

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or about what action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

This document comprises an admission document drawn up in accordance with the rules of the Alternative Investment Market of the London Stock Exchange ("AIM") and a prospectus drawn up in accordance with the requirements of the Public Offers of Securities Regulations 1995. A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2). Application will be made for the whole of the ordinary share capital of the Company in issue following the Placing and the Offer to be admitted to AIM.

This prospectus does not constitute an offer to sell nor the solicitation of an offer to buy any securities other than pursuant to the Placing and the Offer described herein. Nor does it constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction or to any person in which or to whom it is unlawful to make such offer or solicitation.

---

# **BROKER NETWORK HOLDINGS PLC**

*(Incorporated under the Companies Act 1985 with registered number 5044510)*

**Placing of 3,521,124 Ordinary Shares of 2p each,  
Offer for Subscription of 352,112 Ordinary Shares of  
2p each, both at an Issue Price of 71p per Share**

**and**

**Admission to trading on AIM  
Brewin Dolphin Securities Ltd**

**Nominated adviser and broker**



AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with larger or more established companies tends to be attached. A prospective investor should be aware of the potential risks in investing in such companies and should make the decision to invest only after careful consideration and consultation with an independent financial adviser. Neither London Stock Exchange plc nor the Financial Services Authority has examined or approved the contents of this document.

The Directors, whose names are set out on page 3 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Brewin Dolphin, which is regulated by the Financial Services Authority, is acting as nominated adviser and broker to the Company. Persons receiving this document should note that, in connection with the Placing, the Offer and Admission, Brewin Dolphin is acting for the Company and no one else and it will not be responsible to any other person for providing the protections afforded to clients of Brewin Dolphin, nor for providing advice in relation to the Placing, the Offer or Admission.

## CONTENTS

	<i>Page</i>
Directors, secretary and advisers	3
Definitions	4
Key information	6
Placing statistics	8
Expected timetable of principal events	8
<b>Part I:</b> Information on the Group	9
<b>Part II:</b> The Placing and the Offer	19
<b>Part III:</b> Financial Information	22
<b>Part IV:</b> Profit Forecast	63
<b>Part V:</b> Pro forma statement of net assets	64
<b>Part VI:</b> Additional information	65
<b>Part VII:</b> Application procedure for the Offer for Subscription	82
Application Form	87

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Faisal John Rahmatallah Paul Grant Ellis Michael Geoffrey Collins Julie Kathryn Hale Miles Louis Japhet Peter Bates Michael John Pendle	<i>Non-executive Chairman</i> <i>Chief Executive Officer</i> <i>Chief Operating Officer</i> <i>Group Finance Director</i> <i>Non-executive Director</i> <i>Non-executive Director</i> <i>Non-executive Director</i>
<b>Company Secretary</b>	Julie Kathryn Hale	
	<i>all of:</i>	
<b>Registered office</b>	Mowbray House Mowbray Square Harrogate HG1 5AU	
<b>Nominated adviser and broker</b>	Brewin Dolphin Securities Ltd 34 Lisbon Street Leeds LS1 4LX	
<b>Solicitors to the Company</b>	Dundas & Wilson 5th Floor Northwest Wing Bush House Aldwych London WC2B 4EZ	
<b>Reporting Accountants</b>	KPMG LLP 1 The Embankment Neville Street Leeds LS1 4DW	
<b>Auditors</b>	KPMG Audit Plc 1 The Embankment Neville Street Leeds LS1 4DW	
<b>Solicitors to the issue</b>	Hammonds 2 Park Lane Leeds LS3 1ES	
<b>Registrars and Receiving Agents</b>	Computershare Investor Services plc PO Box 859 The Pavilions Bridgwater Road Bristol BS99 1XZ	

## DEFINITIONS

The following definitions apply throughout this document unless otherwise stated or the context otherwise requires:

“Act”	the Companies Act 1985 (as amended)
“Admission”	admission to AIM of the entire ordinary share capital of the Company in issue and to be issued (including the New Ordinary Shares and the Offer Shares) and such admission becoming effective
“AIM”	the Alternative Investment Market of the London Stock Exchange
“Application Form”	the form set out in Part VII of this document
“Articles”	the Company’s articles of association
“Board” or “Directors”	the directors of the Company, or a duly authorised committee thereof, whose names are set out on page 3 of this document
“Brewin Dolphin”	Brewin Dolphin Securities Ltd
“Broker Network” or “Group”	the Company together with its subsidiaries
“Capricorn”	Capricorn Ventures International Limited
“Company”	Broker Network Holdings plc
“CREST”	the electronic share settlement system operated by CRESTCo
“CRESTCo”	CRESTCo Limited, the operator (as defined in the Uncertificated Securities Regulations 2001) of the system for trading shares in uncertificated form known as CREST
“FSA”	the Financial Services Authority
“Gross Written Premium”	the aggregate amount of insurance premiums payable by customers of a broker
“Insurance”	general insurance
“Issue Price”	71p per share
“London Stock Exchange”	London Stock Exchange plc
“Members”	parties with whom The Broker Network Limited has entered into a membership agreement
“Membership”	the Members collectively, from time to time
“New Ordinary Shares”	the 3,521,124 new Ordinary Shares to be issued in the Placing
“Offer” or “Offer for Subscription”	the offer for subscription as described in this document
“Offer Shares”	a maximum of 352,112 new Ordinary Shares to be issued in the Offer
“Official List”	the Official List of the UKLA
“Ordinary Shares”	ordinary shares of 2p each in the capital of the Company
“Placing”	the conditional placing by Brewin Dolphin of the New Ordinary Shares at the Placing Price, pursuant to the Placing Agreement

## Definitions

---

“Placing Agreement”	the conditional agreement dated 22 April 2004 between the Company, Brewin Dolphin and the Directors providing, <i>inter alia</i> , for the underwriting of the New Ordinary Shares, details of which are set out in paragraph 8.1 of Part VI of this document
“Prospectus”	this document dated 22 April 2004
“Receiving Agents” or “Computershare”	Computershare Investor Services plc
“Regulations”	the Public Offers of Securities Regulations 1995
“Shareholders”	<i>the holders of Ordinary Shares in the Company</i>
“SME”	small and medium enterprises
“Subscribers”	persons who subscribe for Offer Shares
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the UK Listing Authority, being the competent authority for listing in the UK, which is part of the Financial Services Authority

## KEY INFORMATION

The following information should be read in conjunction with the full text of this document, from which it is derived:

### Introduction

Broker Network is a network of over 130 independent "community" insurance brokers, known as Members. Members are contractually obliged to place all of their general insurance business with Broker Network. Broker Network provides support services to Members for information technology, marketing, training, regulatory compliance and management of human resources, but Members retain their own trading brand in their local community.

Broker Network is a profitable business with a track record of organic growth. The Company is now seeking an AIM flotation and a fundraising to enable it to pursue a clearly defined opportunity for accelerated growth, both organically and through a visible acquisition pipeline of exiting or retiring Members.

### The General Insurance Broking Market

The UK market for insuring commercial risks (as opposed to personal risks such as private motor and household insurance) is estimated to be worth around £19 billion\* per annum in premium income. Over 80 per cent\* of this is handled by general insurance brokers. A significant proportion of this business is handled by the largest firms, but around £3 billion\* per annum in premium income is handled by some 2,500 local\* or "community" brokers.

The Directors believe the community broker distribution channel for SME insurance will be influenced by a number of factors in the medium term, including:

- general insurance business will be directly regulated by the FSA with effect from 14 January 2005. All insurance entities will require compulsory FSA authorisation in order to continue to trade. Preparing for and maintaining FSA compliance is potentially costly and time consuming.
- succession for an ageing population of principals of insurance brokers. It is reported that by 2005, a substantial proportion of current broker principals will be over 60 years old.
- the distribution channel for commercial insurance has a history of being prone to error and inefficiency. Insurers are seeking ways to reduce the costs of managing their distribution channel for broker generated business through:
  - better use of information and communications technologies;
  - a preference to deal with a smaller number of intermediaries and intermediary organisations; and
  - reducing remuneration levels for the smallest brokers; and
- community brokers are focusing on commercial insurance rather than personal business.

The Directors believe there is an opportunity to take advantage of these trends in the insurance market building on Broker Network's established position in the sector and meeting customer demands for "community broking".

### THE BUSINESS OF THE GROUP

Broker Network service proposition to Members:

- Access to insurers
- Regulatory compliance, training and human resources
- Marketing support and management information
- Information technology

\* Source : Datamonitor

Broker Network service proposition to insurers

- Infrastructure to access brokers
- Acceptance of credit risk
- Information technology
- Professionalism and business management

**FINANCIAL RECORD AND CURRENT TRADING**

The following is a summary of the trading record of the Group for the three years and eight months ended 31 December 2003.

	Year ended 30 April (Note 1)			Eight months to
	2001	2002	2003	December
	£'000	£'000	£'000	2003
				£'000
Turnover	1,741	2,528	3,428	2,829
Administrative expenses	(1,562)	(2,278)	(2,872)	(2,454)
Net interest	131	114	162	109
Investment write down (Note 2)	-	(323)	-	-
Profit before tax	310	41	718	484
Tax	-	(14)	(127)	(116)
Profit after tax	310	27	591	368
Net cash inflow from operating activities	203	227	462	517
Net assets	361	450	1,041	1,395
Key performance indicators				
Gross Written Premium (Note 3)	96,720	133,912	194,914	150,176
Number of Members (Note 3)	75	97	106	123

Notes:

1. These figures exclude the results for Redbox Systems Limited which are set out in Part III(d) of this document.
2. This figure relates to the write down of the investment in Redbox Systems Limited.
3. These figures are unaudited and have been taken from the Group's records.

**Profit Forecast**

The Directors forecast that the profit on ordinary activities before taxation and goodwill amortisation of The Broker Network Limited and its subsidiaries for the year ending 30 April 2004 will be not less than £745,000.

**BUSINESS DEVELOPMENT AND PROSPECTS**

Broker Network has already established a profitable model by which it can continue to grow the Membership. However, the age profile of broker principals is now such that many may wish to retire altogether from the industry in the near future. Currently, around 53 per cent of all principals of all Members are aged 50 or over. In addition, an analysis of the oldest principals of all Members, shows that around 52 per cent of this population are aged 55 or over. FSA authorisation, which will become compulsory for intermediaries selling and administering insurance policies with effect from January 2005, could act as a catalyst for some brokers to crystallize their decision to retire. To address this, in the summer of 2003, Broker Network indicated to its Members that where a Member wished to exit the industry, Broker Network itself would consider acquiring the Member's business. With the addition of this new feature, Broker Network's strategy may then be summarised as:

- *continued growth of Broker Network using the established model*
- *ensure Members achieve FSA authorisation*
- *assisting principals who wish to retire by acquiring their businesses*

Broker Network proposes, subject to due diligence, to acquire Members whose principals wish to exit or retire. Since announcing its intention, a number of approaches have already been received indicating a pipeline of targets. Broker Network has completed four such acquisitions since the beginning of 2004 and has plans to acquire a further 23 by the end of April 2006, of which three have agreed terms and are expected to complete in 2004.

- *improving efficiency of trading with insurers*
- *growth of providing outsourced services to insurers via Broker Network Underwriting*

#### **REASONS FOR THE PLACING AND THE OFFER**

The Directors intend to use the majority of the net proceeds of the Placing and the Offer to pursue the Group's strategy as explained above. In particular, the Placing and the Offer will provide funds for the acquisition of Members.

The Directors believe that the Admission of the Company's shares to trading on AIM will raise the status and market profile of the Group and promote greater awareness of Broker Network's activities amongst insurers and insurance brokers. This increased presence will, in the opinion of the Directors, strengthen the Group's ability to attract and compete for new business.

Admission to AIM will also provide an opportunity to incentivise present and future employees through share based reward schemes.

#### **PLACING STATISTICS**

Issue Price	71p
Number of New Ordinary Shares being placed on behalf of the Company	3,521,124
Number of Offer Shares being offered for subscription	352,112
Percentage of enlarged issued share capital being placed or being offered for subscription	25.5%*
Number of Ordinary Shares in issue upon Admission	15,194,436*
Market capitalisation of the Company at the Issue Price	£10.8 m*

*\*Marked figures assume full subscription under the Offer for Subscription*

#### **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Publication of the Admission Document	22 April 2004
Latest time and date for receipt of completed Application Forms	3.00pm on 6 May 2004
Delivery of shares into CREST accounts	10 May 2004
Admission and dealings in the Ordinary Shares commence	10 May 2004
Definitive share certificates for Ordinary Shares to be despatched no later than	17 May 2004

## PART I: INFORMATION ON THE GROUP

### INTRODUCTION

Broker Network is a network of over 130 independent "community" insurance brokers, known as Members. Members are contractually obliged to place all of their general insurance business with Broker Network. Broker Network provides support services to Members for information technology, marketing, training, regulatory compliance and management of human resources, but Members retain their own trading brand in their local community.

Broker Network is a profitable business with a track record of organic growth. The Company is now seeking an AIM flotation and a fundraising to enable it to pursue a clearly defined opportunity for accelerated growth, both organically and through a visible acquisition pipeline of exiting or retiring Members.

### BACKGROUND

Broker Network was formed in 1994 by Grant Ellis (chief executive), Peter Bates (non-executive director) and David Belgian (director of a founder Member, Northern Counties Guarantee Corporation Limited). Broker Network was founded upon the experiences gained working in the insurance broking market and also the independent financial adviser community where 'networks' are a common feature. In essence, the services provided by Broker Network improve the ability of locally based insurance brokers to compete with other distributors which target the insurance business of SME businesses. Broker Network provides Members with access to a wide range of services and facilities enabling them to maintain independence whilst having access to some of the benefits enjoyed by larger organisations. Broker Network is not tied to any insurance organisation.

#### The General Insurance Broking Market

The UK market for insuring commercial risks (as opposed to personal risks such as private motor and household insurance) is estimated to be worth around £19 billion\* per annum in premium income. Over 80 per cent\* of this is handled by general insurance brokers. A significant proportion of this business is handled by the largest firms, but around £3 billion\* per annum in premium income is handled by some 2,500 local\* or "community" brokers. Community broker firms typically have an annual total premium throughput of between £1 million and £10 million. Broker Network's own experience is that the average annual total premium throughput is approximately £2 million\* made up of mainly commercial business. The customers of community brokers are often SME businesses frequently paying less than £10,000 a year in premiums. The majority of such customers show a marked preference to deal face to face with their insurance broker and a strong propensity to remain loyal to that broker. The Directors believe that this preference and loyalty can be sustained, provided always that the local broker can provide access to risk carriers (insurers) and offer services and price levels which are competitive with other distributors. The service provided by Broker Network aims to make this possible, so it is these smaller community insurance brokers that are Broker Network targets.

The Directors believe the community broker distribution channel for SME insurance will be influenced by a number of factors in the medium term, including:

- general insurance business will be directly regulated by the FSA with effect from 14 January 2005. All insurance entities will require compulsory FSA authorisation in order to continue to trade. Preparing for and maintaining FSA compliance is potentially costly and time consuming.
- succession for an ageing population of principals of insurance brokers. It is reported that by 2005, a substantial proportion of current broker principals will be over 60 years old.
- the distribution channel for commercial insurance has a history of being prone to error and inefficiency. Insurers are seeking ways to reduce the costs of managing their distribution channel for broker generated business through:
  - better use of information and communications technologies;
  - a preference to deal with a smaller number of intermediaries and intermediary organisations; and
  - reducing remuneration levels for the smallest brokers; and
- community brokers are focusing on commercial insurance rather than personal business.

\* Source : Datamonitor

The Directors believe that these factors will act to encourage market consolidation so that the numbers of community brokers will reduce. Many community brokers have already sought the support of organisations like Broker Network in order to remain competitive within their local market. The Directors believe there is an opportunity to take advantage of these trends in the insurance market building on Broker Network's established position in the sector and meeting customer demands for "community broking".

## **THE BUSINESS OF THE GROUP**

Broker Network provides centralised services to Members and a valuable distribution channel for insurers.

### **Broker Network service proposition to Members**

#### *Access to insurers*

Broker Network is able to provide access to a wide range of insurers and better remuneration terms than most Members could otherwise obtain.

Many insurers have dedicated units dealing exclusively with Members, indeed with some insurers, underwriting staff are actually resident at Broker Network's main office in Harrogate and are dedicated to serving Members. This allows for development of a good working relationship as well as direct and exclusive access to underwriters, with products being individually rated.

In 2002, having satisfied Lloyd's Corporation's rigorous accreditation requirements, Broker Network became a provisionally accredited Lloyd's broker, the first network to do so in its own right. As a provisionally accredited Lloyd's broker, Broker Network now has direct access to Lloyd's of London. In 2003, Broker Network established a London office through a subsidiary company, London Broking Services Limited, to exploit the opportunity to place business in the Lloyd's and London market on behalf of Members, sharing the commission with Members that otherwise would be ceded by Members to a third party Lloyd's broker.

#### *Regulatory compliance, training and human resources*

Whilst always a feature of Broker Network's services, advice in relation to regulation, training and human resources management is now all the more important in the light of impending statutory regulation of the sector. Broker Network's offering focuses upon the specific needs of community brokers and allows Members to take advantage of centralised services in relation to regulatory compliance, training and human resources management.

It is intended that Members will all be independently regulated by the FSA. Broker Network provides compliance support that should assist with a successful transition to the imminent FSA regulation for Members. Integral to this is an on-line staff training facility using internet-based technology as well as face-to-face training courses at regional centres throughout the country. This training is specifically targeted at community brokers.

#### *Marketing support and management information*

Broker Network has demonstrated the benefits that effective marketing can bring to a community broker. In the experience of Broker Network, brokers often do not have the resources for effective marketing or do not give it a sufficiently high priority. Members have access to a telemarketing 'lead generation' service tailored to their target markets. In addition, Members are provided with marketing support and advice, including advertising, public relations, publicity and design. Such help incorporates off-the-shelf packages along with bespoke advice that recognises the differing requirements of each individual Member.

Broker Network financial management information services are available to all Members. Prior to joining, Broker Network carries out an in-depth study of each potential Member's business. The results of such studies provide an assessment of how much improvement could be made to an individual business's performance and how much benefit a brokerage could derive from Membership. In addition, Members may request annual performance monitoring and assistance on specific matters such as analysing profitability, productivity, cost structures and performance against their peer group.

#### *Information technology*

Broker Network now recommends an independent third party information technology platform for Members. The system provides a common electronic trading platform which enables Members to streamline dealings with insurers and regulators and provides financial administration and control. The system is based on an ASP model (application service provider). Members are able to share the costs of a common trading platform, but each has a virtual server dedicated to their business.

Broker Network also helps Members to exploit the internet, assisting them with the design and hosting of their websites.

### **Broker Network service proposition to insurers**

#### *Infrastructure to access brokers*

The value Broker Network adds to any one insurer varies depending on the insurer's own attitude to channel distribution. For those that do not have the infrastructure to obtain business from community brokers, Broker Network provides such an infrastructure. This is valued because SME business is attractive to insurers, provided that the quality of business is good and acquisition costs are low. Broker Network offers both. Even for insurers with established infrastructures, Broker Network provides a single point of contact and a strategic relationship with multiple broker outlets and 'call centre' cost levels for a 'full relationship' service.

#### *Acceptance of credit risk*

Key amongst Broker Network's value to insurers is its approach to cash flow and the credit risk involved. Broker Network is contractually obliged to hold all of the insurance agencies itself, allowing insurers to reduce their credit management requirements for multiple independent outlets to just one.

#### *Information technology*

The common trading platform for Members described above also has benefits for insurers. This is expected to make it easier for insurers to trade electronically and so benefit from substantial cost savings compared with the paper and labour intensive methods traditionally employed.

#### *Professionalism and business management*

Broker Network provides training and people development, business planning, marketing, information technology, compliance and human resources management, aimed at raising the level of professionalism of Members. In addition, Broker Network is developing, in co-operation with two insurers, a mutual service level agreement that will be offered to all principal insurers. This sets out quantitative targets, including risk presentation, quote/take up rates, premium settlement, service levels, premium targets, provision of management information (including bench-marking) and, where capable of being measured, profit targets and incentives.

In recognition of the role played by Broker Network, it has "partner" status with major insurers including Allianz Cornhill, AXA, NIG, Norwich Union, Royal and Sun Alliance and Zurich.

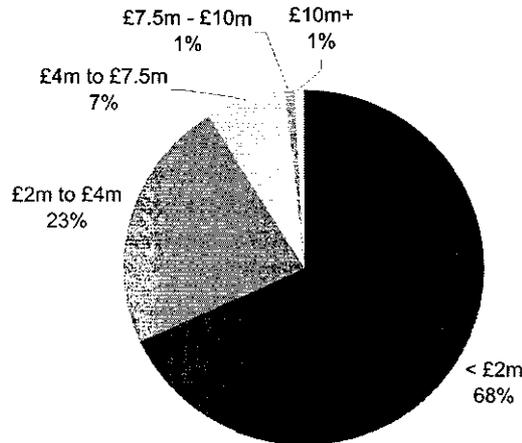
### **CUSTOMER BASE AND REVENUE MODEL**

Broker Network derives revenue from three types of customer. The first, and by far the largest source of revenue historically, is income from community brokers who are Members. In the main, this is a sharing of insurance commission between Broker Network and the Member, but some income is received by way of fees. Secondly, Broker Network earns commission income on premiums transacted directly with end customers through its own community broker outlets. This is a new source of revenue arising from businesses acquired during 2004. Thirdly, insurers pay Broker Network for administration of policies processed through a special department of Broker Network called Broker Network Underwriting (BNU) and insurers and other suppliers also pay over-riding commissions directly to Broker Network on certain classes of business.

