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Positive Solutions (Financial Services) Limited

Report and
Financial Statements

31 December 2002

Registered No: 3276760

Directors

W C Holroyd (Non Executive Chairman)
M D Cotter
D G Harrison
N A Johnson
C Smallwood
C Davies
M Edwards
P Dornan (appointed 14 January 2003)

Secretary

N A Johnson

Auditors

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle Upon Tyne
NE1 4JD

Bankers

The Royal Bank of Scotland plc
31 Grey Street
Newcastle Upon Tyne
NE1 6ES

Solicitors

Dickinson Dees
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Registered office

Dobson House
The Regent Centre
Gosforth
Newcastle upon Tyne
NE3 3PF

Chief Executive's review

AEGON Investment

Since we began our business one of the core aims has been to provide a significant return on the investments of our shareholders. This has been explicit in our business plans, and underpinning this was a belief that profitable businesses ultimately provide a more attractive strategic option to shrewd investors, rather than those where tactically growth at all costs has at times been more fashionable. The options open to us were to seek a listing on the stock exchange, or attract a private purchaser who would not restrict, and better still add, to our brand values and differentiating factors. The board also correctly predicted that the IFA sector as a whole could suffer from the underperformance and lack of delivery against plan of publicly quoted IFA businesses, so that irrespective of our own performance our share price could suffer. Therefore it is with great delight that I was able to announce the purchase by AEGON UK plc of 60% of the share capital of Positive Solutions, with an option to purchase the remaining 40%, half at the end of 3 years, and the final amount after 4 years. The deal was transacted on 22 November 2002 and it was with even greater pleasure that we also allowed our share option holders to exercise options at this stage, rather than at the end of the 4 years. The board was impressed by the way the AEGON representatives at all times kept to their side of the bargain, showing a depth of honesty and integrity which together with the size of the transaction and the shareholding taken gives us great hope for the future.

The Market

Many have already commented on the financial services market and its contributing factors, so I do not intend to cover this in any great detail. The strategic issues for us are overwhelmingly the effect it has on the product providers and distribution competitors profits. Similar to boom times in the past when poor performers are flattered by the inherent growth of the market they happen to be in, when boom turns to bust they are found out. Because Positive Solutions has had a focus on profitability, we have been able to continue our growth pattern throughout 2002, whereas almost without exception the lack of profitability in our competitors has forced them to raise money through new share issues, and in the process diluting the shares of existing investors, and creating the breeding grounds for the loss of true independent advice through the influence of a small number of product provider stakes, so that multi-tying (the process of only representing a small number of providers, rather than the client) looks like becoming by default or design, their model for the future. We believe that is the wrong model for the consumer, and in a consumer driven future, ultimately the wrong model for the distributor. Strategically the market continues to have an increasing (and because of the failure of providers and distributors to exploit it) an accelerating need for high quality, trustworthy, and independent financial advice. It was pleasing to see as a result of intensive lobbying that the Financial Services Authority (FSA) listened and changed many of the views they put forward for consultation – in part recognising that the true constraint in getting consumers to have a more financially independent life is in fact the distribution capacity in the market, and not the discreet cost of the products. Much of the costs can be stripped out of the product by providers adopting a more responsible approach to their own internal costs, both in the ostentatious spending on premises and salaries, whilst looking to agree on the technology needed to simply produce a contract for the consumer.

Chief Executive's review

Our Performance

In my report for 2001 I said "For many 2001 was a difficult year, with negative effects ranging from recessionary influences, a bear market, terrorism and regulatory speculation". 2002 had many of these same influences, but in much higher degrees and therefore our performance against this background not only relative to our own market, but also to any business sector was spectacular. This long-term performance was recognised by your company achieving second place, versus all sectors, in the Sunday Times top 100 fastest growing companies in the UK, measuring the rate of growth of profitable turnover over a 4 year period. Our industry awards are mentioned under the brand section. Key performance indicators show:

