

**BROKER  
NETWORK**

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Broker Network Holdings plc  
Annual Report & Accounts  
Year ended 30th April 2005



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# ABOUT BROKER NETWORK

Broker Network occupies a niche position in the insurance industry as the operator of the largest network of general insurance brokers in the country, with a membership of 140 small community insurance brokers. Broker Network negotiates agencies with insurers or wholesale intermediaries and Members are contractually obliged to place all their general insurance business via these facilities. Broker Network also provides support services to Members for marketing, training, regulatory compliance, IT and management of human resources.

Broker Network and its Members handled insurance premiums approaching £270m over the last 12 months. Insurers benefit from access to this business, together with other services provided to them by Broker Network. As a result the network has significant strength to negotiate levels of earnings and product availability which individual network Members could not secure on their own.

The business model provides for the acquisition of suitable insurance brokers, offering principals a potential exit from the industry when they retire. Broker Network has acquired eleven Member firms over the past 18 months. It aims to significantly increase the number of owned Members going forwards as more principals seek to take advantage of the exit opportunity that is presented.

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# HIGHLIGHTS OF 2004/5

## FINANCIAL HIGHLIGHTS

- Turnover increased by 63% to £7,590,000 (2004: £4,670,000)
- Operating profit up 61% at £979,000 (£609,000)
- Group operating margin before amortisation 19.3% (2004: 13.6%)
- Profit before tax increased by 73% to £1,315,000 (£757,000)
- Profit before tax and goodwill amortisation up 130% at £1,800,000 (2004: £784,000)
- Fully diluted earnings per share up 40% at 6.75p (2004: 4.82p)

## OPERATIONAL HIGHLIGHTS

- Successful placing on AIM, raising £2.2m net of expenses
- 11 acquisitions completed as at year end
- Number of network Members increased to 139
- Progress in line with expectations at time of AIM listing
- Good conditions for future growth

*Broker Network is  
well positioned to  
continue its growth  
and financial  
success in the  
foreseeable future*

## CHAIRMAN'S STATEMENT

### INTRODUCTION

My first report as Chairman and Broker Network's first report to shareholders as an AIM listed company marks the end of an extremely important and successful year for the Company, both from a financial and managerial standpoint.

Although the headline figure of a 130% increase in profit before tax and goodwill amortisation speaks for itself, a great deal has also been achieved to strengthen the long-term foundations of the business. Member numbers, the bedrock of our business, have grown by a further 5% to 139 during the period whilst the 2004/5 figures include income from the 11 Member businesses we now own outright. Even more pleasing, an independent survey has confirmed that our Members are extremely satisfied with the services that they receive from Broker Network. In addition, the business' reputation with insurers is excellent and our financial success underscores the strength of our proposition in the market.

### CORPORATE DEVELOPMENTS

A key event of the year was the successful flotation on AIM on 10th May 2004. The placing of the company's shares raised £2.2m of new money net of expenses. We now have a good spread of both institutional and private shareholders and a clear mandate to continue to pursue our strategy of acquiring businesses from brokers who wish to retire.

### TEAM

The Broker Network team, under the management of Grant Ellis, has worked extremely hard over the past year in delivering not only a successful flotation but also an excellent trading result. The move into the acquisition and running of insurance broking businesses has necessitated a

strengthening of the management team and I am pleased to say we have attracted a number of new and talented people to join us. It has also allowed us to offer greater career opportunities to those ambitious individuals who are already a part of the team and this will help underpin the long-term potential of the business. The introduction of a Long Term Incentive Plan in the forthcoming year will enable us to reward successful results achieved in the years to come.

#### CORPORATE GOVERNANCE

As a private company, good corporate governance featured strongly with many of the important disciplines necessary in a public company already in place. One of our key objectives post flotation was to ensure we addressed any corporate governance issues given our new status and I am pleased to announce that we now have an Audit Committee and a

Remuneration Committee, both of which operate very effectively.

#### OUTLOOK

There is now clear evidence that the long expected consolidation of the small 'community' insurance broker market and move to the shelter of networks is underway, as the impact of statutory regulation starts to bite. We enjoy excellent relationships with our insurer partners and have a proposition that our competitors have found difficult to compete with. Broker Network is well positioned to continue its growth and financial success in the foreseeable future.



Faisal Rahmatallah  
Chairman

*We are now better  
positioned than  
ever to take  
advantage of the  
opportunities and  
to meet the  
challenges of this  
changing market.*

## CHIEF EXECUTIVE'S STRATEGIC REVIEW

### OPERATIONAL OVERVIEW

I am delighted with the progress Broker Network has made in the last twelve months. The clearest measure of success is, of course, our record operating profit.

We are now better positioned than ever to take advantage of the opportunities and to meet the challenges of this changing market. The next few years will see the consolidation of community insurance brokers really start to take shape and our strategy will enable us to secure our position as one of the few businesses looking to service the insurance needs of the smaller SME business sector.

### BROKER NETWORK LTD

FSA statutory regulation of insurance brokers finally arrived with 'GI Day' on 15th January 2005. However, the 'run-in' lasted almost four years and, predictably, compliance support became our biggest selling Membership benefit. Whilst Broker Network does not take direct responsibility for regulation of Members, who are all separately regulated in their own right, we were successful in persuading brokers that it was good practice to seek the support of a network to help them become compliant.

Nevertheless, as we neared 'GI Day' it became clear that many other firms had decided to go it alone and try to leap the compliance hurdle by themselves. They spent much of 2004 and early 2005 in making sure their compliance house was in order and had little appetite to consider anything else. As a result we saw fewer brokers joining the network in this period than in the previous 12 months.

The imminent arrival of a new regulatory environment necessitated a re-evaluation of the quality of our existing Member base. As a result, the

membership of three brokers was terminated prior to January 15th this year.

Our strategy of offering to acquire the businesses of Members whose principals wish to retire has been well received. We have acquired 11 firms in the last 18 months, whose owners would otherwise have sold their businesses elsewhere and would as a result have been lost to us. In addition, we were instrumental in assisting 12 Members to merge with one another.

Some six months after GI Day, I am pleased to report that the rate of enquiry has once again picked up and we now expect to be able to return to the levels of new member recruitment enjoyed in previous years.

2004 was the year we honed our proposition to insurers and demonstrated how we add tangible value to their business too. I am delighted to report that

most now accept the network does indeed offer them significant profitable growth opportunities. As a result, we have agreed a number of fresh initiatives in the last year and I am confident we will be able to sustain the improved contribution to our earnings from the work we do for insurers in the future.

Closer relationships with insurers also enabled us to negotiate further improvements in the terms received by our Members from the main insurer suppliers and, unsurprisingly, this has been well received. Indeed, I am delighted to report that our independently conducted Member Satisfaction Survey shows that Members' satisfaction with our services has never been higher. In the last four years, whilst 112 brokers have joined us as Members, only one firm has left us other than through a sale of the business.

## BROKER NETWORK INSURANCE BROKERS

I have mentioned already that we have now acquired 11 Member firms where the principals wanted to exit the business and retire. Our task in making these acquisitions has been to apply a corporate structure to what were largely 'lifestyle' businesses, but in such a way as to allow us to concurrently retain all their 'closeness to customer' business advantages.

A new Acturis ASP IT platform is now installed in all but the very latest acquired sites. We are already starting to enjoy some of the economies of scale that this brings, such as a central account reconciliation function for example, and expect to benefit from access to improved management information across all the BNIB sites.

We have also installed new management in the majority of sites. The quality of candidates has been a revelation - it seems that the proposition of running your own 'branch' has a strong appeal to many and we have appointed some excellent and talented people as a result.

We now have an established platform on which to build in the second year. Most of the customer base we have acquired has remained loyal and there is now an opportunity to build on that through our centralised marketing to new prospects. This, coupled with a greater emphasis on good business management, will ensure a sustainable and growing contribution for the group going forwards.

