Figures that speak for themselves

Positive Solutions (Financial Services) Limited

Report and Financial Statements 31 December 2004

Directors

W C Holroyd (Non Executive Chairman)
M D Cotter (Non Executive)
D G Harrison
N A Johnson
C Smallwood
C Davies
M J Edwards
P Dornan (Non Executive)
M Smith
K Atkinson

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

Riverside House
The Waterfront
Newcastle upon Tyne
NE15 8NY

Chief Executive's Review

The market and competitive environment

The past year has seen equity markets improve as confidence begins to return to the sector. The slowing of house price increases has had a neutral effect, as the demand for financial products has remained buoyant. Going forward, any further deterioration in the demand for new mortgages will increase our bargaining power with lenders as the effect will be to clear out those advisers whose profitability is based solely on booming mortgage demand.

The long awaited decision on de-polarisation enabled distributors to adopt the new rules from 4th December. Tactically this involves all distributors in further costs, but strategically has allowed PS to benefit by adopting very early a clear market stance of being an independent, whole of market choice for the distributor, in marked contrast to the fudging and lack of clarity adopted by competitors. This has resulted in a record amount of IFAs joining us in the past year, a trend I believe will continue. Our ability to increase profitability has allowed us to build the best option for distributor and consumer, not the option driven solely by the needs of the distributor firms (either multi-tie or gap filling). In addition the chaos created by the adoption of the FSA rules by mortgage related operators, or those firms heavily reliant on this sector, presents us with a further fragmented market and opportunities to expand our distribution capacity even faster.

The government in the shape of the FSA continued to exacerbate problems to the sector by increasing the cost of regulation – our fees rose by £603,000 to £1,066,000, a 134% increase that frankly adds no value to the sector. We will continue to lobby for the replacement of the FSCS levy (an arrangement which encourages distributors to go into voluntary liquidation, dump their liabilities on the levy, and then set up new companies), through either referring this to the DTI and company law, or arguing that the manufacturers should be required to guarantee a greater share. At present it is a systemic problem where the prudent and compliant get to pay the bill for the imprudent and incompliant.

We have several competitive advantages, some of which are unique, and by focussing on these consistently we have continued to build capacity and profitability. At the end of 2004 we were the second largest IFA firm in the UK, as measured by IFA partner numbers. We are confident that in the absence of further consolidation or merger of other firms we will be the largest IFA firm before the end of 2005.

At time of writing the FTSE 100 has broken the 5,000 mark, and depending on further Iraq, Oil, and Dollar related factors this growing market confidence will filter through to superior IFA partner productivity. However – as per previous reports - the fundamentals of the market are becoming even stronger in our favour – there are more individuals in need of good quality, independent, advice than ever before. This means our proposition of independent advice, backed by the most up to date technology to strip out costs of delivering service will continue to outpace the market.

We believe there has never been a better time to be in this business.

Chief Executive's Review continued

The Brand

2004 continued to see us develop both recognition and understanding of our PS brand. We won several awards, and are currently short listed for others, but importantly we were able to use the media to differentiate our offer. We gave a clear choice between independent advice built on adopting the most advanced technology systems for the IFA practitioner in the UK, or using paper based, old fashioned systems delivered by unprofitable or struggling networks or host firms, forced to contemplate giving restricted choice for their IFAs because of their financial difficulties.

2004 also saw us launch our Prophitshare 2004 campaign. This campaign again reinforced our commitment to recruiting quality advisers, by using a series of aspirational images and values, backed up by our strong past performance.

It has been our emphasis for some years now to increase our distribution presence in the south of England, especially in and around London, whilst continuing to enjoy the cost benefit of our head office operations being based in Newcastle. We opened a state of the art office in Kingsway, London in April which has attracted large numbers of high quality IFAs – in fact the South East is now by far our best represented area and we see significant growth opportunities there – distribution in the most affluent areas, but cost base at a more sensible level.

This strategy was further emphasised by the opening of our new head office in Newcastle in September, which has already been nominated for architectural awards. The office is a visual embodiment of the PS brand – open, paper free, avant-garde. The added space and stylish environment allows us to train the increased volumes of new and existing IFA partners, as well as host our technology infrastructure, and provide superior service to our IFA partners.