- Turnover increased by 40% to £18.1m (2001: £13.0m)
- Gross profit increased by 48% to £4.0m (2001: £2.7m)
- Operating profit increased by 42% to £420,792 (2001: £297,123)
- Profit before tax increased by 43% to £425,716 (2001: £296,993)
- Increase in cash balance in the year £1,431,824 (2001: £84,358)
- Number of appointed IFA Partners increased by 35% to 552 (2001: 410)
- Turnover per employee, including Directors increased by 13% to £585,000 (2001: £518,000)

Recruitment

Since inception we have followed a strategy of seeking to attract quality financial advisers by communicating the strength of our ongoing proposition to them, rather than seeking to acquire distribution through buying businesses (buying distribution). In this way the individual who actually carries out the task of advising clients makes the decision to join us, rather than their management. This is initially a slower process, each IFA joining individually and is constrained both by the potential recruits' awareness of Positive Solutions, and by the amount of recruitment capacity we have. We use self employed business consultants, highly experienced in this area to source and analyse the prospective IFAs, and if they feel there is sufficient business rationale, they will then introduce and help induct the resulting IFA partners into our organisation. As awareness of our brand increases, and as re-investment of profit into this area grows, over time the rate of growth also increases. Significantly during 2002 the source of new IFA partners shifted from those leaving direct sales force companies, to those who were already IFAs – with 44% coming from an existing IFA background. This reaffirms our competitive edge – we believe on balance we provide more relevant service, but because we have stripped out many of the inefficiencies and costs in independent distribution, we can also charge less relative to key competitors. Finally we have begun to explore leveraging our back office technology systems across other distribution channels previously not exploited by us. Thus employing the same competitive advantages to increase usage and profitability across our business.

The Brand

Technology, Systems

We again won the prestigious Money Marketing Best Technology IFA for 2003, repeating the performance of 2002, but in addition added the Best use of New Media, and Best Protection IFA awards. This represented 3 out of a possible 9 awards. We believe we are the clear leaders in designing and employing integrated systems, from the start of the advisory process right through to the payment of our IFA partners and their professional introducers. This continues through to the way our IFAs private clients receive information and can thus make more informed decisions regarding their own financial well being. The new media award recognises that our extranet, and its associated 85,000 IFA and client web sites have delivered what the industry has been struggling to describe, never mind produce for several years. In the near future we hope to change the way distributors and consumers think about and deliver financial advice, especially customer service, through the PS methodology and belief that consumers deserve and need face-to-face advice, but also deserve and need information in the format that is most convenient and efficient for both parties.

Chief Executive's review

Relax

One of the biggest problems facing IFAs, and thus ultimately their clients is their inability to easily "retire" from their business. The ongoing liabilities of professional indemnity, client servicing, and of course the collection of fees and commissions means that many receive little ultimate return on their years of investment and dedication. The alternative is to try and sell the business into a market largely dogged with the same issues – how do you fund the collection of renewal and trail fees without a new business stream to subsidise the administration and regulatory driven costs which often outweigh the actual sums being collected. The PS "Relax" option solves this problem, effectively allowing the transfer of clients and fees/commissions to anyone who is using the PS methodology, whilst continuing to receive payment directly into their bank account – without any further involvement or worry. Alternatively PS have designed (and now implemented) a system where the business can be sold via an electronic bidding system – the advantage to the vendor being the enhanced goodwill value of the ongoing collection and payment system, versus simply trying to sell on the basis of a multiple of renewal income. There are signs that partners will join us simply for this ability alone.

Altogether Individual

Finally our brand encapsulated in the above phrase, continues to grow in stature. We believe in the individual, but this isn't merely a word – we deliver that belief in the design of our systems and contracts to serve individuals. When first mooted, this brand was not only politically incorrect, it was contra-intuitive and probably in strict marketing terms premature. We did not design the brand with correctness in mind – it is a statement of what we believe is the right approach to delivering quality financial advice to clients – everyone should seek advice – they are not so unimportant to be served up with "simple" products, and to treat people in this fashion has been symptomatic of the politics of the near past and unfortunately the present. To hope that by simplifying products and measuring their value based on a notional 1% cap is not only wrong, it is symptomatic of government having nothing better to do, or more accurately avoiding the big and unpopular decisions in order to meddle in areas of concern to the individual, which a free market would and has governed in the past – for example independent IFAs we believe have had the most significant effect on lowering product charges because they are the most efficient way of drawing comparison and thus introducing competition.

