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HASTINGS INSURANCE SERVICES LIMITED

ANNUAL REPORT AND ACCOUNTS 2005



HastingsDIRECT
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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
D J Pye
C A Day

Secretary

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 2005.

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 £54,568,874 (2004 - £49,723,004).

No significant changes in the nature of the business are expected in 2006 and the directors are confident of future prospects.

FINANCIAL RISK MANAGEMENT

The company's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk and interest rate risk.

The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

The company's finance department implements the policies set by the board of directors.

Price risk

The company is exposed to price risk due to normal inflationary increases in the purchase price of goods and services it purchases in the UK.

Credit risk

The company acts as an agent in broking insurable risks and is not liable as principal for premiums due to underwriters, premium refunds due to clients or for claims payable to clients. Consistent with this, the company has secured risk transfer agreements from its panel of underwriters.

Liquidity risk

The company actively maintains a mixture of debt finance that is designed to ensure the company has sufficient available funds for operations and planned expansions.

Interest rate risk

The company has both interest bearing assets and liabilities. Interest bearing assets include cash balances which earn interest at fixed rates and short term listed investments. The company maintains a mixture of debt finance at both fixed and variable rates. The directors review the appropriateness of this policy regularly.

RESULTS FOR THE YEAR

The profit for the year after taxation amounted to £5,950,333 (2004 - £9,087,555).

During 2005 an interim dividend of £10,500,000 was declared and paid (2004 - £nil).

The Directors do not recommend the payment of a final dividend (2004 - no dividend).

HASTINGS INSURANCE SERVICES LIMITED

DIRECTORS

The names of the Directors at the date of this report appear on page 2. They served throughout the year, except as stated below.

On 27 July 2005 Ms C A Day was appointed as a Director

On 21 March 2005 Mr D J Pye was appointed as a non-executive Director.

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 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 £92,321 (2004 - £31,876) for charitable purposes.

By Order of the Board



A M Preston

Secretary

28 February 2006

HASTINGS INSURANCE SERVICES LIMITED

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.

HASTINGS INSURANCE SERVICES LIMITED

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 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 20. These accounts 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 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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the accounts 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 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 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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Nexia Audit Limited

Chartered Accountants

Registered Auditors

25 Moorgate

London

EC2R 6AY

Nexia Audit Limited
15/4/06

HASTINGS INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2005

	Notes	2005 £	2004 as restated £
TURNOVER	1	54,568,874	49,723,004
Administrative expenses		(47,477,357)	(39,499,975)
Goodwill amortisation	10	(780,356)	(780,356)
OPERATING PROFIT		6,311,161	9,442,673
Interest receivable and similar income	6	1,005,549	1,219,195
Interest payable and similar charges	7	(104,018)	(3,756)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	7,212,692	10,658,112
Taxation	8	(1,262,359)	(1,570,557)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	9	5,950,333	9,087,555
Dividend	9	(10,500,000)	-
RETAINED (LOSS)/PROFIT FOR THE YEAR		<u>(4,549,667)</u>	<u>9,087,555</u>

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2005

	2005 £	2004 £
Retained (loss)/profit for the financial year and total recognised gains and losses relating to the year	(4,549,667)	<u>9,087,555</u>
Prior year adjustment	3 <u>(576,715)</u>	
Total gains and losses recognised since last annual report	<u>(5,126,382)</u>	

HASTINGS INSURANCE SERVICES LIMITED

BALANCE SHEET at 31 December 2005

	Notes	2005 £	2004 as restated £
FIXED ASSETS			
Intangible assets	10	5,915,738	6,696,095
Tangible assets	11	4,542,714	2,856,848
Investments	12	510	-
		<hr/>	<hr/>
		10,458,962	9,552,943
CURRENT ASSETS			
Debtors	13	49,028,234	43,341,759
Listed current asset investment		1,218,417	1,226,013
Cash at bank and in hand		4,365,477	5,850,135
		<hr/>	<hr/>
		54,612,128	50,417,907
CREDITORS: Amounts falling due within one year	14	(51,726,920)	(42,555,884)
		<hr/>	<hr/>
NET CURRENT ASSETS		2,885,208	7,862,023
TOTAL ASSETS LESS CURRENT LIABILITIES		13,344,170	17,414,966
CREDITORS: Amounts falling due after more than one year	16	(478,871)	-
		<hr/>	<hr/>
NET ASSETS		<u>12,865,299</u>	<u>17,414,966</u>
CAPITAL AND RESERVES			
Share capital	15	5,000	5,000
Profit and loss account	9	<u>12,860,299</u>	<u>17,409,966</u>
SHAREHOLDERS' FUNDS		<u>12,865,299</u>	<u>17,414,966</u>