Currently there are over 130 Members and around 80 per cent of Broker Network's total income derives from the share of commission retained from these Members' businesses. On joining, Members contract to place all their general insurance business through Broker Network for a minimum period of two years. The current annualised aggregate Gross Written Premium of Members is approaching £250 million. As Chart 1 below indicates, the majority of Members achieve up to £4 million per annum of Gross Written Premium. Typically, around 14 per cent of Gross Written Premium passes to the Member, and Broker Network retains on average around 1½ per cent of the premium. Members also pay an additional monthly fee - currently £95. Broker Network also retains interest on client account monies held by Broker Network.

**Chart 1: Gross Written Premium of Members for the twelve months ended 30 November 2003.**

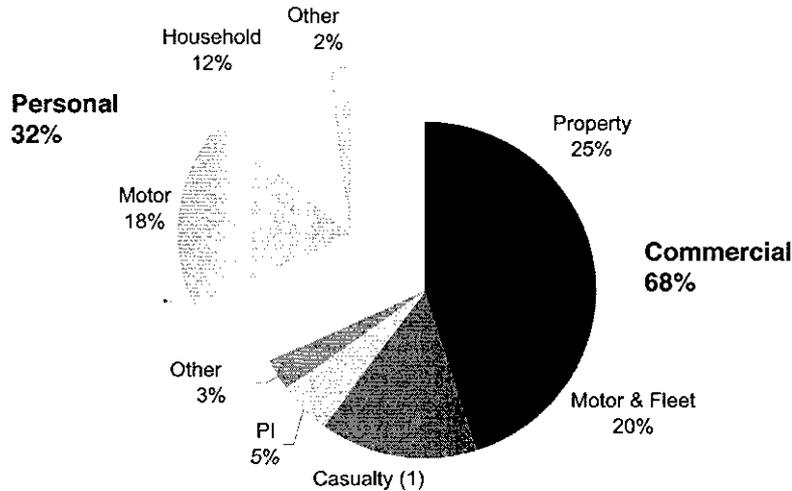
The percentage represents the number of Members falling within each band of Gross Written Premium.



Broker Network's own statistics indicate that the majority of community brokers enjoy a high degree (80-90 per cent) of customer retention year on year. This factor gives Broker Network good visibility of its future revenues.

Members focus on commercial insurance for SME businesses rather than personal insurance, as Chart 2 below indicates. Indeed, the Member recruitment process requires that prospective Members can demonstrate that they derive the majority of their revenues from commercial business.

**Chart 2: Gross Written Premium of Members by insurance product**



**Founder Members**

When Broker Network was founded in 1994, it offered discounts to the first 40 insurance brokers to become Members. The first two Members were Ellis Bates & Company Limited, a company in which Grant Ellis and Peter Bates (both Directors and Shareholders) are also directors and shareholders, and Northern Counties Guarantee Corporation Limited, a company in which David Belgian (a director of The Broker Network Limited and a Shareholder) is also a director and shareholder. Ellis Bates & Company Limited and Northern Counties Guarantee Corporation Limited benefited from a concessionary arrangement under which they have paid the costs to Broker Network of their membership less any income received from trading partners arising out of their membership, and have paid no deductions from commissions on premium income. The next eighteen founding Members receive a 40 per cent lifetime discount to the applicable deduction rate for their business and the next twenty Members receive a 20 per cent lifetime discount.

From 1 January 2004, Ellis Bates & Company Limited and Northern Counties Guarantee Corporation Limited have agreed to revised terms of membership under which the effective discount rate of 100 per cent is applied only to the first £4 million of premiums in any calendar year and thereafter the discount is reduced to 40 per cent. In addition, the standard monthly fee of £95 will be applied.

Transactions between the The Broker Network Limited and Ellis Bates & Company Limited and Northern Counties Guarantee Corporation Limited have been disclosed as related party transactions in the accountants' report on The Broker Network Limited (note 4.23 of Part III(c) of this document).

## GROUP STRUCTURE

Broker Network Holdings plc was incorporated on 16 February 2004 and acquired The Broker Network Limited on 22 March 2004. The Broker Network Limited was previously the parent company for the Broker Network group and was the main trading company. Broker Network was established as a new holding company to facilitate the flotation and the Group's future plans. In addition, this will allow the Group to keep its investment and financing activities separate from its trading activities, and thus reflect a commercial structure more commonly associated with a listed group. It will also ensure that the way the Group accounts in future will be in line with, and ensure that the Group is best placed to meet, the requirements imposed by the FSA, particularly in relation to capital and solvency.

The Broker Network Limited has four trading subsidiaries. London Broking Services Limited, as mentioned above, provides access to the London market. Redbox Systems Limited was acquired in 2001. The business had been established to develop software for electronic trading in the insurance industry. However, the Board no longer expect a viable product will result from this enterprise and as a result, Redbox no longer incurs material costs (it has never had any material turnover). Under the strategy outlined below under "Business Development and Prospects", The Broker Network Limited has acquired four insurance brokers since 1 January 2004, of which two were purchases of trade and assets and two were of trading companies - Donaldson Meigh Limited (100 per cent) and Sharples & Co (Insurance Brokers) Limited (76 per cent).

## FINANCIAL RECORD AND CURRENT TRADING

Part III of this document sets out the financial record of the Group.

The following is a summary of the trading record of the Group for the three years and eight months ended 31 December 2003. The information for the three years ended 30 April 2003 is derived from the accountants' report on the non-consolidated results of The Broker Network Limited (set out in Part III(c) of this document). The information for the eight months ended 31 December 2003 has been derived from the extract of the audited consolidated non-statutory accounts of The Broker Network Limited (set out in Part III(b) of this document). **However, you should read the whole document and not just rely on this summarised information.**

	Year ended 30 April (Note 1)			Eight months to
	2001	2002	2003	December
	£'000	£'000	£'000	2003
				£'000
Turnover	1,741	2,528	3,428	2,829
Administrative expenses	(1,562)	(2,278)	(2,872)	(2,454)
Net interest	131	114	162	109
Investment write down (Note 2)	-	(323)	-	-
Profit before tax	310	41	718	484
Tax	-	(14)	(127)	(116)
Profit after tax	310	27	591	368
Net cash inflow from operating activities	203	227	462	517
Net assets	361	450	1,041	1,395
Key performance indicators				
Gross Written Premium (Note 3)	96,720	133,912	194,914	150,176
Number of Members (Note 3)	75	97	106	123

*Notes:*

1. These figures exclude the results for Redbox Systems Limited which are set out in Part III(d) of this document.
2. This figure relates to the write down of the investment in Redbox Systems Limited.
3. These figures are unaudited and have been taken from the Group's records.

### **Profit Forecast**

The Directors forecast that the profit on ordinary activities before taxation and goodwill amortisation of The Broker Network Limited and its subsidiaries for the year ending 30 April 2004 will be not less than £745,000. Further details on the Directors' profit forecast are set out in Part IV of this document.

### **COMPETITION**

The market in which Broker Network operates is likely to become increasingly competitive.

The Directors are aware of a number of start up businesses, independent financial adviser networks, marketing associations and regional broker clusters all seeking to exploit the general insurance broking market. However, not all of these are targeting the community brokers that Broker Network serves or indeed adopting a similar operating model.

There are no accurate statistics available about how many community brokers have already aligned themselves with any network. However, Broker Network believes that no more than 200 firms in total are currently aligned to any of their competitors, which, coupled with the 130 Members, only represents around 12 per cent of the total target population.

### **BUSINESS DEVELOPMENT AND PROSPECTS**

Broker Network has already established a profitable model by which it can continue to grow the Membership. However, the age profile of broker principals is now such that many may wish to retire altogether from the industry in the near future. Currently, around 53 per cent of all principals of all Members are aged 50 or over. In addition, an analysis of the oldest principal of all Members, shows that around 52 per cent of this population are aged 55 or over. FSA authorisation, which will become compulsory for intermediaries selling and administering insurance policies with effect from January 2005, could act as a catalyst for some brokers to crystallize their decision to retire. To address this, in the summer of 2003, Broker Network indicated to its Members that where a Member wished to exit the industry, Broker Network itself would consider acquiring the Member's business. With the addition of this new feature, Broker Network's strategy may then be summarised as:

- *continued growth of Broker Network using the established model*

Broker Network aims to increase Membership from around 130 today to 200 or more by the end of 2008. The Group has recruited on average 20 net new Members per annum over the past three years. In addition, Broker Network aims to increase average earnings per Member through the provision of its support services to them.

- *ensure Members achieve FSA authorisation*

The application process for authorisation has already commenced. Broker Network has drawn up a plan to assist Members to achieve authorisation by January 2005, and is committed to providing continuing compliance support.

- *assisting principals who wish to retire by acquiring their businesses*

Broker Network proposes, subject to due diligence, to acquire Members whose principals wish to exit or retire. Since announcing its intention, a number of approaches have already been received indicating a pipeline of targets. Broker Network has completed four such acquisitions since the beginning of 2004 and has plans to acquire a further 23 by the end of April 2006, of which three have agreed terms and are expected to complete in 2004. Currently, only Members are being considered for acquisition. As a consequence, Broker Network will have an established relationship with the target businesses and detailed knowledge about their income streams and management.

Based upon the Group's experience of analysing small brokers' businesses, the Directors believe that there is a strong likelihood of opportunities to improve the profitability of acquired brokers. Much of the administration of acquired businesses will pass to Broker Network's head office in Harrogate, leaving the business unit to concentrate on generating new business. All acquired Members will use the common electronic trading platform preferred by Broker Network, which improves efficiency and removes costs of reconciling data from separate systems. Broker Network intends to raise revenues and improve margins by comparison with those achieved by Members owned and managed by principals, through optimal use of its centralised services, including a marketing plan, and placing facilities, as well as opportunities to up-sell. Broker Network intends to employ business unit managers at a lower cost than the retiring principals' salary and profits. In this way, Broker Network anticipates being able to generate a net economic benefit.

The Directors have established a set of investment parameters against which each candidate for acquisition is judged. Due diligence is carried out on acquisition targets to assess the opportunity for margin improvement.

The four brokers which have been acquired to date have historically achieved an average Gross Written Premium of £1.725 million per annum, on which they have received on average commission income of 14.2 per cent. Broker Network has acquired these four brokers for consideration, based upon budgeted future performance of those businesses, of up to a maximum of approximately £1.2 million, in aggregate.

Broker Network aims to acquire over 90 brokers over the next five years.

● *improving efficiency of trading with insurers*

As already described, Broker Network intends to introduce a common technology platform across all its offices and most Members to enhance:

- electronic trading with insurers;
- management information;
- insurer statement reconciliation; and
- Member audit and compliance.

Broker Network is promoting a preferred trading model to insurers that embraces:

- a single point of contact;
- service level agreements;
- dedicated teams; and
- Broker Network badged and differentiated products.

In return for commitments under these arrangements, Broker Network aims to increase income from insurers received as over-rider payments.

● *growth of providing outsourced services to insurers via Broker Network Underwriting*

In the main, Members deal directly with insurers for the purpose of administering individual insurance policies. In 2002, Broker Network Underwriting (a trading division of The Broker Network Limited) was created to undertake certain administrative tasks on behalf of insurers such as providing quotations, issuing policies and maintaining records. These tasks are performed under authority delegated from currently three insurers. Such delegated authorities are known collectively in the industry as 'binding authorities' or 'binders'. Broker Network receives additional income from insurers for managing the tasks delegated under these binders. In 2003, only a small proportion of Broker Network's total business was managed in this way (less than 2 per cent) but the Directors plan to grow this area of the business significantly.

The expectation of growth in Broker Network Underwriting revenue arises because use of binders can have advantages to all parties in the distribution chain. In particular, where the specific book of business under the binder generates fewer losses than the insurers' general book of the relevant type, this can be reflected in lower net premiums - giving Broker Network Underwriting products the potential to be more competitive.

## **DIVIDEND POLICY**

In the near term, the Company expects to retain the monies raised by the Placing and the Offer and operating cash flows to fund the strategy set out in this document. It is therefore inappropriate to give any expectations of the likely level and timing of future dividend payments. At the appropriate time and having regard to the performance of the Group, the Board intends to follow a progressive dividend policy.

## **DIRECTORS**

Until 1995, the board of The Broker Network Limited was made up of the three founding shareholders, Grant Ellis (who was the only executive director), Peter Bates and David Belgian. In 1995, Michael Collins joined as non-executive Chairman. Faisal Rahmatallah joined the board of The Broker Network Limited in 1997 as non-executive director representing the interests of Capricorn, a private equity group. Capricorn had invested in The Broker Network Limited in 1997 and remains a significant shareholder in Broker Network.

Julie Hale joined the board of The Broker Network Limited as Finance Director in April 2001, and when Michael Collins moved to an executive role in 2002, Faisal Rahmatallah took over as non-executive Chairman, and was replaced by Miles Japhet as Capricorn's representative.

Michael Pendle became a non-executive director of the Company with effect from 17 March 2004.

The Directors intend to appoint a second independent non-executive director in the near future, in addition to Michael Pendle.

### *Faisal Rahmatallah BA MBA - Non-executive Chairman, aged 47 years*

Faisal joined the board of The Broker Network Limited as representative of Capricorn, a private equity investment organisation that specialises in the insurance sector, and who have been the major investor in Broker Network since 1997. Faisal is a graduate of Oxford University and has an MBA from Harvard Business School. Prior to Capricorn, Faisal was a managing director of one of Deloitte and Touche's specialist consulting groups and was a partner in Deloitte & Touche. Capricorn's other UK insurance investments include Budget Insurance Services Limited and Albany Group Holdings Limited.

### *Grant Ellis ACII - Chief Executive Officer, aged 46 years*

Grant is a Chartered Insurance Broker and has spent most of his working life in the insurance and financial services sectors. An insurance broker since 1976, and a financial planning certificate qualified independent financial adviser (but no longer practising), he is a non-executive director and shareholder of the Ellis Bates group of companies, a financial services and insurance broking business based in Yorkshire and the North East of England. He is now Chief Executive of Broker Network, which he helped to found in the mid 1990's. He is a regular commentator on the insurance industry.

### *Dr. Michael Collins LL.B DBA FCII Barrister - Chief Operating Officer, aged 51 years*

Michael is a law graduate and qualified as a barrister. His career has been mainly in the financial service sector as technical manager of Endsleigh Insurance and managing director of Wimpey Insurance Services. After a period with BT he joined Misys plc and became chief executive officer of the Financial Services Division until the merger with ACT plc. Thereafter, he joined Lloyd's as general manager of Lloyd's Policy Signing Office. He was appointed non-executive Chairman of The Broker Network Limited in 1995 and Chief Operating Officer in 2003. Michael holds an MBA from Brunel University/Henley Management College, a DBA from Kingston University and is a Chartered Insurance Practitioner and Fellow of the Royal Society of Arts.

### *Julie Hale BA (Dual) Hons FCA - Group Finance Director, aged 49 years*

Julie graduated in Economics and Business Studies from Sheffield University and qualified as a Chartered Accountant with KPMG in 1983. In 1990, Julie set up and managed an agency supplying senior accountants to industry and commerce on medium to long-term contracts. In 1993, she returned to full time employment and joined National & Provincial Building Society as financial evaluation adviser. Following the takeover of National and Provincial by Abbey National plc in 1996, she became finance director of YorkSHARE, the execution-only stockbroking subsidiary of Yorkshire Building Society and then group finance manager of Yorkshire Building Society. She joined Broker Network in April 2001 as finance and operations director.

### *Miles Japhet BSc (Hons) ACII - Non-executive Director, aged 48 years*

Miles is deputy chairman of Hollard Insurance and of Hollard Life Assurance, both based in South Africa (Hollard Insurance is South Africa's third largest general insurer). Miles was a founder member in 1980 of the Hollard Group and was chief executive from 1985 to 1998.

*Peter Bates - Non-executive Director, aged 55 years*

Peter is an independent financial adviser, financial planning certificate and mortgage adviser qualified. He has been in the insurance sector since 1974. He is chairman of the Ellis Bates group of companies, which he established with Grant Ellis in 1980. He is a non-executive director of The Broker Network Limited and of The Burns Anderson Independent Network PLC.

*Michael Pendle - Non-executive Director, aged 58 years*

Michael, who qualified as a chartered insurance practitioner, has worked for Royal Insurance, Sedgwick Group Plc and National & Provincial Building Society. Until retirement in June 2002, Michael was Retail Customer Service Director for Abbey National plc and was a member of the Executive Team responsible for the strategic direction and financial performance of the Retail Bank. Michael wishes to maintain an interest in the insurance industry and accordingly recently joined the Board as a non-executive Director.

## **CORPORATE GOVERNANCE**

The Board recognises the importance of sound corporate governance whilst taking into account the size and nature of the Group. As the Group grows, the Directors intend that the Group should develop policies and procedures which reflect the Combined Code on Corporate Governance annexed to the Listing Rules of the UK Listing Authority (commonly known as the "Combined Code"), as are appropriate to a company of this size. The Board will take such measures, so far as is practicable, to comply with the Combined Code.

An Audit Committee has been established which is composed of non-executive Directors. It will meet at least twice each year and will be responsible for making recommendations to the Board on the appointment of the auditors and the audit fee, for reviewing the conduct and control of the annual audit and for reviewing the operation of the internal financial controls. It will also have responsibility for the proper reporting of the financial performance of the Group and for reviewing financial statements prior to publication.

The Board notes the guidance contained in the paper on internal controls issued by the Turnbull Committee, on behalf of the Institute of Chartered Accountants, and will review its arrangements as necessary in the light of this guidance.

A Remuneration Committee has been established which is composed of non-executive Directors. It will review the performance of the executive directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. The Remuneration Committee will also determine the allocation of share options to employees. It is a rule of the Remuneration Committee that no director shall participate in discussions or decisions concerning his own remuneration.

A Nominations Committee has been established which is composed of non-executive Directors. It will make recommendations to the Board on any appointments to the Board and at senior executive level.

The Company will adopt the Model Code for Directors' dealings as applicable to AIM companies and will take all reasonable steps to ensure compliance by Directors and relevant employees in due course.

## **RISK FACTORS**

Investing in the Company involves a degree of risk. You should carefully consider the risks and the other information contained in this document before you decide to invest in the Company. You should note that the risks described below are not the only risks faced by the Company, there may be additional risks that the Directors currently consider not to be material or of which they are not presently aware. If any of the following risks were to materialise, the Company's business, financial condition and results of operations could be materially adversely affected:

- failure to become authorised by the FSA by 14 January 2005; Broker Network would not be able to trade in these circumstances;
- failure by a material proportion of Members to become authorised by the FSA by 14 January 2005; affected Members would not be able to trade in these circumstances and income received by Broker Network from these Members would cease;
- breach by Broker Network or a significant number of its Members of regulations which apply to their business;
- failure successfully to integrate and manage the brokers acquired by Broker Network, including failure to extract the anticipated benefits from such acquisitions;

- a significant fall in the level of premiums generally in the commercial insurance market;
- the market for community insurance broking not developing as the Directors expect or Broker Network not being able to adjust its strategy to reflect any changes in its markets; and
- the pipeline of acquisition targets anticipated by the Directors, based upon their knowledge of Members and Broker Network's market, not providing sufficient suitable candidates (or indeed suitable agreement not being reached for the acquisition of candidates that meet Broker Network's investment criteria).

#### **INCENTIVE SCHEMES**

Upon Admission, there will be 600,000 Ordinary Shares under option. All of these options are held by Michael Collins and Julie Hale and have been granted under option arrangements in replacement for the options previously held by them over shares in The Broker Network Limited. Further details on options are set out in paragraph 6 of Part VI of this document.

The Remuneration Committee recognises the need to incentivise executive Directors through share participation and intends to establish incentive scheme(s) (likely to include share options) following Admission to reward executive Directors based upon meeting performance targets. The Directors intend that these incentive schemes will be put before Shareholders at the first AGM following Admission for their approval.

#### **FINANCIAL REPORTING AND AGM**

The Company expects to announce the profits before taxation and goodwill amortisation of The Broker Network Limited for the year ending 30 April 2004 no later than 31 July 2004.

The Group's first interim results will be for the six months ending 31 August 2004 and will be announced no later than 30 November 2004. The Group will then report a further set of interim results for the six months ending 28 February 2005 no later than 31 May 2005. The Group will announce its first preliminary results for its first full accounting reference period for the period from incorporation (16 February 2004) to 30 April 2005, no later than 31 July 2005.

The Company's first annual general meeting will be held no later than 15 August 2005.

#### **REASONS FOR THE PLACING AND THE OFFER**

The Directors intend to use the net proceeds of the Placing and the Offer to pursue the Group's strategy as explained above. In particular, the Placing and the Offer will provide funds for the acquisition of Members.

The Directors believe that the Admission of the Company's shares to trading on AIM will raise the status and market profile of the Group and promote greater awareness of Broker Network's activities amongst insurers and insurance brokers. This increased presence will, in the opinion of the Directors, strengthen the Group's ability to attract and compete for new business.

Admission to AIM will also provide an opportunity to incentivise present and future employees through share based reward schemes.

#### **FURTHER INFORMATION**

Your attention is drawn to the further information contained in Parts II to VII of this document.

## **PART II: THE PLACING AND THE OFFER**

### **DESCRIPTION OF THE PLACING**

Brewin Dolphin, as agent for the Company, has agreed conditionally to place firm a total of 3,521,124 New Ordinary Shares at the Issue Price, which will raise approximately £2.5 million for the Company before expenses. After expenses of approximately £0.55 million (including irrecoverable VAT), the net proceeds receivable by the Company will amount to approximately £1.95 million. The New Ordinary Shares will represent 23.2 per cent of the Company's issued share capital following the Placing.