However using an organisational structure such as ours allows individual-minded IFAs and ultimately their clients to work "altogether" in leveraging buying power and skills usage in order to deliver high value advice, at low cost – an altogether individual (and novel) concept.

David Harrison
Chief Executive

23 April 2003

Directors' report

The directors present their report and financial statements for the year ended 31 December 2002.

Results and dividends

The company's profit after taxation for the year ended 31 December 2002 amounted to £330,436 (2001: £273,313). The directors do not recommend the payment of a dividend (2001: £nil), £330,436 is to be added to reserves (2001: £273,313).

Principal activities and review of the business

The principal activity of the company during the year was that of a firm of independent financial advisers.

Review of business and future developments

The directors have reviewed the company's development during the year and consider the progress made to be significant and on course to achieve the business plan. On 22 November 2002 AEGON UK plc purchased 60% of the share capital of the company.

Further details of the company's performance during the year and expected future developments are included in the Chief Executive's Review.

Directors and their interests

The directors who held office during the year and their interests in the share capital of the company are given below:

	At 31 December 2002	*At 1 January 2002*
	'B' Ordinary shares	*Ordinary shares*
W C Holroyd	-	-
M D Cotter	39,000,000	15,000,000
D G Harrison	81,000,000	15,000,000
N A Johnson	2,540,000	25,000
C Smallwood	2,640,000	50,000
C Davies	976,000	44,000
M Edwards	600,000	-
P Dornan (appointed 14 January 2003)	-	-

Charitable donations

During the year the company made charitable contributions of £nil (2001: £2,000).

Directors' report

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

N A Johnson
Secretary

23 April 2003

Statement of directors' responsibilities in respect of the financial statements

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 year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Positive Solutions (Financial Services) Limited

We have audited the company's financial statements for the year ended 31 December 2002, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, and the related notes 1 to 18. These financial statements have been prepared on the basis of 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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.

ERNST & YOUNG

Independent auditors' report

to the members of Positive Solutions (Financial Services) Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Newcastle upon Tyne

23 April 2003

Profit and loss account
for the year ended 31 December 2002

	Notes	2002 £	2001 £
Turnover	2	18,123,869	12,962,888
Cost of sales		14,107,309	10,242,879
Gross profit		4,016,560	2,720,009
Administrative expenses		3,595,768	2,422,886
Operating profit	3	420,792	297,123
Bank interest receivable		13,924	10,736
Interest payable		(9,000)	(10,866)
Profit on ordinary activities before taxation		425,716	296,993
Tax on profit on ordinary activities	6	95,280	23,680
Profit retained for the financial year		330,436	273,313

Statement of total recognised gains and losses
There are no recognised gains or losses other than the profit of £330,436 attributable to the shareholders for the year ended 31 December 2002 (2001 - profit of £273,313).

Balance sheet
at 31 December 2002

	Notes	2002 £	2001 £
Fixed assets			
Tangible assets	7	143,049	98,404
Current assets			
Debtors	8	3,495,788	2,792,914
Cash in hand		1,788,940	357,116
		5,284,728	3,150,030
Creditors: amounts falling due within one year	9	3,128,283	2,519,707
Net current assets		2,156,445	630,323
Total assets less current liabilities		2,299,494	728,727
Creditors: amounts falling due after more than one year	10	150,000	-
Provisions for liabilities and charges			
Provisions	11	256,493	185,182
		1,893,001	543,545
Capital and reserves			
Called up share capital	12	80,935	71,084
Share premium account	13	1,471,320	462,151
Profit and loss account	13	340,746	10,310
Equity shareholders' funds	13	1,893,001	543,545

