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HASTINGS INSURANCE SERVICES LIMITED

ANNUAL REPORT AND ACCOUNTS
2004

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HASTINGS INSURANCE SERVICES LIMITED

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HASTINGS INSURANCE SERVICES LIMITED

Directors

G D Gundlach
P Connell
I A Godfrey
P Knight
P Barette

Secretary

Mrs A M Preston

Auditors

Nexia Audit Limited

Principal and Registered Office

Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex TN39 3LW
Tel : 01424 735735 Fax : 01424 735730
Registered Number 3116518

HASTINGS INSURANCE SERVICES LIMITED

REPORT OF THE DIRECTORS

The Directors submit their Report and Accounts of the Company for the year ended 31 December 2004.

PRINCIPAL ACTIVITY

The principal activity of the company is the provision of insurance services.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

There have been no significant changes in the activities of the Company during the year.
Turnover for the year was £49,472,623 (2003 - £36,850,802).
No significant changes in the nature of the business are expected in 2005 and the directors are confident of future prospects.

RESULTS FOR THE YEAR

The profit for the year after taxation amounted to £8,837,174 (2003 - £3,150,768), which has been transferred to reserves.
The Directors do not recommend the payment of a dividend.

DIRECTORS

The names of the Directors at the date of this report appear on page 2.

According to the register kept for the purposes of the Companies Act 1985, no Director had any beneficial interest in the shares of the Company.

EMPLOYEES

The Directors recognise that staff should be kept informed, so far as practicable, on matters of interest and concern to them as employees. Their views are sought and taken into account in making decisions which affect them. Information is conveyed through meetings and the distribution of circulars.

The Company is very conscious of the difficulties experienced by people with disabilities. Its attitude to the employment of of disabled persons is the same as that relating to all other staff in matters of recruitment, continuity of employment, training, development and promotion, and it will take sympathetic account of individual circumstances.

AUDITORS

A resolution to re-appoint Nexia Audit Limited as the Company's auditor will be put to the forthcoming Annual General Meeting.

DONATIONS

The company made donations of £31,876 (2003 - £10,545) for charitable purposes.

By Order of the Board

Mrs A M Preston
Secretary
22nd February 2005

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company Law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts 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 accounts;
- prepare accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Nexia Audit
—— · Limited · ——

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HASTINGS INSURANCE SERVICES LIMITED

We have audited the accounts of Hastings Insurance Services Limited for the year ended 31 December 2004 which are set out on pages 6 to 18. These accounts have been prepared under the historical cost convention and on the basis of the accounting policies set out therein.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Nexia Audit Limited
NEXIA AUDIT LIMITED
Registered Auditor
London
24 March 2005

HASTINGS INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2004

	Notes	2004 £	2003 £
Turnover	1		
Continuing operations		49,472,623	32,437,218
Acquisitions		-	4,413,584
		49,472,623	36,850,802
Administrative expenses		(39,499,975)	(33,983,890)
Goodwill amortisation	10	(780,356)	(327,108)
OPERATING PROFIT			
Continuing operations		9,192,292	2,235,028
Acquisitions		-	304,776
		9,192,292	2,539,804
Interest receivable and similar income	6	1,219,195	856,263
Interest payable and similar charges	7	(3,756)	(19,542)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	10,407,731	3,376,525
Taxation	8	(1,570,557)	(225,757)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	9	**8,837,174**	**3,150,768**

All of the Company's operations are classed as continuing.

The notes on pages 9 to 18 form an integral part of these accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2004

		2004 £	2003 £
Profit for the financial year / total recognised gains and losses relating to the year		8,837,174	3,150,768
Prior year adjustment	9	-	(2,177,040)
Total gains and losses recognised since last annual report		**8,837,174**	**973,728**