We have continued to distance our technology by using tablet PCs and 3G capabilities to dramatically increase speed of delivery of our independent advice. As we go into 2005 our plans are well advanced to deliver even greater benefits, especially to specialist IFAs, and those working in a practice environment.

Our technological lead in the sector was further compounded when we were awarded the 2005 Money Marketing Technology IFA of the Year award. This is the 3rd time in the last 4 years that we have been given this prestigious award. Going hand in hand with this award was a reward for our extranet based technologies, winning "Best use of New Media" for the 3rd time in a row.

As can be seen from our performance 2004 was our best year ever across all the key performance areas – more recruits than ever before, more turnover, more profit, and more development.

We will continue this strategy throughout 2005, but will also take advantage of further opportunities as they arise from the current disruption in the distributor market.

David G Harrison
Chief Executive

6 April 2005

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2004.

Results and dividends

The company's profit after taxation for the year ended 31 December 2004 amounted to £1,646,587 (2003: £730,207).
The directors have declared an interim dividend of £462,500 (2003: £300,000), £1,184,087 is to be added to reserves (2003: £430,207).

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 are satisfied with the progress made.
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 2004 'B' Ordinary shares	At 1 January 2004 'B' Ordinary shares
W C Holroyd		-	-
M D Cotter		39,000,000	39,000,000
D G Harrison		81,000,000	81,000,000
N A Johnson		2,540,000	2,540,000
C Smallwood		2,640,000	2,640,000
C Davies		976,000	976,000
M J Edwards		600,000	600,000
P Dornan		-	-
R Watts	(resigned 1 July 2004)	856,000	856,000
M Smith		468,800	468,800
I Price	(appointed 2 January 2004 – resigned 2 April 2004)	-	-
K Atkinson	(appointed 11 May 2004)	-	-

Creditor payment policy and practice

It is the company's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.
The amounts due to trade creditors as at 31 December 2004 represented approximately 5 days of average daily purchases through the year (2003: 23 days)

Charitable donations

During the year the company made charitable contributions of £2,351 (2003: £nil).

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 Johnson

N A Johnson

6 April 2005

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:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent; and
3. 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

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 19. 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.

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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Newcastle upon Tyne

	Notes	2004 £	2003 £
Turnover	2	38,687,485	25,584,934
Cost of sales		29,413,526	19,386,191
Gross profit		9,273,959	6,198,743
Administrative expenses		7,022,581	5,143,649
Operating profit	3	2,251,378	1,055,094
Bank interest receivable		104,180	59,833
Interest payable		-	(3,219)
Profit on ordinary activities before taxation		2,355,558	1,111,708
Tax on profit on ordinary activities	6	708,971	381,501
Profit on ordinary activities after taxation		1,646,587	730,207
Dividends	7	462,500	300,000
Profit retained for the financial year		1,184,087	430,207

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £1,184,087 attributable to the shareholders for the year ended 31 December 2004 (2003 - £430,207).

Balance sheet at 31 December 2004

	Notes	2004 £	2003 £
Fixed assets			
Tangible assets	8	493,560	147,373
Current assets			
Debtors	9	6,755,701	5,406,297
Cash in hand		4,072,050	1,849,236
		10,827,751	7,255,533
Creditors: amounts falling due within one year	10	7,357,236	4,771,675
Net current assets		3,470,515	2,483,858
Total assets less current liabilities		3,964,075	2,631,231
Provisions for liabilities and charges			
Provisions	11	350,935	308,523
		3,613,140	2,322,708
Capital and reserves			
Called up share capital	12	81,475	80,934
Share premium account	13	1,576,625	1,470,821
Profit and loss account	13	1,955,040	770,953
Equity shareholders' funds	13	3,613,140	2,322,708

D G Harrison

6 April 2005

The notes on pages 14 to 22 are an integral part of these accounts. The auditors' report is on page 10.

Statement of cash flows for the year ended 31 December 2004

	Notes	2004 £	2003 £
Net cash inflow from operating activities	14	3,289,332	834,452
Returns on investments and servicing of finance			
Interest received		104,180	59,833
Interest paid		-	(3,219)
Net cash inflow from returns on investments and servicing of finance		104,180	56,614
Taxation		(388,921)	(304,159)
Capital expenditure			
Payments to acquire tangible fixed assets		(425,622)	(76,111)
		(425,622)	(76,111)
Equity dividends paid		(462,500)	(300,000)
Financing			
Issue of equity shares		106,345	(500)
Net movement in long term loan		-	(150,000)
		106,345	(150,500)
Increase in cash	14	2,222,814	60,296

The notes on pages 14 to 22 are an integral part of these accounts. The auditors' report is on page 10.

