Company number 2870220

Defaqto Limited

Directors' report and financial statements
for the year ended 30 September 2004

Defaqto Limited

Report of the directors for the year ended 30 September 2004

The Directors have pleasure in submitting their annual report, together with the audited financial statements, for the year ended 30 September 2004.

Activity

The company's principal activity is to provide research data and consulting services to the financial services industry.

Review of business and future developments

A summary of the group's trading during the year is shown in the profit and loss account on page 6.

2004 has proved to be a very challenging year throughout the retail financial services industry. The industry continues to see a decrease in the number of market players in both product manufacture and distribution. The consolidation and rationalisation has been brought on by many factors including the developing regulation, the revenue caps for standard product sales and the capital required by the FSA to operate as either provider or agent in the market.

These are all real live issues which are only going to become more significant in the near future and so lead to further reduction in the numbers of businesses operating in this market. At the end of this process there will be a core of companies left serving the industry, and the public, who will be strong, efficient and focused businesses offering quality products and service to the industry.

The company is determined to be one of the surviving businesses being wholly focused on delivery of information through quality data and effective software that allows for easy and professional analysis by the user. The roll-out of Aequos Online as the keystone of a suite of research products, and the development of integrated offerings, will put the business firmly in the space where it is an integral part of the business administration process. This will allow the company to gain greater traction in and greater value from the market place.

Additionally despite the overall gloomy outlook there is significant opportunities for the company in the near future. The onset of regulation following M-Day in both the mortgage and general insurance market provides an excellent opportunity for the company to develop the use of research tools into new areas – particularly among general insurance brokers. The spread of regulation assists the company in developing towards its long term goal as being a one-stop shop for information provision.

Finally, whilst developing the business quickly in this difficult market, we have returned the business to profit through control of the top line and rationalisation of the cost base. The business is committed to growing the core subscription revenue base and further reductions to the core cost base in pursuit to develop a highly profitable business.

In summary significant challenges exist for the next 5 years and the industry structure will be altered by developments in this time. Any challenge presents opportunity and the company is determined to make the best use of these changing times.

Research and development activity

The group is developing new software and databases in areas in which the company is not currently operating. This activity is critical to retain our existing customer base and to achieve future expansion in an industry that is rapidly increasing its demands on its suppliers.

Defaqto Limited

Dividends

The Directors do not propose to pay a dividend in respect of the year ended 30 September 2004 (2003: £nil per share)

Donations

The company made charitable donations of £130 (2003: £100) during the year. No political contributions were made.

Directors and their share interests

The directors who held office throughout the year are shown below. No director had a direct interest in the share capital of the company and their interest in the share capital of the holding company, The Independent Research Group Limited, is shown in that company's accounts.

D Lee
M Hayes-Newington
S Sandercock
A Bobath
N Morgan

A Whitehead resigned on 31 May 2004

Statement of directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit 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 30 September 2004 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 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.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

By order of the Board

Tony Bobath
Company Secretary
7 April 2005

Independent auditor's report to the members of Defaqto Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the 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 as issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members 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 in to 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 United Kingdom 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.

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.

In forming our opinion we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the application of the going concern basis. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 September 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Milton Keynes
7 April 2005

Defaqto Limited

Profit and loss account for the year ended 30 September 2004

	Notes	**2004**	2003
		£	£
Turnover		**3,833,796**	4,027,737
Cost of sales		**(95,830)**	(107,977)
Gross profit		**3,737,966**	3,919,760
Administrative expenses		**(3,569,934)**	(3,989,063)
Operating profit / (loss)		**168,032**	(69,303)
Interest receivable and similar income	2	**944**	2,075
Interest payable and similar charges	3	**(18,633)**	(6,887)
Profit / (loss) on ordinary activities before taxation	4	**150,343**	(74,115)
Tax on profit / (loss) on ordinary activities	7	**627**	(15,872)
Profit / (loss) on ordinary activities after taxation		**150,970**	(89,987)
Dividends paid		**-**	-
Profit / (loss) for the financial year	14	**150,970**	(89,987)

The above results all arise from continuing activities.

The company has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Defaqto Limited

Balance sheet as at 30 September 2004

	Notes	2004	2003
		£	£
Fixed assets			
Tangible assets	8	**221,479**	317,517
Current assets			
Debtors	9	**1,468,092**	1,760,362
Cash at bank and in hand		**300**	300
		1,468,392	1,760,662
Creditors: Amounts falling due within one year	10	**(2,670,708)**	(3,202,652)
Net current liabilities		**(1,202,316)**	(1,441,990)
Total assets less current liabilities		**(980,837)**	(1,124,473)
Creditors: Amounts falling due after more than one year	12	**-**	(7,334)
Net liabilities		**(980,837)**	(1,131,807)
Capital and reserves			
Called up share capital	13	**2**	2
Profit and loss account	14	**(980,839)**	(1,131,809)
Equity shareholders' funds	15	**(980,837)**	(1,131,807)

The financial statements were approved by the board of directors on 7 April 2005 and are signed on its behalf by:

David Lee – Director

Tony Bobath - Director

Defaqto Limited

Notes to the financial statements for the year ended 30 September 2004

1. Principal accounting policies

A summary of the principal accounting policies which have been applied consistently is set out below:

Basis of preparation and changes in accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

The Group holding company, The Independent Research Group Limited, is currently in breach of its loan covenants although it has received support from its investor based upon the current forecasts for the business, affirming that this breach will not precipitate a demand to repay the loan. On the basis of the forecasts prepared and discussions with its investors, the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from a withdrawal of loan finance by the company's investor.