As with new Member enquiries, after a quiet period in the months immediately before and after GI Day, we now once again have a healthy pipeline of potential acquisition enquires to pursue.

I am particularly pleased to be able to report on the substantial acquisition of the Fraser Tennant Group at the beginning of this month. This business has four branches in southern Scotland with an enviable reputation and excellent connections to the agricultural and business communities in the region. Whilst somewhat larger than the other acquisitions completed to date, it nevertheless contains all the elements we look for in a purchase and is a first-rate

strategic fit. Its size increases our revenues in BNIB by some 60%, thereby helping to spread the central management costs of the BNIB business more widely.

## OTHER DEVELOPMENTS

Broker Network London Markets (BNLM), our provisionally accredited Lloyd's broker, achieved a 35% growth in revenue during the period. We know that network Members have a significant volume of business placed into Lloyd's and the London Market and would benefit from direct access to the market via BNLM. It is our task to persuade Members that we have the experience, capacity and knowledge to handle this business for them from now on.

Broker Network Underwriting (BNU) provides insurance products branded exclusively for Members. After the successful implementation of the Acturis ASP IT system across the whole of BNU in the early part of the year, we have been able to concentrate on increasing the volume and therefore BNU's overall contribution. I am happy to report that BNU achieved both these objectives and successfully launched the first of a new suite of branded products on 1st July 2005.

Both BNLM and BNU are relatively small parts of the business at present. We believe, however, that they offer significant opportunities to both Members and insurers alike and are capable of growing into important revenue streams.

## CONSOLIDATION AND COMPETITION

There are now signs that more brokers are looking for an industry exit than was the case previously. As the reality of regulation starts to bite, we expect this growth to continue. We also expect those who are not yet ready to retire, to seek our help in growing and improving their business. Either way, we are well placed to provide for both.

There are two other serious network propositions with whom we currently compete - a third is expected to launch their offering imminently. We believe that we will be a beneficiary of a stronger competitive environment, as it will move the debate on from 'Shall I join a network?' to 'Which network shall I join?'. With



a conservative estimate of some 4,500 community insurance brokers still trading, there are plenty of potential customers to support three or four credible network players.

In terms of acquisitions, we see little likelihood of competition as all our acquisitions thus far have come from our own network Members. However, were we to consider acquisitions from outside the Member network, we believe that our proposition will prove more attractive than many others. Our approach is to retain the people, premises, and even the existing trading name. These features have proved extremely popular with vendors so far and we see no reason why these attractions will not continue to give us a competitive edge in the future.

#### INSURANCE MARKET CONDITIONS

There has been much publicity around the cyclical nature of the insurance market. Premium inflation started to stall in 2004 and has shown signs of actually falling in 2005. Although we clearly benefited from a rise in premium levels, our business is prepared for softening premium rates so we can benefit at all points in the cycle.

In softer market conditions, insurers have a greater appetite for business and will therefore compete more readily. Although headline volumes may decline, margins can rise. In addition there are real opportunities for proactive brokers to acquire new customers. We will benefit directly from both of these factors in BNIB.

As far as independent network Members are concerned, our experience of the last soft cycle in the late 1990's suggests they will work hard enough at acquiring new customers to offset any loss of volume from their existing customer base. Indeed, our statistics for 2004/5 saw Member premium volume grow organically by 3.4% and for the first 4 months of 2005 by 1%. Whilst the rate of growth has undoubtedly moderated, it is still growth nonetheless, which bears out our assessment.

#### OUTLOOK FOR 2005/6

2004/5 was an exciting year for Broker Network and 2005/6 has the potential to be even more so. With the experience we have gained from the 11 acquisitions made up to the end of April and the three completed since, we now have the platform to begin to fully exploit the opportunities presented to us. We have a stronger management team than ever and our investment in new services will be rewarded by financial returns in future years.

The Broker Network team looks forward to the challenges in the coming year, which will present us with huge opportunities as the insurance market once again undergoes a period of significant change. We are confident that trading conditions will remain favourable in 2005/6.



Grant Ellis  
Chief Executive Officer

## FINANCE DIRECTOR'S REVIEW

	2005 £000	2004 £000	% change
Turnover	7,590	4,670	63%
Administrative expenses	(6,611)	(4,061)	63%
Administrative expenses excluding goodwill amortisation	(6,126)	(4,034)	52%
Operating profit	979	609	61%
PBT	1,315	757	74%
Tax	(274)	(189)	45%
Profit after tax	1,041	568	83%
Basic EPS	6.93p	4.99p	39%
Diluted EPS	6.75p	4.82p	40%
Capital expenditure	380	123	209%
Acquisition spend	691	704	-2%
Cash	2,308	367	529%

### TURNOVER

Turnover for the year was £7.6m an increase of 63% from £4.7m in 2004. Growth was strong in Broker Network, up 24%, as a result of the increase in Member numbers and growth in premium volume. BNIB also contributed £2.1m to turnover in its first full year.

### ADMINISTRATIVE EXPENSES

Administrative expenses, excluding goodwill amortisation, were £6.1m, an increase of 52% on the prior year. This is the result of the continued investment in our people and infrastructure and the new costs associated with the acquired brokers within BNIB, including a head office and regional team capable of managing approximately 25 outlets.

Intangible assets are being amortised over 5 years resulting in a goodwill amortisation charge of £0.5m for the period.

## PROFITABILITY

The strength in Broker Network's operating model is no better demonstrated than in our growth in profit before tax of 74%. The acquisition of 6 of our Members during the period, bringing the total number to 11, has substantially increased the headcount of the group and, despite the necessary investments in people and infrastructure for both Broker Network's core business and BNIB, there was a 2% increase in turnover per employee and a 9% increase in profit before tax per employee as shown below:

	2005	2004	% change
Average headcount	146	92	59
	2005	2004	% change
	£	£	
Turnover per employee	51,992	50,773	2
Profit before tax per employee	9,027	8,245	9

## TAXATION

The group's tax charge for the year is £0.3m which represents an effective tax rate of 20%. This is predominantly due to group relief from Redbox Systems Limited which sold its intangible asset during the period realising a balancing allowance of £0.6m.

## EARNINGS PER SHARE

Basic earnings per share is 6.93p compared to 4.99p in 2004. This is based on a weighted average 15m shares in 2005 compared to 11.3m in 2004.

## CAPITAL EXPENDITURE

The majority of the capital investment in the year relates to IT hardware and software both for Broker Network and BNIB. Within Broker Network, we have continued to invest in our central IT capability for the accounts reconciliation process. Within BNIB, we have installed a new Acturis ASP IT platform in all but the latest of the acquired sites. This investment will deliver both economies of scale and improved MI for the business.

Total capital expenditure was £0.4m compared to £0.1m in 2004.

## ACQUISITIONS

£0.6m was spent on 6 further trade and asset purchases during the year bringing the total number to 11. In addition, £0.1m was paid out in deferred consideration to the former principals of previously acquired brokers. These further payments are entirely contingent on the performance of the brokers post acquisition.

## INTANGIBLES AND GOODWILL AMORTISATION

Purchased goodwill (representing the excess of the fair value of consideration over the fair value of the separable net assets acquired) in respect of acquisitions is capitalised as goodwill which is being amortised over a 5 year period.

## CASHFLOW

Broker Network continues to be strongly cash generative and cash inflow from operating activities was £0.8m (2004: £0.6m). This operating cash flow broadly funded the acquisitions and capital investment in the year leaving the net proceeds from the flotation largely intact at the year end and available for future acquisitions.

## BANK FUNDING

Additional funding via a bank facility was always envisaged when we embarked upon our programme of acquiring the businesses of Members who wished to retire. I am pleased to report that we have recently agreed a £2.5m 5 year term loan facility with Lloyds


TSB Bank plc which will enable us to continue the acquisition programme as set out in our AIM prospectus.