D G Harrison

23 April 2003

Statement of cash flows
for the year ended 31 December 2002

	Notes	2002 £	2001 £
Net cash inflow from operating activities	14	525,982	276,085
Returns on investments and servicing of finance			
Interest received		13,924	10,736
Interest paid		(9,000)	(10,866)
Net cash inflow/(outflow) from returns on investments and servicing of finance		4,924	(130)
Taxation		(11,287)	-
Capital expenditure			
Payments to acquire tangible fixed assets		(122,932)	(96,832)
Receipts from sales of tangible fixed assets		16,117	-
		(106,815)	(96,832)
Financing			
Issue of equity shares		1,019,020	55,235
Net movement in short term loan		(150,000)	(150,000)
Net movement in long term loan		150,000	-
		1,019,020	(94,765)
Increase in cash	14	1,431,824	84,358

Notes to the financial statements
at 31 December 2002

1. Accounting policies
Basis of preparation and change in accounting policy
The financial statements are prepared under the historical cost convention.

In preparing the financial statements for the current year, the company has adopted FRS 18 'Accounting Policies'. Adoption of this standard has not required any revision to the financial statements in either the current or prior periods.

In preparing the financial statements for the current year, the company has adopted FRS 19 'Deferred Tax'. The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below.

The change in accounting policy has had no impact on the tax charge or deferred tax liability.

Fixed assets
All fixed assets are initially recorded at cost.

Depreciation
Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life as follows:

Leasehold property	-	length of lease
Fixtures and fittings	-	5 years
Motor vehicles	-	4 years
Computer equipment	-	3-5 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Deferred taxation
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 or to receive more, tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation 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 the tax rates and laws enacted or substantively enacted at the balance sheet date.

Finance lease agreements
Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the Profit and Loss Account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

Operating lease agreements
Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Notes to the financial statements
at 31 December 2002

2. Turnover
Turnover primarily represents indemnity and non-indemnity commission received on financial products sold by independent financial advisers. Commission is recognised on the date that policies are submitted to product providers with an appropriate discount being applied for policies not completed. Provision for repayment of indemnity commission in the event that a policy may lapse is made in the financial statements and is based on 2.5% of indemnity commission received during the previous 12-month period.

The company's turnover is derived solely from commissions and fees receivable arising from operations within the United Kingdom.

3. Operating profit
This is stated after charging:

	2002 £	2001 £
Auditors' remuneration - audit services	13,000	10,000
Depreciation of owned fixed assets		
- leased assets	-	405
- owned assets	47,553	21,755
	47,553	22,160
Loss on disposal of fixed assets	14,617	-
Operating lease rentals	267,443	203,009

4. Staff costs

	2002 £	2001 £
Wages and salaries	947,762	712,656
Social security costs	108,608	77,409
	1,056,370	790,065

The monthly average number of employees during the year was as follows:

	2002 No.	2001 No.
Administrative staff	25	19
Directors	6	6
	31	25

Notes to the financial statements
at 31 December 2002

5. Directors' emoluments

	2002	*2001*
	£	*£*
Emoluments	582,622	459,289

The amounts in respect of the highest paid director are as follows:

	2002	*2001*
	£	*£*
Emoluments	154,914	101,048

6. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2002	*2001*
	£	*£*
Current tax:		
UK corporation tax	94,421	23,680
Tax overprovided in previous years	(12,393)	-
Total current tax (note 6(b))	82,028	23,680

Deferred tax:

	2002	*2001*
	£	*£*
Origination and reversal of timing differences (note 11)	13,252	-
Tax on profit on ordinary activities	95,280	23,680

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for due year is lower than the standard rate of corporation tax in the UK of 30% (2001- 20%). The differences are reconciled below:

	2002	*2001*
	£	*£*
Profit on ordinary activities before taxation	425,716	296,993
Profit on ordinary activities before taxation at 30%(2001-20%)	127,715	59,399
Effects of:		
Tax overprovided in previous years	(12,393)	-
Utilisation of tax losses	-	(74,000)
Accelerated capital allowances	(13,000)	(4,000)
Other timing differences	4,000	7,000
Expenses not deductible for tax purposes	5,000	12,000
Others (including marginal tax relief)	(29,294)	23,281
Total current tax (note 6(a))	82,028	23,680

Notes to the financial statements
at 31 December 2002

6. Tax (continued)
(c) Factors that may effect future tax charges

The directors expect there will be no material change to the tax rate in future years.

