

3194991

Report and Financial Statements

for the Year Ended 31 December 2003



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Personal
Group Holdings Plc

Personal Group Holdings Plc - Annual Report - For the Year Ended 31 December 2003

Company registration number: 3194991

Registered office: John Ormond House
899 Silbury Boulevard
Central Milton Keynes
MK9 3XL

www.personal-assurance.co.uk

Directors: C W T Johnston (Chairman and Chief Executive)
J P Barber
R P Pease
K W Rooney
C J Curling (Non-executive)
S M Donald (Non-executive)
R M Green (Non-executive)

Secretary: J P Barber

Bankers: Co-operative Bank plc
Chiltern Business Centre
Luton
Bedfordshire
LU1 2PL

Auditors: Grant Thornton
Registered Auditors
Chartered Accountants
Central Milton Keynes

Nominated Brokers and Advisers: Durlacher Limited
4 Chiswell Street
London
EC1Y 4UP

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Chairman's statement

I am pleased to report that the Group has produced another profitable year. During 2003, our profit before tax increased by £691,000 to £6,305,000.

The directors propose a final dividend of 3.00p (2002: 2.35p) per share, which increases the total dividends for the year by 25% to £2,985,000. After provision for taxation and dividends, there is a surplus of £1,463,000, which has been added to reserves. Shareholders' funds now stand at £14.5m (2002: £13.6m), which is 48p (2002: 44p) per share.

The performance of our investments including investment income, realised and unrealised gains and losses and related expenses improved from a net income of £286,000 in 2002 to a net income of £380,000. By the end of 2003, our Government fixed interest securities and cash deposits had increased by £2,150,000 to £12,883,000.

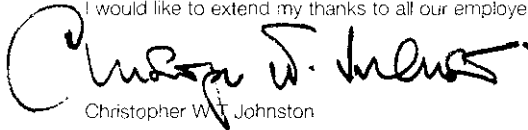
During the second half of 2003, new benefit programmes were launched for, among others, Tibbett & Britten, LivingWell, Travis Perkins, Starbucks, The Telegraph Group and Highfield Care.

Current trading is in line with directors' expectations.

In February 2004 we completed the purchase of ParTake Services Limited, giving us ownership of what we consider to be very useful intellectual property and the services of their talented team of IT professionals. Our *Perflex* benefits software customers now have improved access to our back-up team and we have a much greater ability to develop our position in the internet-related benefits market. The property-related, multiple listing services pioneered by ParTake will be subject to the appropriate level of investment to establish this as another source of revenue for the Group.

As mentioned in last year's Chairman's statement, Ken Rooney will take up his role as Chief Executive from 30 March 2004. He takes on this important responsibility with all my good wishes and ongoing support as Executive Chairman.

I would like to extend my thanks to all our employees for their loyal service to the Group during 2003.



Christopher W. Johnston
Chairman

30 March 2004

Report of the Directors

The directors present their report together with the audited financial statements for the year ended 31 December 2003.

Principal activities

The group is principally engaged in transacting short-term accident and health insurance, employee benefits related business and financial services in the UK.

Results and dividends

A review of the year's results is given in the chairman's statement on page 1.

The profit for the year, before taxation of £1,857,000 (2002: £1,636,000), amounted to £6,305,000 (2002: £5,614,000). During the year ordinary dividends of £2,985,000 (2002: £2,404,000) were paid and proposed, leaving £1,463,000 retained and added to reserves.

Directors

The present membership of the Board is set out below. All served on the Board throughout the year. Mr K H Klaeser and Mr J Swarbrick resigned as directors on 29 April 2003.

In accordance with the Articles of Association, C W T Johnston, J P Barber and K W Rooney retire by rotation and offer themselves for re-election.

The interests of the directors and their families (including transactions committed to before the year end and shares held in the all employee share ownership plan) in the shares of the company as at 1 January 2003 and 31 December 2003 were as follows:

	At 31 December 2003	Ordinary shares of 5p each in Personal Group Holdings plc
		At 1 January 2003
C W T Johnston (Chairman and Chief Executive)	15,456,393	15,433,393
J P Barber	260,978	259,765
R P Pease	75,028	73,815
K W Rooney	45,142	30,179
C J Curling (Non-executive)	9,232	8,750
S M Donald (Non-executive)	27,918	26,705
R M Green (Non-executive)	19,363	9,447

On 19 April 2001 options under the company's Selective Company Share Ownership Plan were awarded to J P Barber, R P Pease and K W Rooney in respect of 36,144 shares each at an exercise price of 83p per share. These options become exercisable on or after 19 April 2004. The average mid market share price during the year was 151.9p. At 31 December 2003 the mid market closing share price was 169.0p.