The New Ordinary Shares will rank *pari passu* in all respects with the Ordinary Shares in issue prior to the Placing, including the right to receive all dividends and distributions declared, paid or made after the date of this document.

The Placing is conditional, *inter alia*, on the Placing Agreement becoming unconditional in all respects and on Admission occurring on or before 10 May 2004 or such later date as may be agreed between Brewin Dolphin and the Company (not being later than 31 May 2004). Further details of the Placing Agreement are set out in paragraph 8 of Part VI.

### **DESCRIPTION OF THE OFFER FOR SUBSCRIPTION**

The Company proposes to raise up to £0.25 million (before expenses) by way of the offer for subscription of up to 352,112 new Ordinary Shares at the Issue Price, payable in full on application. The Offer Shares will, when issued, rank *pari passu* in all respects with the Ordinary Shares in issue on Admission, including the right to receive all dividends and distributions declared, paid or made after the date of this document.

The Offer is conditional, *inter alia*, on the Placing Agreement becoming unconditional in all respects and on Admission occurring on or before 10 May 2004 or such later date as may be agreed between Brewin Dolphin and the Company (not being later than 31 May 2004).

Employees of the Group and employees of Members will receive priority application in the event of an over subscription.

The Offer is not underwritten. There is no minimum sum to be raised in the Offer.

### **APPLICATIONS UNDER THE OFFER**

The Offer is open to individuals aged 18 or over and who have a mailing address in the UK. The subscription will open on 23 April 2004 and the latest time and date for receipt of Application Forms will be at 3.00 pm on 6 May 2004 unless previously extended by the Company and Brewin Dolphin. Subscribers may apply for a minimum of 1,000 Ordinary Shares. Applications should be made on the Application Form accompanied by a cheque or banker's draft.

The procedure for application, the terms and conditions of application and the Application Form are set out in Part VII of this document. All enquiries in relation to the Application Form should be addressed to Computershare Investor Services plc, PO Box 859, The Pavilions, Bridgwater Road, Bristol, BS99 1XZ. A helpline has been established for queries in connection with the completion of the Application Form only - 0870 702 0100.

### **DEALING ARRANGEMENTS**

Application will be made for the whole of the issued ordinary share capital of the Company to be admitted to AIM.

It is anticipated that trading in the Ordinary Shares will commence at 8.00 am on 10 May 2004.

Where applicable, the posting of definitive share certificates in respect of the Ordinary Shares is expected to commence within five working days of Admission. The Ordinary Shares are in registered form and can also be held in uncertificated form. Prior to despatch of definitive share certificates in respect of any Ordinary Shares which are not settled in CREST, transfers of those Ordinary Shares will be certified against the register of members of the Company. No temporary documents of title will be issued.

### **CREST**

The Directors have organised with CRESTCo for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system, if the relevant Shareholders so wish. CREST is a paperless settlement procedure, which allows securities to be evidenced without a certificate and transferred otherwise than by written instrument. The Articles permit the holding of Ordinary Shares under the CREST system.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Persons acquiring Ordinary Shares may, however, elect to receive Ordinary Shares in uncertificated form if, but only if, that person is a "system member" (as defined in The Uncertificated Securities Regulations 2001) in relation to CREST.

### **LOCK-IN ARRANGEMENTS**

The Directors and their associates, who will together control 64 per cent of the issued share capital of the Company upon Admission, have undertaken not to dispose of any Ordinary Shares for a period of twelve months following Admission without the prior consent of Brewin Dolphin, except in certain limited circumstances, and for a further period of twelve months thereafter not to dispose of any Ordinary Shares other than through the Company's broker at the relevant time.

### PART III: FINANCIAL INFORMATION

This section contains financial information on the Group, as follows:

<i>Name</i>	<i>Principal activity</i>	<i>Per cent holding</i>	<i>Period for which financial information is presented</i>
(a) Broker Network Holdings plc	Holding company for the Group	-	Period from incorporation (16 February 2004) to 29 February 2004
(b) The Broker Network Limited (consolidated)	Insurance services	100	Eight months ended 31 December 2003
(c) The Broker Network Limited	Insurance services	100	Three years ended 30 April 2003
(d) Redbox Systems Limited	Software development	100	Three years ended 30 April 2003

**PART III(a): ACCOUNTANTS' REPORT ON  
BROKER NETWORK HOLDINGS PLC**



1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

The Directors  
Broker Network Holdings plc  
Mowbray House  
Mowbray Square  
Harrogate  
HG1 5AU

The Directors  
Brewin Dolphin Securities Limited  
34 Lisbon Street  
Leeds  
LS1 4LX

22 April 2004

Dear Sirs

**Broker Network Holdings plc**

We report on the financial information set out in paragraphs 1 and 2 below. This financial information has been prepared for inclusion in the Admission Document dated 22 April 2004 of Broker Network Holdings plc ("the Company").

*Basis of preparation*

The financial information set out in paragraphs 1 and 2 is based on the unaudited financial statements of the Company from the date of incorporation on 16 February 2004 to 29 February 2004 prepared on the basis described in note 2.1 to which no adjustments were considered necessary.

*Responsibility*

Such unaudited financial statements are the responsibility of the Directors of the Company who have approved their issue.

The Directors of the Group are responsible for the contents of the Admission Document dated 22 April 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the unaudited financial statements, to form an opinion on the financial information and to report our opinion to you.

*Basis of opinion*

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

*Opinion*

In our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Company as at 29 February 2004.

We consent to the inclusion in the Admission Document dated 22 April 2004 of this report and accept responsibility for this report for the purposes of paragraph 45 (1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

**1. Balance sheet**

	<b>29 February 2004</b>
	<b>£</b>
<b>Current assets</b>	
Cash at bank and in hand	2
	<hr/>
<b>Net assets</b>	2
	<hr/>
<b>Capital and reserves</b>	
Called up share capital	2
	<hr/>
<b>Total shareholders' funds: equity</b>	<u>2</u>

**2. Notes**

**2.1 Basis of preparation**

The financial information has been drawn up in accordance with applicable accounting standards.

**2.2 Background**

The Company was incorporated on 16 February 2004. The Company has not commenced trading and no audited financial statements have been prepared. The Directors of the Company have not declared or paid any dividends since the date of incorporation.

**2.3 Accounting policies**

*Basis of accounting*

The financial statements have been prepared under the historical cost convention.

*Cash flow statement*

The Company has taken advantage of the exemption under FRS 1 (Revised) "Cash flow statements" not to publish a cash flow statement, as the Company qualifies as a small company under section 246 of the Companies Act 1985.

**2.4 Called up share capital**

	<b>29 February 2004</b>
	<b>£</b>
<b>Authorised</b>	
Equity: 50,000 ordinary shares of £1 each	50,000
	<hr/>
<b>Allotted</b>	
Equity: 2 fully paid ordinary shares of £1 each	2
	<hr/>

2.5 Post balance sheet events

On 17 March 2004, the 50,000 issued and unissued ordinary shares of £1 each in the Company were converted into, and redesignated as 25,000 A ordinary shares of £1 each and 25,000 B ordinary shares of £1 each.

On 17 March 2004, the authorised share capital of the Company was increased from £50,000 to £453,000 by the creation of an additional 75,000 A ordinary shares of £1 each, an additional 75,000 B ordinary shares of £1 each, 100,000 new C ordinary shares of £1 each and 153,000 non-voting ordinary shares of £1 each.

On 22 March 2004, the Company allotted 78,999 A ordinary shares of £1 each, 58,699 B Ordinary Shares of £1 each, 72,701 C ordinary shares of £1 each and 16,023 non-voting ordinary shares of £1 each to the shareholders of The Broker Network Limited as consideration for the entire issued share capital of The Broker Network Limited.

On 6 April 2004, the authorised share capital of 100,000 A ordinary shares of £1 each, 100,000 B ordinary shares of £1 each, 100,000 C ordinary shares of £1 each and 153,000 non-voting ordinary shares of £1 each, were each redesignated, reclassified and subdivided into 50 ordinary shares of 2p each, conditional upon Admission.

Yours faithfully

**KPMG LLP**

**PART III (b): AUDITED CONSOLIDATED NON-STATUTORY ACCOUNTS OF  
THE BROKER NETWORK LIMITED  
FOR THE EIGHT MONTHS ENDED 31 DECEMBER 2003**

Set out below is the full text of the audited consolidated non-statutory accounts of The Broker Network Limited for the eight months ended 31 December 2003:

**“Statement of directors’ responsibilities**

The directors of The Broker Network Limited (“the company”) have accepted responsibility to prepare these non-statutory accounts for the 8 month period ended 31 December 2003 on the basis set out in note 1 to these non-statutory accounts. In preparing these non-statutory accounts, the directors are required to:

- select suitable accounting policies which are consistent with those used in the statutory financial statements of The Broker Network Limited for the year ended 30 April 2003;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the non-statutory accounts; 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The statement of directors’ responsibilities was approved by the board and signed on its behalf by:

**Julie Hale**  
*Director*

21 April 2004

## **REPORT OF KPMG AUDIT PLC TO THE BROKER NETWORK LIMITED PURSUANT TO THE PREPARATION OF AN ADMISSION DOCUMENT**

We have audited the non-statutory accounts on pages 4 to 15. The financial information contained within these accounts has been prepared by consolidating the accounts of The Broker Network Limited and its subsidiaries. As explained in note 1 to the non-statutory accounts, these are not the statutory accounts of the entity and have been prepared solely for the purposes of the preparation of an Admission Document.

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

As described on page 1, the directors of The Broker Network Limited have accepted responsibility for the preparation of these non-statutory accounts in accordance with the basis of preparation set out in note 1 to the non-statutory accounts. Our responsibilities, as independent auditors, are established in the United Kingdom by the Auditing Practices Board, by our profession's ethical guidance and by the terms of our engagement letter dated 26 March 2004.

Under the terms of engagement we are required to report to you our opinion as to whether the non-statutory accounts have been properly prepared in accordance with the basis of preparation set out in note 1 to the non-statutory accounts. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

Our report has been prepared for the company solely in connection with the preparation of an Admission Document. It has been released to the company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the company determined by the company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the company for any purpose or in any context. Any party other than the company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other person or organisation.

### **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 non-statutory accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the non-statutory accounts, and of whether the accounting policies are appropriate to the entity'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 non-statutory accounts are free from material misstatements, whether caused by fraud or other irregularity or error. In view of the purpose for which these non-statutory accounts have been prepared, however, we did not evaluate the overall adequacy of the presentation of the information which would have been required if we were to express an audit opinion under Auditing Standards.

### **Opinion**

In our opinion, the non-statutory accounts for the period ended 31 December 2003 have been properly prepared in accordance with the basis of preparation set out in note 1.

**KPMG Audit Plc**

*Chartered Accountants*

21 April 2004

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE 8 MONTHS ENDED 31 DECEMBER 2003**

	<i>Note</i>	£
<b>Turnover</b>	<i>1</i>	2,829,480
Administrative expenses		(2,454,031)
		<hr/>
<b>Operating profit</b>	<i>2</i>	375,449
Interest receivable	<i>6</i>	108,448
		<hr/>
<b>Profit before tax</b>		483,897
<b>Tax charge for the period</b>	<i>3</i>	(115,873)
		<hr/>
<b>Retained profit for the period</b>	<i>12</i>	<u>368,024</u>

**CONSOLIDATED BALANCE SHEET  
AT 31 DECEMBER 2003**

	<i>Note</i>	£	£
<b>Fixed assets</b>			
Tangible fixed assets	7		298,817
<b>Current assets</b>			
Debtors	8	10,202,703	
Insurance broking account		4,783,092	
Cash at bank and in hand		1,057,263	
		16,043,058	
<b>Creditors: amounts falling due within one year</b>	9	(14,933,039)	
<b>Net current assets</b>			1,110,019
<b>Total assets less current liabilities</b>			1,408,836
Provision for liabilities and charges	10		(14,100)
<b>Net assets</b>			1,394,736
<b>Capital and Reserves</b>			
Share capital	11		226,424
Share premium account	12		454,322
Profit and loss account	12		713,990
			1,394,736

The non-statutory accounts were approved by the board and signed on its behalf by:

Julie Hale  
*Director*

21 April 2004

**CONSOLIDATED CASH FLOW STATEMENT FOR THE 8 MONTH PERIOD  
ENDED 31 DECEMBER 2003**

	<i>Note</i>	<b>£</b>
<b>Net cash inflow from operating activities</b>	<i>18</i>	517,133
<b>Returns on investment and servicing of finance</b>		
Interest received		107,005
<b>Net cash inflow from returns on investment and servicing of finance</b>		<u>107,005</u>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets		(82,250)
<b>Net cash outflow for capital expenditure</b>		<u>(82,250)</u>
<b>Corporation tax paid</b>		(8,633)
<b>Increase in net cash</b>	<i>20</i>	<u><u>533,255</u></u>

## NOTES

(forming part of these accounts)

### 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to these accounts.

#### *Basis of preparation*

These accounts are not the statutory accounts of the company and have been prepared for the sole purpose of generating financial information for inclusion in an Admission Document. They have been prepared under the historical cost convention. These accounts are an abridged form of the full statutory financial statements and therefore exclude a directors' report, the accounts of the parent entity, or full note disclosure.

#### *Basis of consolidation*

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2003. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

#### *Turnover*

Turnover represents commissions received on the arrangement of the settlement of insurance policies and levies made on satellite operatives and other related undertakings. Turnover is recognised when it falls due.

Insurance income on cash flows arising from insurance broking debtors and creditors is recognised as earned.

#### *Insurance transactions*

Insurance transactions arise from the settlement of transactions with insurance companies on behalf of satellite insurance intermediaries who are members of the network. A debtor balance representing amounts owing from individual customers is recognised when the member arranges a policy, along with a creditor balance representing amounts due to the ultimate insurance provider and commissions earned by the intermediary and the Broker Network. That element of commission earned by the Broker Network is recognised in the profit and loss account at the time the policy is arranged.

Insurance broking debtors and creditors are reported in accordance with the requirements of Financial Reporting Standard 5, 'Reporting the Substance of Transactions'. The standard precludes assets and liabilities being offset unless net settlement is legally enforceable, and as a result the insurance broking debtors and creditors have been shown as the gross amounts due in respect of each contract, instead of the net amount due to or from clients and underwriters.

#### *Fixed assets*

Tangible fixed assets are stated at cost.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Office equipment	15% straight line
Motor vehicles	25% straight line
Computer equipment	25% straight line

#### *Taxation*

The charge for taxation is based on the result for the period at current rates of tax and takes into account deferred taxation.

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

*Leasing*

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the leases.

*Pension arrangements*

The company operates a group personal pension plan, a defined contribution scheme. The pension cost is the amount of contributions payable in respect of the accounting period. The company provides no further post retirement benefits to its employees.

**2. Operating profit**

	<b>8 months ended 31 December 2003</b>
	<b>£</b>
<b>Operating profit is stated after charging:</b>	
Auditors' remuneration:	
- for audit services	15,500
Depreciation:	
- owned fixed assets	77,052
Operating lease rentals	
- hire of plant and machinery	6,405
- others	111,095
	<u>111,095</u>

**3. Tax on profit on ordinary activities**

(a) Analysis of charge in period

	<b>8 months ended 31 December 2003</b>
	<b>£</b>
Corporation tax - prior years	7,373
Corporation tax - current year	110,000
Deferred tax	(1,500)
	<u>115,873</u>

(b) Factors affecting tax charge for period

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

	<b>8 months ended 31 December 2003</b>
	<b>£</b>
Profit on ordinary activities before tax	483,867
Profit on ordinary activities multiplied by standard rate of corporation tax (30%)	145,160
Effects of:	
Expenses not deductible for tax purposes	4,780
Capital allowances for the period in excess of depreciation	(39,940)
Current tax charge for the period	<u>110,000</u>

**4. Employee information**

	<b>8 months ended 31 December 2003</b>
	<b>£</b>
Wages and salaries	1,413,189
Social security costs	149,784
Pension costs	20,111
	<u>1,583,084</u>

The company had an average of 89 employees during the period. Of these employees 6 worked within the broking division and 83 within the administration division.

**5. Directors' emoluments**

	<b>8 months ended 31 December 2003</b>
	<b>£</b>
Aggregate emoluments	214,886
Pension contributions	5,760
	<u>220,646</u>

The company made contributions to a defined contribution pension scheme in respect of two directors.

Aggregate emoluments and benefits include amounts paid to the highest paid director, as follows:

	<b>8 months ended 31 December 2003</b>
	<b>£</b>
Aggregate emoluments	74,028
Pension contributions	3,167
	<u>77,195</u>

**6. Interest receivable**

	<b>8 months ended 31 December 2003</b>
	<b>£</b>
Interest receivable on cash at bank	<u>108,448</u>

**7. Tangible fixed assets**

	Office equipment £	Computer equipment £	Total £
<i>Cost</i>			
At 1 May 2003	86,967	518,300	605,267
Additions	6,857	75,392	82,249
At 31 December 2003	<u>93,824</u>	<u>593,692</u>	<u>687,516</u>
<i>Accumulated depreciation</i>			
At 1 May 2003	35,021	276,626	311,647
Charge for period	9,178	67,874	77,052
At 31 December 2003	<u>44,199</u>	<u>344,500</u>	<u>388,699</u>
<i>Net book value</i>			
At 31 December 2003	<u>49,625</u>	<u>249,192</u>	<u>298,817</u>
At 30 April 2003	<u>51,946</u>	<u>241,674</u>	<u>293,620</u>

**8. Debtors**

	£
Trade debtors	93,717
Other debtors	329,019
Prepayments and accrued income	84,050
Debtors in relation to insurance transactions	9,695,917
	<u>10,202,703</u>

**9. Creditors: amounts falling due within one year**

	£
Trade creditors	81,279
Corporation tax	234,241
PAYE/NI	68,617
Accruals	18,225
Other creditors	50,200
Creditors relating to insurance transactions	14,479,009
Bank overdraft	1,468
	<u>14,933,039</u>

**10. Provision for liabilities and charges**

	£
At 1 May 2003	15,600
Credited to profit and loss account	(1,500)
At 31 December 2003	<u>14,100</u>

### 11. Called up share capital

The A ordinary shares, the B ordinary shares, the C ordinary shares and the non-voting ordinary shares are separate classes of shares but rank *pari passu* in all respects with the exception of voting rights.

	£
<i>Authorised</i>	
Ordinary shares of £1 each	
Class A	100,000
Class B	100,000
Class C	100,000
	<hr/>
	300,000
£1 non voting ordinary shares	153,000
	<hr/>
	<u>453,000</u>

	£
<i>Allotted, called up and fully paid</i>	
Ordinary shares of £1 each	
Class A	79,000
Class B	58,700
Class C	72,701
	<hr/>
	210,401
£1 non voting ordinary shares	16,023
	<hr/>
	<u>226,424</u>

### 12. Reserves

	Share premium account £	Profit and loss account £
At 1 May 2003	454,322	345,966
Retained profit for the financial period	-	368,024
	<hr/>	<hr/>
At 31 December 2003	<u>454,322</u>	<u>713,990</u>

### 13. Reconciliation of movements in shareholders' funds

	8 months ended 31 December 2003 £
Opening equity shareholders' funds	1,026,712
Profit for the financial period	368,024
	<hr/>
Closing equity shareholders' funds	<u>1,394,736</u>

**14. Pensions**

The pension charge for the year represents contributions payable to the group personal pension plan. The pension charge for the period ended 31 December 2003 amounted to £20,111. No amounts were owing by or to the company at the accounting period end, nor at the end of the previous year.

**15. Obligations under operating leases**

Annual commitments under non-cancellable operating leases are as follows:

	31 December 2003 Land & buildings £	31 December 2003 Other £
Operating leases which expire:		
Within one year	-	6,875
Within two to five years	-	74,265
After five years	68,000	-
	<u>68,000</u>	<u>81,140</u>

**16. Related party transactions**

Between 1 May 2003 and 31 December 2003, the company supplied services to and purchased insurance from Ellis Bates & Company Limited, a company indirectly controlled by Messrs Ellis and Bates. The total value of these services determined on an arms length basis was £3,927 and a balance of £nil remained unpaid at 31 December 2003.

Between 1 May 2003 and 31 December 2003, the company supplied services to and purchased insurance from Ellis Bates (Financial Services) Limited, a company indirectly controlled by Messrs Ellis and Bates. The total value of these services determined on an arms length basis was £1,950 and a balance of £nil remained unpaid at 31 December 2003.

Between 1 May 2003 and 31 December 2003, the company purchased services from Ellis Bates Holdings Limited, a company controlled by Messrs Ellis and Bates. The total value of these services determined on an arms length basis was £1,473 and a balance of £363 remained unpaid at 31 December 2003.

Between 1 May 2003 and 31 December 2003, the company purchased services from Lesley and Page Services Limited, a company controlled by Dr Collins. The total value of these services determined on an arms-length basis was £8,000.

Mr Ellis' wife worked for the company during the period. Her emoluments received amounted to £7,551.

Between 1 May 2003 and 31 December 2003, the company paid Andrew Hale Photography Limited, a company controlled by Mrs Hale's husband, £650 for services provided as a photographer.

Ellis Bates & Company Limited and Northern Counties Guarantee Corporation Limited, a company controlled by Mr Belgian, were trading members of The Broker Network Limited throughout the year. The company charged Ellis Bates & Company Limited £3,333 during the period for support services. The company derived no income from Northern Counties Guarantee Corporation.

