

RESOLUTION INVESTMENT SERVICES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

COMPANY REGISTRATION NUMBER 101825

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**RESOLUTION INVESTMENT SERVICES LIMITED
REPORT BY THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2007**

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Company is the provision of investment management services and investment advice

The Company is regulated by the Financial Services Authority

RESULTS FOR THE YEAR

The audited financial statements together with relevant notes and the Independent Auditors' Report are shown on pages 4 to 19

The company has performed strongly during the year, achieving an increase in turnover of 29% to £73,559,000 (2006 £57,131,000)

The profit for the year, after taxation, was £16,225,000 (2006 profit £10,076,000) and the funds under management amounted to £56.5 billion at 31 December 2007 (31 December 2006 £60.6 billion)

A dividend of £10,000,000 was paid to Resolution Asset Management Limited during the year (2006 £nil). There is a surplus of £47,051,000 (2006 surplus £40,826,000) carried forward in reserves

The Directors approved on 19 February 2008 to pay a final dividend of £24,000,000 to Resolution Asset Management Limited

FUTURE DEVELOPMENTS

The Investment Management Company will continue to support the life fund acquisition strategy of Resolution plc. It will also continue to organically grow the business by proactively launching new products both for the UK and overseas markets

DIRECTORS AND THEIR INTERESTS

Directors:	P Thompson	MA (Cantab) ACA, Chairman (resigned 7 March 2007)
	G Stewart	BSc FFA – Chief Executive Officer
	P Reid	MA ASIP – Chief Investment Officer
	J Polin	Sales & Marketing Director
	D O'Neil	BSc FFA – Deputy Chairman
	I Paterson Brown	CA – Chief Operating Officer
	M Biggs	MA (Oxon) ACA (appointed Chairman 7 March 2007)
	B Meehan	FCCA, FCII – Chief Operating Officer of Resolution plc (appointed 5 May 2007)
	J Newman	BSc ACA – Finance Director of Resolution plc (appointed 5 May 2007)

**RESOLUTION INVESTMENT SERVICES LIMITED
REPORT BY THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2007 (CONT'D)**

DIRECTORS AND THEIR INTERESTS (CONT'D)

P Thompson (resigned 7 March 2007), M Biggs, B Meehan and J Newman are Directors of Resolution plc, and details of their interests are disclosed in the accounts of Resolution plc. No other Director held any beneficial interest in the share capital of the Company or any group Company.

RISKS AND UNCERTAINTIES

The main risk to the Company is loss of key investment management mandates and reductions in fees due to significant market movements. We constantly review our risk management process throughout the year to manage the impact of these risks accordingly. Financial risk management is discussed within the notes to the financial statements (note 14).

POST BALANCE SHEET EVENT

On 16 November 2007, the Board of Resolution plc (Resolution), the Company's ultimate parent company, announced that agreement had been reached on the terms of a recommended cash acquisition of Resolution by Impala Holdings Limited, a subsidiary of Pearl Group Limited.

As at the date of this report, the acquisition had not been completed.

AUDITORS

In the case of each of the persons who are directors of the Company at the date of approval of this report:

- So far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware, and
- Each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

A resolution for the reappointment of Ernst & Young LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD


D A WAGNER
Secretary

27 March 2008

Registered Office
Resolution House
50 Bothwell Street
Glasgow G2 6HR

RESOLUTION INVESTMENT SERVICES LIMITED CORPORATE GOVERNANCE

The Company strives to comply as far as possible, given its position as a subsidiary, with corporate governance best practice. Following a group wide review of the Corporate Governance structure, a full committee structure in accordance with Combined Code requirements was adopted by the Company in May 2000 and is now in operation. In keeping with governance best practice an annual review is carried out by the Audit, Risk and Compliance Review Committee.

A detailed risk management framework in line with Turnbull Guidance is in place and operates effectively.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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 company will continue in business.

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
RESOLUTION INVESTMENT SERVICES LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2007**

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit & Loss Account, the Balance Sheet and the related notes 1 to 27. 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 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 other opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as 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 International Standards on Auditing (UK and Ireland).

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 consistent with the financial statements.

In addition we report to you, if in our opinion, 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 other transactions is not disclosed.