HASTINGS INSURANCE SERVICES LIMITED

BALANCE SHEET
as at 31 December 2004

	Notes	2004 £	2003 £
FIXED ASSETS			
Intangible assets	10	6,696,095	7,476,451
Tangible assets	11	2,856,848	1,452,405
		9,552,943	8,928,856
CURRENT ASSETS			
Debtors	13	42,765,044	35,727,606
Listed current asset investment		1,226,013	4,861,828
Cash at bank and in hand		5,850,135	12,982,501
		49,841,192	53,571,935
CREDITORS: Amounts falling due within one year	14	(42,555,884)	(54,499,714)
NET CURRENT ASSETS / (LIABILITIES)		7,285,308	(927,779)
NET ASSETS		**16,838,251**	**8,001,077**
CAPITAL AND RESERVES			
Share capital	15	5,000	5,000
Profit and loss account	9	16,833,251	7,996,077
SHAREHOLDERS' FUNDS (including non-equity interests)	3	**16,838,251**	**8,001,077**

Approved by the Board of Directors and signed on its behalf

22nd February 2005

The notes on pages 9 to 18 form an integral part of these accounts.

HASTINGS INSURANCE SERVICES LIMITED

CASH FLOW STATEMENT
for the year ended 31 December 2004

	Notes	2004 £	2003 £
Net cash (outflow) / inflow from operating activities	18	(8,375,859)	10,886,361
Returns on investments and servicing of finance			
Interest received		541,770	856,263
Interest paid		(3,756)	(19,542)
		538,014	836,721
Taxation			
Tax paid		(1,242,604)	-
		(1,242,604)	-
Capital expenditure & financial investments			
Purchase of tangible fixed assets	11	(2,262,927)	(644,212)
Purchase of subsidiary undertakings (net of cash acquired)		-	(5,441,079)
Receipts from sale of fixed assets		3,660	-
		(2,259,267)	(6,085,291)
Management of liquid resources			
Sale of current asset investment	18	3,635,815	7,640,370
		3,635,815	7,640,370
Net cash (outflow) / inflow before financing		(7,703,901)	13,278,161
Financing			
Capital element of finance lease rental repayments	16	(110,327)	(262,516)
		(110,327)	(262,516)
(Decrease) / increase in cash		(7,814,228)	13,015,645

NOTES TO THE ACCOUNTS

1. ***Statement of accounting policies***

(a) **Basis of preparation**

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards, which have been consistently applied.

(b) **Turnover**

Turnover comprises commission in respect of insurance policies sold together with finance charges received in respect of premiums payable by instalments.

Allowance is made for commission repayable in the event of policy cancellation, with the amount being classified as deferred income.

Allowance is also made for claims handling obligations in respect of claims incurred at the balance sheet date, with the amount being treated as a deferral of income. In addition, income has been deferred in respect of anticipated claims handling obligations for claims incurred in the post balance sheet period in respect of the unexpired period of cover under policies incepting prior to year end.

Finance charges received in respect of premiums payable by instalments are recognised on a straight line basis.

All turnover relates to business written in the UK.

(c) **Tangible fixed assets**

Tangible fixed assets are depreciated on a straight line basis over their useful economic lives and are stated in the balance sheet at cost less accumulated depreciation. All fixed assets are depreciated over 4 years.

(d) **Deferred tax**

Deferred taxation is provided for on a full provision basis on all timing differences, which have arisen but not reversed at the balance sheet date. No timing differences are recognised in respect of gains on sale of assets where those assets are rolled over into replacement assets. A deferred tax asset is not recognised to the extent that the transfer of economic benefit in future is uncertain. Any assets and liabilities recognised have not been discounted.

(e) **Leasing commitments**

Assets held under finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The capital element of future obligations under the leases is included within liabilities in the balance sheet.

Rentals payable under operating leases and the interest element of obligations under finance leases are charged to income on a straight line basis over the term of the lease.

(f) ***Current asset investments***

Current asset investments are stated at the lower of cost and net realisable value, which at the balance sheet date was equal to their market value and are classified as liquid resources.

(g) **Pensions**

Some employees participate in a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

(h) **Insurance debtors and creditors**

The Company acts as an agent in broking the insurable risks of its clients and, generally, is not liable as a principal for premiums due to underwriters or for claims payable to clients.

Notwithstanding the company's legal relationship with clients and underwriters and since in practice premium and claim moneys are usually accounted for by insurance intermediaries, it has followed generally accepted accounting practice by showing debtors and creditors relating to insurance business as assets and liabilities of the company itself.