**17. Post balance sheet events**

On 22 March 2004, Broker Network Holdings plc acquired the entire issued share capital of the company in consideration for the issue of 78,999 A ordinary shares of £1 each, 58,699 B ordinary shares of £1 each, 72,701 C ordinary shares of £1 each and 16,023 non-voting ordinary shares of £1 each, all fully paid, in Broker Network Holdings plc.

Since 1 January 2004, the company has acquired 100 per cent of the share capital of a broker business, 76 per cent of the share capital of another broker business and 100 per cent of the trade and assets of two further brokers for aggregate consideration of £1,071,000, of which approximately £570,000 was payable on completion, with the remainder deferred to later financial periods.

**18. Cash flow from operating activities**

	<b>8 months ended 31 December 2003</b>
	<b>£</b>
Reconciliation of operating profit to net cash inflow:	
Operating profit	375,449
Depreciation charge	77,052
Write-off of development costs	10,000
Decrease in debtors	33,119
Increase in creditors	21,513
<b>Net cash inflow from operating activities</b>	<b>517,133</b>

Movements in debtors and creditors shown above exclude amounts relating to insurance transactions.

**19. Reconciliation of net cash flow to movement in net funds**

	<b>8 months ended 31 December 2003</b>
	<b>£</b>
Change in net funds resulting from cash flows	533,255
Non cash changes	-
<b>Movement in net funds in the period</b>	<b>533,255</b>
Net funds at start of period	522,540
<b>Net funds at end of period</b>	<b>1,055,795</b>

**20. Analysis of net funds**

	<b>1 May 2003</b>	<b>Cashflow</b>	<b>31 December 2003</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Cash at bank and in hand	522,540	534,723	1,057,263
Borrowings due within one year	-	(1,468)	(1,468)
	<u>522,540</u>	<u>533,255</u>	<u>1,055,795</u>

**21. Fixed asset investments**

The undertakings in which the group's interest at the year end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held	
			Group	Company
<i>Subsidiary undertakings</i>				
Redbox Systems Limited	United Kingdom	IT Application developer	100	100
London Broking Services Limited	United Kingdom	Wholesale Insurance Broking	100	100

London Broking Services Limited was incorporated on 22 October 2002 and commenced trade on 16 June 2003.

**22. Directors' interests**

The directors' shareholdings at the start and end of the period were as follows:

	A Shares	B Shares
P G Ellis	40,500	-
P Bates	38,500	-
D J Belgian	-	25,000
M G Collins	-	6,000

Options held by directors at the start of the period over B Class ordinary Shares were as follows:

	Start of periods	End of period
J K Hale	6,000	6,000
M G Collins	-	6,000

”

**PART III (c): ACCOUNTANTS' REPORT ON THE BROKER NETWORK  
LIMITED FOR THE THREE YEARS ENDED 30 APRIL 2003**



1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

The Directors  
Broker Network Holdings plc  
Mowbray House  
Mowbray Square  
Harrogate  
HG1 5AU

The Directors  
Brewin Dolphin Securities Limited  
34 Lisbon Street  
Leeds  
LS1 4LX

22 April 2004

Dear Sirs

**The Broker Network Limited**

We report on the financial information set out in paragraphs 1 to 4 below. This financial information has been prepared for inclusion in the Admission Document dated 22 April 2004 of Broker Network Holdings plc.

*Basis of preparation*

The financial information set out in paragraphs 1 to 4 is based on the financial statements of The Broker Network Limited (the "company") for the three years ended 30 April 2003 prepared on the basis described in note 4.1 to which no adjustments were considered necessary.

*Responsibility*

Such financial statements are the responsibility of the directors of the company (the "directors") who approved their issue.

The Directors of Broker Network Holdings plc are responsible for the contents of the Admission Document dated 22 April 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

*Basis of opinion*

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

*Opinion*

In our opinion the financial information gives, for the purposes of the prospectus, a true and fair view of the state of affairs of the company as at the date stated and of its profits and cash flows for the years then ended.

We consent to the inclusion in the Admission Document dated 22 April 2004 of this report and accept responsibility for this report for the purposes of paragraph 45 (1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

**1. Profit and loss accounts**

	<i>Notes</i>	<b>2001</b> £	<b>2002</b> £	<b>2003</b> £
<b>Gross commission receivable</b>		14,058,038	20,086,770	29,789,364
<b>Turnover</b>	4.2	1,740,860	2,528,213	3,428,305
Administrative expenses		(1,562,007)	(2,278,332)	(2,872,183)
<b>Operating profit</b>	4.3	178,853	249,881	556,122
Write down of investment	4.9	-	(322,790)	-
Interest receivable		135,717	114,859	161,872
Interest payable	4.7	(4,491)	(524)	-
<b>Profit on ordinary activities before taxation</b>		310,079	41,426	717,994
Tax on profit on ordinary activities	4.6	-	(14,500)	(126,600)
<b>Retained profit for the financial year</b>	4.17	310,079	26,926	591,394

All amounts above relate to the continuing activities of the company.

The company had no recognised gains or losses other than those shown in the profit and loss account and therefore a statement of total recognised gains and losses has not been presented.

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

**2. Balance sheets**

	<i>Notes</i>	<b>2001</b> £	<b>2002</b> £	<b>2003</b> £
<b>Fixed assets</b>				
Tangible assets	4.8	101,436	243,495	281,844
Investment in subsidiary	4.9	-	10,000	10,000
		<u>101,436</u>	<u>253,495</u>	<u>291,844</u>
<b>Current assets</b>				
Debtors	4.10	7,583,348	9,969,738	11,324,881
Insurance broking account		2,024,995	4,777,666	4,990,227
Cash at bank and in hand		275,658	157,569	520,116
		<u>9,884,001</u>	<u>14,904,973</u>	<u>16,835,224</u>
<b>Creditors: amounts falling due within one year</b>	4.11	<u>(9,537,462)</u>	<u>(14,705,287)</u>	<u>(16,070,393)</u>
<b>Net current assets</b>		<u>346,539</u>	<u>199,686</u>	<u>764,831</u>
<b>Total assets less current liabilities</b>		<u>447,975</u>	<u>453,181</u>	<u>1,056,675</u>
<b>Creditors: amounts falling due after more than one year</b>	4.12	(86,500)	-	-
<b>Provision for liabilities and charges</b>	4.13	-	(3,500)	(15,600)
<b>Net assets</b>		<u>361,475</u>	<u>449,681</u>	<u>1,041,075</u>
<b>Capital and reserves</b>				
Called up share capital	4.15	220,296	226,424	226,424
Share premium account	4.16	399,170	454,322	454,322
Profit and loss account	4.16	(257,991)	(231,065)	360,329
<b>Equity shareholders' funds</b>	4.17	<u>361,475</u>	<u>449,681</u>	<u>1,041,075</u>

**3. Cash flow statements**

	<i>Notes</i>	<b>2001</b> £	<b>2002</b> £	<b>2003</b> £
<b>Net cash inflow from operating activities</b>	4.20	202,955	226,572	462,003
<b>Returns on investments and servicing of finance</b>				
Interest received		130,444	124,165	161,722
Interest element of finance lease payments		(4,289)	(506)	-
Interest paid		(202)	(18)	-
<b>Net cash inflow from returns on investments and servicing of finance</b>		<u>125,953</u>	<u>123,641</u>	<u>161,722</u>
<b>Capital expenditure</b>				
Purchase of tangible fixed assets		(42,140)	(205,488)	(130,458)
Sale of tangible fixed assets		-	7,007	-
<b>Net cash outflow from capital expenditure</b>		<u>(42,140)</u>	<u>(198,481)</u>	<u>(130,458)</u>
<b>Acquisitions</b>				
Purchase of subsidiary undertaking	4.9	-	(171,510)	(100,000)
<b>Net cash inflow/(outflow) before financing</b>	4.21	<u>286,768</u>	<u>(19,778)</u>	<u>393,267</u>
<b>Financing</b>				
Capital elements of finance lease rental payments	4.22	(25,550)	(16,616)	-
Decrease/(increase) in borrowings		32,415	(81,695)	(30,720)
<b>Net cash inflow/(outflow) from financing</b>	4.21	<u>6,865</u>	<u>(98,311)</u>	<u>(30,720)</u>
<b>Increase/(decrease) in cash in the year</b>	4.21	<u><u>293,633</u></u>	<u><u>(118,089)</u></u>	<u><u>362,547</u></u>

**4. Notes**

4.1 Basis of preparation

The financial information has been drawn up in accordance with applicable accounting standards.

PricewaterhouseCoopers LLP, Wellington Street, Leeds, have been auditors of The Broker Network Limited throughout this period.

4.2 Accounting policies

*Basis of accounting*

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies which the directors consider to be the most appropriate for the company and have been applied consistently, is set out below.

*Group accounts*

The company has taken the exemption under section 248 of the Companies Act 1985 from the requirement to prepare consolidated financial statements.

#### *Turnover*

Turnover represents commissions received on the arrangement of the settlement of insurance policies and levies made on satellite operatives and other related undertakings. Turnover is recognised when it falls due.

Interest income on cash flows arising from insurance broking debtors and creditors is recognised as earned.

#### *Insurance transactions*

Insurance transactions arise from the settlement of transactions with insurance companies on behalf of satellite insurance intermediaries who are members of the network. A debtor balance, representing amounts owing from individual customers, is recognised when the member arranges a policy, along with a creditor balance representing amounts due to the ultimate insurance provider and commissions earned by the intermediary broker and the company. The element of commission earned by the company is recognised in the profit and loss account at the time the policy is arranged.

Insurance broking debtors and creditors are reported in accordance with the requirements of Financial Reporting Standard 5, 'Reporting the Substance of Transactions'. The standard precludes assets and liabilities being offset unless net settlement is legally enforceable, and as a result the insurance broking debtors and creditors have been shown as the gross amounts due in respect of each contract, instead of the net amount due to or from clients and underwriters.

#### *Fixed asset investments*

Fixed asset investments are stated at cost less provisions for impairment. A provision or impairment is made to the extent that, in the directors' view, the carrying amount exceeds the recoverable amount of the fixed asset investment.

#### *Fixed assets*

Tangible fixed assets are stated at cost.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Office equipment	-	15% straight line
Motor vehicles	-	25% straight line
Computer equipment	-	25% straight line

#### *Taxation*

The charge for taxation is based on the result for the period at current rates of tax and takes into account deferred taxation.

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

#### *Leasing*

Leasing arrangements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets. Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the leases.

*Pension arrangements*

The company operates a group personal pension plan, a defined contribution scheme. The pension cost is the amount of contributions payable in respect of the accounting period. The company provides no further post retirement benefits to its employees.

4.3 Operating profit

	2001 £	2002 £	2003 £
Operating profit is stated after charging/(crediting):			
Auditors' remuneration:			
- for audit services	6,200	10,000	10,500
- for non-audit services	500	11,800	2,000
Depreciation:			
- owned fixed assets	36,749	54,774	92,109
- assets held under finance lease	18,943	5,808	-
Loss/(profit) on sale of tangible fixed assets	16,038	(4,160)	-
Finance lease charges	4,289	506	-
Operating lease rentals:			
- Hire of plant and machinery	13,689	13,412	5,841
- Others	51,450	143,058	143,267
Amounts due from subsidiary company provided for	-	69,918	4,000
	<u>951,670</u>	<u>1,287,856</u>	<u>1,794,387</u>

4.4 Employee information

	2001 £	2002 £	2003 £
Wages and salaries	868,505	1,156,924	1,612,504
Social security costs	73,891	108,066	155,255
Pension costs (note 4.18)	9,274	22,866	26,628
	<u>951,670</u>	<u>1,287,856</u>	<u>1,794,387</u>

The company had an average of 78 (2002: 67; 2001: 61) employees during 2003 who are all employed within the administration division.

4.5 Directors' emoluments

	2001 £	2002 £	2003 £
Aggregate emoluments	82,629	234,548	351,652
Pension contributions	3,203	8,500	10,505
	<u>85,832</u>	<u>243,048</u>	<u>362,157</u>

In 2003, the company made contributions to a defined contribution pension scheme in respect of three (2002: one; 2001: one) directors.

The tables below analyse the emoluments of individual directors who held office during the three years:

	Salary and fees £	Benefits £	2001 Total £
<b>2001</b>			
PG Ellis	61,667	5,742	67,409
JK Hale (appointed 17 April 2001)	2,917	304	3,221
MG Collins	12,000	-	12,000
P Bates	-	-	-
D Belgian	-	-	-
FJ Rahmatallah	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
	Salary and fees £	Benefits £	2002 Total £
<b>2002</b>			
PG Ellis	80,000	6,217	86,217
JK Hale	70,000	9,131	79,131
MG Collins	39,750	-	39,750
P Bates	2,250	-	2,250
D Belgian	3,550	-	3,550
FJ Rahmatallah	2,250	-	2,250
PA Clarke (appointed 25 January 2002)	20,000	1,400	21,400
	<u>          </u>	<u>          </u>	<u>          </u>
	Salary and fees £	Benefits £	2003 Total £
<b>2003</b>			
PG Ellis	84,375	7,707	92,082
JK Hale	72,917	9,673	82,590
MG Collins	97,760	-	97,760
P Bates	5,000	-	5,000
D Belgian	5,000	-	5,000
FJ Rahmatallah	10,250	-	10,250
PA Clarke (resigned 1 April 2003)	52,800	5,170	57,970
	<u>          </u>	<u>          </u>	<u>          </u>

The directors' shareholdings in The Broker Network Limited at the balance sheet dates were as follows:

	As at 30 April 2001 (Number)	As at 30 April 2002 (Number)	As at 30 April 2003 (Number)
<b>£1 Ordinary Shares (Class A)</b>			
PG Ellis	40,500	40,500	40,500
P Bates	38,500	38,500	38,500
	<u>          </u>	<u>          </u>	<u>          </u>
<b>£1 Ordinary Shares (Class B)</b>			
DJ Belgian	25,000	25,000	25,000
MG Collins	6,000	6,000	6,000
	<u>          </u>	<u>          </u>	<u>          </u>

On 18 December 2001, JK Hale was granted options over 6,000 Ordinary Shares (Class B) at an exercise price of £10 per share.

On 13 November 2003, MG Collins was granted options over 6,000 Ordinary Shares (Class B) at an exercise price of £20 per share.

Neither JK Hale, nor MG Collins have exercised any of their options. The Broker Network Limited has not granted any options to any other employees.

4.6 Tax on profit on ordinary activities

(a) Analysis of charge in period

	<b>2001</b>	<b>2002</b>	<b>2003</b>
	£	£	£
Corporation tax at 27.7% (note 4.6(b))	-	11,000	114,500
Deferred tax - accelerated capital allowances	-	3,500	12,100
	<u>-</u>	<u>14,500</u>	<u>126,600</u>

(b) Factors affecting tax charge for period

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

	<b>2001</b>	<b>2002</b>	<b>2003</b>
	£	£	£
Profit on ordinary activities before tax	310,079	41,426	717,994
Profit on ordinary activities multiplied by standard rate of corporation tax (30%)	93,024	12,428	215,398
Effects of:			
Expenses not deductible for tax purposes	1,174	93,403	2,019
Capital allowances for the period in excess of depreciation	7,675	(3,500)	(3,178)
Utilisation of tax losses and group relief	(101,873)	(86,007)	(90,143)
Benefit of small company rate	-	(5,324)	(9,596)
Current tax charge for the period	<u>-</u>	<u>11,000</u>	<u>114,500</u>

4.7 Interest payable and similar charges

	<b>2001</b>	<b>2002</b>	<b>2003</b>
	£	£	£
Finance leases	4,289	506	-
Interest payable on overdrafts	202	18	-
	<u>4,491</u>	<u>524</u>	<u>-</u>

4.8 Tangible fixed assets

	Office equipment £	Motor vehicles £	Computer equipment £	Total £
<i>Cost</i>				
At 1 May 2000	97,608	105,726	110,247	313,581
Additions	16,236	-	25,904	42,140
Disposals	(1,839)	(69,016)	(818)	(71,673)
Transfers	(69,128)	-	69,128	-
At 1 May 2001	42,877	36,710	204,461	284,048
Additions	36,761	-	168,727	205,488
Disposals	-	(27,880)	(1,364)	(29,244)
At 30 April 2002	79,638	8,830	371,824	460,292
Additions	7,329	-	123,129	130,458
Disposals	-	(8,830)	-	(8,830)
At 30 April 2003	<u>86,967</u>	<u>-</u>	<u>494,953</u>	<u>581,920</u>
<i>Accumulated depreciation</i>				
At 1 May 2000	25,587	50,941	93,258	169,786
Charge for year	5,310	18,943	31,439	55,692
Disposals	(675)	(41,829)	(362)	(42,866)
Transfers	(17,552)	-	17,552	-
At 1 May 2001	12,670	28,055	141,887	182,612
Charge for year	9,977	5,808	44,797	60,582
Disposals	-	(25,033)	(1,364)	(26,397)
At 30 April 2002	22,647	8,830	185,320	216,797
Charge for year	12,374	-	79,735	92,109
Disposals	-	(8,830)	-	(8,830)
At 30 April 2003	<u>35,021</u>	<u>-</u>	<u>265,055</u>	<u>300,076</u>
<i>Net book value</i>				
At 30 April 2001	30,207	8,655	62,574	101,436
At 30 April 2002	56,991	-	186,504	243,495
At 30 April 2003	<u>51,946</u>	<u>-</u>	<u>229,898</u>	<u>281,844</u>

4.9 Investment in subsidiary

	Total £
<i>Cost</i>	
At 1 May 2001	-
Additions	332,790
At 30 April 2002	332,790
Additions	-
At 30 April 2003	<u>332,790</u>
<i>Provision for diminution in value</i>	
At 1 May 2001	-
Charged to profit and loss account	322,790
At 30 April 2002	322,790
Charged to profit and loss account	-
At 30 April 2003	<u>322,790</u>
<i>Net book value</i>	
At 30 April 2001	-
At 30 April 2002	10,000
At 30 April 2003	<u>10,000</u>

In the year ended 30 April 2002, the company acquired 95.2% of the issued share capital of Redbox Systems Limited, comprising 2,050 ordinary shares of £1 each and 499,500 preference shares of £1 each for total consideration, including acquisition costs of £322,790. The consideration was satisfied through cash consideration of £271,510 (£100,000 of which was paid in the year ended 30 April 2003 and the remaining £171,510 was paid in the year ended 30 April 2002), and the issue of 6,128 C ordinary shares of £1 each. At 30 April 2003, the net liabilities of Redbox Systems Limited were £77,683 and the loss for the year was £18,013.

The principal activity of Redbox Systems Limited is the development of an application service provider for the insurance sector known as CoverMaker. On 9 January 2003, an agreement was signed between the company, Redbox Systems Limited and Software Solutions Partners Limited. The terms of this agreement granted Software Solutions Partners an exclusive ten year licence to develop and distribute CoverMaker in return for a share of the revenues generated from its distribution. The company anticipates that the revenue generated by this agreement should enable it to recover the cost of its investment over the coming years. However, in the year ended 30 April 2002, in view of the inherent uncertainties involved, the directors prudently provided for a diminution in the value of the investment. The directors considered that the carrying value of £10,000 as shown above was appropriate as at 30 April 2003.

4.10 Debtors

	2001 £	2002 £	2003 £
Trade debtors	8,743	28,532	65,768
Prepayments and accrued income	51,297	72,339	98,112
Other debtors	189,980	284,745	376,021
In relation to insurance transactions	7,333,328	9,584,122	10,784,980
	<u>7,583,348</u>	<u>9,969,738</u>	<u>11,324,881</u>

4.11 Creditors: amounts falling due within one year

	2001 £	2002 £	2003 £
Trade creditors	77,064	124,334	58,188
Obligations under finance leases	10,116	-	-
Taxation and social security	24,279	35,191	52,846
Other creditors	32,415	133,855	11,111
Accruals	35,265	39,119	47,541
Corporation tax	-	11,000	125,500
In relation to insurance transactions	9,358,323	14,361,788	15,775,207
	<u>9,537,462</u>	<u>14,705,287</u>	<u>16,070,393</u>

At 30 April 2003, other creditors includes £nil (2002: £30,720; 2001: £32,415) representing amounts advanced to the company by brokers in respect of potential future ventures.

At 30 April 2003, creditors due in respect of insurance transactions initially included an amount of approximately £720,000 which at that date had yet to be fully reconciled to the detailed records maintained by the network members. This amount relates to the seven and a half year period since the company began trading and, over this period, approximately £300 million had been settled to insurance companies. Subsequently, further reconciliation work has reduced this amount to approximately £78,000, which is reflected as a liability of the company in the amounts shown above.

4.12 Creditors: amounts falling due after more than one year

	2001 £	2002 £	2003 £
Obligations under finance leases	6,500	-	-
Loan (note 4.23)	80,000	-	-
	<u>86,500</u>	<u>-</u>	<u>-</u>

4.13 Provisions for liabilities and charges

	Deferred tax £
At 1 May 2000 and 30 April 2001	-
Charged to profit and loss account	3,500
At 30 April 2002	<u>3,500</u>
Charged to profit and loss account	12,100
At 30 April 2003	<u>15,600</u>

4.14 Obligations under finance leases

	2001 £	2002 £	2003 £
Future minimum payments under finance leases are as follows:			
Within one year	10,116	-	-
In more than one but not more than five years	6,500	-	-
	<u>16,616</u>	<u>-</u>	<u>-</u>

4.15 Called up share capital

The 'A' shares, the 'B' shares, the 'C' shares and the non-voting shares are separate classes of shares but rank *pari passu* in all respects with the exception of voting rights.