Report of the Directors (continued)

Directors' responsibilities for the financial statements

United Kingdom 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 the group and of the profit or loss of the group 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, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

International Financial Reporting Standards

The Board are aware of the future requirements to comply with IFRS and have taken steps to make the appropriate plans. An initial assessment of the potential impact will be made during 2004, and detailed plans will be put in place thereafter.

Payment of creditors

It is the company's policy to pay all suppliers within the terms agreed at the time the order is made, subject to the satisfactory completion of the order by the supplier. The company had no trade creditors at the year end.

Charitable donations

Donations to charitable organisations amounted to £85,000 (2002: £65,000).

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



J P Barber
Secretary

30 March 2004

Report of the Independent Auditors to the Members of Personal Group Holdings PLC

We have audited the financial statements of Personal Group Holdings Plc for the year ended 31 December 2003 which comprise the principal accounting policies, the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and notes 1 to 37. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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

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

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 31 December 2003 and of the profit for the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Central Milton Keynes

30 March 2004

Principal Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention except that investments are revalued at market value annually. They are prepared in accordance with accounting standards, to the extent that they are applicable to insurance companies; the provisions of Section 255 and Schedule 9A of the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Company Accounts) Regulations 1993; and with the 1998 Statement of Recommended Practice on accounting for insurance business issued by the Association of British Insurers (the "ABI SORP").

The principal accounting policies have remained unchanged from the previous year except as follows:

- i in respect of other income where the accounting policy has been revised to recognise the requirements of FRS5 Application Note G. The effect was not material.
- ii in respect of accounting for ESOP trusts where UITF Abstract 38 has been adopted. The impact of this is that shares held by the AESOP trust are presented in the balance sheet as a deduction in arriving at shareholders' funds, not as assets.

Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary undertakings drawn up to 31 December 2003. The results of subsidiary undertakings acquired during a year are included from the date of acquisition. Profits or losses on intra-group transactions are eliminated in full. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Goodwill arising on acquisition, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life.

As a matter of accounting policy, goodwill arising on consolidation first accounted for in accounting periods ending before 23 December 1998, the implementation date of Financial Reporting Standard No 10, was written off to reserves immediately on acquisition. Such goodwill has been charged or credited to the profit and loss account on the subsequent disposal of the business to which it relates.

Basis of accounting for insurance business

The annual basis of accounting is used, as the underwriting result can be determined with reasonable certainty at the end of the accounting period.

Premium recognition

Premium income is recognised on a receivable basis. A proportion of premiums written in the current year relating to cover provided in the following year is carried forward as a provision for unearned premiums, calculated on a daily pro rata basis. Written premiums exclude insurance premium tax.

Reinsurance

Reinsurance premiums are calculated on a payable basis and reinsurance commissions are calculated on a receivable basis. Net costs of financial reinsurance, as distinct from non financial reinsurance, are charged to the technical account as operating expenses.

Principal Accounting Policies (continued)

Deferred acquisition expenses

A proportion of underwriting expenses regarded as acquisition expenses is deferred to a subsequent accounting period to match the deferral to a subsequent accounting period of the proportion of the written premiums to which the acquisition expenses relate. The deferral of acquisition expenses is calculated by applying the ratio of unearned premiums to written premiums.

Claims recognition

The claims reserve comprises the estimated cost of claims incurred but not settled at the balance sheet date, whether reported or not. Provision is made at the end of an accounting period for claims handling expenses to cover the anticipated costs of negotiating and settling claims which have occurred, whether notified or not, by that date. The provision includes the anticipated costs of the general claims administration relating to such claims.

Investment income and expenses

Interest income is recognised on an accruals basis, as are investment expenses. Dividends are recognised when declared.

Investment return, comprising investment income, realised and unrealised investment gains and losses, and investment expenses are included within the non-technical account.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price.

Other income

Other income is recognised on a receivable basis when the right to receive consideration has been established. Commission on insurance product sales is recognised when the policy goes on risk; in the case of indemnity commission provision is made for estimated future lapses.

Investments

Investments are stated at mid-market value at the balance sheet date.

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current profit and loss account.