7. Tangible fixed assets

	Leasehold Property	*Fixtures and Fittings*	*Motor Vehicles*	*Computer Equipment*	*Total*
	£	£	£	£	£
Cost:					
At 1 January 2002	11,631	60,283	-	63,030	134,944
Additions	421	21,307	32,070	69,134	122,932
Disposals	-	-	(32,070)	-	(32,070)
At 31 December 2002	12,052	81,590	–	132,164	225,806
Depreciation:					
At 1 January 2002	3,299	9,633	-	23,608	36,540
Provided during the year	3,097	15,133	1,336	27,987	47,553
Disposals	-	-	(1,336)	-	(1,336)
At 31 December 2002	6,396	24,766	–	51,595	82,757
Net book value:					
At 31 December 2002	5,656	56,824	-	80,569	143,049
At 1 January 2002	8,332	50,650	-	39,422	98,404

The cost of assets held under finance lease commitments at 31 December 2002 was £nil (2001:£2,024) with associated accumulated depreciation of £nil(2001:£2,024).

8. Debtors

	2002	*2001*
	£	£
Trade debtors	2,798,594	2,303,201
Amounts owed by related undertakings	-	69,850
Other debtors	287,150	199,225
Prepayments and accrued income	410,044	220,638
	3,495,788	2,792,914

9. Creditors: amounts falling due within one year

	2002	*2001*
	£	£
Current instalment due on bank loan	-	150,000
Trade creditors	2,930,240	2,224,335
Corporation tax	94,421	23,680
Other taxation and social security	36,593	51,483
Accruals and deferred income	67,029	70,209
	3,128,283	2,519,707

Notes to the financial statements
at 31 December 2002

10. Creditors: amounts falling due after more than one year

	2002 £	2001 £
Loans	150,000	-

The subordinated loan is repayable in full in March 2004. The loan has a variable rate of interest of 2% above LIBOR.

11. Provisions for liabilities and charges

(a) Indemnity commission provision

	2002 £
At 1 January 2002	185,182
Transfer to profit and loss	(185,182)
Charge in the year	243,241
At 31 December 2002	243,241

The provision is made for repayment of indemnity commission in the event that a policy may lapse on the basis of 2.5% of indemnity commission received during the previous twelve month period.

(b) Deferred taxation

The deferred tax included in the balance sheet is as follows:

	2002 £
At 1 January 2002	-
Charge in the year (note 6a)	13,252
At 31 December 2002	13,252

The major components of the provision for deferred tax are as follows:

	2002 £	2001 £
Capital allowances in advance of depreciation	28,596	-
Other timing differences	(15,344)	-
	13,252	-

(c) Total

	2002 £	2001 £
Repayment of indemnity commission	243,241	185,182
Deferred tax	13,252	-
Total provisions for liabilities and charges	256,493	185,182

Notes to the financial statements
at 31 December 2002

12. Share capital
Authorised

	2002 £	2001 £
300,000,000 Ordinary 'A' shares of 0.016 pence each and 200,000,000 Ordinary 'B' shares of 0.026 pence (2001:50,000,000 Ordinary shares of 0.2 pence each)	100,000	100,000

Allotted, called up and fully paid

		2002		2001
	No.	£	No.	£
Ordinary shares of 0.2 pence each	-	-	35,542,180	71,084
Ordinary 'A' shares of 0.016 pence	242,804,130	38,849	-	-
Ordinary 'B' shares of 0.026 pence	161,869,420	42,086	-	-
		80,935		71,084

In the period to 21 August 2002, 42,505 ordinary shares of 0.2 pence each were issued at par.

On 20 November 2002 the authorised ordinary shares of 0.2 pence each were sub-divided into 300,000,000 Ordinary 'A' shares of 0.016 pence each and 200,000,000 Ordinary 'B' shares of 0.026 pence each.