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

BASIS OF AUDIT OPINION

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

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
RESOLUTION INVESTMENT SERVICES LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2007**

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Edinburgh

27 March 2008

RESOLUTION INVESTMENT SERVICES LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

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	<u>Note</u>	<u>2007</u> £000	<u>2006</u> £000
Turnover	1	73,559	57,131
Administrative expenses			
Ongoing		(46,078)	(39,403)
Exceptional	4	(5,000)	(1,426)
		<u>(51,078)</u>	<u>(40,829)</u>
Operating profit	2	22,481	16,302
Interest receivable		1,319	831
Interest payable	6	(373)	(521)
Profit on ordinary activities before taxation		<u>23,427</u>	<u>16,612</u>
Taxation charge	7	(7,202)	(6,536)
Profit for the financial year	18	<u><u>16,225</u></u>	<u><u>10,076</u></u>

Recognised Gains and Losses

The Company has no recognised gains or losses for the current or prior year other than those detailed above

The notes on pages 8 to 19 are an integral part of these financial statements

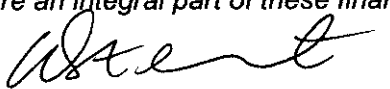
RESOLUTION INVESTMENT SERVICES LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2007

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	<u>Note</u>	<u>2007</u> £000	<u>2006</u> £000
FIXED ASSETS			
Intangible assets	8	11,250	20,266
Tangible assets	9	<u>2,720</u>	<u>2,821</u>
		<u>13,970</u>	<u>23,087</u>
CURRENT ASSETS			
Investments	10	1,140	592
Debtors	11	22,428	19,044
Deferred Taxation	12	2,077	1,738
Cash at bank		<u>38,881</u>	<u>27,775</u>
		<u>64,526</u>	<u>49,149</u>
LIABILITIES DUE WITHIN 1 YEAR			
Creditors	13	(23,581)	(14,933)
Provisions for liabilities and charges	16	<u>(3,561)</u>	<u>(2,508)</u>
NET CURRENT ASSETS		<u>37,384</u>	<u>31,708</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>51,354</u>	<u>54,795</u>
LIABILITIES GREATER THAN 1 YEAR			
Subordinated Loan	15		(10,000)
Provisions for liabilities and charges	16	<u>(2,853)</u>	<u>(2,519)</u>
		<u>48,501</u>	<u>42,276</u>
CAPITAL AND RESERVES:			
Called up share capital	17	580	580
Share premium account	19	870	870
Profit and loss account	18	<u>47,051</u>	<u>40,826</u>
TOTAL SHAREHOLDERS' FUNDS	20	<u>48,501</u>	<u>42,276</u>

The financial statements were approved by the Directors on 27 March 2008

The notes on pages 8 to 19 are an integral part of these financial statements


G STEWART **Director**

RESOLUTION INVESTMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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1 ACCOUNTING POLICIES

1.1 Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards

1.2 Turnover

Turnover represents income on continuing activities from management agreements for investment management services

1.3 Interest receivable

Interest receivable is credited to the profit and loss account when received

1.4 Interest payable

Interest payable is charged to the profit and loss account on an accruals basis

1.5 Cash Flows

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published financial statements

1.6 Pensions

The majority of the employees of the company are members of the Group contributory defined benefit scheme providing benefits on a final pensionable salary basis. Assets of the scheme are held in an independent trustee administered fund (Resolution Group Pension Scheme). Contributions are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives. In accordance with FRS 17 the regular cost is attributed to individual years using the attained age method. Variations in pension cost which are identified as a result of actuarial valuations, are amortised over the expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet. A number of employees are members of the Group defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

1.7 Other intangible assets

The amount paid to acquire new investment management business is capitalised and written off over the estimated useful life, subject to impairment review, if deemed necessary.