	2001 £	2002 £	2003 £
<b>Authorised</b>			
Ordinary shares of £1 each			
Class A	100,000	100,000	100,000
Class B	100,000	100,000	100,000
Class C	100,000	100,000	100,000
	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
£1 non-voting ordinary shares	153,000	153,000	153,000
	<u>453,000</u>	<u>453,000</u>	<u>453,000</u>
<b>Allotted, called up and fully paid</b>			
Ordinary shares of £1 each			
Class A	79,000	79,000	79,000
Class B	59,000	59,000	58,700
Class C	66,273	72,401	72,701
	<u>204,273</u>	<u>210,401</u>	<u>210,401</u>
£1 non-voting ordinary shares	16,023	16,023	16,023
	<u>220,296</u>	<u>226,424</u>	<u>226,424</u>

During the year ended 30 April 2002, 6,128 C ordinary shares of £1 each were issued in exchange for 700 A ordinary shares of £1 each and 499,500 preference shares of £1 each in Redbox Systems Limited. In the opinion of the directors the value of these shares was £10 per share.

4.16 Reserves

	Share premium account £	Profit and loss account £
At 1 May 2000	399,170	(568,070)
Retained profit for the year	-	310,079
At 1 May 2001	399,170	(257,991)
Premium on shares issued	55,152	-
Retained profit for the year	-	26,926
At 1 May 2002	454,322	(231,065)
Retained profit for the year	-	591,394
At 30 April 2003	<u>454,322</u>	<u>360,329</u>

4.17 Reconciliation of movements in shareholders' funds

	2001 £	2002 £	2003 £
Opening equity shareholders' funds	51,396	361,475	449,681
Net proceeds on issue of ordinary share capital	-	61,280	-
Profit for the financial year	310,079	26,926	591,394
Closing equity shareholders' funds	<u>361,475</u>	<u>449,681</u>	<u>1,041,075</u>

4.18 Pensions

The pension charge for each year represents contributions payable to the company's personal pension plan. The pension charge for the year ended 30 April 2003 amounted to £26,628 (2002: £22,866; 2001: £9,274). No amounts were owing by or to the company at the accounting period end, nor at the end of the previous two years.

4.19 Obligations under operating leases

	2001 Land and buildings £	2001 Other £	2002 Land and buildings £	2002 Other £	2003 Land and buildings £	2003 Other £
Within one year	-	2,226	-	-	-	34,959
Within two to five years	-	58,095	-	95,234	-	39,727
After five years	68,000	-	68,000	-	68,000	-
	<u>68,000</u>	<u>60,321</u>	<u>68,000</u>	<u>95,234</u>	<u>68,000</u>	<u>74,686</u>

4.20 Cash flow from operating activities

	2001 £	2002 £	2003 £
Reconciliation of operating profit to net cash inflow:			
Operating profit	178,853	249,881	556,122
Depreciation charge	55,692	60,582	92,109
Loss/(Profit) on sale of fixed assets	16,038	(4,160)	-
Increase in debtors	(75,762)	(144,901)	(154,133)
Increase/(decrease) in creditors	28,134	65,170	(32,095)
Net cash inflow from operating activities	<u>202,955</u>	<u>226,572</u>	<u>462,003</u>

Movements in debtors and creditors shown above exclude amounts relating to insurance transactions.

4.21 Reconciliation of net cash flow to movement in net funds

	2001 £	2002 £	2003 £
Increase/(decrease) in cash in the year	293,633	(118,089)	362,547
Net cash (inflow)/outflow from change in funds	(6,865)	98,311	30,720
Change in net funds resulting from cash flows	286,768	(19,778)	393,267
Non cash changes	12,769	-	-
Movement in net funds in the year	299,537	(19,778)	393,267
Net (debt)/funds at start of year	(152,910)	146,627	126,849
Net funds at end of year	146,627	126,849	520,116

4.22 Analysis of net borrowings

	1 May 2000 £	Cash flow £	Non-cash changes £	1 May 2001 £	Cash flow £	1 May 2002 £	Cash flow £	30 April 2003 £
Cash at bank and in hand	150	275,508	-	275,658	(118,089)	157,569	362,547	520,116
Bank overdraft	(18,125)	18,125	-	-	-	-	-	-
	(17,975)	293,633	-	275,658	(118,089)	157,569	362,547	520,116
Finance leases	(54,935)	25,550	12,769	(16,616)	16,616	-	-	-
Borrowings due within one year	-	(32,415)	-	(32,415)	1,695	(30,720)	30,720	-
Borrowings due after one year	(80,000)	-	-	(80,000)	80,000	-	-	-
	(152,910)	286,768	12,769	146,627	(19,778)	126,849	393,267	520,116

4.23 Related party transactions

Between 1 May 2001 and 30 April 2003 the company shared the costs of trade expenses with Ellis Bates & Company Limited, a company indirectly controlled by Messrs Ellis and Bates. The total value of these services determined on an arms length basis was £6,977 (2002: £14,265; 2001: £15,826) and a balance of £2,227 remained unpaid at 30 April 2003 (2002: £531; 2001: £1,998).

Between 1 May 2001 and 30 April 2003 the company shared the costs of trade expenses with Ellis Bates & Company (Financial Services) Limited, a company indirectly controlled by Messrs Ellis and Bates. The total value of these services determined on an arms length basis was £4,257 (2002: £9,756; 2001: £3,527) and a balance of £487 remained unpaid at 30 April 2003 (2002: £nil; 2001: £296).

Between 1 May 2001 and 30 April 2003 the company shared the costs of trade expenses with Ellis Bates Holdings Limited, a company indirectly controlled by Messrs Ellis and Bates. The total value of these services determined on an arms length basis was £1,382 (2002: £1,960; 2001: £10,307) and a balance of £46 remained unpaid at 30 April 2003 (2002: £nil; 2001: £1,274).

Mr Ellis' wife worked for the company during the period from 1 April 2001 to 30 May 2003. Her emoluments received amounted to £10,610 (2002: £11,474; 2001: £11,746).

Ellis Bates & Company Limited and Northern Counties Guarantee Corporation Limited, a company controlled by Mr Belgian, were trading members of The Broker Network Limited throughout the year. The company charged Ellis Bates & Company Limited £5,000 during the year for support services (2002: £nil; 2001: £nil). The company derived no income from Northern Counties Guarantee Corporation (2002: £nil; 2001: £nil).

Mr Belgian provided a non-interest bearing loan to the company in the year ended 30 April 2001. The loan was repaid in full on 21 January 2002 and the maximum balance outstanding during the year amounted to £80,000.

4.24 Ultimate controlling party

The ultimate controlling party of the company at 30 April 2001, 2002 and 2003 was the directors by virtue of their shareholdings in the company.

Yours faithfully

**KPMG LLP**

**PART III (d): ACCOUNTANTS' REPORT ON REDBOX SYSTEMS LIMITED  
FOR THE THREE YEARS ENDED 30 APRIL 2003**



1 The Embankment  
Neville Street  
Leeds  
LS1 4DW

The Directors  
Broker Network Holdings plc  
Mowbray House  
Mowbray Square  
Harrogate  
HG1 5AU

The Directors  
Brewin Dolphin Securities Limited  
34 Lisbon Street  
Leeds  
LS1 4LX

22 April 2004

Dear Sirs

**Redbox Systems Limited**

We report on the financial information set out in paragraphs 1 to 3 below. This financial information has been prepared for inclusion in the Admission Document dated 22 April 2004 of Redbox Systems Limited ('the company').

*Basis of preparation*

The financial information set out in paragraphs 1 to 3 is based on the financial statements of the company for the three years ended 30 April 2003 prepared on the basis described in note 3.1 to which no adjustments were considered necessary.

*Responsibility*

Such financial statements are the responsibility of the directors of the company who approved their issue.

The Directors of Broker Network Holdings plc are responsible for the contents of the Admission Document dated 22 April 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

*Basis of opinion*

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

*Opinion*

In our opinion, the financial information gives, for the purposes of the prospectus, a true and fair view of the state of affairs of the company as at the date stated and of its results for the years then ended.

We consent to the inclusion in the Admission Document dated 22 April 2004 of this report and accept responsibility for this report for the purposes of paragraph 45 (1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

**1. Profit and loss accounts**

	<i>Notes</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>
		£	£	£
<b>Turnover</b>		-	-	-
Cost of sales		-	-	-
		<hr/>	<hr/>	<hr/>
<b>Gross profit</b>		-	-	-
Administrative expenses		(567,654)	(763,542)	(18,119)
		<hr/>	<hr/>	<hr/>
<b>Operating loss</b>	3.3	(567,654)	(763,542)	(18,119)
Interest receivable		-	1,391	106
Interest payable and similar charges	3.7	(4,368)	-	-
		<hr/>	<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>		(572,022)	(762,151)	(18,013)
Tax on loss on ordinary activities	3.6	-	-	-
		<hr/>	<hr/>	<hr/>
<b>Loss for the financial year</b>	3.16	(572,022)	(762,151)	(18,013)
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

All of the activities during the year relate to continuing operations.

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

There is no difference between the loss on ordinary activities before taxation and the loss sustained for the financial years stated above and their historical cost equivalents.

**2. Balance sheets**

	<i>Notes</i>	<b>2001</b> £	<b>2002</b> £	<b>2003</b> £
<b>Fixed assets</b>				
Intangible assets	3.8	462,301	10,000	10,000
Tangible assets	3.9	18,358	17,613	11,776
		<u>480,659</u>	<u>27,613</u>	<u>21,776</u>
<b>Current assets</b>				
Debtors	3.11	772,676	11,750	4
Cash at bank and in hand		71,876	7,404	2,424
		<u>844,552</u>	<u>19,154</u>	<u>2,428</u>
<b>Creditors: amounts falling due within one year</b>	3.12	<u>(319,316)</u>	<u>(106,437)</u>	<u>(101,887)</u>
<b>Net current assets/(liabilities)</b>		<u>525,236</u>	<u>(87,283)</u>	<u>(99,459)</u>
<b>Total assets less current liabilities</b>		<u>1,005,895</u>	<u>(59,670)</u>	<u>(77,683)</u>
<b>Creditors: amounts falling due after more than one year</b>	3.13	<u>(303,468)</u>	<u>-</u>	<u>-</u>
<b>Net assets/(liabilities)</b>		<u>702,427</u>	<u>(59,670)</u>	<u>(77,683)</u>
<b>Capital and reserves</b>				
Called up share capital	3.14	501,600	501,654	501,654
Share premium account	3.15	772,849	772,849	772,849
Profit and loss account	3.15	(572,022)	(1,334,173)	(1,352,186)
<b>Total shareholders' funds</b>		<u>702,427</u>	<u>(59,670)</u>	<u>(77,683)</u>
<b>Analysis of shareholders' funds</b>				
Equity		202,927	(559,170)	(577,183)
Non-equity		499,500	499,500	499,500
		<u>702,427</u>	<u>(59,670)</u>	<u>(77,683)</u>

### 3. Notes

#### 3.1 Basis of preparation

The financial information has been drawn up in accordance with applicable accounting standards.

PricewaterhouseCoopers LLP, Wellington Street, Leeds, have been auditors of Redbox Systems Limited throughout this period.

#### 3.2 Accounting policies

##### *Basis of accounting*

The financial statements have been prepared under the historical cost convention.

##### *Research and development*

Expenditure on research is charged to the profit and loss account in the year in which it is incurred. Expenditure on the development of major new projects is capitalised providing the outcome of the projects can be assessed as being reasonably certain as regards viability and technical feasibility. Capitalised development expenditure will be amortised over future periods based upon revenues earned from the product commencing in the year sales of the product are first made.

##### *Tangible fixed assets*

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful life of the assets concerned. The principal annual rates used for this purpose are:

Computer equipment - 25%

##### *Taxation*

The charge for taxation is based on the result for the period at current rates of tax and takes into account deferred taxation.

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

##### *Cash flow statement*

The company has taken advantage of the exemption under FRS 1 (Revised) "Cash flow statements" not to publish a cash flow statement, as the company qualifies as a small company under section 246 of the Companies Act 1985.

#### 3.3 Operating loss

	2001	2002	2003
	£	£	£
Operating loss is stated after charging/(crediting):			
Depreciation of owned fixed assets	57	5,677	5,837
Provision for diminution in value of intangible asset (note 3.8)	-	452,301	-
Auditors fees in respect of audit services	4,000	4,000	4,000
Development costs written off	308,201	339,403	4,859
Loan written off as part of restructuring agreement (note 3.18)	-	(303,468)	-
	<u>          </u>	<u>          </u>	<u>          </u>

Certain financial and marketing costs were incurred by the shareholders and not recharged to the company.

3.4 Employee information

	2001	2002	2003
	£	£	£
Wages and salaries	57,192	142,823	-
Social security costs	5,362	12,250	-
Compensation for loss of office	-	13,500	-
	<u>62,554</u>	<u>168,573</u>	<u>-</u>

In the year ended 30 April 2003, the company had an average of nil (2002: 2; 2001: 1) employees.

3.5 Directors' emoluments

The tables below analyse the emoluments of individual directors who held office during the three years:

	Salary and fees	Benefits	2001 Total
	£	£	£
<b>2001</b>			
PG Ellis	-	-	-
MG Collins	4,000	-	4,000
BG Lynch (appointed 31 August 2000)	-	-	-
JM O'Riordan (appointed 31 August 2000)	-	-	-
DA Rasche (appointed 1 August 2000)	-	-	-
P Bates (resigned 18 September 2000)	-	-	-
EH Latter (appointed 18 September 2000)	40,292	4,667	44,959
	<u>40,292</u>	<u>4,667</u>	<u>44,959</u>

	Salary and fees	Benefits	2002 Total
	£	£	£
<b>2002</b>			
PG Ellis	-	-	-
JK Hale (appointed 9 November 2001)	-	-	-
MG Collins (resigned 9 November 2001)	3,000	-	3,000
BG Lynch (resigned 15 October 2001)	-	-	-
JM O'Riordan (resigned 15 October 2001)	-	-	-
EH Latter (resigned 2 March 2002)	54,000	7,235	61,235
Sir LHP Magnus (appointed 29 May 2001)	4,000	-	4,000
DA Rasche (appointed 1 August 2001)	5,000	-	5,000
	<u>54,000</u>	<u>7,235</u>	<u>61,235</u>

	Salary and fees	Benefits	2003 Total
	£	£	£
<b>2003</b>			
PG Ellis	-	-	-
JK Hale	-	-	-
DA Rasche (resigned 19 February 2003)	-	-	-
Sir LHP Magnus (resigned 15 October 2002)	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

In the year ended 30 April 2002, EH Latter was paid compensation for loss of office of £13,500 in addition to the emoluments disclosed above.

The directors' shareholdings in Redbox Systems Limited at the balance sheet dates were as follows:

	As at 30 April 2001 (Number)	As at 30 April 2002 (Number)	As at 30 April 2003 (Number)
<b>£1 Ordinary Shares (Class A)</b>			
PG Ellis	2	-	-
<b>£1 Ordinary Shares (Class B)</b>			
Sir LHP Magnus	<u>50</u>	<u>50</u>	<u>50</u>

3.6 Tax on loss on ordinary activities

As at 30 April 2003, the company had unutilised tax losses of approximately £440,000 (2002: £440,000; 2001: £240,000) available for offset against future profits from the same trade subject to agreement by the Inland Revenue. The tax credit lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2001 £	2002 £	2003 £
Loss on ordinary activities before tax	(572,022)	(762,151)	(18,013)
Loss on ordinary activities multiplied by standard rate of corporation tax (30%)	(171,607)	(228,645)	(5,404)
Factors affecting charge for the year:			
Expenses not deductible for tax purposes (primarily provision for write down of deferred development expenditure)	98,513	139,855	-
Accounting depreciation (less than)/ in excess of capital allowances	17	103,524	(84,739)
Loan written off not taxable	-	(91,040)	-
Current period losses carried forward	73,077	58,850	-
Group relief surrendered not paid	-	17,456	90,143
Current tax charge for the period	<u>-</u>	<u>-</u>	<u>-</u>

3.7 Interest payable and similar charges

	2001 £	2002 £	2003 £
On other loans	<u>4,368</u>	<u>-</u>	<u>-</u>

3.8 Intangible assets

	<b>Deferred development expenditure £</b>
<i>Cost</i>	
At 1 May 2000	-
Additions	462,301
At 1 May 2001, 2002 and 30 April 2003	<u>462,301</u>
<i>Provision for diminution in value</i>	
At 1 May 2000 and 1 May 2001	-
Charged to the profit and loss account in 2002	(452,301)
At 1 May 2002 and 30 April 2003	<u>(452,301)</u>
<i>Net book value</i>	
At 30 April 2001	462,301
At 30 April 2002 and 30 April 2003	<u>10,000</u>

3.9 Tangible fixed assets

	<b>Computer equipment £</b>
<i>Cost</i>	
At 1 May 2000	-
Additions	18,415
At 1 May 2001	18,415
Additions	4,932
At 1 May 2002 and 30 April 2003	<u>23,347</u>
<i>Accumulated depreciation</i>	
At 1 May 2000	-
Charge for year	57
At 1 May 2001	57
Charge for year	5,677
At 1 May 2002	5,734
Charge for year	5,837
At 30 April 2003	<u>11,571</u>
<i>Net book value</i>	
At 30 April 2001	18,358
At 30 April 2002	17,613
At 30 April 2003	<u>11,776</u>

3.10 Deferred tax

	2001 £	2002 £	2003 £
Timing differences relating to intangible and tangible fixed assets	237,000	338,000	253,000
Tax losses carried forward	72,000	132,000	132,000
	<u>309,000</u>	<u>470,000</u>	<u>385,000</u>
Asset not recognised	(309,000)	(470,000)	(385,000)
	<u>-</u>	<u>-</u>	<u>-</u>

The asset may be recovered if Redbox Systems Limited makes future taxable profits. The element relating to accelerated capital allowances may be recovered if other group companies make future taxable profits and group relief is paid for.

3.11 Debtors

	2001 £	2002 £	2003 £
Trade debtors	-	11,750	-
Other debtors	631,014	-	-
Prepayments	2,500	-	-
VAT refundable	139,162	-	4
	<u>772,676</u>	<u>11,750</u>	<u>4</u>

3.12 Creditors: amounts falling due within one year

	2001 £	2002 £	2003 £
Trade creditors	198,232	3,593	67
Other taxation and social security	5,608	675	-
Accruals	115,476	5,849	8,500
Other creditors	-	20,000	20,000
Owed to parent undertaking	-	76,320	73,320
	<u>319,316</u>	<u>106,437</u>	<u>101,887</u>

3.13 Creditors: amounts falling due after more than one year

	2001 £	2002 £	2003 £
Other loan	303,468	-	-

The loan was forgiven as part of the restructuring referred to in note 3.18.

3.14 Called up share capital

	2001 £	2002 £	2003 £
<b>Authorised</b>			
A ordinary shares of £1 each	2,050	2,050	2,050
B ordinary shares of £1 each	350	350	350
Preference shares of £1 each	499,500	499,500	499,500
	<u>501,900</u>	<u>501,900</u>	<u>501,900</u>
<b>Allotted, called up and fully paid</b>			
A ordinary shares of £1 each	2,050	2,050	2,050
B ordinary shares of £1 each	50	104	104
Preference shares of £1 each	499,500	499,500	499,500
	<u>501,600</u>	<u>501,654</u>	<u>501,654</u>

On 2 March 2002, as part of a severance package, 54 B ordinary shares of £1 each were issued to Ms EL Latter at par.

The rights attaching to the A and B ordinary shares and the preference shares are set out in the Company's Articles of Association and are summarised below.

The A and B ordinary shares of £1 each shall be separate classes of share, but except as noted below, shall rank *pari passu* in all respects. On a show of hands every member shall have one vote for each A share and one vote for each B share, provided that no B shares shall confer any rights to vote upon a resolution for the removal from office of a director appointed or deemed to have been appointed by any holder of A shares. Each holder of the A shares may at any time appoint any person to be the alternate director of the A director (a director nominated for appointment to the board by a holder of A shares pursuant to the Shareholders Agreement) appointed by it and may at any time terminate such appointment. The A shareholders also have to approve significant business matters.

The preference shares have the following rights and restrictions:

- Preference shareholders shall not be entitled to receive dividends;
- Each preference share shall confer on the holder thereof the right on a winding up to a return of capital to receive repayment in full of the capital paid up on such preference shares;
- The preference shares do not entitle the holders thereof to participate in the profits or assets of the company beyond such rights as are expressly set out;
- The preference shareholder shall be entitled to receive notice of General meetings but not to attend or vote thereat unless the business of the meeting includes a resolution varying or abrogating the rights or called up share capital privileges or restrictions attached to the preference shares in which event the preference shares shall entitle the holders thereof to vote on such a resolution only;
- The company may from time to time create and issue further preference shares ranking as regards participating in the profits and assets of the company *pari passu* with but not in priority to the preference shares.

3.15 Reserves

	Share premium account £	Profit and loss account £
At 1 May 2000	-	-
Premium on shares issued (net of £26,751 expenses)	772,849	-
Loss for the year	-	(572,022)
At 1 May 2001	772,849	(572,022)
Loss for the year	-	(762,151)
At 1 May 2002	772,849	(1,334,173)
Loss for the year	-	(18,013)
At 30 April 2003	772,849	(1,352,186)

3.16 Reconciliation of movements in shareholders' funds

	2001 £	2002 £	2003 £
Loss attributable to shareholders	(572,022)	(762,151)	(18,013)
Net proceeds of ordinary shares	774,947	54	-
Net proceeds of preference shares	499,500	-	-
Net diminution/addition to shareholders' funds	702,425	(762,097)	(18,013)
Opening shareholders' funds	2	702,427	(59,670)
Closing equity shareholders' funds	702,427	(59,670)	(77,683)

3.17 Related party transactions

The following transactions were undertaken between the company and its directors and shareholders or with parties related to the directors or shareholders.