Foreign currencies

Transactions in foreign currencies are translated at the average monthly exchange rate ruling during the month that includes the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Principal Accounting Policies (continued)

Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are:

Motor vehicles	4 years
Computer equipment	2 - 4 years
Furniture, fixtures and fittings	5 - 10 years
Freehold buildings	50 years

Contribution to pension funds

Defined contribution executive and group personal pension schemes

Pension costs charged against profits represent the amount of the contributions payable to the schemes in respect of the accounting period.

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Policyholders Protection Act 1975

Provision is made at the balance sheet date for any levy declared after that date but before the completion of the financial statements. Provision is also made if it is more likely than not that a levy will be raised based on premium income that has already been recognised in the financial statements and of which a reasonable estimate can be made.

Taxation

The taxation charge in the non-technical account is based on the taxable profits for the year.

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is calculated using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Employee share ownership plans

Shares purchased under the Employee Share Ownership Plans are funded by loans guaranteed by the Company and in accordance with UITF Abstract 38, the shares held by the AESOP trust are presented in the balance sheet as a deduction in arriving at shareholders' funds, not as assets. Shares conditionally gifted to employees under the terms of the Employee Share Ownership Plans are amortised over the relevant qualifying period. Finance costs and administration expenses are charged to profit as they accrue.

At present the company operates a plan whereby all employees, excluding controlling shareholders, are entitled to make monthly payments to the trust via payroll deductions. The current allocation period is six months and shares are allocated to employees at the end of each allocation period. The shares are allocated at the lower of the mid market price at the beginning and end of the allocation period. The trust company has not waived its right to dividends on unallocated shares. Dividend income receivable on unallocated shares and any profit or loss on allocation of shares to individuals is taken directly to reserves.

Consolidated Profit and Loss Account

	Note	£000	2003 £000	£000	2002 £000
TECHNICAL ACCOUNT - GENERAL BUSINESS					
Gross premiums written			12,911		12,195
Reinsurance premiums			-		-
Net premiums written			12,911		12,195
Change in the gross provision for unearned premiums			14		19
Earned premiums, net of reinsurance			12,925		12,214
Claims paid					
Gross amount		(2,628)		(2,566)	
Reinsurers' share		-		-	
Net of reinsurance		(2,628)		(2,566)	
Change in the provision for claims					
Gross amount		4		(41)	
Reinsurers' share		-		-	
Net of reinsurance		4		(41)	
Claims incurred, net of reinsurance	1		(2,624)		(2,607)
Net operating expenses:					
Financial reinsurance costs	2	-		(129)	
Other	3	(5,381)		(5,094)	
			(5,381)		(5,223)
Balance on the technical account for general business			4,920		4,384

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Profit and Loss Account (continued)

	Note	£000	2003 £000	£000	2002 £000
NON-TECHNICAL ACCOUNT					
Balance on the general business technical account			4,920		4,384
Investment income	5	512		433	
Unrealised losses on investments	5	(45)		(87)	
Investment expenses and charges	6	(87)		(60)	
Net investment return			380		286
Other income	7		3,387		3,434
Other charges	7		(2,297)		(2,425)
Charitable donations			(85)		(65)
Profit on ordinary activities before tax	8		6,305		5,614
Tax on profit on ordinary activities	9		(1,857)		(1,636)
Profit for the financial year	10		4,448		3,978
Dividends	11		(2,985)		(2,404)
Profit retained	18		1,463		1,574
Earnings per share					
Basic	12		14.9p		13.2p
Diluted	12		14.7p		13.2p
Dividends per share	11		10.0p		8.0p

Statement of Total Recognised Gains and Losses

	2003 £000	2002 £000
Profit for the financial year	1,463	1,574
Total recognised gains and losses for the year	1,463	1,574
Prior year adjustment (see note 34)	(402)	
Total gains and losses recognised since last financial statements	1,061	

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Balance Sheet at 31 December 2003

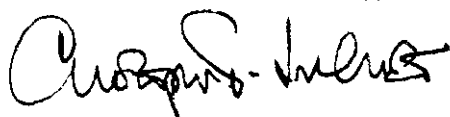
	Note	2003 £000	2003 £000	2002 (Restated) £000
Assets				
Investments				
Other financial investments	13		7,233	4,711
Debtors				
Debtors arising out of direct insurance operations		1,282		1,140
Other debtors due within one year	14	614		728
			1,896	1,868
Other assets				
Tangible assets	15	5,933		6,004
Cash at bank and in hand		6,242		6,458
			12,175	12,462
Prepayments and accrued income				
Accrued interest and rent		58		42
Deferred acquisition costs		34		38
Other prepayments and accrued income		162		72
			254	152
Total assets			21,558	19,193

