42)	-
<b>(LOSS) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>(50)</u>	<u>193</u>
Tax on (loss) profit on ordinary activities	4	(71)	(70)
<b>(LOSS) PROFIT FOR THE YEAR</b>	9	<u><u>(121)</u></u>	<u><u>123</u></u>

The results for the year reflect trading from continuing operations. There are no gains and losses for the period other than the results for the financial years above. Accordingly, no statement of total recognised gains and losses is given.

Remuneration of the auditors and Directors has been borne by a fellow subsidiary as was the case in the prior year. There were no employees in the year (2002: nil).

**KESTREL FINANCIAL MANAGEMENT LIMITED**  
**BALANCE SHEET**  
**31 May 2003**

	Note	2003 £'000	2002 £'000
<b>CURRENT ASSETS</b>			
Debtors	5	4,145	5,733
Cash at bank and in hand		2,445	2,666
		<u>6,590</u>	<u>8,399</u>
<b>CREDITORS: amounts falling due within one year</b>	6	(3,147)	(4,019)
<b>NET CURRENT ASSETS</b>		<u>3,443</u>	<u>4,380</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,443</u>	<u>4,380</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	7	(2,310)	(3,126)
<b>NET ASSETS</b>		<u><u>1,133</u></u>	<u><u>1,254</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	8	21	21
Share premium account	9	17	17
Profit and loss account	9	1,095	1,216
<b>EQUITY SHAREHOLDER'S FUNDS</b>	10	<u><u>1,133</u></u>	<u><u>1,254</u></u>

Approved by the Board of Directors on 16 July 2003 and signed on its behalf by



M T WADELIN, Director

**KESTREL FINANCIAL MANAGEMENT LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 May 2003**

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**1 STATEMENT OF ACCOUNTING POLICIES**

**Accounting convention**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

**Turnover**

Turnover, which includes indemnity commission income, represents the amounts (excluding value added tax) derived from membership subscriptions and insurance policies written and accepted by insurance companies from the Company's principal activity and is all derived in the UK. Provision is made, based on historical experience, for clawbacks and other instances where full income may not be received.

**Deferred taxation**

Deferred tax is provided using the full provision method following the Company's adoption of FRS 19 "Deferred Tax". Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax in the future. Resultant deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

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

**2 CHANGE IN PRESENTATION**

During the year, the Company made a change in presentation of financial information relating to the provision for indemnity commission. This has previously been shown net of the amounts recoverable from Independent Financial Advisors, with movements in the net provision being shown as a cost of sales.

These are now being shown gross of the recoverable amounts, with the movement in the provision being taken through turnover and the corresponding recoverable amount, through cost of sales. Comparative figures have been restated. In addition, amounts withheld from members to provide for potential lapses have been reclassified from provisions to other creditors.

The impact of this change is to increase turnover and cost of sales by £572,000 (2002: £432,000), decrease provisions by £432,000 (2002: increase £109,000), increase other debtors by £1,312,000 (2002: £1,790,000) and other creditors by £1,744,000 (2002: £1,681,000).

A further change in presentation of financial information has been made relating to regulatory fees incurred and subsequently recharged to Independent Financial Advisors. These have previously been shown net within cost of sales. The recharge made to Independent Financial Advisors is now being treated as revenue.

The impact of this change is to increase turnover and cost of sales by £284,000 (2002: £134,000).

These changes have been made to provide a fairer presentation of the Company's results and financial position.

**3 INTEREST**

	2003 £'000	2002 £'000
Interest payable	<u>42</u>	<u>-</u>



**KESTREL FINANCIAL MANAGEMENT LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 May 2003

**4 TAX ON PROFIT ON ORDINARY ACTIVITIES**

	2003 £'000	2002 £'000
Corporation tax charge	<u>71</u>	<u>70</u>

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%) The differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	<u>(50)</u>	<u>193</u>
Profit on ordinary activities at the standard rate of UK corporation tax of 30%	(15)	58
Effects of :		
Non provided timing differences	77	(1)
Other adjustments	<u>9</u>	<u>13</u>
Current tax charge for the year	<u>71</u>	<u>70</u>

**5 DEBTORS**

	2003 £'000	2002 £'000
Debtors due within one year		
Trade debtors	29	72
Amounts owed by group undertakings	2,072	1,950
Other debtors	1,419	1,876
Prepayments and accrued income	<u>625</u>	<u>1,835</u>
	<u>4,145</u>	<u>5,733</u>

**6 CREDITORS : amounts falling due within one year**

	2003 £'000	2002 £'000
Trade creditors	9	104
Corporation tax	71	70
Other creditors	2,607	2,220
Accruals and deferred income	<u>460</u>	<u>1,625</u>
	<u>3,147</u>	<u>4,019</u>

**7 PROVISIONS FOR LIABILITIES AND CHARGES**

	Other £'000	Indemnity Commission £'000	FSAVC Review £'000	Total £'000
At 1 June 2002	914	2,143	69	3,126
Credited to the profit and loss account	-	(572)	(26)	(598)
Utilised	<u>(194)</u>	<u>-</u>	<u>(24)</u>	<u>(218)</u>
At 31 May 2003	<u>720</u>	<u>1,571</u>	<u>19</u>	<u>2,310</u>

**KESTREL FINANCIAL MANAGEMENT LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 May 2003**

**7 PROVISIONS FOR LIABILITIES AND CHARGES (continued)**

**Indemnity Commission**

The provision for indemnity commission represents a provision for the contingent liability in respect of clawback on cancelled or lapsed policies where business is written on an indemnity basis.

