

Company number 2870220

## **Defaqto Limited**

Directors' report and financial statements  
for the year ended 30 September 2005



# Defaqto Limited

## Report of the directors for the year ended 30 September 2005

The Directors have pleasure in submitting their annual report, together with the audited financial statements, for the year ended 30 September 2005.

### 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 company's trading during the year is shown in the profit and loss account on page 6.

2005 has been an excellent year for the business. The business has experienced good growth in turnover and profitability despite industry conditions remaining very challenging.

The growth has come from all areas of the business. Core subscription revenues have increased in all key market sectors – Life, Pensions and Investments, General Insurance, and Retail Banking. Additionally we have experienced a significant growth in demand for our qualitative analysis, particularly for Market Reports and Star Ratings. The success in all these areas has allowed the business to surpass expectations and grow top line revenues faster than anticipated through the period.

At the same time the business has been carefully managing costs. The total cost base of the business has been fairly consistent when comparing the last two financial periods. It is excellent to see that the increased efforts and focus of the business has produced better results.

Looking to the future the industry still has to face up to some real challenges. There are a number of specific issues that need to be resolved. However at a fundamental level the end consumer still does not trust or understand the retail financial services industry. Everyone in the industry has an important role to play in improving the levels of consumer confidence. If this is held as the primary focus for all industry players, then undoubtedly some of the specific issues will be naturally resolved.

The business has an important role to play for the industry as it changes into the future. The industry needs a robust and independent information business that will be providing ever-improving data, information and analysis to enable both an intermediary to contract effectively with the end consumer, and for a consumer to contract directly with the provider. Through the continued development of the breadth and depth of data, the functionality and usability of the research tools, and the increasing capability for qualitative analysis, it will be able to accelerate its growth in turnover and profitability into the future. 2006 promises to be an exciting year for the business.

### Research and development activity

The company 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.

### Dividends

The Directors do not propose to pay a dividend in respect of the year ended 30 September 2005 (2004: £nil).

# Defaqto Limited

## **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

## **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 2005 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 Grant Thornton UK LLP as auditors to the company will be proposed at the Annual General Meeting.

By order of the Board



Tony Bobath  
Company Secretary  
11 January 2006

## **Report of the independent auditors to the members of Defaqto Limited**

We have audited the financial statements of Defaqto Limited for the year ended 30 September 2005 on pages 6 to 15. The financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

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 opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the report of directors 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.

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 report of directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the report of the directors and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information..

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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.

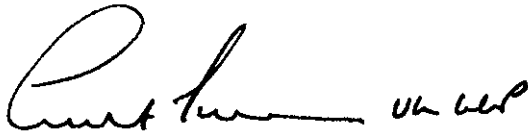
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Defaqto Limited

Grant Thornton 

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the affairs of the company at 30 September 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Grant Thornton UK LLP**  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS

London

Date: *11 January 2006*

# Defaqto Limited

## Profit and loss account for the year ended 30 September 2005

	Notes	2005 £	2004 £
<b>Turnover</b>	1	4,134,267	3,833,796
Cost of sales		(100,206)	(95,830)
		<hr/>	<hr/>
<b>Gross profit</b>		4,034,061	3,737,966
Administrative expenses		(3,541,783)	(3,569,934)
		<hr/>	<hr/>
<b>Operating profit</b>		492,278	168,032
Interest receivable and similar income	2	3,833	944
Interest payable and similar charges	3	(273,373)	(18,633)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	4	222,738	150,343
Tax on profit on ordinary activities	7	(162,865)	(627)
		<hr/>	<hr/>
<b>Retained profit for the financial year</b>	14	59,873	150,970
		<hr/>	<hr/>