Notes to the financial statements at 31 December 2004

1 Accounting policies

Basis of accounts

The accounts have been prepared under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards.

Fixed assets

All fixed assets are 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	-	5-10 years
Computer equipment	-	3 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.

Taxation

The tax charge in the profit and loss account is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits on ordinary activities and amounts charged or credited to reserves as appropriate.

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.

2 Turnover

Turnover primarily represents commissions receivable on financial products sold and advice provided by independent financial advisers.

Commissions relating to new business are recognised at the inception of financial policies sold on a commission basis with an appropriate discount being applied for policies not completed. Recurring income arising from existing policies is recognised on receipt. 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 from operations in the United Kingdom.

3 Operating profit

This is stated after charging:

	2004 £	2003 £
Auditors' remuneration - audit services	12,000	12,000
Depreciation of owned fixed assets	77,010	71,787
Loss on disposal of fixed assets	2,425	-
Operating lease rentals - land and buildings	261,973	249,683
Operating lease rentals - other	415,364	373,106

Audit fees are included in a management charge from AEGON UK plc

4 Staff costs

	2004 £	2003 £
Wages and salaries	1,395,457	1,195,334
Social security costs	168,478	131,003
	1,563,935	1,326,337

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

	2004 No	2003 No
Administrative staff	37	30
Directors	9	7
	46	37

5 Directors' emoluments

	2004 £	2003 £
Emoluments	826,852	590,012

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

Emoluments	213,970	167,289

6 Tax

(a) Tax on profit on ordinary activities

	2004 £	2003 £
Current tax:		
UK corporation tax	715,153	355,455
Tax (over)/under provided in previous years	(271)	42,038
Total current tax (note 6(b))	714,882	397,493
Deferred tax:		
Origination and reversal of timing differences (note 11)	(5,911)	(15,992)
Tax on profit on ordinary activities	708,971	381,501

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2003- 30%). The differences are reconciled below:

	2004 £	2003 £
Profit on ordinary activities before taxation	2,355,558	1,111,708
Profit on ordinary activities before taxation at 30% (2003-30%)	706,668	333,510
Effects of:		
Tax (over)/underprovided in previous years	(271)	42,038
Accelerated capital allowances	3,496	13,263
Other timing differences	2,457	4,082
Expenses not deductible for tax purposes	2,532	4,600
Total current tax (note 6(a))	714,882	397,493

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 Dividends

	2004 £	2003 £
Interim paid at 0.19p per ordinary 'A' share (2003: 0.12p per ordinary 'A' share)	462,500	300,000

8 Tangible fixed assets

	Leasehold Property £	Fixtures and Fittings £	Computer Equipment £	Total £
Cost:				
At 1 January 2004	13,973	97,071	190,873	301,917
Additions	249,830	132,983	42,809	425,622
Disposals	(951)	(4,525)	-	(5,476)
At 31 December 2004	262,852	225,529	233,682	722,063
Depreciation:				
At 1 January 2004	9,145	42,984	102,415	154,544
Provided during the year	2,447	20,970	53,593	77,010
Disposals	(928)	(2,123)	-	(3,051)
At 31 December 2004	10,664	61,831	156,008	228,503
Net book value:				
At 31 December 2004	252,188	163,698	77,674	493,560
At 1 January 2004	4,828	54,087	88,458	147,373

9 Debtors

	2004 £	2003 £
Trade debtors	5,679,300	4,167,880
Amounts owed by related undertakings	-	462,500
Other debtors	391,963	392,400
Prepayments and accrued income	684,438	383,517
	6,755,701	5,406,297

10 Creditors: amounts falling due within one year

	2004 £	2003 £
Trade creditors	6,227,222	4,487,668
Corporation tax	513,717	187,756
Other taxation and social security	55,507	40,641
Accruals and deferred income	560,790	55,610
	7,357,236	4,771,675