1.8 Depreciation of tangible fixed assets

Tangible fixed assets are capitalised and stated at cost less depreciation which is calculated to write down the cost of the assets to residual value over their expected useful lives as follows:

Computer equipment	3 years straight line
Equipment and fittings	10 years straight line

RESOLUTION INVESTMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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1.9 Investments

Investments in joint ventures are recorded at the lower of cost and net realisable value

1.10 Operating lease payments

Operating lease payments are charged in the profit and loss account in the year in which they are due

1.11 Deferred Taxation

The charge for taxation is based on profit for the year and takes into account taxation deferred due to timing differences in the treatment of certain items for taxation and accounting purposes

1.12 Product Development

Product development costs are written off as incurred except that external product development expenditure incurred on an individual project is carried forward when its future recoverability can be reasonably regarded as assured. Any expenditure is amortised over a three year period on a straight line basis

1.13 Incentive Plans

The cost of the Incentive Plans are recognised over the period from the date of the award to the date the employee becomes unconditionally entitled to the benefit

2. OPERATING PROFIT

Operating profit is stated after charging

	<u>Note</u>	<u>2007</u> £000	<u>2006</u> £000
Auditors' Remuneration – audit		48	45
Charitable Donations		15	6
Depreciation of fixed assets		1,223	1,028
Amortisation of intangibles		9,016	6,772
Prepaid put option charge			552
Operating lease rentals – land and buildings		1,432	1,282
motor vehicles			16
Staff Costs	3	<u>20,187</u>	<u>17,059</u>

The Company incurred costs of £11,884,269 (2006: £9,817,308) for Resolution Fund Managers Limited, a fellow group undertaking. These costs are recharged in full.

Non audit fee disclosure is contained in the Resolution Plc Group accounts in accordance with Regulation 4(1)(b) set out in SI 2005/2417 and made under s390B of the Companies Act 2005

RESOLUTION INVESTMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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3. STAFF COSTS

	<u>2007</u>	<u>2006</u>
	£000	£000
Wages and salaries	23,561	19,715
Pension costs	615	308
Social security costs	<u>2,716</u>	<u>2,026</u>
	26,892	22,049
 Staff costs recharged to Resolution Fund Managers Limited	 <u>(6,705)</u>	 <u>(4,990)</u>
 Net staff costs	 <u><u>20,187</u></u>	 <u><u>17,059</u></u>

Employees also perform duties for Resolution Fund Managers Limited. Part of the staff costs, included in Note 2, are recharged as above.

The average number of employees was 385 (2006: 318) of which 118 (2006: 101) were allocated to Resolution Fund Managers Limited.

4. EXCEPTIONAL ITEMS

		<u>2007</u>	<u>2006</u>
		£000	£000
Expenditure			
Retention bonus	*	5,000	
Asset transfer costs	**		1,426
		<u>5,000</u>	<u>1,426</u>

* Following corporate uncertainty, it was approved in August 2007 to pay all staff in employment on 31 March 2008 a retention bonus, payable on that date. The retention bonus accrued at 31 December 2007 amounted to £5m.

** These costs represent the costs directly related with the transition of investment management to the Company of the assets of the Phoenix Life Group.

RESOLUTION INVESTMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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5. DIRECTORS' REMUNERATION

D O'Neil, M Biggs, I Paterson Brown, B Meehan & J Newman are not members of the defined benefit pension scheme

The aggregate emoluments of the other Directors are detailed in full below

	<u>2007</u> £000	<u>2006</u> £000
Emoluments	1,817	1,050
Long Term Incentive Plan (LTIP)	140	268
	<u>1,957</u>	<u>1,318</u>

	<u>2007</u> No	<u>2006</u> No
Members of defined benefit pension scheme	<u>3</u>	<u>4</u>

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

	<u>2007</u> £000	<u>2006</u> £000
Emoluments (Including LTIP)	<u>826</u>	<u>628</u>
Total accrued pension at 31 December	<u>13</u>	<u>11</u>

6. INTEREST PAYABLE

	<u>2007</u> £000	<u>2006</u> £000
Overdraft Interest	11	13
Interest payable to Resolution plc	362	508
	<u>373</u>	<u>521</u>