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 2005

	Notes	2005	2004
		£	£
<b>Fixed assets</b>			
Tangible assets	8	193,698	221,479
<b>Current assets</b>			
Debtors	9	841,100	1,468,092
Cash at bank and in hand		45,330	300
		<u>886,430</u>	<u>1,468,392</u>
<b>Creditors: Amounts falling due within one year</b>	10	<u>2,001,092</u>	<u>(2,670,708)</u>
<b>Net current liabilities</b>		<u>(1,114,662)</u>	<u>(1,202,316)</u>
<b>Total assets less current liabilities</b>		<u>(920,964)</u>	<u>(980,837)</u>
<b>Net liabilities</b>		<u>(920,964)</u>	<u>(980,837)</u>
<b>Capital and reserves</b>			
Called up share capital	13	2	2
Profit and loss account	14	(920,966)	(980,839)
<b>Equity shareholders' funds</b>	15	<u>(920,964)</u>	<u>(980,837)</u>

The financial statements were approved by the board of directors on 11 January 2006 and are signed on its behalf by:

Tony Bobath  
Director



David Lee  
Director



# Defaqto Limited

## Notes to the financial statements for the year ended 30 September 2005

### 1. Principal accounting policies

The principal accounting policies, which have been applied consistently, are 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 receivable or to be received 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.

All of the company's turnover is 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 %.
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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.

# Defaqto Limited

## 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

	2005 £	2004 £
Bank deposit interest	3,833	276
Third party interest received	-	668
	<u>3,833</u>	<u>944</u>

### 3. Interest payable and similar charges

	2005 £	2004 £
Bank loans and overdraft	9,324	13,665
Loan interest payable	-	2,769
Interest payable on finance leases	5,000	2,199
Inter-group interest	259,049	-
	<u>273,373</u>	<u>18,633</u>

# Defaqto Limited

## 4. Profit on ordinary activities before taxation

Profit on ordinary activities before tax is stated after charging:

	2005 £	2004 £
Auditors' remuneration for: audit services	17,500	14,000
non-audit services	8,005	64,717
Operating lease rentals:		
Land and buildings	68,019	63,999
Equipment including motor vehicles	76,609	103,089
Depreciation of tangible fixed assets – owned	83,552	106,642
Depreciation of tangible fixed assets – leased	7,202	39,598
Research and development expenditure	138,747	237,525
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## 5. Directors' emoluments

Directors' emoluments comprise the following:-

	2005 £	2004 £
Aggregate emoluments	449,563	509,640
	<hr/>	<hr/>

There are no retirement benefits accruing to any director.

	2005 £	2004 £
Highest paid director	101,747	99,154
	<hr/>	<hr/>

## 6. Employee information

- a) The average number of persons employed by the company, including executive directors, during the period was 72 (2004: 71). These comprised:-

	2005	2004
Research	42	38
Administration	20	19
Sales and Marketing	10	14
Total	<hr/> 72 <hr/>	<hr/> 71 <hr/>

## Defaqto Limited

b) Employee costs of all employees included above.

	2005 £	2004 £
Wages and salaries	2,152,372	2,062,231
Social security costs	228,557	209,724
	<u>2,380,929</u>	<u>2,271,955</u>

7. Tax on profit on ordinary activities

	2005 £	2004 £
Current tax:		
UK corporation tax on profits for the year	-	-
Adjustment in respect of previous periods	1,455	(1,455)
Total current tax charge / (credit)	<u>1,455</u>	<u>(1,455)</u>
Deferred tax:		
Origination & reversal of timing differences	161,410	828
Total deferred tax	<u>161,410</u>	<u>828</u>
Tax charge / (credit) on profit on ordinary activities	<u>162,865</u>	<u>(627)</u>

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

	2005 £	2004 £
Profit on ordinary activities at the UK tax rate 30% (30%)	66,821	45,103
Effects of:		
Expenses not deductible for tax purposes	14,341	(7,021)
Accelerated capital allowances	1,567	(748)
Utilisation of trading losses	(81,639)	-
Adjustment to tax in respect of previous period	1,455	(1,455)
Group relief claimed	(1,090)	(37,334)
Total current tax charge/(credit)	<u>1,455</u>	<u>(1,455)</u>