Turnover and future update costs

Turnover is recognised evenly over the life of any contract. Turnover represents fees invoiced or to be invoiced under a contract for subscription (excluding VAT) less a provision for future update costs. Deferred income relates to invoiced rentals in respect of periods after the balance sheet date. Turnover is all derived from the United Kingdom.

Cash flow statement and related party disclosures

The company is a wholly owned subsidiary of The Independent Research Group Limited and is included in the consolidated financial statements of The Independent Research Group Limited, which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Independent Research Group Limited group or investees of The Independent Research Group Limited.

Tangible fixed assets

Tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition. Provision for depreciation is made so as to write off the cost of fixed assets over their expected useful life on a straight line basis. The principal rate used for this purpose is:-

Equipment, fixtures and fittings and motor vehicles 20% to 33 1/3 %.

Estimation of useful life includes an assessment of the expected rate of technological development and the intensity at which the assets are expected to be used.

Research and development expenditure

Research and development expenditure in collating and verifying new databases and developing the associated software is written off as the costs are incurred.

Deferred taxation

Current tax is provided for at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

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 that result in an obligation to pay more tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is measured on a non-discounted basis.

Leased assets

Assets are treated as if they had been purchased outright if the purchase has been financed by lease contracts which give rights approximating to ownership. The amount capitalised is the present value of the minimum lease payments payable during the lease term or the fair value of the asset on purchase. The corresponding lease commitments are shown as obligations to the lessor. Depreciation on the relevant assets is charged to operating profit. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account using the actuarial method.

All other leases are operating leases and the annual rentals are charged to operating profit on a straight line basis over the lease term.

2. Interest receivable and similar income

	2004	2003
	£	£
Bank deposit interest	**276**	2,075
Third party interest received	**668**	-
	944	2,075

3. Interest payable and similar charges

	2004	2003
	£	£
Bank loans and overdraft	**13,665**	3,510
Loan interest payable	**2,769**	-
Interest payable on finance leases	**2,199**	3,377
	18,633	6,887

4. Profit on ordinary activities before taxation

Profit on ordinary activities before tax is stated after charging:

	2004	2003
	£	£
Auditors' remuneration for: audit services	**14,000**	23,000
non-audit services	**64,717**	6,009
Operating lease rentals:		
Land and buildings	**63,999**	61,082
Equipment including motor vehicles	**103,089**	125,043
Depreciation of tangible fixed assets – owned	**106,642**	136,861
Depreciation of tangible fixed assets – leased	**39,598**	54,153
Research and development expenditure	**237,525**	364,786

5. Directors' emoluments

Directors' emoluments comprise the following:-

	2004	2003
	£	£
Aggregate emoluments	**509,640**	470,580

There are no retirement benefits accruing to any director.

	2004	2003
	£	£
Highest paid director	**99,154**	106,467

6. Employee information

a) The average number of persons employed by the company, including executive directors, during the period was 71 (2003: 77). These comprised:-

	2004	2003
Research	**38**	39
Administration	**19**	22
Sales and Marketing	**14**	16
Total	**71**	77

b) Employee costs of all employees included above.

	2004	2003
	£	£
Wages and salaries	**2,062,231**	2,039,926
Social security costs	**209,724**	207,080
	2,271,955	2,247,006

7. Tax on profit on ordinary activities

	2004	2003
	£	£
Current tax:		
UK corporation tax on profits of the period	**-**	(38,334)
Adjustment in respect of previous periods	**(1,455)**	(208,425)
Total current tax credit	**(1,455)**	(246,759)
Deferred tax:		
Origination & reversal of timing differences	**828**	262,631
Total deferred tax	**828**	262,631
Tax (credit)/charge on profit /(loss) on ordinary activities	**(627)**	15,872

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

	2004	2003
	£	£
Profit/(loss) on ordinary activities at the UK tax rate 30% (30%)	**45,103**	(22,235)
Effects of:		
Expenses not deductible for tax purposes	**(7,021)**	18,490
Accelerated capital allowances and other timing differences	**(748)**	9,010
Benefit of enhance R&D	**-**	(43,599)
Adjustment to tax in respect of previous period	**(1,455)**	(208,425)
Group relief claimed	**(37,334)**	-
Total current tax charge	**(1,455)**	(246,759)