RESOLUTION INVESTMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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7. TAXATION

a) Analysis of charge in period

	<u>2007</u>	<u>2006</u>
	£000	£000
Current Tax		
UK Corporation tax on profits	8,146	5,795
for the period		
Adjustments in respect of prior periods	<u>(605)</u>	<u>1,500</u>
Total current tax (note 7b)	7,541	7,295
Deferred Tax		
Origination and reversal of timing difference (note 12)	(339)	(759)
Taxation charge on ordinary profit	<u><u>7,202</u></u>	<u><u>6,536</u></u>

b) Factors affecting tax charge for the period

	<u>2007</u>	<u>2006</u>
	£000	£000
Profit on ordinary activities before taxation	<u><u>23,427</u></u>	<u><u>16,612</u></u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	7,028	4,984
Effects of		
Movement in disallowed provisions	416	768
Income not taxable		(202)
Expenses not deductible for tax purposes	631	214
Depreciation in excess of capital allowances	71	31
Adjustment to tax in respect of previous periods	<u>(605)</u>	<u>1,500</u>
Current tax charge for period	<u><u>7,541</u></u>	<u><u>7,295</u></u>

RESOLUTION INVESTMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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8. INTANGIBLE ASSETS

	Product Development Expenditure £000	Other £000	Total £000
Cost:			
At 1 January 2007	66	27,000	27,066
Increase during the year			
At 31 December 2007	<u>66</u>	<u>27,000</u>	<u>27,066</u>
Amortisation:			
At 1 January 2007	50	6,750	6,800
Provided during the year	16	9,000	9,016
At 31 December 2007	<u>66</u>	<u>15,750</u>	<u>15,816</u>
Net Book Value			
At 31 December 2007		11,250	11,250
At 1 January 2007	<u>16</u>	<u>20,250</u>	<u>20,266</u>

Other intangibles are in respect of an agreement the Company entered into to provide investment management services to certain subsidiary undertakings of Resolution Life Limited (RLL), a fellow subsidiary. As a result of this agreement RLL agreed to pay £27m in order to terminate its existing investment arrangements. The Company indemnified RLL in respect of this payment as it enabled the Company to acquire substantial new investment management business. The relevant assets were transferred in stages in 2006. The payment was made on 31 March 2006. The intangible asset is being amortised over 3 years.

9. TANGIBLE ASSETS

	Computer equipment £000	Equipment and fittings £000	Total £000
Cost:			
At 1 January 2007	3,243	3,937	7,180
Additions	1,024	98	1,122
Disposals	(1,802)	(988)	(2,790)
At 31 December 2007	<u>2,465</u>	<u>3,047</u>	<u>5,512</u>
Depreciation:			
At 1 January 2007	2,079	2,280	4,359
Charge for the year	753	470	1,223
Disposals	(1,802)	(988)	(2,790)
At 31 December 2007	<u>1,030</u>	<u>1,762</u>	<u>2,792</u>
Net Book Value.			
At 31 December 2007	<u>1,435</u>	<u>1,285</u>	<u>2,720</u>
At 1 January 2007	<u>1,164</u>	<u>1,657</u>	<u>2,821</u>

RESOLUTION INVESTMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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10. INVESTMENTS

	£000
At 1 January 2007	592
Additions during the year	550
Transfer during the year	(2)
At 31 December 2007	<u>1,140</u>

In addition to the existing Joint Ventures with Argonaut Capital Partners LLP ('ACP') and Cartesian Capital Partners LLP ('CCP'), during 2007 the Company entered into another Joint Venture with Hexam Capital Partners LLP ('HCP') ACP, CCP and HCP perform investment management services for a number of products on behalf of the Resolution Asset Management Group ACP, CCP and HCP are individually structured with a joint management board in which the named partners and RIS have equal representation RIS has funded the capital of ACP, CCP and HCP for regulatory purposes Distributions are made in line with the members agreements ACP financial year end is 30 June, CCP is 31 December and HCP is 30 September

11 DEBTORS

	<u>2007</u>	<u>2006</u>
	£000	£000
Amounts falling due within one year		
Trade debtors	492	656
Accrued income and prepayments	3,471	3,827
Amount due from fellow group undertakings	18,411	14,361
Amount due from joint ventures	54	200
	<u>22,428</u>	<u>19,044</u>