## RISK MANAGEMENT

The Board recognises the importance of risk management and, through a series of workshops during the year, the major risks faced by the group were identified and evaluated. These risks and the associated internal controls are considered by management and the Audit Committee on a regular basis. In addition, resource within the financial team has now been allocated to conduct assurance work on specific areas of the business, the results of which will be communicated to senior management and the Board.

## TRANSITION TO INTERNATIONAL ACCOUNTING STANDARDS

As an AIM listed company we will adopt IAS for our financial statements for the year ending 30 April 2008 and an evaluation of the impact of IAS will be commenced in the coming year.



Julie Hale  
Group Finance Director

# BOARD OF DIRECTORS AND ADVISORS

## DIRECTORS

P Bates  
MG Collins  
PG Ellis  
JK Hale  
ML Japhet  
M Pendle  
FJ Rahmatallah  
M Wood (appointed 12 July 2005)

## SECRETARY

JK Hale

## AUDITORS

KPMG Audit Plc  
1 The Embankment  
Neville Street  
Leeds LS1 4DW

## PRINCIPAL BANKERS

Royal Bank of Scotland plc  
Regents House  
42 Islington High Street  
London N1 8XL

HSBC Bank plc  
33 Park Row  
Leeds LS1 1LD

Lloyds TSB Bank plc  
1st Floor  
31-32 Park Row  
Leeds LS1 5JD

## BROKER AND

## NOMINATED ADVISOR

Teather & Greenwood Limited  
Beaufort House  
15 St Botolph Street  
London EC3A 7QR

## FINANCIAL PR ADVISOR

Buchanan Communications Limited  
3 The Courtyard  
Thorpe Lane  
Guiseley  
Leeds LS20 8LG

## REGISTRAR

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

## REGISTERED OFFICE

Mowbray House  
Mowbray Square  
Harrogate  
North Yorkshire  
HG1 5AU

# DIRECTORS' REPORT

The Directors present their report and the audited accounts of the group for the year ended 30 April 2005.

## PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the group is the provision of access to UK general insurance markets on behalf of network Members, facilitating the conclusion of insurance transactions between these parties and the acquisition and management of general insurance intermediaries. The group also provides advisory, compliance, training and other services to insurance intermediaries.

## GROUP RECONSTRUCTION

On 22 March 2004 Broker Network Holdings plc ("the company") acquired The Broker Network Limited in a share for share exchange. The restructuring has been accounted for as a capital reorganisation and for the years ended 30 April 2004 and 2005 merger accounting principles have been applied as if the company had always been the holding company of the group.

## RESULT AND DIVIDENDS

The profit on ordinary activities before tax was £1.3m (2004: £0.8m).

The profit before goodwill amortisation and tax for the period was £1.8m (2004: £0.7m).

The Directors do not recommend the payment of a dividend.

## DIRECTORS AND DIRECTORS' INTERESTS

The Directors who held office during the year were as follows:

FJ Rahmatallah	Non-executive Chairman
PG Ellis	Chief Executive
JK Hale	Group Finance Director
MG Collins	Deputy Chief Executive
P Bates	Non-executive Director
ML Japhet	Non-executive Director
M Pendle	Non-executive Director

Details of Directors' service contracts and the interests of the Directors in the shares of the company and in options over such shares are disclosed in the Remuneration Committee Report on pages 16 to 18.

At the forthcoming Annual General Meeting all of the current directors will retire in accordance with the company's Articles of Association and, being eligible, will offer themselves for re-election.

## POLITICAL AND CHARITABLE CONTRIBUTIONS

Donations of £2,450 were made to charities during the period. The group made no political contributions during the period.

## SUBSTANTIAL SHAREHOLDINGS

The company has been informed that on 12 July 2005 the following shareholders held substantial holdings of the issued ordinary shares of the company.

	Holding of ordinary shares number	Issued share capital %
Capricorn	4,261,200	28.29
PG Ellis	2,025,000	13.44
P Bates	1,930,000	12.81
JP Morgan Fleming	1,408,450	9.35
D Belgian	1,250,000	8.30

## GOING CONCERN

The Directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the accounts.

## CREDITOR PAYMENT POLICY

The group's strategy is to develop mutually beneficial relationships with key suppliers. The group's policy in relation to all of its suppliers is to settle the terms of the transaction and to abide by those terms, provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The average number of days' purchases outstanding for payment by the group was 31 days.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 10 August at 2.00pm at Ridding Park, Follifoot, Harrogate, North Yorkshire HG3 1JH

## AUDITORS

In accordance with Section 384 of the Companies Act 1985, a Resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

This report was approved by the Board on 12 July 2005.

By order of the Board



JK Hale  
Secretary

Mowbray House  
Mowbray Square  
Harrogate  
North Yorkshire  
HG1 5AU

# CORPORATE GOVERNANCE

## COMPLIANCE STATEMENT

The group is not required to comply with the provisions of the June 1998 Combined Code on Corporate Governance ("the Combined Code") and the 'Revised Code' for reporting periods commencing on or after 1 November 2003. The Board of Directors recognises the importance of, and is committed to, ensuring that effective corporate governance procedures relevant to smaller listed groups are in place. The Board agrees with the principals of the Revised Code and continues to work towards obtaining substantial compliance with the Code. The commentary below outlines the group's achievements during the year ended 30 April 2005.

## INTERNAL CONTROL AND RISK MANAGEMENT PROCESS

Following flotation in May 2004, the Board began the process of identifying, evaluating and managing the risks faced by the group. This included the compilation of a group risk register which encompasses an assessment of the internal controls in place to mitigate the identified risks and their effectiveness. This analysis is reviewed regularly by the group's senior management and every 6 months by the Audit Committee.

The Board of Directors has reviewed the need for an internal audit function and has concluded that, given

the size and risk profile of the group, appropriate resource from within the business will be allocated to carry out specific risk-based reviews.

## THE BOARD

Details of the changes in Directors in the year are provided in the Directors' Report on page 12 to 13. At 30 April 2005 the Board comprised 3 executive Directors, 3 non-executive Directors and 1 non-executive Chairman. Two of the non-executive members of the Board are considered by the Board to be independent of the company and the group. Each non-executive possesses considerable outside expertise and is able to exercise detached judgement in dealing with matters before the Board. The Board considers that the current composition provides a reasonable level of independence.

The Board, which met 5 times between flotation in May 2004 and 30 April 2005, is responsible for the overall strategy and financial performance of the group and has a formal schedule of matters required for approval. Each Board meeting is preceded by a clear agenda and any relevant information is provided to Directors in advance of the meeting.

All directors are required to submit themselves for re-election at an Annual General Meeting if they were not elected or re-elected at either of the two preceding



Annual General Meetings. Therefore directors appointed during the period are required to seek re-election at the first Annual General Meeting following their appointment.

#### BOARD PERFORMANCE

The Board has determined that a formal review of Board performance is appropriate and is to be undertaken.

#### AUDITOR INDEPENDENCE

In order to safeguard the objectivity and independence of the company's external auditors, the Audit Committee keeps under review the nature and extent of any non-audit services supplied in order to balance the maintenance of objectivity and value for money.