(i) **Goodwill**

Goodwill represents the excess of cost of acquisition over the fair value of separable net assets acquired. The carrying value of goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

The directors consider the estimated useful economic life of the goodwill to be 10 years and goodwill is amortised in equal annual instalments over this period.

(j) **Fixed asset investments**

Fixed asset investments are stated at cost less impairment.

2. **Profit on ordinary activities before taxation**

The profit on ordinary activities before taxation is stated after charging / (crediting) :-

	2004 £	2003 £
Auditors remuneration :		
- Audit services	55,760	72,368
- Non-audit services provided by associated company	28,235	72,535
Depreciation	855,334	886,039
Amortisation of goodwill	780,356	327,108
(Profit) / loss on disposal of tangible fixed assets	(510)	11,358
Operating lease rentals - land and buildings	1,445,173	479,448
Operating lease rentals - office equipment and vehicles	14,332	8,243
Impairment of investment	-	7,200,000
Waiver of intercompany balance	-	(7,200,000)

Depreciation in respect of assets held under finance leases amounted to £137,784 (2003 - £344,605)

3. Shareholders' funds

	2004 £	2003 £
Equity interests	16,837,001	7,999,827
Non-equity interests	1,250	1,250
Total shareholders' funds	16,838,251	8,001,077

4. Directors' emoluments

		2004 £	2003 £
(a)	The emoluments of the Directors for the year were as follows:		
	Remuneration and other emoluments	376,498	927,314
	Pension contributions	25,817	25,227
(b)	The emoluments of the highest paid Director were:		
	Remuneration and other emoluments	97,737	671,229

(c) The defined contribution pension scheme contributions above are in respect of four current directors.

5. Staff costs

Staff costs were as follows :-

	2004 £	2003 £
Salaries	14,948,874	13,336,984
Social security costs	1,383,957	950,068
Pension costs	248,438	182,916
	16,581,269	14,469,968

The average number of persons employed during the year was :-		
Sales and Customer Services	586	541
Claims	167	156
Administration	233	231
	986	928

6. Interest receivable and similar income

Interest receivable comprises :	2004	2003
	£	£
Income on current asset investments	408,085	39,882
Interest on loan to Logan Consultants Limited (see note 17)	670,409	510,000
Bank interest receivable	140,701	306,381
	1,219,195	856,263

7. Interest payable

Interest payable comprises :	2004	2003
	£	£
Finance charges payable under finance leases	3,756	19,542

8. Tax on profit on ordinary activities

	2004	2003
	£	£
The tax charge is based on the profit for the year and comprises :		
UK Corporation tax at 30% (2003 :30%)	1,454,536	413,619
Adjustment for prior year	-	3,099
Current Corporation tax charge for the year	1,454,536	416,718
Current period deferred tax charge/(credit)	116,021	(190,961)
Current tax charge for the year	1,570,557	225,757

Tax Reconciliation	2004	2003
	£	£
Profit before taxation	10,407,731	3,376,525
Tax at 30% (2003 : 30%)	3,122,319	1,012,958
Disallowed expenditure	241,329	211,375
Capital allowances in excess/(deficit) of depreciation	(115,867)	(47,167)
Utilisation of tax losses brought forward	(1,793,245)	(110,435)
Prior year adjustment	-	(653,112)
	1,454,536	413,619

A deferred tax asset of £175,187 (2003 - £291,208) relating to capital allowances in deficit of depreciation, has been recognised within other debtors.

The company has a further unrecognised deferred tax asset of £3,582,959 (2003 - £5,376,203), relating to tax losses carried forward within its acquired Peoples Choice division. The asset has not been recognised on the basis that its utilisation is not sufficiently probable.

9. Movements on reserves

	Share Capital	Profit and Loss Account	Total Shareholders' Funds
	£	£	£
Brought forward as at 1st January 2004	5,000	7,996,077	8,001,077
Profit for the year	-	8,837,174	8,837,174
Carried forward as at 31st December 2004	5,000	16,833,251	16,838,251

A prior year adjustment arose in 2003, due to a change in the accounting policy for income. Income is now deferred to reflect the cost of handling claims incurred in the post balance sheet period, in respect of the unexpired period of cover under policies incepting prior to the year end.