12. DEFERRED TAXATION

	<u>2007</u>	<u>2006</u>
	£000	£000
Accelerated Capital Allowances	71	(9)
Restatement of closing at 28%	(148)	
Movement in disallowed provisions	416	768
	<u>339</u>	<u>759</u>
Provision at start of year	1,738	979
Deferred tax charge in profit and loss account for year	<u>339</u>	<u>759</u>
Provision at end of year	<u>2,077</u>	<u>1,738</u>

In the 2007 Budget it was announced that the rate of Corporation Tax will decrease from 30% to 28% from April 2008

RESOLUTION INVESTMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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13. CREDITORS

Amounts falling due within one year

	<u>2007</u>	<u>2006</u>
	£000	£000
Accruals	14,613	11,169
Retention bonus	5,000	
Corporation tax	2,788	2,715
Other taxes and social security costs	752	472
Other creditors	228	577
Amounts owed to fellow group undertakings	200	
	<u>23,581</u>	<u>14,933</u>

14. RISK MANAGEMENT

The Resolution Risk Management Framework sets out the high level arrangements for risk management, control and assurance within Resolution plc. It is designed to provide a structured approach for identifying, assessing, controlling and monitoring financial and non financial risk within Resolution plc.

Our immediate parent undertaking, Resolution Asset Management Limited, has set up a Risk Committee comprising the Executive Directors which meets monthly with the CEO as Chairman of the Committee. The Committee's remit covers operational and strategic risk. In addition it has taken responsibility for review of business continuity, insurance and counterparty risk reporting. The Committee has discussed and analysed throughout 2007 the risks facing the business, based on the potential impact and the perceived likelihood of occurrence.

The Company will strive to manage and mitigate the principal risks facing the organisation and is committed to maintaining a strongly compliant culture. The Company also believes it is critical to its success to accept a degree of business risk in a conscious and managed manner that does not threaten its compliant culture.

The Company's activities expose it to a variety of financial risks including certain aspects of market risk (specifically currency risk), credit risk and liquidity risk.

Market risk

The Company's principal transactions are carried out in pounds sterling and therefore its exposure to foreign exchange risk is limited. At 31 December 2007, balances in US Dollars amounted to £0.9m sterling equivalent and those in Euros amount to £4.9m sterling equivalent.

Credit risk

Credit risk is the risk of loss resulting from the failure of a counterparty to meet its financial obligations or to perform them in a timely fashion. The Company holds no significant concentrations of credit risk, and cash is held with FSA regulated banks.

The amount disclosed in the balance sheet in respect of financial assets represents the Group's maximum exposure to credit risk.

RESOLUTION INVESTMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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Liquidity risk

Liquidity risk is defined as failure of the Company to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Company has an exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short term cash flow requirements. The Company's policy is to maintain sufficient cash deposits to meet obligations at all times.

15. SUBORDINATED LOAN

On 27 March 2006 the Company entered into a subordinated loan agreement for £10,000,000 with Resolution plc. The loan was drawn down on 31 March 2006 and was repaid in full on 27 June 2007. The interest payable on the loan was at the rate of 6 month Libor plus 2 per cent.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Incentive Plan
	£000
At 1 January 2007	5,027
Provided during the year	2,620
Exercised in the year	<u>(1,233)</u>
At 31 December 2007	<u>6,414</u>
	£000
Amounts due within 1 year	3,561
Amounts due greater than 1 year	<u>2,853</u>
	<u>6,414</u>

The incentive plans provision represents estimated benefits accruing to the members of the plan as per the independent valuation carried out in August 2007. The scheme membership is made up of senior employees of the Company. The seven year plan provides entitlements to cash payments on the third anniversary of entry to the scheme with further entitlement due, in certain cases, in each of the subsequent four years. The three year plans mature after three years with members being entitled to cash payments. Both plans provide for the ability to retain benefits beyond the seven and three year periods respectively.