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Balance Sheet at 31 December 2003 (continued)

	Note	2003 £000	2003 £000	2002 (Restated) £000
Liabilities				
Capital and reserves				
Called up share capital	17	1,528	1,528	
Other reserve	18	(882)	(402)	
Profit and loss account	18	13,893	12,430	
Shareholders' funds	19		14,539	13,556
Technical provisions				
Provision for unearned premiums		272	286	
Claims outstanding	20	862	865	
			1,134	1,151
Provision for liabilities and charges	21		201	180
Creditors				
Current taxation		924	901	
Other creditors including other taxation and social security		435	514	
Bank loan	24	783	307	
Payable and proposed dividends		2,380	1,861	
			4,522	3,583
Accruals and deferred income			1,162	723
Total liabilities			21,558	19,193

The financial statements were approved by the Board on 30 March 2004.



C W T Johnston



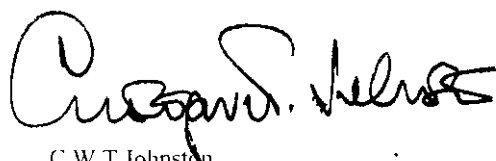
J P Barber

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Balance Sheet at 31 December 2003 (continued)

		2003	2002
	Note	£000	(Restated) £000
Fixed assets			
Investment in subsidiary undertakings	23	8,416	8,254
Other financial investments	13	234	-
		8,650	8,254
Current assets			
Debtors	14	3,900	64
Cash at bank and in hand		10	64
Total assets		12,560	8,382
Capital and reserves			
Called up share capital	17	1,528	1,528
Other reserve	18	(882)	(402)
Profit and loss account	18	7,212	3,889
Shareholders' funds		7,858	5,015
Provision for liabilities and charges	21	60	60
Creditors	25	4,642	3,307
Total liabilities		12,560	8,382

The financial statements were approved by the Board of Directors on 30 March 2004.



C W T Johnston



J P Barber

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

	Note	£000	2003 £000	£000	2002 £000
Net cash inflow from operating activities	26		7,060		5,946
Loan interest paid			(16)		(18)
Taxation paid			(1,813)		(1,492)
Capital expenditure					
Purchase of fixed assets		(599)		(348)	
Sale of fixed assets		221		86	
Purchase of own shares		(578)		-	
Sale of own shares		63		-	
			(893)		(262)
Acquisitions and disposals					
Disposal of trade and goodwill	29		77		(15)
Equity dividends paid			(2,466)		(2,149)
Financing					
Addition to bank loan		578		-	
Repayment of bank loan		(102)		(77)	
			476		(77)
Net cash flows			2,425		1,933
Cash flows were invested as follows:					
(Decrease)/increase in cash holdings			(216)		1,946
Net portfolio investment					
Ordinary shares, loans and treasury loan stock			2,641		(13)
Net investment of cash flows	28		2,425		1,933

The prior year figures have been restated to reclassify certain elements of the cash flow statement.

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements

1 CLAIMS INCURRED, NET OF REINSURANCE

	Gross £000	Reinsurance £000	Net £000
2003			
Claims paid	2,399	-	2,399
Claims handling expenses paid	229	-	229
	<u>2,628</u>	<u>-</u>	<u>2,628</u>
Change in claims provision	(2)	-	(2)
Decrease in provision for claims handling costs	(2)	-	(2)
	<u>(4)</u>	<u>-</u>	<u>(4)</u>
Total	<u>2,624</u>	<u>-</u>	<u>2,624</u>

	Gross £000	Reinsurance £000	Net £000
2002			
Claims paid	2,348	-	2,348
Claims handling expenses paid	218	-	218
	<u>2,566</u>	<u>-</u>	<u>2,566</u>
Change in claims provision	41	-	41
Decrease in provision for claims handling costs	-	-	-
	<u>41</u>	<u>-</u>	<u>41</u>
Total	<u>2,607</u>	<u>-</u>	<u>2,607</u>

2 FINANCIAL REINSURANCE COSTS

	2003 £000	2002 £000
Reinsurance contract termination payment	-	100
Decrease in reinsured share of unearned premiums	-	29
Financial reinsurance payable	<u>-</u>	<u>129</u>

Notes to the Financial Statements (continued)

3 OTHER NET OPERATING EXPENSES

	2003 £000	2002 £000
Acquisition costs	3,184	3,083
Decrease in deferred acquisition costs	6	10
	<u>3,190</u>	<u>3,093</u>
Incurring acquisition costs	3,190	3,093
Administration expenses	2,191	2,001
	<u>5,381</u>	<u>5,094</u>

Total commission incurred during the year in respect of direct insurance was £544,000 (2002: £541,000).