Approved by the Board of Directors and signed on its behalf




28 February 2006

HASTINGS INSURANCE SERVICES LIMITED

CASH FLOW STATEMENT

for the year ended 31 December 2005

	Notes	2005 £	2004 £
Net cash inflow/(outflow) from operating activities	18	3,065,807	(8,375,859)
Returns on investments and servicing of finance			
Interest received		391,852	541,770
Interest paid		(104,018)	(3,756)
		<u>287,834</u>	<u>538,014</u>
Taxation			
Tax paid		-	(1,242,604)
		<u>-</u>	<u>(1,242,604)</u>
Capital expenditure and financial investments			
Purchase of subsidiary		(510)	-
Purchase of tangible fixed assets		(2,392,256)	(2,262,927)
Receipts from sale of fixed assets		1,750	3,660
		<u>(2,391,016)</u>	<u>(2,259,267)</u>
Equity dividends			
Dividends paid	9	(10,500,000)	-
		<u>(10,500,000)</u>	<u>-</u>
Management of liquid resources			
Sale of current asset investment	18	7,596	3,635,815
		<u>7,596</u>	<u>3,635,815</u>
Net cash outflow before financing		(9,529,779)	(7,703,901)
Financing			
Receivables finance funds received		11,000,000	-
Receivables finance repayments		(2,480,117)	-
Capital element of finance lease repayments	16	(147,265)	(110,327)
		<u>8,372,618</u>	<u>(110,327)</u>
Decrease in cash		<u>(1,157,161)</u>	<u>(7,814,228)</u>

HASTINGS INSURANCE SERVICES LIMITED

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, except as stated in 1(b) below.

(b) Turnover

Turnover represents commissions on insurance policies and income from related credit products.

Commission, less an appropriate deferral for amounts repayable in the event of policy cancellation, is recognised at the date of the transaction. In addition, an element of income is deferred to take account of future servicing obligations.

During the year, there has been a change in accounting policy and finance charges received in respect of premiums payable by instalments, which were previously recognised on a straight line basis, are now recognised on the sum of digits method. A prior year adjustment has been made.

All turnover relates to business written in the UK.

(c) 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.

(d) 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.

(e) Fixed asset investments

Fixed asset investments are stated at cost less impairment.

(f) Insurance debtors and creditors

The company acts as an agent in broking insurable risks and, generally, is not liable as a principal for premiums due to underwriters, premium refunds due to clients 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, the company has followed generally accepted accounting practice by showing debtors and creditors relating to insurance business as assets and liabilities of the company itself.

HASTINGS INSURANCE SERVICES LIMITED

(g) 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.

(h) Issue costs

Costs incurred directly in association with the issue of borrowings are capitalised and netted against the liability presented in the balance sheet. Capitalised issue costs are released over the estimated life of the instrument to which they relate. If it becomes clear that the instrument will be redeemed early, the amortisation of the issue costs will be accelerated.

(i) 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.

(j) 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 finance leases is included within liabilities in the balance sheet and the interest element of obligations under finance leases is expensed on a sum of digits basis over the term of the lease.

Rentals payable under operating leases are expensed on a straight line basis over the term of the lease.

(k) Pensions

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

2. Profit on ordinary activities before taxation

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

	2005	2004
	£	£
Auditors remuneration :		
- Audit services	55,760	55,760
- Non-audit services provided by associated company	59,068	28,235
Depreciation	1,490,506	855,334
Amortisation of goodwill	780,356	780,356
Profit on disposal of tangible fixed assets	(996)	(510)
Operating lease rentals - land and buildings	1,901,287	1,445,173
Operating lease rentals - office equipment and vehicles	3,966	14,332

Depreciation in respect of assets held under finance leases amounted to £301,930 (2004 - £137,784).

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3. Prior year adjustment

During the year there has been a change in accounting policy and finance charges received in respect of premiums payable by instalments, which were previously recognised on a straight line basis, are now recognised on the sum of digits method. A prior year adjustment has been made.

The cumulative adjustments to income are as follows:

	£
2003 restatement	326,334
2004 restatement	<u>576,715</u>

As a result of the change in policy, the reported profit for the year ended 31 December 2004 has increased by £250,381.