RESOLUTION INVESTMENT SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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17. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company at 31 December 2007 and 31 December 2006 consists of

	<u>Authorised</u> <u>Number</u>	<u>Issued and fully paid</u> <u>Number</u>	<u>£000</u>
Ordinary shares of 10p each	<u>10,000,000</u>	<u>5,801,000</u>	<u>580</u>

18. PROFIT AND LOSS ACCOUNT

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Balance at 1 January	40,826	30,750
Profit for year	16,225	10,076
Dividend paid	<u>(10,000)</u>	<u> </u>
Balance at 31 December	<u>47,051</u>	<u>40,826</u>

19. SHARE PREMIUM

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Balance as at 31 December	<u>870</u>	<u>870</u>

20. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Shareholders' funds at 1 January	42,276	32,200
Profit for the financial year	16,225	10,076
Dividend paid	<u>(10,000)</u>	<u> </u>
Shareholders' funds at 31 December	<u>48,501</u>	<u>42,276</u>

21 CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts was zero (2006 zero)

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22. PENSION COMMITMENTS

The majority of employees of Resolution Investment Services Limited are members of the Resolution Group Pension Scheme (RGPS). The joint sponsoring employers of RGPS are Resolution Plc and Resolution Management Services. The RGPS is of the defined benefit type with assets held in a trustee administered fund. An independent qualified actuary carries out valuations of the RGPS at least every three years and the contributions to the scheme are paid in accordance with his recommendations. The Company will account for contributions to the scheme as if it were a defined contribution scheme as it is unable to identify its share of the assets and liabilities on a consistent and reasonable basis. Full disclosures for the scheme are contained in the Resolution Plc Group financial statements.

23. OTHER FINANCIAL COMMITMENTS

Annual commitments under operating leases are as follows

	Land and Buildings		Other	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	£000	£000	£000	£000
Operating leases which expire				
Within one year	95			2
In two to five years	1,826	99		
In over five years		1,081		
	<u>1,921</u>	<u>1,180</u>		<u>2</u>

24. TRANSACTIONS WITH DIRECTORS AND THEIR RELATED PARTIES

The details in respect of P Thompson (resigned 7 March 2007), M Biggs, B Meehan and J Newman are disclosed in the accounts of Resolution plc

	<u>2007</u>	<u>2006</u>
	£000	£000
Investments and life products held by two (2006 two) Directors at 31 December	<u>790</u>	<u>461</u>
Contributions paid by two (2006 two) Directors towards investments and life products during the year	<u>155</u>	<u>27</u>

All investments are made on an arms length basis

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25. OTHER RELATED PARTY TRANSACTIONS

Under Financial Reporting Standard 8, companies which are wholly owned subsidiaries of a parent whose consolidated financial statements in which the subsidiaries' results are included are publicly available, are granted exemption from disclosing intra group transactions. The company is such a subsidiary undertaking and accordingly has not disclosed such transactions.

26. ULTIMATE PARENT UNDERTAKING

The Company's immediate parent undertaking is Resolution Asset Management Limited, which is a body incorporated in Scotland. The Company's ultimate parent undertaking is Resolution plc, which is a body registered in England. These financial statements have been included in the consolidated financial statements of Resolution plc.

A copy of the financial statements of Resolution plc is available from

Resolution plc
Juxon House
100 St Paul's Churchyard
London
EC4M 8BU

27. POST BALANCE SHEET EVENTS NOTE

Since the end of the financial year the directors have announced that the proposed acquisition of the Group by Impala Holdings Limited will trigger changes to the long term incentive plan operated by the Company.

Entitlements vesting under the plan in 2008 and entitlements that had previously vested under the plan but had not been paid were redeemed on 27 March 2008 on the basis of an independent valuation of the plan with an effective date of 30 June 2007. The entitlement to vested units was not conditional on the proposed acquisition of the Group. Members of the plan were able to elect to defer payment until 30 September 2008 in which event their entitlements will be enhanced for six months' interest at base rate.

Subject to the successful acquisition of group by Impala Holdings Limited, entitlements under the plan that had not vested on 27 March 2008 will crystallise in full on the date of acquisition, based on an independent valuation of the plan with an effective date 30 June 2007. These entitlements will be enhanced for six months' interest at base rate and the resulting amounts paid on 30 September 2008, except in certain circumstances including where a member of the plan resigns or is dismissed prior to the date of payment.

The estimated cost of the total entitlements under the plan amounts to £8.6 million. The provision for benefits accruing under the plan amounted to £6.4 million as at 31 December 2007 and the additional cost of £2.2 million will be recognised in 2008.

It is proposed that a new incentive scheme will be put in place as a replacement for the long term incentive plan.