# Defaqto Limited

## 8. Tangible fixed assets

	Fixtures, fittings and equipment £	Computer equipment £	Motor vehicles £	Office equipment £	Total £
<b>Cost</b>					
At 1 October 2004	441,630	546,470	2,248	528,525	1,518,873
Additions	11,691	51,281	-	-	62,972
<b>At 30 September 2005</b>	<b>453,321</b>	<b>597,751</b>	<b>2,248</b>	<b>528,525</b>	<b>1,581,845</b>
<b>Depreciation</b>					
At 1 October 2004	365,524	422,135	2,248	507,487	1,297,394
Charge for period	30,074	53,477	-	7,202	90,753
<b>At 30 September 2005</b>	<b>395,598</b>	<b>475,612</b>	<b>2,248</b>	<b>514,689</b>	<b>1,388,147</b>
<b>Net book amount at 30 September 2005</b>	<b>57,723</b>	<b>122,139</b>	<b>-</b>	<b>13,836</b>	<b>193,698</b>
<b>Net book amount At 1 October 2004</b>	<b>76,106</b>	<b>124,335</b>	<b>-</b>	<b>21,038</b>	<b>221,479</b>

The cost of assets held under finance leases is £528,525 (2004: £528,525). The accumulated depreciation on those assets to date is £514,689 (2004: £507,487), giving a net book amount of £13,836 (2004: £21,038).

## 9. Debtors

	2005 £	2004 £
Trade debtors	436,033	270,316
Amounts owed by group undertakings	275,458	865,585
Deferred tax asset (Note 11)	23,031	184,441
Corporation tax	-	39,789
Other debtors	-	32
Prepayments and accrued income	106,578	107,929
	<b>841,100</b>	<b>1,468,092</b>

# Defaqto Limited

## 10. Creditors: Amounts falling due within one year

	2005 £	2004 £
Directors loan	-	50,000
Bank overdraft and loans	-	26,405
Trade creditors	180,469	205,017
Amounts owed to group undertakings	303,637	1,032,998
Obligations under finance leases	78	7,333
Other taxation and social security	285,729	232,497
Other creditors	24,078	15,424
Accruals and deferred income	1,207,101	1,101,034
	<hr/>	<hr/>
	2,001,092	2,670,708
	<hr/>	<hr/>

## 11. Deferred tax

	2005 £
<b>Analysis of deferred tax asset recognised:</b>	
At 1 October 2004	184,441
Deferred tax charge in profit and loss account	(161,410)
	<hr/>
Deferred tax asset at 30 September 2005	23,031
	<hr/>

The asset for deferred tax comprises:

	2005 £	2004 £
Accelerated capital allowances	2,835	19,594
Other timing differences	20,197	164,847
	<hr/>	<hr/>
	23,031	184,441
	<hr/>	<hr/>

# Defaqto Limited

## 12. Called up share capital

	2005 £	2004 £
Authorised - 100 ordinary shares of £1 each	100	100
Allotted, called up and fully paid - 2 ordinary shares of £1 each	2	2

## 13. Profit and loss account

	2004 £
At 1 October 2004	(980,839)
Retained profit for the financial year	59,873
At 30 September 2005	(920,966)

## 14. Reconciliation of movement in shareholders' funds

	2005 £	2004 £
Profit for the year	59,873	150,970
Net increase to shareholders funds	59,873	150,970
Opening shareholders' funds	(980,837)	(1,131,807)
Closing shareholders' funds	(920,964)	(980,837)

## 15. 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.

# Defaqto Limited

## 16. Related party transactions

Interest has been charged on inter-company borrowings at a rate of 8%, based on the monthly balances on the inter-company accounts. Included this year are costs relating to previous financial periods. Of the total of £259,049, £5,573 relates to the charge for this accounting year, and £253,476 relates to prior years.

## 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 £1,750 (2004: asset £1,575).

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 no Group bank borrowings at 30 September 2005 (2004: £13,595). 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 2005 (2004: nil).

At 30 September 2005 the company had annual commitments under operating leases as follows:

	2005		2004	
	Land and buildings £	Other £	Land and buildings £	Other £
Expiry within one year	-	41,769	-	9,857
Expiry 2-5 years inclusive	68,019	43,332	68,017	22,620
Expiry 5-10 years inclusive	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	68,019	85,101	68,017	32,477
	<hr/>	<hr/>	<hr/>	<hr/>