4. Directors' emoluments

	2005 £	2004 £
(a) The emoluments of the Directors for the year were as follows:		
Remuneration and other emoluments	539,209	376,498
Pension contributions	<u>40,934</u>	<u>25,817</u>
(b) The emoluments of the highest paid Director were:		
Remuneration and other emoluments	<u>144,973</u>	<u>97,737</u>

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

5. Staff costs

Staff costs were as follows :

	2005 £	2004 £
Salaries	15,579,092	14,948,874
Social security costs	1,664,428	1,383,957
Pension costs	<u>301,973</u>	<u>248,438</u>
	<u>17,545,493</u>	<u>16,581,269</u>
The average number of persons employed during the year was :		
Sales and Customer Services	638	586
Claims	196	167
Administration	<u>324</u>	<u>233</u>
	<u>1,158</u>	<u>986</u>

HASTINGS INSURANCE SERVICES LIMITED

6. Interest receivable and similar income

Interest receivable comprises :	2005	2004
	£	£
Income on current asset investments	328,819	408,085
Interest on loan to Logan Consultants Limited (see note 17)	613,697	670,409
Bank interest receivable	63,033	140,701
	<u>1,005,549</u>	<u>1,219,195</u>

7. Interest payable and similar charges

Interest payable comprises :	2005	2004
	£	£
Finance charges payable under finance leases	4,890	3,756
Other interest	13,981	-
Interest payable on receivables financing	85,147	-
	<u>104,018</u>	<u>3,756</u>

8. Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises :	2005	2004
	£	£
UK Corporation tax at 30% (2004 - 30%)	1,215,731	1,454,536
Current period deferred tax charge	46,628	116,021
	<u>1,262,359</u>	<u>1,570,557</u>

Tax reconciliation

	2005	2004
	£	£
Profit before taxation	7,212,692	10,407,731
Tax at 30% (2004 - 30%)	2,163,808	3,122,319
Disallowed expenditure	118,353	241,329
Capital allowances in excess/(deficit) of depreciation	46,243	(115,867)
Utilisation of tax losses brought forward	(1,112,673)	(1,793,245)
	<u>1,215,731</u>	<u>1,454,536</u>

A deferred tax asset of £128,559 (2004 - £175,187) relating to capital allowances in deficit of depreciation, has been recognised within other debtors.

The company has a further unrecognised deferred tax asset of £2,470,286 (2004 - £3,582,959), 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.

HASTINGS INSURANCE SERVICES LIMITED

9. Movements on reserves

	Share capital	Profit and loss account	Total shareholders' funds
	£	£	£
Brought forward at 1 January 2005, as previously reported	5,000	16,833,251	16,838,251
Prior year adjustment (see note 3)	-	576,715	576,715
At 1 January 2005, as restated	5,000	17,409,966	17,414,966
Profit on ordinary activities after taxation	-	5,950,333	5,950,333
Dividend	-	(10,500,000)	(10,500,000)
Carried forward at 31 December 2005	5,000	12,860,299	12,865,299

10. Intangible assets

Goodwill	2005	2004
<i>Cost</i>	£	£
At 1 January and 31 December	7,803,559	7,803,559
<i>Amortisation</i>		
At 1 January	1,107,465	327,109
Charge for the year	780,356	780,356
At 31 December	1,887,821	1,107,465
Net book value at 31 December	5,915,738	6,696,095

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11. Fixed assets

	Fixtures and Fittings £	Computer Equipment £	Motor Vehicles £	Leasehold Improvements £	Total £
<i>Cost :</i>					
At 1 January 2005	2,703,003	10,058,833	127,737	1,342,252	14,231,825
Purchases in the year	1,317,252	1,095,585	11,892	752,397	3,177,126
Disposals	-	(57,823)	(5,500)	-	(63,323)
At 31 December 2005	4,020,255	11,096,595	134,129	2,094,649	17,345,628
<i>Depreciation :</i>					
At 1 January 2005	2,006,468	8,088,083	56,572	1,223,854	11,374,977
Charge for the year	465,514	881,715	29,039	114,238	1,490,506
Disposals	-	(57,069)	(5,500)	-	(62,569)
At 31 December 2005	2,471,982	8,912,729	80,111	1,338,092	12,802,914
<i>Net book value :</i>					
At 31 December 2005	1,548,273	2,183,866	54,018	756,557	4,542,714
At 31 December 2004	696,535	1,970,750	71,165	118,398	2,856,848

The net book value of computer equipment above includes £268,240 (2004 - £101,316) in respect of assets held under finance leases.

The net book value of fixtures & fittings above includes £453,368 (2004 - £nil) in respect of assets held under finance leases.