In the year ended 30 April 2003 fees of £nil (2002: £3,000; 2001: £4,000) were paid during the year to Lesley and Page Services Limited, in respect of the services of MG Collins.

In the year ended 30 April 2003 fees of £nil (2002: £5,000; 2001: £nil) were paid during the year to Project Ideas in respect of the services of DA Rasche.

In the year ended 30 April 2003 Nando Chickenlands Limited, a company related to Capricorn Ventures International, invoiced £1,350 (2002: £5,564; 2001: £3,354) for provision of a car for use by the managing director. The amount outstanding at 30 April 2003 was £nil (2002: £1,350; 2001: £nil).

3.18 Ultimate controlling party

The Broker Network Limited is the parent company and ultimate controlling party.

On 30 September 2001 The Broker Network Limited acquired 675 A ordinary shares in the company.

On 2 October 2001, The Broker Network Limited acquired a further 700 A ordinary shares and 499,500 preference shares in the company and became the parent undertaking and controlling party. On the same date, the advance to the company by Capricorn Ventures International Limited, including accrued interest, was written off.

Yours faithfully

KPMG LLP

## PART IV: PROFIT FORECAST

The Directors' Profit Forecast for The Broker Network Limited for the year ending 30 April 2004, as set out below, has been prepared on the basis of the accounting policies normally adopted by the Group. The Profit Forecast has been based upon the audited consolidated non-statutory accounts of The Broker Network Limited for the eight months ended 31 December 2003, the unaudited management accounts of The Broker Network Limited for the month ended 31 January 2004, and the Directors' forecasts for the three months ending 30 April 2004 taking into account the following assumptions:

- a) that the Proposals set out within this Admission Document have been implemented in full;
- b) there will be no material change in interest rates for the principal currency (sterling) in which the Group operates;
- c) there will be no material industrial, commercial, economic or political disputes or other interruptions to business which would adversely affect the Group, its operations (including the operations of its members), or the customers if its brokers and members;
- d) there will be no material adverse change in economic conditions on the markets in which the Group operates;
- e) there will be no material change in the bases or rates of taxation in the United Kingdom; and
- f) there will be no material change in the regulations or legislation in the United Kingdom.

The Directors draw your attention to the risk factors set out in Part I of this document.

The Directors forecast that, having made due and careful enquiry, profit on ordinary activities before taxation and goodwill amortisation of *The Broker Network Limited and its subsidiaries for the year ending 30 April 2004* will be not less than £745,000.

Brewin Dolphin has satisfied itself that the Directors' forecast has been made after due and careful enquiry by the Directors.

## PART V: PRO FORMA STATEMENT OF CONSOLIDATED NET ASSETS

### Basis of pro forma statement of consolidated net assets

The pro forma statement of consolidated net assets of The Broker Network Limited as at 31 December 2003 set out below has been prepared to illustrate the effect on the consolidated net assets of The Broker Network Limited had the Placing and Admission taken place on 31 December 2003. The pro forma has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of The Broker Network Limited's position.

The consolidated net assets of The Broker Network Limited as at 31 December 2003 have been extracted, without material adjustment, from the audited consolidated non-statutory accounts of The Broker Network Limited for the 8 months ended 31 December 2003 set out in Part III(b) of this document.

	Consolidated Net assets at 31 December 2003 (note 1)  £'000	Placing and Offer  (note 2)  £'000	Proforma net assets  £'000
<b>Fixed assets</b>			
Tangible assets	299	-	299
<b>Current assets</b>			
Debtors	10,203	-	10,203
Insurance broking account	4,783	-	4,783
Cash at bank and in hand	1,057	2,200	3,257
	16,043	2,200	18,243
<b>Creditors: amounts falling due within one year</b>	(14,933)	-	(14,933)
<b>Net current assets</b>	1,110	2,200	3,310
<b>Total assets less current liabilities</b>	1,409	2,200	3,609
<b>Provision for liabilities and charges</b>	(14)	-	(14)
<b>Net assets</b>	1,395	2,200	3,595

### Notes

1. The consolidated net assets as at 31 December 2003 is based upon the consolidated balance sheet of The Broker Network Limited and its subsidiaries.
2. Cash at bank and in hand has been adjusted to reflect the net proceeds of the Placing and assuming full subscription under the Offer, being the gross proceeds of £2,750,000 less estimated expenses of £550,000.

## PART VI: ADDITIONAL INFORMATION

### 1. THE COMPANY

- 1.1 The Company was incorporated in England and Wales as a public limited company on 16 February 2004 under the name Broker Network Holdings plc with registered number 5044510.
- 1.2 The liability of the members of the Company is limited.
- 1.3 The Company's registered office and principal place of business is at Mowbray House, Mowbray Square, Harrogate, North Yorkshire HG1 5AU.
- 1.4 The Company's main activity is that of a holding company for the Group. Its principal subsidiary is The Broker Network Limited, which is a service provider to its network members who are retail insurance brokers. It also acts as a wholesale insurance intermediary and provides advisory, compliance training and other services to insurance intermediaries.
- 1.5 Subsidiaries

Details of the Company's principal subsidiaries are set out below. All of the Group companies were incorporated and are registered in England:

<i>Name</i>	<i>Principal activity</i>	<i>Per cent holding</i>
The Broker Network Limited	Insurance services	100
London Broking Services Limited	Wholesale insurance broking	100
Redbox Systems Limited	Software development	100
Donaldson Meigh Limited	Insurance broking	100
Sharples & Co (Insurance Brokers) Limited	Insurance broking	76

### 2. SHARE CAPITAL

- 2.1 The authorised and issued share capital of the Company at the date of this document and upon Admission, following the Placing and assuming full subscription under the Offer, will be as follows:

<i>At the date of this document:</i>	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>£</i>	<i>Number</i>	<i>£</i>	<i>Number</i>
A ordinary shares of £1 each	100,000	100,000	79,000	79,000
B ordinary shares of £1 each	100,000	100,000	58,700	58,700
C ordinary shares of £1 each	100,000	100,000	72,701	72,701
Non voting ordinary shares of £1 each	153,000	153,000	16,023	16,023
<b>Total</b>	<u>453,000</u>	<u>453,000</u>	<u>226,424</u>	<u>226,424</u>
<i>Upon Admission:</i>				
Ordinary Shares of 2p each	453,000	22,650,000	303,889	15,194,436

- 2.2 The Company was incorporated with an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each, of which two subscriber shares were issued. The two ordinary shares of £1 each which were issued at the date of incorporation (which were subsequently redesignated and reclassified as an A ordinary share of £1 and a B ordinary share of £1 as part of the reclassification and redesignation of all of the issued and unissued ordinary share capital of the Company as referred to in paragraph 2.3.1 below) are held by Peter Bates and Michael Collins respectively (and were taken in to account for the purpose of the share exchange referred to in paragraph 2.4. below). The following is a summary of the changes in the authorised and issued share capital of the Company since incorporation:

- 2.3 At an Extraordinary General Meeting of the Company held on 17th March 2004 it was resolved by special resolution that:

2.3.1 25,000 of the existing issued and unissued ordinary shares of £1 each in the capital of the Company each be converted into and redesignated as an A ordinary share of £1 each and the remaining 25,000 existing issued and unissued ordinary shares of £1 each in the capital of the Company each be converted into and redesignated as a B ordinary share of £1 each;

2.3.2 the Directors be empowered, pursuant to Section 95 of the Act, to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred by the special resolution referred to in paragraph 2.3.4 below (as varied from time to time by the Company in general meeting) as if Section 89(1) of the Act did not apply to any such allotment and shall expire on whichever is the earlier of the date being 5 years from the date of passing of this resolution or the expiry of the authority contained in the resolution referred to in paragraph

- 2.3.4 below, except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired;
- 2.3.3 the authorised share capital of the Company be increased from £50,000 to £453,000 by the creation of an additional 75,000 A ordinary shares of £1 each, an additional 75,000 B ordinary shares of £1 each, 100,000 new C ordinary shares of £1 each and 153,000 new non-voting ordinary shares of £1 each; and
- 2.3.4 the Directors be generally and unconditionally authorised for the purposes of and pursuant to section 80(1) of the Act to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £452,998 provided that this authority shall (unless previously revoked, varied or renewed) expire on the date being 5 years from the date of passing of this Resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired and so that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to Section 80 of the Act but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.
- 2.4 On 22 March 2004, the Company allotted 78,999 fully paid A ordinary shares of £1 each, 58,699 fully paid B ordinary shares of £1 each, 72,701 fully paid C ordinary shares of £1 each, and 16,023 fully paid non-voting ordinary shares of £1 each to the shareholders of The Broker Network Limited as consideration pursuant to an Exchange Agreement entered into between the Company and each of the shareholders in The Broker Network Limited and dated 22 March 2004 to acquire all of their respective shareholdings in The Broker Network Limited.
- 2.5 At an Extraordinary General Meeting of the Company held on 6 April 2004, it was resolved by special resolution, conditional on Admission, that:
- 2.5.1 each of the (i) 100,000 existing issued and unissued 'A' Ordinary Shares of £1 each, (ii) 100,000 'B' Ordinary Shares of £1 each, (iii) 100,000 'C' Ordinary Shares of £1 each and (iv) 153,000 Non-Voting Ordinary Shares of £1 each, be redesignated, reclassified and sub-divided into 50 Ordinary Shares each;
- 2.5.2 the Directors be generally and unconditionally authorised in accordance with Section 80 of the Act and in substitution for any previous authority conferred on the Directors, to exercise all the powers of the Company to allot the Placing Shares and the Offer Shares and, in addition, relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal value equal to £226,576, such authority (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) to expire at the conclusion of the Company's Annual General Meeting in 2005, provided that such authority shall allow the Company to make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by the Resolution had not expired; and
- 2.5.3 the Directors be given power pursuant to Section 95 of the Act and in substitution for any previous authority conferred on the Directors, to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the Section 80 authority referred to in subparagraph 2.4.2 above as if Section 89(1) of the Act did not apply to any such allotment, such power to expire at the conclusion of the Annual General Meeting for 2005 and being limited to:
- 2.5.3.1 the allotment of the New Ordinary Shares and the Offer Shares in connection with the Placing and the Offer respectively;
- 2.5.3.2 the allotment of new Ordinary Shares in connection with options granted by the Company (details of existing options to subscribe for Ordinary Shares are set out in paragraph 6 of this Part VI);
- 2.5.3.3 the allotment of equity securities for cash in connection with rights issues to holders of Ordinary Shares where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the

respective numbers of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with any fractional entitlements or legal or practical problems under the laws of, or the requirements of any regulatory body or any recognised stock exchange in any territory; and

- 2.5.3.4 the allotment (other than pursuant to sub-paragraphs 2.5.3.1, 2.5.3.2 or 2.5.3.3 above) of equity securities up to a maximum aggregate nominal amount equal to £15,571.
- 2.6 The provisions of Section 89(1) of the Act (which, to the extent not disapplied pursuant to Section 95 of the Act confer on shareholders rights of pre-emption in respect of the allotment of securities which are, or are to be, paid up in cash other than by way of allotment to employees under any employees' share scheme as defined in Section 743 of the Act) apply to the authorised but unissued share capital of the Company to the extent not disapplied as described above. This disapplication will give the directors limited flexibility to issue shares for cash following the Placing and the Offer. Subject to certain limited exceptions, unless the approval of shareholders in general meeting is obtained, the Company must normally offer Ordinary Shares to be issued for cash to existing Ordinary Shareholders on a pro rata basis. No such issue is presently in contemplation following the Placing and the Offer.
- 2.7 The Placing Shares and the Offer Shares will rank in full for all dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.
- 2.8 Save as mentioned at paragraph 6 of this Part VI, no share capital of the Company is under option or has been agreed conditionally or unconditionally to be put under option.
- 2.9 Otherwise than pursuant to the Placing and the Offer and except for the Sale Shares, none of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to AIM.
- 2.10 The amount payable on application and allotment of each Placing Share and Offer Share is 71p of which 69p is payable by way of premium.
- 2.11 The Ordinary Shares may be held in either certificated or uncertificated form. It is expected that share certificates will be posted within ten days of Admission and that Ordinary Shares to be held in CREST will be credited to relevant accounts shortly after Admission. No temporary documents of title will be issued.

### **3. MEMORANDUM OF ASSOCIATION**

- 3.1 The objects of the Company were altered by special resolution at an Extraordinary General Meeting of the Company held on 17 March 2004.
- 3.2 The Memorandum of Association of the Company provides that the Company's principal objects include:
- 3.2.1 carrying on business as a general commercial company;
- 3.2.2 carrying on the business of a holding company in all its branches and to acquire by purchase, lease, concession, grant, license or otherwise deal in such businesses, options, rights, privileges, lands, buildings, leases, underleases, stocks, shares, debentures, bonds, obligations, securities, reversionary interests, annuities, policies of assurance and other property and rights and interests in property as the Company shall deem fit and generally to hold, manage, develop, lease, sell or dispose of the same; and to vary any of the investments if the Company, and to enter into, assist or participate in financial, commercial, mercantile, industrial and other transactions, undertakings and business of every description;
- 3.2.3 co-ordinating the policy and administration of any subsidiary companies or any companies of which the Company is a member or which are controlled by the Company; and
- 3.2.4 carrying on and conducting business as network providers, insurance brokers, agents and underwriting agents in relation to all classes of insurance business, and as consultants, advisers and managers in relation to insurance and pensions policies, schemes and trusts, consultant assessors, valuers, surveyors, average adjusters and mortgage brokers and agents; to provide access to general insurance markets on behalf of network members and facilitate the conclusion of insurance transactions between such parties; to provide advisory, compliance,

training and other services to network members; to provide hire-purchase and consumer credit finance and to act as factors; to act as agents or managers for any insurance company, club or association, or for any individual underwriter, in connection with its or his insurance or underwriting business (wherever it may be carried on) or any branch of it, and to make arrangements for all classes of insurance (including group, life and pension fund schemes) with any such company, club, association or underwriter; and to undertake and place guarantee and indemnity business.

#### 4. ARTICLES OF ASSOCIATION

4.1 The Articles of Association of the Company (the "Articles") were adopted, conditional on Admission, by special resolution at an Extraordinary General Meeting of the Company held on 6 April 2004.

4.2 The Articles contain provisions, inter alia, to the following effect:

##### 4.2.1 *Voting Rights*

4.2.1.1 Subject to any special rights or restrictions as to voting on which shares have been allotted or issued or in accordance with these Articles, on a show of hands every member who is present in person and entitled to vote shall have one vote and on a poll every member who is present in person or by proxy and entitled to vote shall have one vote for every share held by him.

4.2.1.2 No member shall, unless the Board otherwise determine, be entitled in respect of any share held by him to attend or vote either personally or by proxy at a general meeting (including a separate meeting of the holders of shares of a particular class) or to exercise any other right conferred by membership in relation to such meetings if any call or other sum presently payable by him to the Company in respect of that share or shares remains unpaid.

4.2.1.3 Subject to the requirements of the London Stock Exchange, if a member or any other person appearing to be interested in shares held by such member has been duly served with a notice under Section 212 of the Act and is in default for the prescribed period in supplying to the Company the information required by such notice then (unless the Board otherwise determines) in respect of the relevant shares the member shall not (for as long as the default continues), nor shall any transferee to whom any of such shares are transferred (other than pursuant to an approved transfer (as defined in the Articles) ) be entitled to attend or vote, either personally or by proxy, at a general meeting (including a separate meeting of the holders of shares of a particular class) or to exercise any other right conferred by membership in relation to such meetings.

##### 4.2.2 *Variation of class rights*

Whenever the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class may, subject to the Statutes be varied or abrogated:

4.2.2.1 in such manner (if any) as may be provided by those rights; or

4.2.2.2 in the absence of such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class validly held in accordance with the Articles (but not otherwise),

and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up.

##### 4.2.3 *Changes in Capital*

The Company may from time to time by ordinary resolution:

4.2.3.1 consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;

4.2.3.2 sub-divide its shares, or any of them, into shares of a smaller amount than is fixed by the memorandum of association (subject to the Statutes). The resolution providing for the sub-division of any share may also provide that, as between the holders of the shares resulting from such sub-division, one or more of the shares

may, as compared with the others, have any such preferred, deferred or other rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares; and

- 4.2.3.3 cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person and diminish the amount of its share capital by the nominal amount of the shares so cancelled.

Where any difficulty arises in relation to any consolidation or sub-division under the Articles, the Board may settle the same as it thinks expedient and in particular may make such provision as it thinks fit for any fractional entitlements which may or would arise

4.2.4 *Capitalisation of reserves*

If shares are allotted or issued pursuant to the Articles, the amount required to pay up those shares may be capitalised as the board thinks fit out of amounts standing to the credit of reserves (including a share premium account, capital redemption reserve and profit and loss account), whether or not available for distribution, and applied in paying up in full the appropriate number of shares. A resolution of the Board capitalising part of the reserves for the purpose set out in the Articles has the same effect as if the capitalisation had been declared by ordinary resolution of the Company pursuant to the Articles.

4.2.5 *Dividends*

4.2.5.1 No dividend shall be paid except out of profits available for distribution under the provisions of the Statutes.

4.2.5.2 The Board may retain any dividend or other moneys payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the moneys payable to the Company in respect of that share.

4.2.5.3 The Board may retain any dividend payable on a share in respect of which any person is, under the provisions of the Articles dealing with the transmission of shares, entitled to become a member in certain specified circumstances.

4.2.5.4 Any unclaimed dividend, interest or other moneys payable on or in respect of a share may be invested or otherwise made use of by the Board for the benefit of the Company until claimed.

4.2.6 *Distribution of assets on winding-up*

If the Company is wound up (whether the liquidation is voluntary or under the supervision of or by the court) the liquidator may, with the authority of an extraordinary resolution of the Company and any other authority required by the Statutes:

4.2.6.1 divide among the members *in specie* or in kind the whole or any part of the assets of the Company (whether or not the assets consist of property of one kind or of different kinds);

4.2.6.2 set such value as he deems fair upon any one or more class or classes of property and determine how such division shall be carried out as between the members or different classes of members; and

4.2.6.3 vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as he thinks fit but no member shall be compelled to accept any shares or other property in respect of which there is an actual or potential liability.

4.2.7 *Transfer*

4.2.7.1 A certificated share may be transferred by an instrument of transfer in any usual or common form or in any other form acceptable to the Board. An uncertificated share may be transferred in accordance with the Uncertificated Securities Regulations 2001. A transferor shall remain the holder of the share concerned (whether a certificated share or an uncertificated share) until the name of the transferee is entered in the register as the holder of that share.

- 4.2.7.2 Subject to the Articles and the requirements of London Stock Exchange, the Board may refuse to register the transfer of a certificated share which is not fully paid or on which the Company has a lien (provided that this power will not be exercised so as to disturb the market in those shares). If that share has been admitted to trading on AIM or to the London Stock Exchange's market for listed securities, the Board may not refuse to register the transfer if this would prevent dealings in the share from taking place on an open and proper basis.
- 4.2.7.3 Subject to the Articles and the requirements of the London Stock Exchange, the board may also refuse to register the transfer of a certificated share or a renunciation of a renounceable letter of allotment (save where to do so would disturb the market in the shares) unless certain conditions are satisfied.

4.2.8 *Directors*

- 4.2.8.1 A Director shall not be required to hold any shares of the Company by way of qualification.
- 4.2.8.2 The Company may by ordinary resolution elect, and (without restricting in any way that power of the Company) the Board shall have power at any time to appoint, any person who is willing to act to be a Director either to fill a casual vacancy or as an additional Director (but so that the total number of Directors shall not, as a result, exceed the maximum number (if any) fixed by or in accordance with the Articles). Any person so appointed by the Board must retire from office at, or at the conclusion of business at, the next following annual general meeting, and will be eligible for election by the Shareholders at that meeting.
- 4.2.8.3 The remuneration of any Director who does not hold executive office for his services as an officer of the Company shall be determined by the Board or any committee authorised by the Board but shall not exceed the sum of £50,000 per annum (or such higher amount as the Company may from time to time by ordinary resolution determine) and shall accrue daily.
- 4.2.8.4 The Board may from time to time appoint any one or more Directors to be the holder of any executive office (including, where considered appropriate, the office of chairman or deputy chairman or chief executive officer or managing or joint managing or deputy or assistant managing Director but excluding that of auditor) on such terms and for such period as it may (subject to the Statutes and the requirements of the London Stock Exchange) determine. Subject to the Statutes, the Board may enter into an agreement or arrangement with any Director for his employment by the Company or for the provision by him of any services outside the scope of the ordinary duties of a director. The Board may, without limiting or prejudicing in any way the terms of any contract entered into in any particular case, at any time revoke or vary the terms of any such appointment. A Director appointed to an executive office shall not cease to be a Director merely because his appointment to such executive office terminates.
- 4.2.8.5 Subject to the Statutes and the Articles, a Director, notwithstanding his office may enter into or otherwise be interested in a contract, arrangement, transaction or proposal with the Company or in which the Company is in any way interested whether directly or indirectly.
- 4.2.8.6 A Director may hold another office or employment with the Company or any other undertaking in which the Company is in any way interested (other than the office of auditor) in conjunction with the office of Director and may act by himself or through his firm in a professional capacity for the Company or any such other undertaking, and in that case on such terms as to remuneration and otherwise as the Board may decide either in addition to or instead of remuneration provided for by another provision of the Articles.