#### PRINCIPAL BOARD COMMITTEES

The Board has established the following committees:

- Remuneration Committee. The Committee currently comprises P Bates and M Pendle and is chaired by F Rahmatallah. The Remuneration Committee is responsible for reviewing and recommending all the elements of policy on the Board's and senior executives' remuneration and for approving all matters relating to the remuneration of executive Directors. It meets formally at least quarterly. The Remuneration Committee report on pages 16 to 18 contains a detailed description of remuneration and applicable policies.
- Audit Committee. The committee comprises P Bates and M Pendle and is chaired by F Rahmatallah. The Audit Committee assists the Board in fulfilling its oversight responsibilities, primarily in reviewing and reporting financial and non-financial information communicated to shareholders, systems of internal control and risk management and the audit process. It has the power to call for information from management and to consult directly with the auditors or other advisors as considered appropriate. The

Committee operates under written terms of reference and is scheduled to meet at least twice a year with the group's auditors. The Committee is responsible for the independent monitoring of the effectiveness of the systems of internal control, compliance, accounting policies and published financial statements on behalf of the Board. This is achieved primarily through a review of the annual financial statements and a review of the nature and scope of the external audit. Any significant findings or identified risks are examined so that appropriate action may be taken. The Committee is also responsible for keeping under review the independence and objectivity of the external auditors, including a review of non-audit services provided to the group, consideration of any relationships with the group that could affect independence and seeking written confirmation from auditors that, in their professional judgement, they are independent.

#### RELATIONS WITH SHAREHOLDERS

The group encourages the participation of both institutional and private investors. Communication with private individuals is maintained through the Annual General Meeting, annual and interim reports, investor newsletters and press releases.

# REMUNERATION COMMITTEE REPORT

## INTRODUCTION

The following report provides information relating to the pay and benefits policy for the company's directors.

## MEMBERS OF THE REMUNERATION COMMITTEE

Details relating to the Remuneration Committee can be found in the Corporate Governance section of the annual report on pages 14 to 15.

The Committee meets during the year to determine all aspects of the remuneration of the executive Directors. The remuneration of the non-executive Directors is determined by the Board as a whole.

## REMUNERATION POLICY

The Committee believes remuneration levels should be competitive and set at a level to attract, retain and motivate executive Directors. The group makes contributions to Group personal pension schemes on behalf of executive Directors.

## DIRECTORS' INTERESTS

The directors who held office at the end of the financial year had the following interests in the ordinary shares of group companies according to the registrar of directors' interests:

	Company	Class of Share	Interest at year end	Interest at start of year or date of appointment
PG Ellis	Broker Network Holdings plc	Ordinary	2,025,000	2,025,000
P Bates	Broker Network Holdings plc	Ordinary	1,930,000	1,930,000
MG Collins	Broker Network Holdings plc	Ordinary	300,000	300,000

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of group companies.

## 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 Incentive Scheme under the Income Tax (Earning and Pensions) Act 2003, to JK Hale and MG Collins respectively.

Approximately 1,000 of MG 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 original option agreements:

### 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 JK Hale and £20 per share for MG Collins, subject to adjustment in the event of any subsequent variation of share capital.

### 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 3 within a period commencing with the date of grant and ending on the 10th anniversary of the date of grant.

### 3. Exercise of Options

The option may be exercised on a sale or 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.

### 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.

### 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 the options) participants may, if the acquiring company agrees, release their options in exchange for options over shares in the acquiring company.

### 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.

### 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 MG 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.

## ADJUSTMENT TO OPTION AGREEMENTS

The company agreed at the time of the acquisition of The Broker Network Limited to exchange the options referred to above for options over ordinary shares in Broker Network Holdings plc on similar terms and conditions. All references in the option agreements to "The Broker Network Limited" now include references to Broker Network Holdings plc. The number of shares under option and the option price were adjusted to reflect the new share capital following the company's listing on AIM. Following this adjustment JK Hale and MG Collins each have options in respect of 300,000 Ordinary shares at option prices of 20p and 40p respectively. The option period remains unchanged.

Total Directors' pay and benefits in kind in the period

	Salary/fees £000	Benefits in kind £000	2005 Total £000
<b>Executive Directors</b>			
PG Ellis	110	8	118
JK Hale	84	9	93
MG Collins	96	1	97
<b>Non-executive Directors</b>			
P Bates	8	-	8
F Rahmatallah	19	-	19
M Japhet	-	-	-
M Pendle	10	-	10

## PENSIONS

The following directors have received contributions to Group personal pension schemes in the period:

	Contributions paid or payable in the period by the company 2005 £000	Amount of company contribution accrued/(prepaid) at year end 2005 £000
PG Ellis	6	-
JK Hale	4	-

## DIRECTORS' CONTRACTS

Details of service agreements in place for the current directors are as follows:

	Date of contract	Term	Notice period
PG Ellis	1 March 2004	Continuous subject to the notice period	12 months
JK Hale	1 March 2004	Continuous subject to the notice period	6 months
MG Collins	1 March 2004	Continuous subject to the notice period	6 months
P Bates	17 March 2004	3 years	-
F Rahmatallah	17 March 2004	3 years	-
M Japhet	1 March 2004	3 years	-
M Pendle	17 March 2004	3 years	-

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group, and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

# REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF BROKER NETWORK HOLDINGS PLC

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We have audited the financial statements on pages 21 to 36.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Directors' report and, as described on page 19, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we

become aware of any apparent misstatements or material inconsistencies with the financial statements.

## BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

## OPINION

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

*KPMG Audit Plc*

KPMG Audit Plc

12 July 2005

Chartered Accountants

Registered Auditor

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30 April 2005

	Note	2005 £000	Acquisitions 2005 £000	Total 2005 £000	Total 2004 £000
Gross commission receivable (unaudited)		40,968	-	40,968	35,473
Turnover	2	5,922	1,668	7,590	4,670
Administrative expenses		(4,900)	(1,711)	(6,611)	(4,061)
Operating profit/(loss)	2,3	1,022	(43)	979	609
Net interest receivable				336	148
Profit on ordinary activities before taxation				1,315	757
Tax on profit on ordinary activities	6			(274)	(189)
Profit after tax				1,041	568
Minority interests - equity	22			(4)	(3)
Retained profit for the financial period				1,037	565
Earning per share					
- basic	23			6.93p	4.99p
- diluted	23			6.75p	4.82p

All of the activities during the current and preceding years relate to continuing operations of the group.

The group 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 profit on ordinary activities before taxation and the profit retained for the financial year stated above, and their historical cost equivalents.

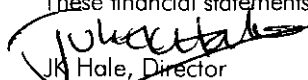
Gross commission receivable is a memorandum entry and represents the gross commission receivable by the Members of the Group's subsidiary, The Broker Network Limited.


# CONSOLIDATED BALANCE SHEET

at 30 April 2005

	Note	2005 £000	2004 £000
<b>Fixed assets</b>			
Intangible assets	7	2,675	1,298
Tangible assets	8	491	262
		<u>3,166</u>	<u>1,560</u>
<b>Current assets</b>			
Debtors	10	10,657	12,141
Insurance broking account		8,640	7,200
Cash at bank and in hand		2,308	367
		<u>21,605</u>	<u>19,708</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(18,821)</u>	<u>(19,096)</u>
<b>Net current assets</b>		<u>2,784</u>	<u>612</u>
<b>Total assets less current liabilities</b>		<u>5,950</u>	<u>2,172</u>
<b>Creditors: amounts falling due after more than one year</b>	12	<u>(1,106)</u>	<u>(560)</u>
<b>Provision for liabilities and charges</b>	13	<u>(24)</u>	<u>(3)</u>
<b>Net assets</b>		<u>4,820</u>	<u>1,609</u>
<b>Capital and reserves</b>			
Called up share capital	14	301	226
Share premium account	15	2,095	-
Merger reserve	15	454	454
Profit and loss account	15	1,954	917
		<u>4,804</u>	<u>1,597</u>
<b>Equity shareholders' funds</b>		<u>4,804</u>	<u>1,597</u>
Minority interests	22	16	12
		<u>4,820</u>	<u>1,609</u>

These financial statements were approved by the Board of Directors on 12 July 2005 and were signed on its behalf by:

  
JK Hale, Director

 PG Ellis, Director



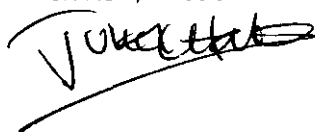
# COMPANY BALANCE SHEET

at 30 April 2005

	Note	2005 £000
<b>Fixed assets</b>		
Investments	9	956
		<u>956</u>
<b>Current assets</b>		
Debtors	10	1,254
Cash at bank and in hand		2,035
		<u>3,289</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(1,879)</u>
<b>Net current assets</b>		<u>1,410</u>
<b>Total assets less current liabilities</b>		<u>2,366</u>
<b>Net assets</b>		<u>2,366</u>
<b>Capital and reserves</b>		
Called up share capital	14	301
Share premium account	15	2,095
Profit and loss account	15	(30)
		<u>2,366</u>
<b>Equity shareholders' funds</b>		<u>2,366</u>

These financial statements were approved by the Board of Directors on 12 July 2005 and were signed on its behalf by:

JK Hale, Director



PG Ellis, Director



# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 April 2005

	Note	2005 £000	2004 £000
Net cash inflow from operating activities	19	803	595
Returns on investment and servicing of finance			
Interest receivable		336	148
Net cash inflow from returns on investment and servicing of finance		336	148
Capital expenditure and investment			
Purchase of tangible fixed assets		(380)	(123)
Proceeds on sale of tangible fixed assets		-	24
Net cash outflow from capital expenditure and investment		(380)	(99)
Acquisitions and disposals			
Purchase of subsidiary undertakings and broker businesses	20	(585)	(704)
Deferred consideration paid in the year		(106)	-
Net cash outflow from acquisitions and disposals		(691)	(704)
Corporation tax paid		(297)	(123)
Financing			
Issue of ordinary share capital		2,170	-
Increase/(decrease) in net cash	21	1,941	(183)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
		2005 £000	2004 £000
Increase/(decrease) in cash in the period		1,941	(183)
Movement in net debt in the period		1,941	(183)
Net debt at start of period		367	550
Net debt at end of period		2,308	367

# NOTES

*(forming part of the financial statements)*

## 1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements except as noted below.

### Basis of preparation

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

### Group reorganisation

On 22 March 2004 Broker Network Holdings plc ("the company") acquired The Broker Network Limited in a share for share exchange. The restructuring has been accounted for as a capital reorganisation and for the years ended 30 April 2004 and 2005 merger accounting principles have been applied as if the company had always been the holding company of the group.

Under merger accounting principles, the share capital and share premium of The Broker Network Limited have been eliminated on consolidation. The difference between the aggregate nominal value of the new ordinary shares issued by the company and the called up share capital and share premium of The Broker Network Limited of £454,322 has been transferred to other reserves.

The company was incorporated on 16 February 2004 and its results relate to its first accounting period, 13 months ended April 2005. As such no comparatives are provided.

### Basis of consolidation

The group financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 April 2005. All financial statements are prepared on a uniform basis throughout the group.

The acquisition method of accounting has been adopted, unless otherwise stated. As outlined above, merger accounting has been adopted in relation to the creation of a new holding company in 2004. Under the acquisition method of accounting, the results of subsidiary undertakings acquired and 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.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirements to present its own profit and loss account.

### Turnover

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

#### Interest Income

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

#### Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation and business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill (negative goodwill).

#### 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 Broker Network. That element of commission earned by 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.

The insurance broking account relates to money held by the group in a client money account for future settlement of insurance transactions.

#### Fixed asset investments

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

#### Tangible 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 SEGMENTAL INFORMATION

All of the group's operations are based in the UK. The table below sets out information for each of the group's industry segments.

	Network Services and Wholesale Insurance Broking		Retail Insurance Broking		Total	
	2005	2004	2005	2004	2005	2004
	£000	£000	£000	£000	£000	£000
<b>Turnover</b>						
Total sales	5,634	4,522	2,119	148	7,753	4,670
Inter-segment sales	(163)	-	-	-	(163)	-
Sales to third parties	5,471	4,522	2,119	148	7,590	4,670
<b>Operating profit/(loss) before goodwill amortisation</b>	1,295	621	169	15	1,464	636
Goodwill amortisation	-	-	(485)	(27)	(485)	(27)
<b>Operating profit/(loss)</b>	1,295	621	(316)	(12)	979	609
Net interest	336	148	-	-	336	148
<b>Profit/(loss) before taxation</b>	1,631	769	(316)	(12)	1,315	757
<b>Segmental net assets</b>	1,314	825	1,471	784	2,785	1,609
Unallocated net assets					2,035	-
<b>Total net assets</b>					4,820	1,609

Unallocated net assets relate to cash balances held within the company's balance sheet, which predominantly relate to proceeds from the issue of shares at flotation.

## 3 OPERATING PROFIT

	2005	2004
	£000	£000
<b>Operating profit is stated after charging:</b>		
Auditors' remuneration:		
- for audit services - Group	30	21
- for audit services - Company	3	-
- for non audit services	7	5
Loss on disposal of fixed assets	-	24
Amortisation of goodwill	485	27
Depreciation - owned fixed assets	165	127

#### 4 EMPLOYEE INFORMATION

	2005 £000	2004 £000
Wages and salaries	3,120	2,203
Social security costs	327	230
Pension costs	37	32
	<u>3,484</u>	<u>2,465</u>

The group had an average of 146 (2004: 92) employees during the year employed within the following divisions:

	No of Employees	
	2005 £000	2004 £000
Network Services and Wholesale Insurance Broking	94	86
Retail Insurance Broking	52	6
	<u>146</u>	<u>92</u>

#### 5 DIRECTOR'S EMOLUMENTS

	2005 £000	2004 £000
Aggregate emoluments	345	388
Pension contributions	10	9
	<u>355</u>	<u>397</u>

The group made contributions to a defined contribution pension scheme in respect of two (2004: two) directors. Aggregate emoluments and benefits include amounts paid to the highest paid director, as follows:

	2005 £000	2004 £000
Aggregate emoluments	118	107
Pension contributions	6	5
	<u>124</u>	<u>112</u>

## 6 TAX ON PROFIT ON ORDINARY ACTIVITIES

### (a) Analysis of charge in period

	2005 £000	2004 £000
Corporation tax - prior years	-	8
Corporation tax - current year	253	193
	<hr/>	<hr/>
	253	201
Deferred tax	21	(12)
	<hr/>	<hr/>
	274	189
	<hr/>	<hr/>

### (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:

	2005 £000	2004 £000
Profit on ordinary activities before tax	1,315	757
	<hr/>	<hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax (30%)	395	227
Effects of:		
Expenses not deductible for tax purposes	73	14
Capital allowances for the period (in excess of)/less than depreciation	(21)	12
Utilisation of tax losses not brought to account	-	(60)
Realisation of deferred tax asset previously not brought to account	(194)	-
Prior year adjustment	-	8
	<hr/>	<hr/>
Current tax charge for the period	253	201
	<hr/>	<hr/>

## 7 INTANGIBLE FIXED ASSETS

Group	Goodwill £000
Cost	
At 1 May 2004	1,325
Acquisitions	1,862
	<hr/>
At 30 April 2005	3,187
	<hr/>
Amortisation	
At 1 May 2004	27
Charged in the year	485
	<hr/>
At 30 April 2005	512
	<hr/>
Net book value	
At 30 April 2005	2,675
	<hr/>
At 30 April 2004	1,298
	<hr/>

The Directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises.

The period of amortisation of goodwill arising on acquisitions to date has been set at 5 years. The Directors believe that this period reasonably reflects the period of benefits that the group will derive from the goodwill arising on acquisitions.