11 Provisions for liabilities and charges

(a) Indemnity commission provision

	2004 £
At 1 January 2004	311,263
Transfer to profit and loss	(311,263)
Charge in the year	359,586
At 31 December 2004	359,586

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:

	2004 £
At 1 January 2004	(2,740)
Credit in the year (note 6a)	(5,911)
At 31 December 2004	(8,651)

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

	2004 £	2003 £
Capital allowances in advance of depreciation	12,924	16,686
Other timing differences	(21,575)	(19,426)
	(8,651)	(2,740)

(c) Total

	2004 £	2003 £
Indemnity commission provision	359,586	311,263
Deferred tax	(8,651)	(2,740)
Total provisions for liabilities and charges	350,935	308,523

12 Share capital

Authorised

	2004 £	2003 £
300,000,000 Ordinary 'A' shares of 0.016 pence each and 200,000,000 Ordinary 'B' shares of 0.026 pence each	100,000	100,000

Allotted, called up and fully paid

	2004 No	2004 £	2003 No	2003 £
Ordinary 'A' shares of 0.016 pence	244,423,200	39,107	242,801,130	38,848
Ordinary 'B' shares of 0.026 pence	162,948,800	42,368	161,867,420	42,086
		81,475		80,934

On 31 January 2004 the Company issued 1,622,070 A shares and 1,081,380 B shares for a total cash consideration of £106,345.

13 Reconciliation of shareholders' funds and movement on reserves

	Share Capital £	Share Premium Account £	Profit and loss account £	Total shareholders' funds £
At 1 January 2003	80,935	1,471,320	340,746	1,893,001
Profit for the year	-	-	430,207	430,207
Other movements	(1)	(499)	-	(500)
At 31 December 2003	80,934	1,470,821	770,953	2,322,708
Profit for the year	-	-	1,184,087	1,184,087
Other movements	541	105,804	-	106,345
At 31 December 2004	81,475	1,576,625	1,955,040	3,613,140

14 Notes to the cash flow statement

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

	2004 £	2003 £
Operating profit	2,251,378	1,055,094
Depreciation	77,010	71,787
Increase in debtors	(1,349,404)	(1,910,508)
Increase in creditors	2,259,600	1,550,057
Increase in provisions	48,323	68,022
Loss on disposal of fixed assets	2,425	-
Net cash inflow from operating activities	3,289,332	834,452

(b) Analysis of net funds

	At 1 January 2004 £	Cash flows £	At 31 December 2004 £
Cash at bank and in hand	1,849,236	2,222,814	4,072,050
	1,849,236	2,222,814	4,072,050

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

	2004 £	2003 £
Increase in cash	2,222,814	60,296
Repayment of subordinated loan	-	150,000
Change in net funds	2,222,814	210,296
Net funds at 1 January	1,849,236	1,638,940
Net funds at 31 December	4,072,050	1,849,236

15 Capital commitments

There were no capital commitments contracted for but not provided in these financial statements as at 31 December 2004 (2003: £nil).

16 Financial commitments

At 31 December 2004 the company had annual commitments under non cancellable operating leases expiring as follows:

	2004 Land and Buildings £	2004 Other £	2003 Land and Buildings £	2003 Other £
Within one year	55,509	93,732	126,651	54,900
Between one and two years	105,088	174,170	51,341	93,732
Between two and five years	46,925	318,666	39,141	174,170
In more than 5 years	65,704	-	-	-
Total annual commitments	273,226	586,568	217,133	322,802

17 Contingent liabilities

In July 2004 the company launched an incentive scheme for the benefit of the self employed Registered Individuals and staff, "Prophitshare 2004". This allows for the company's IFA Partners and staff to participate in the growth in value of the business. A pool will be calculated in 2007 based on a multiple of the company's earnings in 2006 compared with the total acquisition cost of the company's equity by AEGON UK plc. This pool forms the basis for payments to IFA Partners and staff in proportion to entitlements held.

Based on the workings of the scheme, no provision needs to be made in these accounts at the balance sheet date.

18 Related party transactions

The company made payments of £7,475 (2003: £9,029) during the year in respect of consultancy charges to Wasdale Limited, a company controlled by WC Holroyd. Payments of commissions and fees to a total value of £1,417 were made to R Watts, on normal commercial terms, in the period 1 January to 1 July 2004.

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

19 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.