4 DIRECTORS AND EMPLOYEES

Staff costs (excluding non-executive directors' fees) during the year were as follows:

	2003 £000	2002 £000
Wages and salaries	3,839	3,827
Social security costs	440	397
Other pension costs	303	257
	<u>4,582</u>	<u>4,481</u>

Average number of employees was as follows:

	2003 Number	2002 Number
Administration	46	46
Sales and marketing	59	70
	<u>105</u>	<u>116</u>

Notes to the Financial Statements (continued)

4 DIRECTORS AND EMPLOYEES (CONTINUED)

Remuneration in respect of directors was as follows:

	2003 £000	2002 £000
Emoluments	1,204	1,149
Pension contributions to executive and group personal pension schemes	<u>69</u>	58

During the year 7 directors (2002: 7 directors) participated in executive and group personal pension schemes.

The amounts set out above include remuneration in respect of the highest paid director as follows. All emoluments relate to payments made by subsidiary undertakings.

	2003 £000	2002 £000
Emoluments	729	729
Pension contributions to an executive personal pension scheme	<u>24</u>	24

5 INVESTMENT INCOME

	2003 £000	2002 £000
Income from listed investments	12	11
Income from unlisted investments	10	7
Income from cash on deposit and fixed interest securities	477	415
	<u>499</u>	433
Realised gains	13	-
	<u>512</u>	433

Unrealised investment (losses)/gains

	2003 £000	2002 £000
On investments held at end of year	(114)	(121)
On investments realised during the year	69	34
	<u>(45)</u>	(87)

Notes to the Financial Statements (continued)

6 INVESTMENT EXPENSES AND CHARGES

	2003 £000	2002 £000
Investment management expenses	-	2
Realised losses	87	58
	<u>87</u>	60

7 SEGMENTAL REPORTING - OTHER INCOME AND OTHER CHARGES

	Income £000	Expenditure £000	Profit/(loss) £000
2003			
Insurance related	2,707	1,048	1,659
Other	680	1,249	(569)
	<u>3,387</u>	<u>2,297</u>	<u>1,090</u>
2002			
Insurance related	2,897	1,370	1,527
Other	537	1,055	(518)
	<u>3,434</u>	<u>2,425</u>	<u>1,009</u>

Net assets include £2,352,000 (2002: £3,013,000) relating to non insurance activities.

8 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2003 £000	2002 £000
Profit on ordinary activities before tax is stated after:		
Auditors' remuneration (inclusive of non-recoverable VAT)		
Audit services	47	46
Taxation advice and other assurance services	7	3
Depreciation		
Tangible fixed assets owned	366	373
Rental income receivable	378	208
Operating lease rentals - land and buildings	<u>135</u>	<u>135</u>

Notes to the Financial Statements (continued)

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in period

	£000	2003 £000	£000	2002 £000
Current tax:				
UK corporation tax on profits of the period	1,846		1,744	
Adjustment in respect of previous periods	(10)		(228)	
Total current tax (note 9 (b))		1,836		1,516
Deferred tax:				
Origination and reversal of timing differences	21		120	
Total deferred tax (note 21)		21		120
Tax on profit on ordinary activities		<u>1,857</u>		1,636

(b) Factors affecting tax charge for the year

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

	2003 £000	2002 £000
Profit on ordinary activities before tax	<u>6,305</u>	<u>5,614</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	1,892	1,684
Effect of:		
Expenses not deductible for tax purposes	11	31
Unrealised investment valuation and goodwill movements	(39)	71
Adjustments to tax charge in respect of previous years	(10)	(228)
Capital allowances for year in excess of depreciation	(14)	(42)
Effects of marginal tax rates	(4)	-
Current tax charge for the year (note 9 (a))	<u>1,836</u>	1,516

10 PROFIT FOR THE FINANCIAL YEAR

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's profit for the year was £6,307,000 (2002: £1,982,000).