10. Intangible assets

Goodwill	**2004**	**2003**
Cost	**£**	**£**
At 1 January	7,803,559	-
Additions	-	7,803,559
At 31 December	7,803,559	7,803,559
Amortisation	**£**	**£**
At 1 January	327,108	-
Charge for the year	780,356	327,108
At 31 December	1,107,464	327,108
Net book value as at 31 December	6,696,095	7,476,451

11. Fixed assets

	Fixtures and Fittings	Computer Equipment	Motor Vehicles	Leasehold Improvements	Total
	£	£	£	£	£
Cost :					
As at 1 January 2004	2,062,370	8,570,788	96,668	1,252,672	11,982,498
Purchases in the year	645,834	1,488,045	39,468	89,580	2,262,927
Disposals	(5,201)	-	(8,399)	-	(13,600)
As at 31 December 2004	**2,703,003**	**10,058,833**	**127,737**	**1,342,252**	**14,231,825**
Depreciation :					
As at 1 January 2004	1,804,962	7,491,998	38,729	1,194,404	10,530,093
Charge for the year	206,707	596,085	23,092	29,450	855,334
Disposals	(5,201)	-	(5,249)	-	(10,450)
As at 31 December 2004	**2,006,468**	**8,088,083**	**56,572**	**1,223,854**	**11,374,977**
Net book value :					
As at 31 December 2004	**696,535**	**1,970,750**	**71,165**	**118,398**	**2,856,848**
As at 31 December 2003	257,408	1,078,790	57,939	58,268	1,452,405

The net book value of computer equipment above includes £101,316 (2003 - £239,100) in respect of assets held under finance leases.

12. Investments

	2004	2003
Cost	£	£
At 1 January	7,200,000	-
Additions acquired	-	7,200,000
At 31 December	7,200,000	7,200,000
Amortisation	£	£
At 1 January	7,200,000	-
Impairment	-	7,200,000
At 31 December	7,200,000	7,200,000
Net book value as at 31 December	-	-

13. Debtors

	2004	2003
Debtors comprise :-	£	£
Trade debtors	26,490,046	23,118,984
Amounts owed by Logan Consultants Limited (see note 17)	11,921,397	10,058,725
Other debtors	548,388	1,235,860
Prepayments and accrued income	3,805,213	1,314,037
	42,765,044	35,727,606

14. Creditors : amounts falling due within one year

	2004	2003
Creditors comprise :-	£	£
Trade creditors	28,152,066	32,919,230
Bank overdraft	2,519,507	1,837,645
Obligations under finance leases (see note 16)	-	110,327
Accruals and deferred income	10,037,751	18,028,146
Other creditors including taxes and social security	1,846,560	1,604,366
	42,555,884	54,499,714

A fixed and floating charge has been put in place over all assets of the Company for securing all monies due or becoming due to Barclays Bank plc from the Company or Logan Consultants Limited (see note 17).

15. Share capital

	2004	2003
	£	£
Authorised, allotted, called up and fully paid share capital		
A Ordinary shares of £1 each	3,750	3,750
B Ordinary shares of £1 each	625	625
C Ordinary shares of £1 each	625	625
	5,000	5,000

The holders of the A Ordinary shares are entitled to participate in the distributable profits of the Company and are thus entitled to any dividends declared. The holders of B and C Ordinary shares have no entitlement to participate in any distributable profits. A, B and C shares carry one vote per member.

16. Financial commitments

Finance leases

Amounts payable in respect of finance leases for plant and machinery are as follows :

	2004	2003
	£	£
Amounts payable within one year	-	114,082
In two to five years	-	-
	-	114,082
Less : finance charges allocated to future periods	-	(3,755)
	-	110,327

Finance lease obligations are analysed as follows:

Current obligations (see note 14)	-	110,327
Non-current obligations	-	-
	-	110,327

Analysis of changes in finance leases during the year:

Balance at 1 January 2004	110,327
Less : capital element of finance lease payments	(110,327)
Balance at 31 December 2004	-

Operating leases

At 31 December 2004 the company was committed to making the following payments under operating leases in the year to 31 December 2005.