On 22 November 2002, 7,678,020 Ordinary 'A' shares and 5,118,680 Ordinary 'B' shares were issued for a total consideration of £255,934. The premium on issue of £253,375 has been credited to the share premium account (note 13).

On 23 December 2002, 21,618,000 Ordinary 'A' shares and 14,412,000 Ordinary 'B' shares were issued for a total consideration of £763,000. The premium on issue of £755,794 has been credited to the share premium account (note 13).

At 31 December 2002, AEGON UK plc owned 100% of the Ordinary 'A' shares and the Ordinary 'B' shares were owned by a combination of the directors and registered individuals of the firm.

13. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	Share premium account £	Profit and loss account £	Total share-holders' funds £
At 1 January 2001	71,084	407,304	(263,003)	215,385
Profit for the year	-	-	273,313	273,313
Other movements				
New equity share capital subscribed	-	54,847	-	54,847
At 31 December 2001	71,084	462,151	10,310	543,545
Profit for the year	-	-	330,436	330,436
Other movements				
New equity share capital subscribed	9,851	1,009,169	-	1,019,020
At 31 December 2002	80,935	1,471,320	340,746	1,893,001

Notes to the financial statements
at 31 December 2002

14. Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2002 £	*2001* £
Operating profit	420,792	297,123
Depreciation	47,553	22,160
Increase in debtors	(702,874)	(1,692,234)
Increase in creditors	687,835	1,530,145
Increase in provisions	58,059	118,891
Loss on disposal of fixed assets	14,617	-
Net cash inflow from operating activities	525,982	276,085

(b) Analysis of net funds

	At 1 January 2002 £	*Cash flows* £	*At 31 December 2002* £
Cash at bank and in hand	357,116	1,431,824	1,788,940
Debt due within one year	(150,000)	150,000	-
Debt due after one year	-	(150,000)	(150,000)
	207,116	1,431,824	1,638,940

(c) Reconciliation of net cash flow to movement in net funds

	2002 £	*2001* £
Increase in cash	1,431,824	84,358
Repayment of loan	150,000	-
Receipt of new loan	(150,000)	-
Change in net funds	1,431,824	84,358
Net funds at 1 January	207,116	122,758
Net funds at 31 December	1,638,940	207,116

15. Capital commitments

There were no capital commitments contracted for but not provided in these financial statements as at 31 December 2002(2001: £nil).

Notes to the financial statements
at 31 December 2002

16. Financial commitments
At 31 December 2002 the company had annual commitments under non cancellable operating leases expiring as follows:

	2002 £	*2001* £
Within one year	50,621	46,477
Between one and two years	170,922	91,559
Between two and five years	176,611	143,814
Total annual commitments	398,154	281,850

17. Related party transactions

During the year the company had net cash receipts in settlement of the inter-company balance of £57,350 (2001: payments of £16,000) from Cotter Harrison Limited (formerly known as Positive Mortgages Limited) and net cash receipts in settlement of the inter-company balance of £12,500 (2001: £nil) from Think Positive Limited. Amounts due from Cotter Harrison Limited as at 31 December 2002 totalled £nil (2001: £57,350), amounts due from Think Positive Limited at 31 December 2002 totalled £nil (2001: £12,500). These transactions and balances require disclosure under the provisions of Financial Reporting Standard No.8 since DG Harrison and MD Cotter are directors of both companies. The company made payments of £15,580 (2001: £14,441) in respect of consultancy charges to Wasdale Limited, a company controlled by WC Holroyd.

There were no other transactions entered into during the year which would require disclosure under the terms of Financial Reporting Standard No 8.

18. Parent undertaking and controlling party

The company's immediate parent undertaking is AEGON UK plc. In the directors' opinion, the company's ultimate parent undertaking and controlling party is AEGON NV, which is incorporated in Netherlands. Copies of the group financial statements, which include the company, are available from Mariahoeveplein 50, PO Box 202, 2501, CE, The Hague, Netherlands.