Notes to the Financial Statements (continued)

11 DIVIDENDS

	2003 Pence per share	2002	2003 £000	2002 £000
Equity dividends				
Ordinary shares - interim dividends:				
1st interim dividend paid 29 October 2003	2.00	1.80	611	550
2nd interim dividend paid 24 March 2004	5.00	3.85	1,527	1,176
Final dividend proposed	3.00	2.35	917	718
			<u>3,055</u>	<u>2,444</u>
Less: amounts payable on own shares held at year end			(70)	(40)
	<u>10.00</u>	8.00	<u>2,985</u>	<u>2,404</u>

12 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. Shares held in employee share trusts are treated as cancelled for the purpose of this calculation.

	2003			2002		
	Earnings £000	Weighted average number of shares	Per share pence	Earnings £000	Weighted average number of shares	Per share pence
Basic	4,448	29,925,332	14.9	3,978	30,014,943	13.2
Dilutive effect of shares in Employee Share Ownership Plan	-	245,146	-	-	129,031	-
Diluted	<u>4,448</u>	<u>30,170,478</u>	<u>14.7</u>	<u>3,978</u>	<u>30,143,974</u>	<u>13.2</u>

13 OTHER FINANCIAL INVESTMENTS AT MID MARKET VALUE

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Shares and other variable yield securities and units in unit trusts listed on UK exchanges	358	332	-	-
Government fixed interest securities	6,641	4,275	-	-
Other investments	234	104	234	-
	<u>7,233</u>	<u>4,711</u>	<u>234</u>	<u>-</u>
Historical cost	<u>7,466</u>	<u>4,901</u>	<u>234</u>	<u>-</u>

Notes to the Financial Statements (continued)

14 OTHER DEBTORS

	2003	Group	2003	Company
	£000	2002	£000	2002
		£000		£000
Trade debtors	498	624	94	-
Other debtors	116	104	5	30
Amounts due from subsidiary undertaking	-	-	3,801	34
	<u>614</u>	<u>728</u>	<u>3,900</u>	<u>64</u>

15 TANGIBLE FIXED ASSETS

Group

	Freehold land and buildings £000	Motor vehicles £000	Computer equipment £000	Furniture fixtures & fittings £000	Total £000
Cost					
At 1 January 2003	5,194	588	335	658	6,775
Additions	232	233	42	50	557
VAT recovery	(163)	-	-	-	(163)
Disposals	-	(290)	(25)	(21)	(336)
At 31 December 2003	<u>5,263</u>	<u>531</u>	<u>352</u>	<u>687</u>	<u>6,833</u>
Depreciation					
At 1 January 2003	162	259	181	169	771
Provided in the year	84	137	72	73	366
Eliminated on disposals	-	(202)	(21)	(14)	(237)
At 31 December 2003	<u>246</u>	<u>194</u>	<u>232</u>	<u>228</u>	<u>900</u>
Net book amount at 31 December 2003	<u>5,017</u>	<u>337</u>	<u>120</u>	<u>459</u>	<u>5,933</u>
Net book amount at 31 December 2002	<u>5,032</u>	<u>329</u>	<u>154</u>	<u>489</u>	<u>6,004</u>

A settlement has been reached with HM Customs and Excise regarding the recovery of VAT on a portion of John Ormond House that is rented out to a third party. The recovery has been treated as a reduction in the cost of the freehold building.

Notes to the Financial Statements (continued)

16 INVESTMENT IN OWN SHARES

	2003 £000	2002 £000
Cost and net book amount at 1 January 2003	402	402
Additions in year	578	-
Shares allocated in year	(63)	-
	<u>917</u>	<u>402</u>
Cost and net book amount at 31 December 2003	917	402

The investment represents the cost of 801,830 (2002: 532,997) shares in the company. The market value of these shares at the year end was £1,355,000 (2002: £573,000). This investment is deducted from reserves (see note 18)

17 SHARE CAPITAL

	2003 and 2002 £000
Authorised 200,000,000 ordinary shares of 5p each	<u>10,000</u>
Allotted, called up and fully paid 30,547,940 ordinary shares of 5p each	<u>1,528</u>

The company has granted options to certain directors and employees in respect of 433,728 ordinary shares of 5p at 83p per share, exercisable between 19 April 2004 and 19 April 2011.