## 8 TANGIBLE FIXED ASSETS

Group	Office equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
<i>Cost</i>				
At 1 May 2004	172	568	-	740
Additions	18	340	22	380
Acquisitions	14	-	-	14
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 April 2005	204	908	22	1,134
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Accumulated depreciation</i>				
At 1 May 2004	111	367	-	478
Charge for period	21	139	5	165
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 April 2005	132	506	5	643
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 30 April 2005	72	402	17	491
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 April 2004	61	201	-	262
	<hr/>	<hr/>	<hr/>	<hr/>

## 9 FIXED ASSET INVESTMENTS

### Group

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>				
Broker Network Limited	United Kingdom	Insurance related services	100	100
Broker Network Insurance Brokers Limited	United Kingdom	Retail Insurance Broking	100	100
Donaldson Meigh Limited	United Kingdom	Non trading	100	100
Sharples and Co. Limited	United Kingdom	Retail Insurance Broking	76	76
London Broking Services Limited	United Kingdom	Wholesale Insurance Broking	100	100
Redbox Systems Limited	United Kingdom	IT Application developer	100	100
<b>Company - investments in subsidiary undertakings</b>				<b>2005 £000</b>
<i>Cost</i>				
At incorporation				-
Additions				956
				<hr/>
<b>At 30 April 2005</b>				<b>956</b>
				<hr/>



## 10 DEBTORS

	Group		Company
	2005	2004	2005
	£000	£000	£000
Trade debtors	121	155	-
Prepayments and accrued income	294	167	-
Other debtors	1,632	707	-
Amounts owed by group undertakings	-	-	1,254
In relation to insurance transactions	8,610	11,112	-
	<u>10,657</u>	<u>12,141</u>	<u>1,254</u>

£1,254,000 of amounts owed by group undertakings in respect of the company is due in greater than one year.

## 11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company
	2005	2004	2005
	£000	£000	£000
Trade creditors	225	98	-
Taxation and social security	120	71	-
Other creditors	34	9	-
Accruals	348	359	-
Corporation tax	95	139	-
In relation to insurance transactions	17,251	18,312	-
Deferred consideration	748	108	-
Amounts owed to group undertakings	-	-	1,879
	<u>18,821</u>	<u>19,096</u>	<u>1,879</u>

## 12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company
	2005	2004	2005
	£000	£000	£000
Deferred consideration	<u>1,106</u>	<u>560</u>	<u>-</u>

## 13 PROVISION FOR LIABILITIES AND CHARGES

	Group	Company
	£000	£000
Deferred tax liability		
At 1 May 2004	3	-
Charged to profit and loss account	21	-
At 30 April 2005	<u>24</u>	<u>-</u>

## 14 CALLED UP SHARE CAPITAL

	2005 Number	2005 £000	2004 Number	2004 £000
<i>Authorised</i>				
Ordinary shares of 2p each	22,650,000	453	22,650,000	453

	2005 Number	2005 £000	2004 Number	2004 £000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 2p each	15,064,906	301	11,321,200	226

## GROUP RECONSTRUCTION

On 22 March 2004 Broker Network Holdings plc ("the company") acquired The Broker Network Limited in a share for share exchange. The restructuring has been accounted for as a capital reorganisation and for the years ended 30 April 2004 and 2005 merger accounting principles have been applied as if the company had always been the holding company of the group.

## MOVEMENT IN BROKER NETWORK HOLDINGS PLC SHARE CAPITAL

The company was incorporated on 16 February 2004 with authorised share capital of 50,000 ordinary shares of £1 each and allotted share capital of 2 ordinary shares of £1 each.

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 of 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 and subdivided into 50 ordinary shares of 2p each.

On 10 May 2004 the company issued 3,743,706 new ordinary shares of 2p each in a placing and offer for subscription priced at 71p each and floated on AIM.

#### 14 CALLED UP SHARE CAPITAL (continued)

##### SHARE OPTIONS

On 18 December 2001, JK Hale was granted an option to subscribe for 6,000 shares at £10 per share. The option commenced on 17 April 2001. Following the capital reorganisation in April 2004 the options were amended to options to subscribe for 300,000 shares at 20p. The options are exercisable as follows:

Period after commencement date	No. of shares that may be exercised
Less than 12 months	Nil
More than 12 months but less than 24 months	100,000
More than 24 months but less than 36 months	200,000

No options were exercised during the year.

On 13 November 2003, MG Collins was granted an option to subscribe for 6,000 shares at £20 per share. The option commenced on 1 August 2002. Following the capital reorganisation in April 2004 the options were amended to options to subscribe for 300,000 shares at 40p. The options are exercisable as follows:

Period after commencement date	No. of shares that may be exercised
Less than 12 months	Nil
More than 12 months but less than 24 months	100,000
More than 24 months but less than 36 months	200,000

No options were exercised during the year.

#### 15 RESERVES

	Group			Company	
	Share premium account £000	Merger reserve £000	Profit and loss account £000	Share premium account £000	Profit and loss account £000
At 1 May 2004	-	454	917	-	-
Retained profit/(unrecovered loss) for the financial year	-	-	1,037	-	(30)
Premium on issue of share capital	2,095	-	-	2,095	-
<b>At 30 April 2005</b>	<b>2,095</b>	<b>454</b>	<b>1,954</b>	<b>2,095</b>	<b>(30)</b>

#### 16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group £000	Company £000
Opening equity shareholders' funds	1,597	-
Retained profit/(unrecovered loss) for the financial year	1,037	(30)
Issue of share capital	2,170	2,396
<b>Closing equity shareholders' funds</b>	<b>4,804</b>	<b>2,366</b>

## 17 PENSIONS

The pension charge for the year represents contributions payable to the group personal pension plan. The pension charge for the year ending 30 April 2005 amounted to £31,756. No amounts were owing by or to the group at the accounting period end, nor at the end of the previous year.

## 18 OBLIGATIONS UNDER OPERATING LEASES

	Group	
	2005 Land and buildings £000	2005 Other £000
Within one year	-	5
Within two to five years	-	116
After five years	68	-
	<u>68</u>	<u>121</u>

The company has no operating lease commitments.

## 19 CASH FLOW FROM OPERATING ACTIVITIES

	2005 £000	2004 £000
Reconciliation of operating profit to net cash inflow:		
Operating profit	979	609
Amortisation	485	27
Depreciation charge	165	127
Loss on disposal of fixed assets	-	23
Increase in debtors	(1,016)	(294)
Increase in creditors	190	103
<b>Net cash inflow from operating activities</b>	<u>803</u>	<u>595</u>

## 20 PURCHASES OF SUBSIDIARY UNDERTAKING AND BROKER BUSINESSES

	£000
<b>Net assets purchased</b>	
Fixed assets (book value and fair value)	14
Goodwill	1,862
	<u>1,876</u>
<b>Satisfied by</b>	
Cash	585
Deferred consideration	1,291
	<u>1,876</u>

Fair values have been assigned to the assets and liabilities acquired in the year on a provisional basis.

## 21 ANALYSIS OF NET FUNDS

	1 May 2004 £000	Cashflow £000	30 April 2005 £000
Cash at bank and in hand	367	1,941	2,308

## 22 MINORITY INTERESTS

	2005 £000	2004 £000
At beginning of year	12	9
Retained profit for year	4	3
At end of year	16	12

## 23 EARNINGS PER SHARE

	Earnings per share pence	Earnings £000	Weighted average No. of shares
<b>2005</b>			
Basic earnings per share	6.93	1,037	14,962,339
Diluted earnings per share	6.75	1,037	15,366,899
<b>2004</b>			
Basic earnings per share	4.99	565	11,321,200
Diluted earnings per share	4.82	565	11,725,760

## 24 POST BALANCE SHEET EVENT

On 1 July 2005 the group purchased the entire share capital of Fraser Tennant Holdings Limited for a maximum total consideration of £2.85m. The acquisition of Fraser Tennant Holdings Limited which comprises Denny Insurances Services Ltd, of Stirling, Peacock Robertson Ltd, of Glasgow, and Fraser Tennant Ltd of Perth and Kelso, was completed following approval of the Financial Services Authority.