8. Tangible fixed assets

	Fixtures, fittings and equipment	Computer equipment	Motor vehicles	Office equipment	Total
	£	£	£	£	£
Cost					
At 1 October 2003	418,156	519,742	2,248	528,525	1,468,671
Additions	23,474	26,728	-	-	50,202
At 30 September 2004	**441,630**	**546,470**	**2,248**	**528,525**	**1,518,873**
Depreciation					
At 1 October 2003	306,851	374,167	2,248	467,888	1,151,154
Charge for period	58,673	47,968	-	39,599	146,240
At 30 September 2004	**365,524**	**422,135**	**2,248**	**507,487**	**1,297,394**
Net book amount at 30 September 2004	**76,106**	**124,335**	**-**	**21,038**	**221,479**
Net book amount At 1 October 2003	111,305	145,575	-	60,637	317,517

The cost of assets held under finance leases is £528,525 (2003: £528,525). The accumulated depreciation on those assets to date is £507,486 (2003: £467,888), giving a net book amount of £21,038 (2003: £60,637).

9. Debtors

	2004	2003
	£	£
Trade debtors	**270,316**	379,330
Amounts owed by group undertakings	**865,585**	762,063
Deferred tax asset (Note 11)	**184,441**	185,269
Corporation tax	**39,789**	246,759
Other debtors	**32**	-
Prepayments and accrued income	**107,929**	186,941
	1,468,092	1,760,362

10. Creditors: Amounts falling due within one year

	2004 £	2003 £
Directors loan (note 12)	**50,000**	-
Bank overdraft and loans	**26,405**	130,196
Trade Creditors	**205,017**	288,947
Amounts owed to group undertakings	**1,032,998**	1,218,739
Obligations under finance leases	**7,333**	23,322
Other taxation and social security	**232,497**	236,095
Other creditors	**15,424**	45,898
Accruals and deferred income	**1,101,034**	1,259,455
	2,670,708	3,202,652

11. Deferred tax

	2004 £
Analysis of deferred tax asset recognised:	
At 1 October 2003	**185,269**
Charged to the profit and loss account	**(828)**
At 30 September 2004	**184,441**

The asset for deferred tax comprises:

	2004 £	2003 £
Accelerated capital allowances	**19,594**	20,422
Other timing differences	**164,847**	164,847
	184,441	185,269

12. Creditors: Amounts falling due after more than one year

	2004	2003
	£	£
Finance leases	-	7,334
	-	7,334
<u>Finance leases</u>		
Due within one year	**7,333**	23,322
Due within one to two years	-	7,334
Due within two to five years	-	-
	-	7,334
<u>Loans</u>		
Due within one year	**50,000**	-
Due within one to two years	-	-

The loan is repayable in two equal installments of £25,000 in December 2004 and March 2005. It is an unsecured loan that bears interest at 3.5% above the Bank Base Rate.

13. Called up share capital

	2004	2003
	£	£
Authorised - 100 ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid - 2 ordinary shares of £1 each	**2**	2

14. Profit and loss account

	2004
	£
At 1 October 2003	**(1,131,809)**
Retained profit for the financial period	**150,970**
At 30 September 2004	**(980,839)**

15. Reconciliation of movement in shareholders' funds

	2004	2003
	£	£
Profit / (loss) for the year	**150,970**	(89,987)
Net increase / (decrease) to shareholders funds	**150,970**	(89,987)
Opening shareholders' funds	**(1,131,807)**	(1,041,820)
Closing shareholders' funds	**(980,837)**	(1,131,807)

16. Ultimate parent company and controlling party

The immediate and ultimate parent undertaking and controlling party is The Independent Research Group Limited ("IRGL") of The Financial Research Centre, Haddenham Business Park, Haddenham, Thame, HP17 8LJ.

IRGL is a company registered in England and Wales (Number 2870535); and is the parent undertaking of the smallest and largest group to consolidate these financial statements.

17. Commitments and contingent liabilities

The Company is registered with HM Customs & Excise as a member of a group for VAT purposes, and as a result is jointly and severally liable on a continuing basis for amounts owing by any other members of that group in respect of unpaid VAT. At the balance sheet date the outstanding asset to VAT in the other group companies was £1,575 (2003: asset £1,522).

The company has given a guarantee in respect of bank borrowings for the group which are secured by a first fixed charge over book debts. There were Group bank borrowings at 30 September 2004 of £13,595 (2003: £130,196). The company is a participant in a Group banking arrangement under which all surplus cash balances are held as collateral for bank facilities advanced to group members.

The company has granted a mortgage and debenture to 3i Group plc in respect of all its assets to facilitate group borrowings and has given a guarantee to that effect.

Other than noted above, the company had no contingent liabilities or capital commitments at 30 September 2004 (2003: nil). At 30 September 2004 the company had annual commitments under operating leases as follows:-

	2004		2003	
	Land and buildings	**Other**	Land and buildings	Other
	£	**£**	£	£
Expiry within one year	-	**9,857**	-	16,747
Expiry 2-5 years inclusive	**68,017**	**22,620**	-	73,983
Expiry 5-10 years inclusive	-	-	62,350	-
	68,017	**32,477**	62,350	90,730