18 RESERVES

Group

	Other reserve £000	Profit and loss account £000
Balance at 1 January 2003		
As previously reported	-	12,430
Prior year adjustment	(402)	-
	<u>(402)</u>	<u>12,430</u>
As restated	(402)	12,430
Retained profit	-	1,463
Profit on allocation of AESOP shares	35	-
Net increase in investment in own company shares (note 16)	(515)	-
	<u>(882)</u>	<u>13,893</u>
Balance at 31 December 2003	(882)	13,893

The other reserve relates to the investment in own shares as detailed in note 16.

Notes to the Financial Statements (continued)

18 RESERVES (CONTINUED)

Company

	Other reserve £000	Profit and loss account £000
Balance at 1 January 2003		
As previously reported	-	3,889
Prior year adjustment	(402)	-
	<u> </u>	<u> </u>
As restated	(402)	3,889
Retained profit	-	3,323
Profit on allocation of AESOP shares	35	-
Net increase in investment in own company shares	(515)	-
	<u> </u>	<u> </u>
Balance at 31 December 2003	<u>(882)</u>	<u>7,212</u>

19 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003 £000	2002 £000
Profit for the financial year	4,448	3,978
Dividends	(2,985)	(2,404)
	<u> </u>	<u> </u>
Goodwill write back	1,463	1,574
Profit on allocation of AESOP shares	-	65
Purchase of AESOP shares	35	-
Allocation of AESOP shares	(578)	-
	<u> </u>	<u> </u>
Allocation of AESOP shares	63	-
	<u> </u>	<u> </u>
Increase in shareholders' funds	983	1,639
Shareholders' funds brought forward (after prior year adjustment of £402,000)	13,556	11,917
	<u> </u>	<u> </u>
Shareholders' funds carried forward	<u>14,539</u>	<u>13,556</u>

Notes to the Financial Statements (continued)

20 CLAIMS OUTSTANDING

Group

	2003 £000	2002 £000
Notified outstanding claims		
Gross	645	636
Reinsurance	-	-
	<u>645</u>	<u>636</u>
Provision for claims incurred but not reported	163	174
Claims handling expenses	54	55
	<u>862</u>	<u>865</u>

21 PROVISIONS FOR LIABILITIES AND CHARGES

Group

	Deferred taxation (Note 22) £000	Other £000	Total £000
At 1 January 2003	120	60	180
Charged in year	21	-	21
At 31 December 2003	<u>141</u>	<u>60</u>	<u>201</u>
Company	£000	£000	£000
At 1 January 2003 and 31 December 2003	<u>-</u>	<u>60</u>	<u>60</u>

Other represents provision for an onerous lease on a vacated property, including dilapidations.

22 DEFERRED TAXATION

Deferred taxation provided for in the financial statements is set out below:

Group

	2003 £000	2002 £000
Accelerated capital allowances	211	177
Other timing differences - unrealised capital losses	(70)	(57)
	<u>141</u>	<u>120</u>

Notes to the Financial Statements (continued)

23 COMPANY INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares £000
Cost	
At 1 January 2003	9,083
Additions	250
At 31 December 2003	9,333
Amounts written off	
At 1 January 2003	829
Further impairment provision	88
At 31 December 2003	917
Net book amount	
At 31 December 2003	<u>8,416</u>
At 31 December 2002	8,254

The additions to investments represent subscription for additional share capital in existing subsidiaries.

At 31 December 2003 the company held 100% of the allotted share capital of the following companies, all of which were incorporated in England and Wales and have been consolidated in the group financial statements.

	Nature of business
Personal Assurance Plc	General insurance
Personal Insurance & Reinsurance Brokers Limited	Insurance broking
Personal Assurance Services Limited	Administration services
Personal Group Benefits Limited	Employee benefits sales and marketing
Personal Assurance Financial Services Plc	Financial services
Group Assistance Programmes Limited	Supplier of employee assistance programmes
Personal Group Trustees Limited	Trustee for employee share options
John Ormond House Limited	Property holding company
Personal Management Solutions Limited	Employee benefits sales and marketing
The School Fees Partnership Limited	Leads generator for independent financial advisers

24 BANK LOAN

	2003 £000	2002 £000
Bank loan	<u>783</u>	307

The bank loan is repayable within one year by equal monthly instalments. Interest is charged at 1% over the Co-Operative Bank Plc base rate.