	2004 Land and Buildings	2004 Other	2003 Land and Buildings	2003 Other
	£	£	£	£
Operating leases which expire :				
Within 1 year	-	934	231,475	20,760
Within 2 - 5 years	411,250	15,197	-	14,040
After 5 years	1,412,964	-	1,611,250	-
	1,824,214	16,131	1,842,725	34,800

17. Related party transactions

During 2002 the Company provided a loan facility to Logan Consultants Limited as financial assistance towards the acquisition of the shares of the Company from the former immediate holding company. Interest on the loan is charged at 1.5% over LIBOR. Interest in the year was £670,409 (2003 - £510,000) (see note 6). The value of this loan as at 31 December 2004 was £11,921,397 (2003 - £10,058,725).

Two directors of the Company, Mr Godfrey and Mr Knight, are also directors of Advantage Insurance Company Limited. All transactions between the Company and this company have been conducted on an arms length basis. Commission earned by the Company in respect of policies sold that were underwritten by Advantage Insurance Company in the year was £10,133,356 (2003 - £7,579,394). The balance sheet contains a creditor balance due to Advantage Insurance Company of £11,104,028 (2003 - £12,529,177).

18. Cash flow

i) *Reconciliation of operating profit to net cash inflow from operating activities :-*

	2004	2003
	£	£
Operating profit	9,192,292	2,539,804
Depreciation charges	855,334	886,039
Amortisation of goodwill	780,356	327,108
(Profit) / loss on disposal of tangible fixed assets	(510)	11,358
Increase in debtors	(6,360,013)	(1,914,037)
(Decrease) / increase in creditors	(12,843,318)	9,036,089
Cash (outflow) / inflow from operating activities	(8,375,859)	10,886,361

ii) **Analysis of net funds**

	1 January 2004	Cash flow	31 December 2004
	£	£	£
Cash at bank and in hand	12,982,500	(7,132,366)	5,850,134
Bank overdraft	(1,837,644)	(681,862)	(2,519,506)
	11,144,856	(7,814,228)	3,330,628
Listed current asset investment	4,861,828	(3,635,815)	1,226,013
Finance leases	(110,327)	110,327	-
	15,896,357	(11,339,716)	4,556,641

iii) **Reconciliation of net cash flow to movement in funds**

	2004	2003
	£	£
(Decrease) / increase in cash in the period	(7,814,228)	13,015,645
Sale of listed fixed income managed funds	(3,635,815)	(7,640,370)
Finance leases	110,327	262,516
Movement in net funds in the period	(11,339,716)	5,637,791
Net funds at beginning of period	15,896,357	10,258,566
Net funds at end of period	4,556,641	15,896,357

19. Subsidiary undertakings

Investments in subsidiary undertakings as at 31 December 2004 were as follows :-

	Ordinary Shareholding %	Principal Activity
1st Advantage Insurance Services Limited	100%	Dormant
121 Auto Insurance Services Limited	100%	Dormant
1066 Direct Limited	100%	Dormant
250/500 Insurance Services Limited	100%	Dormant
Aardvark Insurance Management Limited	100%	Dormant
Advantage Insurance Services Limited	100%	Dormant
Agenda Insurance Services Limited	100%	Dormant
Angel Insurance Services Limited	100%	Dormant
Auto 121 Direct Limited	100%	Dormant
Call 2000 Plus Insurance Services Limited	100%	Dormant
Halo Insurance Management Limited	100%	Dormant
Hastings Direct Accident Management Limited	100%	Dormant
Hastings Direct Limited	100%	Dormant
Help Insurance Services Limited	100%	Dormant
Key Insurance Management Limited	100%	Dormant
Peoples Choice (Europe) Limited	100%	Dormant
Peoples Choice Trustees Limited	100%	Dormant
Ridesure Insurance Services Limited	100%	Dormant
Student Finance Company Limited	100%	Dormant
The Automobile Insurance Services Centre Limited	100%	Dormant

Group accounts have not been prepared as the subsidiaries are immaterial.

20. Holding company

The Company's immediate and ultimate holding company is Logan Consultants Limited, which is incorporated in Gibraltar and whose registered office is at The Old Bank, 17/21 Cannon Lane, Gibraltar.