4.2.8.7 A Director who, to his knowledge, is in any way (directly or indirectly) interested in a contract, arrangement, transaction or proposal with the Company shall declare the nature and extent of his interest at the meeting of the Board at which the question of entering into the contract, arrangement, transaction or proposal is first considered, if he knows his interest then exists or, in any other case, at the first meeting of the Board after he knows that he is or has become interested.

4.2.8.8 Each Director shall retire from office and may offer himself for re-election at the first annual general meeting or other available opportunity following his appointment. Thereafter at each succeeding annual general meeting any Director bound to retire under the Articles and one-third of the other Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to, but (except where less than three Directors are subject to retirement by rotation) not greater than one-third) shall retire from office. No Director shall continue to hold office as a Director after the third annual general meeting following his election or re-election, as the case may be, without submitting himself for re-election at the said third annual general meeting.

4.2.9 *Borrowing Powers*

Subject to the Articles and the Statutes, the Board may exercise all the powers of the Company to borrow money and to mortgage, charge or grant any security over all or any part of the undertaking, property, assets (present and future) and uncalled capital of the Company, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

**5. DIRECTORS' AND OTHER INTERESTS**

**5.1 Directors' and other significant interests in the Company's share capital**

5.1.1 At the date of this document and following Admission, the Placing and assuming full subscription under the Offer, the interests of the Directors (including persons connected with them within the meaning of Section 346 of the Act) in the share capital of the Company, which have been notified to the Company pursuant to Sections 324 and 328 of the Act and which are shown in the register of directors' interests maintained under Section 325 of the Act, are or will be as follows:

	At the date of this document						
	Number of A ordinary shares	Number of B ordinary shares	Number of C ordinary shares	Number of non-voting ordinary shares	Total number of shares	Percentage of issued share capital	Options over ordinary shares
<b>Directors</b>							
Faisal Rahmatallah	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Grant Ellis	40,500	Nil	Nil	Nil	40,500	17.9	Nil
Michael Collins	Nil	6,000	Nil	Nil	6,000	2.6	6,000
Julie Hale	Nil	Nil	Nil	Nil	Nil	Nil	6,000
Miles Japhet	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Peter Bates	38,500	Nil	Nil	Nil	38,500	17.0	Nil
Michael Pendle	Nil	Nil	Nil	Nil	Nil	Nil	Nil

<b>Directors</b>	<b>Immediately following Admission</b>		
	<b>Number of Ordinary Shares</b>	<b>Percentage of issued share capital</b>	<b>Options over Ordinary Shares</b>
Faisal Rahmatallah	Nil	Nil	Nil
Grant Ellis	2,025,000	13.3	Nil
Michael Collins	300,000	2.0	300,000
Julie Hale	Nil	Nil	300,000
Miles Japhet	Nil	Nil	Nil
Peter Bates	1,925,000	12.7	Nil
Michael Pendle	Nil	Nil	Nil

5.1.2 All of the above interests of the Directors are and will be beneficial.

5.1.3 Details of the options to subscribe for Ordinary Shares referred to above are set out in paragraph 6 of this Part VI.

5.1.4 Save for the Directors, at the date of this document and following Admission and the Placing and assuming full subscription under the Offer, so far as the Directors are aware, the following persons are or will be directly or indirectly interested in more than 3 per cent of the Ordinary Shares:

	<b>At the date of this document</b>					
	<b>Number of A ordinary shares</b>	<b>Number of B ordinary shares</b>	<b>Number of C ordinary shares</b>	<b>Number of non-voting ordinary shares</b>	<b>Total number of shares</b>	<b>Percentage of issued share capital</b>
Capricorn	Nil	Nil	72,701	12,523	85,224	37.6
David Belgian	Nil	25,000	Nil	Nil	25,000	11.0
Colin Sive	Nil	6,000	Nil	2,000	8,000	3.5

	<b>Immediately following Admission</b>	
	<b>Number of Ordinary Shares</b>	<b>Percentage of issued share capital</b>
Capricorn	4,261,200	28.0
The Framlington Mercantile Investment Trust	1,408,450	9.3
David Belgian	1,250,000	8.2
Colin Sive	400,000	2.6

5.1.5 Save as described above, the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

## 5.2 Directors' remuneration and service agreements

5.2.1 The aggregate remuneration paid to the Directors of the Company in respect of the year ended 30 April 2003 by The Broker Network Limited was £362,157 (including pension fund contributions and benefits in kind). The aggregate remuneration (including pension fund contributions and benefits in kind) of the Directors in respect of the financial year ending 30 April 2004 under the arrangements in force at the date hereof is expected to be £335,000 (payable by The Broker Network Limited and the Company in aggregate).

5.2.2 Each of the executive Directors has entered into a service agreement or contract for services with The Broker Network Limited, as follows:

5.2.2.1 Grant Ellis has entered into a service contract which provides for him to act as Chief Executive Officer of the Group, continuing unless terminated by either party giving not less than 12 months notice. His salary is £107,500 per annum to be reviewed annually. He is entitled to other benefits approved by the Remuneration Committee including a contribution into a personal pension scheme equal to 5 per cent of salary. The service contract imposes restrictions on his being involved in other competing businesses during the period of his employment and for 12 months thereafter.

- 5.2.2.2 Julie Hale has entered into a service contract which provides for her to act as Group Finance Director continuing unless terminated by either party giving not less than 6 months notice. Her salary is £82,500 per annum to be reviewed annually. She is entitled to other benefits approved by the Remuneration Committee including a contribution into a personal pension scheme equal to 5 per cent of salary. The service contract imposes restrictions on her being involved in other competing businesses during the period of her employment and for 12 months thereafter.
- 5.2.2.3 Michael Collins has entered into a service contract which provides for him to act as Chief Operating Officer of the Group, continuing unless terminated by either party giving not less than 6 months notice. His salary is £84,000 per annum, to be reviewed annually. He is entitled to other benefits approved by the Remuneration Committee. The service contract imposes restrictions on his being involved in other competing businesses during the period of his employment and for 12 months thereafter.
- 5.2.3 Each of the non-executive Directors has entered into an agreement with the Company, as follows:
- 5.2.3.1 Faisal Rahmatallah has entered into an agreement with the Company whereby he will provide his services to the Company for an annual fee of £9,000 plus fees of £1,000 for each meeting attended by him. The appointment is subject to termination by either party giving three months notice.
- 5.2.3.2 Miles Japhet has entered into an agreement with the Company whereby he will provide his services to the Company. There are no fees payable to Mr Japhet. The appointment is subject to termination by either party giving three months notice.
- 5.2.3.3 Peter Bates has entered into an agreement with the Company whereby he will provide his services to the Company for fees of £1,000 for each meeting attended by him. The appointment is subject to termination by either party giving three months notice.
- 5.2.3.4 Michael Pendle has entered into an agreement with the Company whereby he will provide his services to the Company for a minimum of five days per annum and an expected maximum of twelve days per annum for an annual fee of £10,000. The appointment is subject to termination by either party giving three months notice.
- 5.2.4 Following Admission, there will be no other existing or proposed service contracts between any of the Directors and any other member of the Group.
- 5.2.5 Save as stated above, there are no service contracts, existing or proposed, between any of the Directors and the Company or any of its subsidiaries, which are not terminable within six months, by the relevant company without payment of compensation (other than statutory compensation).
- 5.2.6 There is no arrangement under which any Director has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

### **5.3 Loans and guarantees**

There are no loans or guarantees provided by any member of the Group for the benefit of any of the Directors.

### **5.4 Directors' interests in transactions**

Save as disclosed in Part I, in note 16 of Part III(b) and in note 4.23 in Part III(c) of this document and otherwise in this document, no Director, has or has had, any interest in any transaction which is of an unusual nature, contains unusual terms or is significant in relation to the business of the Group and which was effected during the current or immediately preceding financial year or during any earlier financial year and remains in any respect outstanding or unperformed.

**5.5 Further information concerning Directors**

5.5.1 Other than directorships in Group companies, the Directors hold, and have previously held during the five years preceding the date of this document, the following directorships or partnerships:

<b>Name</b>	<b>Current Directorships or Partnerships</b>	<b>Past Directorships or Partnerships</b>
Faisal John Rahmatallah	Albany Group Holdings Limited Capricorn Associates UK Limited F&I Just Claims Limited Funding & Insurance Solutions Limited Just Claims.Com Limited Quickband Limited Bell Holdings Limited A.F. Capital Partners Limited CTTS Limited Klein Moerbeij (Pty) Limited	The Pastry Company Limited Winecorp (Europe) Limited Cranks Retail Limited* 177 Leopont (Pty) Limited Helderberg Vineyards (Pty) Limited Afrikan Vineyard Holdings (Pty) Limited Afrikan Vineyards (Pty) Limited Winecorp Ltd Winecorp Holdings (Pty) Limited Winecorp SA (Pty) Limited Spier Holdings (Pty) Limited Hollard Holdings (Pty) Limited
Paul Grant Ellis	Ellis Bates & Company Limited Ellis Bates Holdings Limited	Delta Business Systems Limited Greycrest Management Limited Ellis Bates & Company (Employee Benefits) Limited Ellis Bates & Company (Investment Management) Limited
Michael Geoffrey Collins	Lesley and Page Services Limited Icarus Flyers Limited	LPSO Limited London Processing Centre Limited Xchanging Ins-sure Limited Ins-sure Holdings Limited Ins-sure Services Limited
Julie Kathryn Hale	Kirklees Media Centre Limited Media Centre Network Limited	None
Miles Louis Japhet	Captain Sterling Investments 93 (Proprietary) Limited Carguard Eastern Cape (Proprietary) Limited Carguard Transvaal (Proprietary) Limited Carguard (O.V.S) (Eiendoms) Beperk Casa Luigi Properties (Proprietary) Limited Folio Investment Company (Proprietary) Limited Hollard Life Properties (Proprietary) Limited The Hollard Insurance Company Limited Hollard Asset Management (Proprietary) Limited Hollard Business Associates (Proprietary) Limited Hollard Holdings (Proprietary) Limited	Legal Expenses South Africa Pty Limited

Name	Current Directorships or Partnerships	Past Directorships or Partnerships
	Hollard International Insurance (PCC) Limited Hollard Life Assurance Company Limited Hollard Risk Capital (Proprietary) Limited Hollard Mocambique Companhia de Seguros Jetmile Properties (Proprietary) Limited Lanfranc Property Holdings Limited Lombard Insurance Company Limited Ndebele Cultural Village (Proprietary) Limited NER Investments (Proprietary) Limited New Berea Centre (Proprietary) Limited Petsure (Proprietary) Limited South African Underwriting Managers (Pty) Limited Shaheen Insurance Company Limited Zimisele Underwriting Management Company (Pty) Limited Ducaj Investment and Trading (Pty) Ltd Red Sands Insurance Company Limited Manzilla Insurance PCC Limited	
Peter Bates	Ellis Bates & Company (Financial Services) Limited Ellis Bates & Company Limited Ellis Bates Holdings Limited Berry Stainsby & Walker Financial Planning Limited The Burns Anderson Independent Network PLC** Ellis Bates Financial Solutions Limited	Delta Business Systems Limited Greycrest Management Limited Ellis Bates & Company (Employee Benefits) Limited Ellis Bates & Company (Investment Management) Limited
Michael John Pendle	None	EDS Credit Services Limited General Insurance Standards Council Abbey National Charitable Trust Limited CGU Underwriting Limited Abbey National Insurance Services Limited Abbey National Healthcare Limited Abbey National Credit and Payment Services Limited Abbey National AESOP Trustees Limited Abbey National General Insurance Services Limited Carfax Personal Lines Insurance PCC Limited

\* Faisal Rahmatallah was a director of Cranks Retail Limited when it went into liquidation in 2002. The total loss to creditors was approximately £1.3 million, of which approximately £0.95 million was owed to Capricorn. There were no criticisms or fines against Faisal Rahmatallah.

\*\* The Burns Anderson Independent Network plc, of which Peter Bates is a non-executive director, was censured and fined by the Personal Investment Authority in 2001 for a failure to comply with certain regulations. There were no criticisms or fines against Peter Bates personally.

5.5.2 Save as disclosed in paragraph 5.5.1 of this Part VI, none of the Directors has:

- 5.5.2.1 any unspent convictions in relation to indictable offences;
- 5.5.2.2 ever been declared bankrupt or been the subject of an individual voluntary arrangement;
- 5.5.2.3 been the subject of public criticism by any statutory or regulatory authority (including recognised professional bodies);
- 5.5.2.4 been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company;
- 5.5.2.5 ever been a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors; or
- 5.5.2.6 ever owned, or been a partner in a partnership which owned, any asset which, while he owned that asset, or while he was a partner or within 12 months after his ceasing to be a partner in the partnership which owned that asset, went into receivership.

## 6. SHARE OPTIONS

### 6.1 EMI Share Options

On 18 December 2001 and on 13 November 2003, The Broker Network Limited granted options the majority of which are expected to qualify for relief under the Enterprise Management Incentives Scheme under the Income Tax (Earnings and Pensions) Act 2003, to Julie Hale and Michael Collins respectively.

Approximately 1,000 of Michael Collins' options were granted under an unapproved scheme as the limits for the Enterprise Management Incentive Scheme were exceeded.

The options were granted under individual option agreements and the option agreements were in similar form. The following paragraphs summarise the key provisions of the option agreements:

#### 6.1.1 Option Price and Amount

Each option is in respect of 6,000 B ordinary shares of £1 each in The Broker Network Limited at an option price of £10 per share for Julie Hale and £20 per share for Michael Collins, subject to adjustment in the event of any subsequent variation of share capital.

#### 6.1.2 Exercise of Option Period

Subject to the terms of the option agreement, the options may be exercised on the occurrence of an event as outlined in section 6.1.3 within a period commencing with the date of grant and ending on the 10th anniversary of the date of grant.

#### 6.1.3 Exercise of Options

The option may be exercised on a sale or a listing, or within 40 days of the occurrence of a disqualifying event, or on a change of control of grantor company, or within three months of ceasing to hold office or employment with a Group company where termination of employment occurs as a result of ill-health, injury, disability or redundancy within the meaning of the Employment Rights Act 1996, or within six months of the death of the option holder.

#### 6.1.4 Cessation of employment

If a participant ceases to be employed by a Group company, the options will lapse unless the grantor company in its absolute discretion determines otherwise. If the cessation occurs as a result of ill-health, injury, disability or redundancy, the option may be exercised within 3 months of the date of cessation and, if not so exercised, these will lapse. Where cessation of employment occurs as a result of the death of the option holder, the options may be exercised within 6 months of the date of death and, if not so exercised, will lapse.

6.1.5 Change of control

In the event of a change in control of grantor company as a result of a take-over or reconstruction, then (as an alternative to the exercise of options) participants may, if the acquiring company agrees, release their options in exchange for options over shares in the acquiring company.

6.1.6 Variation of share capital

In the event of a variation of the ordinary share capital of The Broker Network Limited, the option price of the shares under option and/or the number of such shares may be adjusted with the confirmation in writing of the auditors (except in the case of a capitalisation issue) that such adjustment is fair and reasonable.

6.1.7 EMI Relief

Provided the Enterprise Management Incentive Scheme options retain their qualifying status, no income tax or national insurance contributions will arise when the options are exercised. On the exercise of the unapproved options granted to Michael Collins, income tax and national insurance contributions will arise upon the difference between the market value of the shares at the date of exercise and the price paid for those shares.

**6.2 Exchange of options**

Pursuant to the provisions of the option agreements, the Company agreed at the time of its acquisition of The Broker Network Limited to exchange the options referred to in paragraph 6.1 above for options over new Ordinary Shares in the Company on similar terms and conditions. In addition, all references in the option agreements to "The Broker Network Limited" shall now include references to the Company.

**6.3 Continuation of the options**

The options will continue in full force and effect following Admission, subject only to the number of shares under option and the option price being adjusted to reflect the Company's share capital after the Placing and the Offer.

**7. PREMISES**

The Group occupies Mowbray House, Mowbray Square, Harrogate, North Yorkshire, HG1 5AU under the terms of a lease dated 11 September 1989 between Hucklehurst Properties Limited (1) and Programs at Work Limited (2) which was assigned on 20 July 2001 by Blick Software Limited (formerly known as Programs at Work Limited) to the Company.

**8. MATERIAL CONTRACTS**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company or subsidiaries of the Company during the two years immediately preceding the date of this document or, if earlier, are contracts under which the Company or any of its subsidiaries has any obligations or entitlements which at the date of this document are, or may be, material:

- 8.1 A Placing Agreement dated 22 April 2004 between Brewin Dolphin (1) the Company (2) and the Directors (3) whereby Brewin has agreed conditionally, *inter alia*, on Admission becoming effective not later than 10 May 2004, as agent for the Company to use its reasonable endeavours to effect the Placing and to make the Offer.

Under the Placing Agreement, the Company and the Directors have given Brewin Dolphin certain warranties and indemnities regarding, *inter alia*, the accuracy of the information contained in this document. The provisions of the Placing Agreement permit that the agreement may be terminated by Brewin Dolphin prior to Admission in certain circumstances.

The Company has agreed to pay all the costs and expenses of the Placing and the Offer, including fees of £150,000 (exclusive of VAT) to Brewin Dolphin in respect of corporate finance and marketing services. In addition, the Company has agreed to pay commission to Brewin Dolphin in respect of the Placing of 3 per cent (exclusive of VAT) of the aggregate Issue Price of Ordinary Shares subscribed under the Placing and Offer.

The Directors have undertaken to the Company and Brewin Dolphin (subject to certain limited exceptions including transfers to family members or to trustees for their benefit and disposals by way of acceptance of a recommended takeover offer for the entire issued share capital of the Company) not to dispose of the Ordinary Shares held by each of them and their connected parties following Admission for a twelve month period from Admission (the "Lock-in Period") without the prior written consent of Brewin Dolphin. Furthermore, the Directors have also undertaken to the Company and Brewin Dolphin not to dispose of their Ordinary Shares, for a twelve month period following the end of the Lock-in Period without first giving Brewin Dolphin (or such other stockbrokers as the Company may appoint) and the Company not less than five days' notice of such intention and offering such shares to such brokers for placing on a best price and execution basis.

- 8.2 A Nominated Adviser and Broker Agreement dated 12 March 2004 between the Company (1), the Directors (2), and Brewin Dolphin (3) pursuant to which the Company has appointed Brewin Dolphin to act as Nominated Adviser and Broker to the Company for the purposes of AIM, commencing with effect from Admission and continuing thereafter. The Company has agreed to pay Brewin Dolphin a fee of £30,000 per annum for its services as Nominated Adviser and Broker under this agreement. The agreement contains certain undertakings and indemnities given by the Company and the Directors in respect of, inter alia, compliance with all applicable laws and regulations. The agreement is subject to termination on the giving of three months' notice by either the Company or Brewin Dolphin to the other.

## **9. ARRANGEMENTS WITH SHAREHOLDERS**

Capricorn and David Belgian have undertaken to the Company and Brewin Dolphin (subject to certain limited exceptions including transfers to family members or to trustees for their benefit and disposals by way of acceptance of a recommended takeover offer for the entire issued share capital of the Company) not to dispose of the Ordinary Shares held by each of them and their connected parties following Admission for a twelve month period from Admission (the "Lock-in Period") without the prior written consent of Brewin Dolphin.

In addition, Capricorn may dispose of its Ordinary Shares during the Lock-in Period to an entity controlled by the ultimate parent company of Capricorn provided that entity or its ultimate parent company has entered into a lock-in agreement with the Company and Brewin Dolphin on the same terms. Capricorn may also dispose of its Ordinary Shares during the Lock-in Period to a purchaser who or which has entered into a lock-in agreement with the Company and Brewin Dolphin on the same terms, save that such a purchaser would not have the benefit of the additional exceptions contained in this paragraph.

Furthermore, each of Capricorn and David Belgian have also undertaken to the Company and Brewin Dolphin not to dispose of their Ordinary Shares, for a twelve month period following the end of the Lock-in Period without first giving Brewin Dolphin (or such other stockbrokers as the Company may appoint) and the Company not less than five days' notice of such intention and offering such shares to such brokers for placing on a best price and execution basis.

## **10. LITIGATION**

No member of the Group is currently engaged in any litigation or arbitration proceedings which have or may have a significant effect on the financial position of the Group and, so far as the Directors are aware, there are no such proceedings pending or threatened against any member of the Group.

## **11. WORKING CAPITAL**

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group will be sufficient for its present requirements, that is for at least twelve months from Admission.

## **12. TAXATION**

The following paragraphs, which are intended as a general guide based on current legislation and Inland Revenue practice as at the date of this document, summarise advice received by the Directors about the UK tax position of shareholders who are resident or ordinarily resident in the UK for tax purposes and who beneficially hold their shares as investments (otherwise than under an individual savings account ("ISA")). Any Shareholder who is in doubt as to their tax position, or who is subject to tax in a jurisdiction other than the United Kingdom, is strongly recommended to consult their professional advisers.

### *Taxation of the Company*

The Company will be liable to United Kingdom corporation tax at rates (depending upon the level of its profits for each accounting period) currently of between zero per cent and 30 per cent.

*Taxation of dividends*

Under current UK taxation legislation, no tax is withheld at source from dividend payments made by the Company.