Notes to the Financial Statements (continued)

25 COMPANY CREDITORS

	2003 £000	2002 £000
Bank loan	783	307
Amounts due to subsidiary undertakings	1,359	1,088
Other creditors	7	42
Accruals	113	9
Payable and proposed dividends	2,380	1,861
	<u>4,642</u>	<u>3,307</u>

26 NET CASH INFLOW FROM OPERATING ACTIVITIES

	2003 £000	2002 £000
Profit before taxation	6,305	5,614
Depreciation of tangible fixed assets	366	373
(Profit)/loss on disposal of fixed assets	(1)	2
(Profit)/loss on sale of trade and goodwill	(27)	30
Realised and unrealised investment losses	119	145
Changes in debtors	(96)	(284)
Change in technical provisions	(17)	25
Change in creditors	360	23
Loan interest expense	16	18
Profit on allocation of AESOP shares	35	-
	<u>7,060</u>	<u>5,946</u>

27 MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS OF FINANCING

	2003 £000	2002 £000
Net cash (outflow)/inflow for year	(216)	1,946
Cashflow		
Portfolio investments	115	(13)
Government fixed interest securities	2,526	-
Movements arising from cash flows	<u>2,425</u>	<u>1,933</u>
Changes in market values	(119)	(145)
	<u>2,306</u>	<u>1,788</u>
Portfolio investments net of financing		
At beginning of year	<u>11,169</u>	<u>9,381</u>
At end of year	<u>13,475</u>	<u>11,169</u>

Notes to the Financial Statements (continued)

28 MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	At 1 January 2003 £000	Cash flow £000	Changes to market value £000	At 31 December 2003 £000
Cash at bank and in hand	6,458	(216)	-	6,242
Ordinary shares and loans	436	115	41	592
Treasury loan stock	4,275	2,526	(160)	6,641
	<u>11,169</u>	<u>2,425</u>	<u>(119)</u>	<u>13,475</u>

29 CASH FLOW IN RESPECT OF ACQUISITIONS AND DISPOSALS

The cash flows arise from the disposal of the Insurance Shop in 2002 and represent disposal proceeds and costs of disposal.

30 CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2003 and 31 December 2002.

31 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2003 and 31 December 2002.

32 PENSIONS

Group and executive personal pension schemes

The group operates a group personal pension scheme for the benefit of employees and certain directors. The scheme is administered by Scottish Equitable Plc and the funds are held independent of the group. In addition the group operates an executive personal pension scheme for the benefit of the managing director. This scheme is administered by Clerical Medical Investment Group Limited and the funds are held independent of the group.

33 LEASING COMMITMENTS

Operating lease payments relating to land and buildings and amounting to £132,881 (31 December 2002: £135,000) are due within one year. The lease to which these amounts relate expires within one year.

34 PRIOR YEAR ADJUSTMENT

The change in accounting policy in respect of accounting for AESOP trusts where UITF Abstract 38 has been adopted has resulted in a prior year adjustment for both the group and the company. For the group and company shareholders' funds at 1 January 2003 have been reduced by £402,000. Group and company shareholders' funds at 31 December 2003 have been reduced by £917,000 as a result of the change in accounting policy. There has been no effect on group or company profit in either year.

Notes to the Financial Statements (continued)

35 POST BALANCE SHEET EVENT

On 23 February 2004, Personal Group Holdings Plc acquired the entire issued share capital of ParTake Services Limited ('ParTake'), a company substantially owned by Mr D Johnston and family, brother of C W T Johnston.

ParTake is a software provider which has, in particular, developed the software system that Personal Group uses for its Perflex on line flexible benefit solution. In addition, it has developed other software systems that serve the property market.

The consideration for the acquisition is to be satisfied by £30,000 in cash and the issue of 122,221 ordinary shares in Personal Group to the vendors, provided certain key employees of ParTake remain with Personal Group Holdings for 3 years following the acquisition. Additionally, a further 138,888 shares are payable, contingent on ParTake achieving profits before tax of £100,000 in the year to 31 December 2006 and cumulative profits before tax of £100,000 over the three years to 31 December 2006. The maximum consideration, excluding the value of future dividends on the shares, is £488,392 based on the average mid market closing share price of 175.556p during the three months preceeding the acquisition.

36 RELATED PARTY TRANSACTIONS

During the year the company continued with an agreement with ParTake Services Ltd (a company substantially owned by Mr D Johnston and family, brother of C W T Johnston) to provide computer software. The agreement is ongoing and for the year to 31 December 2003 a total of £43,392 was payable. There were no amounts outstanding.

37 CONTROLLING RELATED PARTY

C W T Johnston is the group's controlling related party by virtue of his majority shareholding.