This is the twelfth acquisition made by Broker Network, its seventh since it floated on AIM in May 2004 and its second in Scotland.

The three sub companies will retain their separate trading identities in the local community, a key strategy of Broker Network's acquisitions. The businesses will also continue to operate from their existing premises and all employees will be retained.

## 25 RELATED PARTY TRANSACTIONS

During the year 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 £47,887 (2004: £4,857) and a balance of £223 remained unpaid at 30 April 2005 (2004: £460).

During the year 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 £nil (2004: £1,950) and a balance of £nil remained unpaid at 30 April 2005 (2004: £nil).

During the year 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 £3,572 (2004: £2,198) and a balance of £nil remained unpaid at 30 April 2005 (2004: £725).

Mr Ellis' wife worked for the company during the year. Her emoluments received amounted to £12,816 (2004: £11,251).

During the year, the company paid Andrew Hale Photography Limited, a company controlled by Mrs Hale's husband, £1,297 for services provided as a photographer (2004: £650).

Ellis Bates & Company Limited was a trading Member of The Broker Network Limited throughout the year. The company charged Ellis Bates & Company Limited £11,099 during the year for support services.(2004: £3,333).

# NOTICE OF THE 2005 ANNUAL GENERAL MEETING

Broker Network Holdings plc  
(Company Number 05044510)  
(the "Company")

Notice is hereby given that an Annual General Meeting of the Company will be held at Rudding Park, Follifoot, Harrogate, North Yorkshire, HG3 1JH on 10 August 2005 at 14.00 for the following purposes:

## Ordinary Business

1. To receive the accounts of the Company for the year ended 30 April 2005 together with the Directors' report and the Auditors' report ended 30 April 2005.
2. To approve the report to the shareholders on directors' remuneration and related matters contained in the Report and Accounts for the year ended 30 April 2005.
3. To re-elect as a Director P Bates who retires as a Director in accordance with the Company's articles of association.
4. To re-elect as a Director MG Collins who retires as a Director in accordance with the Company's articles of association.
5. To re-elect as a Director PG Ellis who retires as a Director in accordance with the Company's articles of association.
6. To re-elect as a Director JK Hale who retires as a Director in accordance with the Company's articles of association.
7. To re-elect as a Director ML Japhet who retires as a Director in accordance with the Company's articles of association.
8. To re-elect as a Director M Pendle who retires as a Director in accordance with the Company's articles of association.
9. To re-elect as a Director FJ Rahmatallah who retires as a Director in accordance with the Company's articles of association.
10. To re-elect as a Director M Wood who retires as a Director in accordance with the Company's articles of association.
11. To re-appoint KPMG Audit PLC as auditor and authorise the Directors to determine its remuneration.
12. To propose the following as an ordinary resolution:

That the rules of the Broker Network Holdings plc Long Term Incentive Plan ("LTIP"), (the main features of which are summarised in Appendix 1) be approved and adopted, and that the Directors be authorised to do all acts and things as they consider necessary or expedient for the purposes of implementing and giving effect to this resolution.
13. To propose the following as an ordinary resolution:

That the terms of the trust deed between Broker Network Holdings plc and Broker Network Holdings (Trustee) Limited (the main features of which are summarised in Appendix 2) be approved and the trust established and that the Directors be authorised to do all acts and things as they consider necessary or expedient for the purposes of implementing and giving effect to this resolution."

**Registered Office:** Mowbray House, Mowbray Square, Harrogate, North Yorkshire, HG1 5AU

**BY ORDER OF THE BOARD** Julie Hale, Group Finance Director and Company Secretary, 12 July 2005

1. The proxy need not be a member of the Company
2. If you do not indicate how you wish your proxy to vote on any resolution the proxy will vote as he/she thinks fit or at his/her discretion abstain from voting.
3. In the case of joint holders, the vote of any one holder will be accepted but the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority will be determined by the order in which the names stand in the register in respect of the share.
4. In the case of a corporation the Form of Proxy must be under its common seal or under the hand of a duly authorised officer or attorney.
5. To be effective the Form of Proxy must be lodged with the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS13 8FB to arrive no later than 14.00 on 8 August 2005, together, if appropriate with the power of attorney or other authority under which it is signed or a duly certified copy of such power.
6. Any alteration made in the form of this proxy should be initialled.
7. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the registrar of members of the Company at the close of business on 8 August 2005 will be entitled to attend and to vote at the aforesaid meeting in respect of the number of shares registered in their name at that time. Changes in the entries on the register after the close of business on 8 August 2005 will be disregarded in determining the rights of any person to attend or vote at the meeting.
8. The return of this form of proxy will not prevent a member from attending the meeting and voting in person.
9. The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and public holidays excepted) until the date of the meeting and on 10 August 2005 at Ridding Park, Follifoot, Harrogate, North Yorkshire, HG3 1JH until the conclusion of the meeting:
  - a. Copies of the directors' service contracts; and
  - b. The register of the directors' interests in the share capital of the Company.



# APPENDIX 1: SUMMARY OF THE BROKER NETWORK HOLDINGS PLC LONG TERM INCENTIVE PLAN (THE "PLAN")

1 The Board of Directors of the Company recommended the adoption of the Plan on 27 May 2005 and the Board of Directors of Broker Network Holdings (Trustee) Limited (as trustee of the Broker Network Incentive Trust (the "Trust")) (the "Trustee") approved the establishment of the Plan by resolution dated 27 May 2005 in exercise of its powers under Clause 4 of the trust deed between the Company and the Trustee dated 27 May 2005 (the "Trust Deed").

The establishment of the Plan is subject to approval by the shareholders of the Company in general meeting (see Notice of AGM, resolution 12).

2 The Plan is intended to reward and influence performance of senior management within the Company and will be operated in conjunction with the Trust (details of which are contained in appendix 2). The Rules of the Plan set out the basis for the grant of Awards under the Plan. The key features of the Rules are summarised below.

## GRANT OF AWARDS

The Trustee may (i) within the period of 42 days following approval of the Plan by the Company's shareholders in general meeting; or (ii) within the period of 42 days following the preliminary announcement to the London Stock Exchange of the Company's annual results, resolve to make Awards to

"Eligible Employees" (on the recommendation and with the consent of the Company's remuneration committee). Eligible Employees are individuals who, as at the date on which the Award is made, are employees or former employees of the Company (or one of its group companies).

The Trustee may in its discretion determine that a proportion of the amount or value of an Award shall be paid to a Participant in cash immediately. It is intended that one quarter of the amount or value of an Award will be so paid in cash. To the extent that the full amount or value of an Award is not paid in cash, it shall take the form of shares at nil cost ("Restricted Shares") which will be subject to forfeiture in the event that the Participant ceases to be an employee or director of any group company.

The intention is that generally the Restricted Shares will (subject to Rules 5 (Termination of Employment) and 6 (Takeover, Reconstruction and Winding Up)) be subject to forfeiture as follows:

- (a) in the event that a Participant ceases to be an employee or director of any group company at any time during the period commencing on the date of the Award ("Award Date") and ending on the first anniversary of the Award Date he/she will forfeit all the Restricted Shares;
- (b) in the event that a Participant so ceases at any

time during the period commencing on the Award Date and ending on the second anniversary of the Award Date he/she will forfeit two thirds of the Restricted Shares;

- (c) in the event that a Participant so ceases at any time during the period commencing on the Award Date and ending on the third anniversary of the Award Date he/she will forfeit one third of the Restricted Shares.

Participants shall agree that any Restricted Shares shall remain registered in the name of the Trustee until such time as such shares cease to be subject to forfeiture, at which time the Trustee will transfer the shares to the Participant or such other person as the Participant may nominate in writing. The period of time during which shares awarded under the Plan may be forfeited will never exceed five years from the Award Date.