The provision is shown gross of amounts recoverable from third parties of £1,312,000 (2002: £1,790,000) included in other debtors.

**Other**

One member of the network is the subject of a specific review. An initial review has been performed on a sample of cases and the findings are being discussed with the Financial Services Authority. Until the results of these discussions are known it is difficult to quantify the scale of the review required. Leading on from this a structure and methodology to be used in performing the review needs to be ascertained. Therefore it is difficult to quantify the scale of the exercise or the potential liability. A provision of £1,300,000 was made in 2001 in respect of the costs of performing the review, with all costs incurred since 2002 being charged to this provision. No provision has been made in respect of any potential liability for redress or the costs associated with any potential regulatory action. The provision for the above as at 31 May 2003 is £720,000 (2002: £914,000).

**FSAVC Review**

In May 2000, the Financial Services Authority ('FSA') issued the Free Standing Additional Voluntary Contributions ('FSAVCs') review model, which indicated a proposed structure for and methodology to be used in performing an industry wide review of FSAVC's. At this time the FSA produced Annex A, which detailed the schemes and employers from whom cases were to be reviewed. The Company continues to make full provision in its financial statements for the anticipated costs of investigation and redress payable as a result of the review. The Company is initially responsible for payment of compensation in respect of any non-compliant advice given by its network members. However, the Company has the right to recover any compensation payments for the cost of redress from the relevant network members or other third parties. In June 2001 the FSA produced an additional list of cases, Annex A2. In September 2001 and February 2002 the FSA produced further lists, Annex M, of cases not originally reported by Independent Financial Advisers and requiring further investigation.

During the year, the Company made good progress towards the satisfactory conclusion of the review under the terms required by the FSA.

As at 31 May 2003, the costs of the investigation and redress estimated to complete the review comprised:

	Cost of investigation £'000	Cost of redress £'000	Total £'000
At 1 June 2002	31	38	69
Credited to the profit and loss account	1	(27)	(26)
Utilised	(24)	-	(24)
At 31 May 2003	<u>8</u>	<u>11</u>	<u>19</u>

The provision is shown gross of amounts recoverable from third parties of £nil (2002: £50,000) included in other debtors.

**Deferred Taxation**

The following deferred tax assets have not been recognised as their use is uncertain or is not currently anticipated due to losses within the group:

	2003 £'000	2002 £'000
Accelerated capital allowances	4	4
Other timing differences	<u>251</u>	<u>251</u>
	<u>255</u>	<u>255</u>

**KESTREL FINANCIAL MANAGEMENT LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 May 2003

**8 SHARE CAPITAL**

	2003 £'000	2002 £'000
<b>Authorised</b>		
206,700 A Ordinary Shares of £1 each	-	207
285,479 B Ordinary Shares of £1 each	-	285
782,100 C Ordinary Shares of 1p each	-	8
250,000,000 Ordinary shares of £1 each	250,000	-
	<u>250,000</u>	<u>500</u>
<b>Allotted and fully paid</b>		
5,512 A Ordinary Shares of £1 each	-	5
7,821 B Ordinary Shares of £1 each	-	8
782,100 C Ordinary Shares of 1p each	-	8
21,154 Ordinary shares of £1 each	21	-
	<u>21</u>	<u>21</u>

All A, B and C shares were re-designated into £1 Ordinary shares, resulting in 500,000 authorised £1 ordinary shares. Authorised share capital has been increased by 249,500,000 shares to 250,000,000 Ordinary shares of £1 each.

**9 RESERVES**

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 June 2002	17	1,216	1,233
Retained loss for the year	-	(121)	(121)
At 31 May 2003	<u>17</u>	<u>1,095</u>	<u>1,112</u>

**10 RECONCILIATION OF SHAREHOLDER'S FUNDS**

	2003 £'000	2002 £'000
(Loss) profit for the year	(121)	123
Opening shareholder's funds	1,254	1,131
Closing shareholder's funds	<u>1,133</u>	<u>1,254</u>

**11 CONTINGENT LIABILITIES**

The general level of complaints made by consumers about advice given by their IFA has risen over the last year and our network members have not been immune from this trend. This is due to increased consumer awareness and recent poor stock market conditions reducing investment values and likely returns. In line with other networks and directly regulated IFAs we have had to allocate additional resources to handling these complaints. It is not possible to quantify if additional levels of redress to consumers will be required although in many cases these costs, if they arise, will be covered by insurance. The costs of handling these complaints are treated as an ongoing cost of doing business and no general provisions are made for such future costs.

**KESTREL FINANCIAL MANAGEMENT LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 May 2003**

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**12 ULTIMATE PARENT COMPANY AND GROUP TRANSACTIONS**

The Company's ultimate parent company and controlling party is Misys plc, a company registered in England. Copies of the group financial statements of Misys plc may be obtained from The Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

The Company has taken advantage of the exemption under FRS8 Related Party Transactions not to disclose transactions with group undertakings since Misys plc is the beneficial owner of all of the equity share capital of the Company.

The Company is a wholly owned subsidiary of Misys plc and its results are included in the consolidated financial statements of Misys plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing the cash flow statement under the terms of FRS 1 (Revised 1996).