An individual Shareholder who is resident (for tax purposes) in the UK and who receives a dividend paid by the Company will currently be entitled to receive a tax credit equal to 10 per cent of the combined total of the dividend paid and the tax credit. The individual will be taxable upon the total of the dividend and the related tax credit ("the gross dividend") which will be regarded as the top slice of the individual's income. An individual Shareholder who is not liable to income tax at a rate greater than the basic rate (currently 22 per cent) will pay tax on the gross dividend at the dividend income ordinary rate, currently 10 per cent. Accordingly, the tax credit will be treated as satisfying the individual's liability to income tax in respect of the dividend and there will be no further tax to pay and no right to claim any repayment of the tax credit from the Inland Revenue. To the extent that the gross dividend (taken together with other taxable income) exceeds the individual's threshold for the higher rate of income tax the individual will pay tax on the gross dividend at the dividend income upper rate (currently 32.5 per cent). Accordingly, a shareholder who is a higher rate tax payer will have further income tax to pay at the rate of 22.5 per cent on the gross dividend (equivalent to 25 per cent of the dividend received). Tax credits are generally no longer repayable to Shareholders with no tax liability. However, where that Shareholder holds his shares in an ISA, the tax credits will be recoverable on dividends paid by the Company before 6 April 2004.

Subject to exceptions for certain insurance companies and companies which hold shares as trading stock, a Shareholder that is a company resident (for tax purposes) in the UK and that receives a dividend paid by the Company will not be liable to corporation tax or income tax on the dividend.

Trustees of discretionary trusts, liable to account or income tax at the rate applicable to trusts, will be liable to tax at the Schedule F Trust rate of 25 per cent on the dividend and related tax credit.

Shareholders who are resident in countries other than the UK may be entitled to a credit for all, or a proportion of, the associated tax credit. Shareholders not resident in the UK should consult their own tax adviser on the application of such provisions and the procedure for claiming relief.

*Taxation on Capital Gains for Shareholders*

If a Shareholder who is resident or ordinarily resident in the UK for tax purposes disposes of all, or any of, his or its Placing Shares, he or it may, depending on the Shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

*Stamp duty and Stamp Duty Reserve Tax ("SDRT")*

No liability to stamp duty or SDRT should arise on the allotment of Placing Shares by the Company under the Placing.

Subsequent sales of Ordinary Shares inside CREST will generally be liable to SDRT at the rate of 0.5 per cent of the amount or value of the consideration rounded up to the nearest £5.

Subsequent sales of Ordinary Shares outside CREST will generally be liable to ad valorem Stamp Duty, at the rate of 0.5 per cent of the amount or value of the consideration rounded up to the nearest £5. Stamp duty and SDRT are normally the liability of the purchaser or transferee of the Ordinary Shares. However, where an instrument of transfer which completes an unconditional agreement to transfer shares is duly stamped within six years after the agreement was entered into (or it becomes unconditional) the stamp duty will cancel the SDRT liability and any SDRT paid can be recovered.

No stamp duty or SDRT will arise on a transfer of shares into CREST unless the transfer is itself for consideration, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent of the amount or value of the consideration given. Transfers of shares within CREST are generally liable to SDRT at the rate of 0.5 per cent.

The information in this paragraph is a general summary of certain tax reliefs which may be available and should not be construed as constituting advice. Potential investors should obtain advice from their own investment or taxation adviser.

### 13. GENERAL

- 13.1 The accounting reference date of the Company is 30 April.
- 13.2 Brewin Dolphin has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to its name in the form and context in which they appear.
- 13.3 Brewin Dolphin which is a member of, and is regulated by, the Financial Services Authority, has been appointed as nominated adviser and broker to the Company and has its registered office at 5 Giltspur Street, London EC1A 9BD.
- 13.4 The estimated amount of the total costs and expenses of the Placing, the Offer and Admission, including registration and London Stock Exchange fees, printing, advertising and distribution costs, legal and accounting fees and expenses, which are all payable by the Company is £550,000 (including irrecoverable VAT). This amount includes an estimated commission of £82,500 payable by the Company to Brewin Dolphin.
- 13.5 In the opinion of the Directors, there are no minimum amounts and no amount is to be provided otherwise than from the Placing and the Offer in respect of the matters specified in paragraph 21(a)(i) to (iv) of Schedule I to the Regulations.
- 13.6 The financial information contained in this document relating to the Group does not constitute full statutory accounts as referred to in Section 240 of the Act. The Company's first accounting reference period will be for the period from incorporation (16 February 2004) to 30 April 2005. As such, no statutory accounts have been delivered to the Registrar of Companies.
- However, the statutory accounts of the main trading subsidiary, The Broker Network Limited, for the three years ended 30 April 2003 have been delivered to the Registrar of Companies. In respect of each such accounts, the auditors gave unqualified reports and no statement under section 237(2) or (3) of the Act was made.
- 13.7 Save as disclosed in Note 17 to Part III(b) of this document, there has been no significant change in the financial or trading position of the Group since the date on which the last audited financial statements referred to in Part III of this document were made up.
- 13.8 The net proceeds of the Placing and the Offer (after expenses including irrecoverable VAT) are estimated at approximately £2.2 million.
- 13.9 Of the Issue Price, 2p represents the nominal value of each new Ordinary Share and 69p represents a premium.
- 13.10 Save in connection with the application for Admission, none of the Ordinary Shares have been admitted to dealings on any recognised investment exchange and no application for such admission has been made and it is not intended to make any other arrangements for dealings in the Ordinary Shares on any such exchange.
- 13.11 No person (other than the professional advisers referred to in this document) has received, directly or indirectly, from the Company within the 12 months preceding the date of this document, or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission, fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more, calculated by reference to the Placing Price, or any other benefit with a value of £10,000 or more at the date of Admission.
- 13.12 KPMG LLP have given and not withdrawn their written consent to the inclusion of their reports in the form set out in Parts III(a), (c) and (d) of this document and accept responsibility for such reports in accordance with paragraph 45(1)(b) of Schedule I to the Regulations and the references to such reports in the form and context in which they appear.
- 13.13 KPMG Audit Plc has given and not withdrawn its written consent to the inclusion of their report in the form set out in Part III(b) of this document and the references to its report in the form and context in which it appears.
- 13.14 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the placing letters issued by Brewin Dolphin until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 31 May 2004, application monies will be returned to applicants at their risk without interest.

- 13.15 The existing issued Ordinary Shares and the Placing Shares and Offer Shares will be in registered form and will be in uncertificated form in CREST. Definitive share certificates are not expected to be despatched to those placees who have elected to receive Ordinary Shares in uncertificated form if, and only if, that person is a "system member" (as defined in The Uncertificated Securities Regulations 2001) in relation to CREST. For those placees who elect to receive Ordinary Shares to be issued pursuant to the Placing or the Offer in certificated form, share certificates are expected to be despatched to such applicants by post at their risk shortly after Admission. Temporary documents of title will not be issued in connection with the Placing or the Offer.
- 13.16 Save as disclosed in this document, no payment (including commissions) discounts, brokerages or other special terms has been or is to be paid or given to any promoter of the Company or granted in connection with the issue or sale of any share or loan capital of the Company.
- 13.17 CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Articles permit the holding and transfer of shares under CREST. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted, and accordingly enabled for settlement in CREST, as soon as practicable after Admission has occurred.

#### **14. AVAILABILITY OF PROSPECTUS**

Copies of this document will be available during normal business hours on any weekday (except Saturdays and public holidays) free of charge from the Company's registered office and at the offices of Brewin Dolphin Securities Limited, 34 Lisbon Street, Leeds LS1 4LX from the date of this document for a period of one month after Admission.

Dated 22 April 2004

## PART VII - PROCEDURE FOR APPLICATION UNDER THE OFFER

The instructions and other terms set out in the Application Form constitute part of the terms of the Offer.

If you wish to apply for any of the Offer Shares, you should complete the Application Form in accordance with the instructions printed thereon and return it, together with the full amount payable, to Computershare, so as to arrive as soon as possible, but in any event not later than 3.00 pm on 6 May 2004 or such later date as the Board may resolve. Applications will be irrevocable and will not be acknowledged. The Directors reserve the right to treat any application not strictly complying with the terms and conditions of application as nevertheless valid. If you post your Application Form you are recommended to allow at least two days for delivery.

Employees of Broker Network and employees of Members who subscribe under the Offer will be given priority in the event that it is oversubscribed.

Cheques or bankers' drafts should be made payable to "The Royal Bank of Scotland re Broker Network Holdings plc" and crossed "a/c Payee" and should be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank which is either a settlement member of the Cheque and Clearing Company Limited or the "CHAPS" Clearing Company Limited or a member of either of the committees of the Scottish or Belfast Clearing Houses which has arranged for its cheques and bankers' drafts to be cleared through the facilities provided by either of those companies or those committees (and must bear the appropriate sorting code number in the top right hand corner). An application will be invalid unless these requirements are fulfilled.

Cheques and bankers' drafts representing application monies may be presented for payment upon receipt and it is a term of the Offer that cheques will be honoured on first presentation. If any cheque is not honoured on presentation the relevant application may be deemed invalid.

Application monies will be kept in a designated client account of Computershare to the order of the Company pending completion of the Offer. Any interest earned on the monies in the designated client account will be retained for the benefit of the Company.

Applications under the Offer must be for a minimum of 1,000 Offer Shares and thereafter in multiples of 1,000 Offer Shares.

If you are in any doubt about the action you should take, you should consult your stockbroker, bank manager, accountant or other professional adviser immediately.

### **Money Laundering Regulations 2003**

The Money Laundering Regulations 2003 ("the Money Laundering Regulations") may require Computershare to establish the identity of the person by whom or on whose behalf an Application Form is lodged with payment (which requirements are referred to below as the "Verification of Identity Requirements"). The person (the "Applicant") who, by lodging an Application Form with payment as described above, agrees to accept the allotment of the Ordinary Shares comprised in such Application Form (or lesser amount of Offer Shares as is to be allotted by the Company in its absolute discretion) ("the Relevant Stock") and any agent lodging such Application Form on his behalf shall thereby be deemed to agree to provide Computershare with such information and other evidence as Computershare may require to satisfy the Verification of Identity Requirements. If the Application Form is submitted by, and/or payment is made by, a UK regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any Verification of Identity Requirements are the responsibility of such broker or intermediary and not Computershare.

If Computershare determines that the Verification of Identity Requirements apply to any acceptance of an allotment, the Relevant Stock will be allotted to the Applicant but (notwithstanding any other term of Offer) will not be issued to him until the Verification of Identity Requirements have been satisfied. If the Verification of Identity Requirements are not satisfied within such period, not being less than 21 business days after a request for evidence of identity is despatched to the Applicant, as the Company may in its absolute discretion allow, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the Relevant Stock and for that purpose the Company will be authorised to act as the agent of the Applicant. Any proceeds from such sale of the Relevant Stock (which shall be issued to, and registered in the name of, the purchaser(s)), net of expenses of sale, will be held by the Company on trust for the Applicant, subject to the requirements of the Money Laundering Regulations.

Computershare is entitled in its absolute discretion to determine whether the Verification of Identity Requirements apply to any Applicant and whether such requirements have been satisfied and neither Computershare nor the Company will be liable to any person for any loss suffered or incurred as a result of the exercise of such discretion or as a result of any sale of Relevant Stock.

If the Verification of Identity Requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in a delay in the despatch of a definitive stock certificate.

The Verification of Identity Requirements will not usually apply:

- (a) if the Applicant is an organisation required to comply with the EU Money Laundering Directive; or
- (b) if the Applicant (not being an Applicant who delivers his acceptance in person) makes payment by way of a cheque drawn on an account in name of such Applicant; or
- (c) if the aggregate nominal amount of the Relevant Stock is less than £9,000.

In other cases, the Verification of Identity Requirements may apply and satisfaction of these requirements may be facilitated in the following ways:

- (i) if payment is made by building society cheque (not being a cheque drawn on an account of the Applicant) or bankers' draft, by the building society or bank endorsing on the cheque or draft the Applicant's name and the number of an account held in the Applicant's name at such building society or bank, such endorsement being validated by a stamp and authorised signature;
- (ii) if payment is not made by cheque drawn on an account in the name of the Applicant and (i) above does not apply, the Applicant should enclose with his Application Form evidence of his name and address from an appropriate third party, for example, a recent bill from a gas, electricity or telephone company or a bank statement, in each case bearing the Applicant's name and address (originals of such documents (not copies) are required; such documents will be returned in due course); and
- (iii) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in (a) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Australia, Canada, Hong Kong, Iceland, Japan, New Zealand, Norway, Singapore, Switzerland, Turkey and the U. S.), the agent should provide written confirmation that it has that status with the Application Form(s) and written assurance that it has obtained and recorded evidence of the identity of persons for whom it acts and that it will on demand make evidence available to Computershare or the relevant authority.

In order to confirm the acceptability of any written assurance referred to in (iii) above or in any other case, the Applicant should contact the Receiving Agent, Computershare Investor Services plc of PO Box 859, The Pavillions, Bridgewater Road, Bristol BS99 1XZ.

If an Application Form(s) in respect of an aggregate nominal amount of Relevant Stock of £9,000 or more is/are lodged by hand by the Applicant in person, he should ensure that he has with him evidence of identity bearing his photograph (for example his passport) and evidence of his address.

#### **Overseas Persons**

No person receiving a copy of this document and/or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation to offer to him, nor should he in any event use such Application Form, unless in the relevant territory such an invitation or offer could lawfully be made to him or such Application Form could lawfully be used without contravention of any unfulfilled registration or other legal requirement.

Any person receiving a copy of this document and/or an Application Form outside the United Kingdom and wishing to make an application for any Offer Shares must satisfy himself as to the full observance of the laws of the relevant territory, including obtaining any governmental or other consents which may be required and observing any other formalities needing to be observed in such territory, and is responsible for paying any issue, transfer or other taxes due in such territory. All payments under the Offer must be made in pounds sterling. A person who is in any doubt as to his position should consult his professional advisers.

The Offer Shares have not been and will not be registered under the Securities Act of 1933, as amended, of the United States ("Securities Act"). Accordingly, except where a transaction is exempt under the Securities Act, the Offer Shares may not be offered, sold or renounced, directly or indirectly, in the United States of America (including the States and the District of Columbia), its territories, possessions and other areas subject to its jurisdiction ("United States") to or for the account or benefit of a US person. This document shall not constitute an offer to sell or the solicitation of an offer to buy any of the Offer Shares in the United States or to or by any US person.

If an Application Form is received by any US person, or the agent of a US person, he should not seek to subscribe for any Offer Shares unless it constitutes an exempt transaction under the Securities Act. An application and payment made under an Application Form will constitute a representation and warranty that the person so applying is not a US person and will not hold or acquire any of the Offer Shares in the United States or to or for the account of a US person or that the application constitutes a transaction which is exempt under the Securities Act.

For the purposes of this document, the term "US person" means a citizen of the United States resident in the United States, a corporation, partnership or other entity created or organised in or under the laws of the United States and an estate or trust, the income of which is subject to United States Federal income taxation, regardless of its source, but does not include a branch or agency of a US bank or insurance company that is operating outside the United States for valid business reasons as a legally regulated branch or agency engaged in banking or insurance business and not solely for the purpose of investing in securities not registered under the Securities Act.

Similar provisions apply in respect of Canada, Japan and Australia.

Persons resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to subscribe for Ordinary Shares pursuant to the Offer.

#### **Certificates**

Definitive share certificates representing allotted Offer Shares are expected to be despatched within 5 days of completion of the Offer; or within 5 days of clearance of all application monies received pursuant to the Offer, whichever is the later; no temporary documents of title will be issued and pending such despatch, transfers will be certified against the register of members of the Company.

All documents or remittances sent by or to a applicant, or as he/she may direct, will be sent through the post at his/her own risk.

## TERMS AND CONDITIONS

---

1. I/We hereby acknowledge that the acceptance of my/our application and basis of allocation of Offer Shares is in the absolute discretion of the Directors and that they have reserved the right to reject in whole or in part or to scale down any application. If any application is not accepted or is accepted for fewer Offer Shares than the number applied for, the application monies or the balance thereof (as the case may be) will be returned by sending the applicant's cheque or banker's draft or a crossed cheque in favour of the applicant, in each case by post or by hand and at the risk of the person entitled thereto, to the address of the first-named applicant, without interest.
2. It is a condition of the Offer that applications to the value of £9,000 or more which are settled by way of third party payment e.g. banker's draft, building society cheque or a cheque drawn by someone other than the applicant, will be subject to the United Kingdom's verification of identity requirements which are contained in the Money Laundering Regulations 2003. I/we hereby acknowledge that I/we have read and understood the information and requirements contained in the paragraph headed "Money Laundering Regulations 2003 contained in Part VII of the Prospectus.
3. In consideration of the Directors agreeing that they will consider and process applications for Offer Shares in accordance with the procedures referred to in the Prospectus and as a separate contract with the Company which will become binding on despatch by post of this application form:
  - (a) I/We warrant that the enclosed cheque or banker's draft will be honoured on first presentation and agree that if such cheque or banker's draft is not so honoured I/we will not be entitled to receive a share certificate for any Offer Shares unless and until I/we make payment in cleared funds for such Offer Shares and such payment is accepted by the Company in its absolute discretion (which acceptance may be on the basis that I/we indemnify the Company against all costs, damages, losses, expenses and liabilities arising out of, or in connection with the failure of my/our remittance to be honoured on the first presentation);
  - (b) I/We understand that an application by me/us to invest in the Company shall be deemed to be an offer up to the value of my/our application and that such offer shall be deemed to take effect on despatch by post of this application form;
  - (c) I/We confirm that I/we am/are not relying on any information or representation in relation to the Company other than that contained in the Prospectus and agree that neither the Company or any person responsible for the Prospectus or any part of it shall have any liability for any information or representation not so contained;
  - (d) I/We hereby authorise the Company to send a cheque for any monies returnable to me/us by first class post at my/our risk to the address first given overleaf;
  - (e) I/We agree that my/our application is irrevocable;
  - (f) I/We agree that, if I/we have signed this application form on behalf of any other person I/we have due authority to do so and that such person will also be bound accordingly and be deemed to have given the confirmations, warranties and undertakings contained herein;
  - (g) I/We warrant that I/we am/are not, nor am/are I/we applying on behalf of a person who is, under the age of 18;
  - (h) I/We warrant and declare that I/we am/are resident and ordinarily resident in the United Kingdom and I/we will notify the Directors immediately in writing if I/we cease to be so resident; and
  - (i) I/We agree that this application form shall be construed in accordance with and governed by the law of England and Wales.
4. I/We hereby declare that I/we have read, understood and agreed to the terms and conditions contained in the Prospectus and this application form, including the risk factors set out in Part I of the Prospectus and have taken all appropriate professional advice which I/we consider necessary before submitting this application and that I/we am/are aware of the special risks involved in participating in an investment of this nature and I/we understand that my/our application is made upon the terms of the prospectus and this application form.

*Terms and Conditions*

5. I/We acknowledge that, in relation to the transactions described in the Prospectus, the advisers of the Company mentioned therein are acting for the Company and are not acting for me/us on my/our account and that accordingly, will not be responsible to me/us for providing protections afforded to their clients, for advising me/us on any transactions described herein or for ensuring that such transaction is suitable for me/us.
6. I/We agree that acceptance of an application form shall have the meaning set out in the Prospectus unless the context requires otherwise.

# BROKER NETWORK HOLDINGS PLC

(Incorporated under the Companies Act 1985 with registered number 5044510)

## APPLICATION FORM

Terms and expressions used in this application form shall have the meaning set out in the Prospectus unless the context requires otherwise.

This form must be completed and returned to Computershare Investor Services plc, PO Box 859, The Pavilions, Bridgwater Road, Bristol BS99 1XZ, not later than 3.00 p.m. on 6 May 2004 (unless this deadline is extended by the Directors). If you post your Application Form you are recommended to use first class post and to allow at least two business days for delivery. Applications must be for a minimum of 1,000 Offer Shares and thereafter in multiples of 1,000 Offer Shares.

To the Directors of Broker Network Holdings plc

Dear Sirs,

### Offer for Subscription of up to 352,112 Ordinary Shares of 2 pence each at 71p each payable in full on application.

I/We hereby irrevocably offer to subscribe for ..... Ordinary Shares in the capital of the Company at 71 pence each (or any smaller number of Ordinary Shares for which this application is accepted), on the terms and conditions set out in the Company's prospectus dated 22 April 2004 (the "Prospectus") and subject to memorandum and articles of association of the Company.

I/We enclose my/our cheque for £..... being the amount payable in full for the number of Ordinary Shares stated above, made payable to "The Royal Bank of Scotland re Broker Network Holdings plc" and crossed "a/c payee".

I am an employee of Broker Network (\*delete as appropriate) YES/NO\*

I am an employee of a Member (†delete as appropriate) YES/NO†

(†If YES, insert name of Member ..... )

I/We request that you forward to the first-named person below by post at his/her risk a definitive certificate in respect of the Ordinary Shares allocated to me/us and/or a cheque for any monies returnable to the address first given below. I/We request and authorise you to register any New Ordinary Shares for which this application is accepted in the name(s) set out below.

### Please complete using BLOCK CAPITALS

Forename(s)/Name of Corporation.....

Surname .....

Address .....

Capacity if signing on behalf of a Corporation .....

Signed ..... Date .....

The signature on behalf of a corporation must be that of a duly authorised official who should state his/her representative capacity.

INTERMEDIARY (IF ANY)

SRO/FSA membership number

I/We do/do not authorise (delete whichever is inapplicable) the Company or its advisers to contact me by telephone in connection with any queries arising on my application.

If you have any queries relating to the completion of this Application Form, please telephone Computershare Investor Services plc on 0870 702 0100 or Brewin Dolphin Securities Ltd on 0113 241 0130.