An Award may not be transferred, assigned or otherwise disposed of by a Participant to any other person without the prior consent of the Trustee except that, on the death of a Participant, an Award may be transferred to his executors or personal representatives.

A Participant may surrender all or part of his Award within 30 days of the Award Date in which case the Award will be deemed never to have been made. No consideration will be payable in respect of the surrender.

The Company will ensure that the Trustee has sufficient funds available to satisfy Awards.

Awards may only be satisfied by existing issued Shares.

#### LIMIT ON VALUE OF AN AWARD

The aggregate Initial Value in relation to all Awards made in respect of any given financial year of the Company shall not exceed an amount equal to ten per cent of the profit (before tax and amortisation) of the Company for that financial year, unless the Board in its absolute discretion determines otherwise.

The Initial Value in relation to an Award shall not exceed an amount equal to 1.5 times the Participant's salary.

#### TERMINATION OF EMPLOYMENT

If a Participant ceases to be an employee or director of any group company for one of the following reasons:

- death;
- ill health/injury/disability;
- redundancy within the meaning of the Employment Rights Act 1996;
- retirement in accordance with his/her employment contract;
- early retirement (age 50 above) by agreement with his/her employing company;
- his/her employing company ceasing to be under the control of the Company or ceasing to be a group company;
- or
- transfer/sale of the undertaking or part-undertaking in which he/she is employed to a person who is neither under the Company's control or one of the Company's group companies,

the Participant's Restricted Shares will cease (as at the date of cessation) to be subject to forfeiture, unless the Trustee determines otherwise.

If the Participant ceases to be an employee or director for any other reason, he/she will forfeit and cease to be entitled to any Restricted Shares unless the Trustee determines otherwise within three months of the date of cessation of office/employment.

## TAKEOVER, RECONSTRUCTION AND WINDING UP

If (i) any person obtains control of the Company as a result of making a general offer, (ii) any person becomes bound or entitled to acquire shares in the Company under sections 428 to 430F of the Companies Act 1985, (iii) it is proposed under section 425 of the Companies Act 1985 that there is a court-sanctioned compromise or arrangement for the purposes of or in connection with reconstruction/amalgamation or (iv) notice is given of a resolution for the voluntary winding-up of the Company, then a Participant's Restricted Shares will cease to be subject to forfeiture, unless the Trustee determines otherwise.

## TAXATION

All tax which may become payable by a Participant (or his executors or personal representatives) in connection with an Award will be the liability of the Participant (or his executors or personal representatives) and not that of the Company (and its group companies) or the Trustee.

A Participant shall indemnify the Company (and its group companies) and the Trustee in respect of any and all liability to pay as you earn income tax, employee national insurance contributions and other liabilities which are attributable to an Award and which are primarily the Participant's liability.

A Participant shall, if required by the Trustee and the Company, enter into a joint election with the secondary contributor to transfer liability for employer's national insurance contributions to the Participant.

A Participant shall not receive cash or shares pursuant to an Award unless the Participant has entered into arrangements satisfactory in all respects to the Company (or the relevant group company) or the Trustee to enable such company or the Trustee to recover any tax arising in respect of or as a result of the Award and which the Company or Trustee is liable to discharge.

## ADJUSTMENTS TO AWARDS

The number of shares comprised in an Award may be adjusted in such way as the Trustee shall determine following any capitalisation issue, any offer or invitation made by way of rights, subdivision, consolidation, reduction or other variation in the Company's share capital which, in the reasonable opinion of the Trustee, justifies an adjustment.

## ADMINISTRATION

The Trustee's decision in any dispute or question affecting a Participant or the Company (or any group company) shall be final and conclusive.

## AMENDMENTS

The Trustee may at any time alter or add to any of the Rules of the Plan provided that no such alteration or addition shall be made without the prior written consent of the Company's remuneration committee or, where the alteration or addition imposes any additional burden on or adversely affects the Company or any group company, without the prior written consent of the Company.

No alteration or addition can be made which abrogates or adversely affects the subsisting rights of a Participant unless it is made with the Participant's prior written consent.

## GENERAL

The Plan will terminate on the tenth anniversary of its adoption by the Company.

## APPENDIX 2: SUMMARY OF THE BROKER NETWORK HOLDINGS PLC EMPLOYEE BENEFIT TRUST (THE "TRUST")

### INTRODUCTION

Subject to Resolution 13, the Trust has been established by a Trust Deed dated 27 May 2005 between the Company and Broker Network Holdings (Trustee) Limited (the "Trustee").

The Trustee is a wholly owned subsidiary of the Company.

It is intended that the Trust be operated in conjunction with the Plan as follows:

- the Company will transfer an amount equal to 10% of the after tax profit of the Company to the Trust each year;
- the Trustee will use such sums to acquire shares in the Company in the market;
- the Trustee will, on the recommendation and with the consent of the Remuneration Committee of the Company, make Awards to employees pursuant to the Plan;
- the Shares acquired by the Trustee will be used to satisfy such Awards.

### PRINCIPAL TRUSTS

The Trust is a discretionary trust for the benefit of employees of any group company.

In general, the Trustee has power to pay or apply the income and capital of the Trust to or for the benefit of all or any of the employees of the group in such shares and in such manner as the Trustee shall in its absolute discretion think fit.

The Trustee may, in exercise of this power:

- (i) transfer shares to an employee either absolutely or subject to any conditions pursuant to an employee share scheme;
- (ii) grant or procure the grant of rights to employees of the group to acquire shares at nil cost or at a discount to market value;
- (iii) sell shares to employees of the group at less than market value;
- (iv) acquire shares in the Company for the purposes of the Trust.

The Trustee may not exercise any power, authority or discretion in such a way as would cause any part of the trust fund to be paid to any group company.

#### WAIVER OF DIVIDENDS

The Trustee shall be obliged to waive all but 0.1 pence of any dividend due or to become due at any time or times in the future in respect of any shares in the Company comprised in the trust fund unless and to the extent that the Company otherwise directs.

#### INVESTMENT POWERS

In general, the Trustee has the same full and unrestricted powers of investing and otherwise dealing with the trust fund in all respects as if they were the absolute beneficial owner of the trust fund.

#### REMUNERATION OF THE TRUSTEE

Any corporate trustee may act in accordance with its standard terms and conditions from time to time and, in addition to reimbursement of its proper expenses, it shall be entitled to remuneration for its services as Trustee in accordance with its published terms and conditions for trust business or, in the absence of such terms, in accordance with such rates as it shall determine.

#### PROTECTION OF TRUSTEE

The Trustee shall not be liable for any loss arising by reason of any mistake or omission made in good faith by it or by reason of anything (including fraud, negligence or default) of any other person unless the Trustee has been fraudulent, in wilful default or negligent himself.

The Trust Deed also contains an indemnity by the Company in favour of the Trustee in respect of any claims, costs, demands, expenses and other liabilities arising out of the performance of their duties, other than liabilities attributable to fraud, misconduct or negligence on the part of the Trustee.

#### CHANGE OF TRUSTEE

Any Trustee may retire by giving one month's written notice to the Company and the remaining Trustees (if any).

The Company has power to remove any Trustee from office and appoint a new Trustee or additional Trustees.

#### AMENDMENT

Subject to the consent of the Company, the Trustee may vary, amend, restrict, release, modify, alter or extend the trusts, powers and provisions of the Trust Deed.

Company number: 5044510

**NOTICE OF TRANSFER OF DOCUMENTS FROM  
COMPANY RECORD**

Company Name: The Broker Network Holdings  
Ltd

**Document Transferred:**

2005 Assets

**Reason For Transfer:**

On wrong Co. number, 2906084.  
The Broker Network Ltd.

Signed: J. E. H.

**For and on behalf of the Registrar**

Dated: 11/10/25