12. Investments

	2005 £	2004 £
<i>Cost</i>		
At 1 January 31 December	7,200,000	7,200,000
Additions	510	-
At 31 December	7,200,510	7,200,000
<i>Impairment</i>		
At 1 January and 31 December	7,200,000	7,200,000
Net book value At 31 December	510	-

On 31 July 2003 the company acquired Peoples Choice (Europe) Limited for a cash consideration of £7,200,000. The trade, assets and liabilities of Peoples Choice (Europe) Limited were assigned and transferred to the company with effect from the date of acquisition.

On 27 April 2005 the company acquired 51% of the share capital of Text2Insure Limited for a consideration of £510.

HASTINGS INSURANCE SERVICES LIMITED

13. Debtors

	2005	2004
	£	£
Debtors comprise :		
Trade debtors	30,367,895	26,490,046
Amounts owed by Logan Consultants Limited (see note 17)	13,784,061	11,921,397
Other debtors	1,301,128	548,388
Prepayments and accrued income	3,575,150	4,381,928
	<u>49,028,234</u>	<u>43,341,759</u>

14. Creditors : amounts falling due within one year

	2005	2004
	£	£
Creditors comprise :		
Receivables finance	8,738,738	-
Less: deferred issue costs	(180,330)	-
	<u>8,558,408</u>	<u>-</u>
Trade creditors	29,590,620	28,152,066
Bank overdraft	2,192,010	2,519,507
Obligations under finance leases (see note 16)	158,734	-
Accruals and deferred income	7,887,848	10,037,751
Other creditors including taxes and social security	3,339,300	1,846,560
	<u>51,726,920</u>	<u>42,555,884</u>

The company has entered into a receivables financing agreement for a minimum period of 3 years commencing 8 November 2005. The facility under the agreement is £15,000,000 and interest is charged at LIBOR plus 1.25%.

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

	2005	2004
	£	£
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
	<u>5,000</u>	<u>5,000</u>

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 profit distributions. On winding up, after returning the nominal value of Ordinary shares, any assets are distributed amongst the holders of A, B and C Ordinary shares pro rata. A, B and C Ordinary shares carry one vote per member.

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16. Financial commitments

Finance leases

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

	2005	2004
	£	£
Amounts payable within one year	227,465	-
In two to five years	515,570	-
	<u>743,035</u>	<u>-</u>
Less : finance charges allocated to future periods	(105,430)	-
	<u>637,605</u>	<u>-</u>
Finance lease obligations are analysed as follows:		
Current obligations (see note 14)	158,734	-
Non-current obligations	<u>478,871</u>	<u>-</u>
	<u>637,605</u>	<u>-</u>

Analysis of changes in finance leases during the year:

	£
At 1 January 2005	-
Inception of finance lease contracts	784,870
Less : capital element of finance lease payments	<u>(147,265)</u>
At 31 December 2005	<u>637,605</u>

Operating leases

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

	2005	2005	2004	2004
	Land and	Other	Land and	Other
	Buildings		Buildings	
	£	£	£	£
Operating leases which expire :				
Within 1 year	-	-	-	934
Within 2 - 5 years	470,000	5,289	411,250	15,197
After 5 years	<u>1,765,556</u>	<u>-</u>	<u>1,412,964</u>	<u>-</u>
	<u>2,235,556</u>	<u>5,289</u>	<u>1,824,214</u>	<u>16,131</u>

HASTINGS INSURANCE SERVICES LIMITED

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 £613,697 (2004 - £670,409) (see note 6). The value of this loan as at 31 December 2005 was £13,784,061 (2004 - £11,921,397) (see note 13).

Two directors of the Company, Mr Godfrey and Mr Knight, are also directors of Advantage Insurance Company Limited. All transactions between the company and Advantage Insurance Company Limited have been conducted on an arms length basis.

Commission earned by the company in the year in respect of policies sold that were underwritten by Advantage Insurance Company was £13,657,496 (2004 - £10,133,356). Trade creditors include a creditor balance due to Advantage Insurance Company of £13,140,235 (2004 - £11,104,028).

In addition, the company:

- recharged at cost expenses of £64,061 which were settled by the company on behalf of Advantage Insurance Company Limited;
- charged an amount of £431,700 as an apportionment of costs in respect of services provided by company directors to Advantage Insurance Company Limited.

These amounts have been deducted from administrative expenses in the profit and loss account and are included within debtors at the year end.

During the year the company:

- recharged at cost expenses of £286,566 which were settled by the company on behalf of Text2Insure Limited;
- advanced an amount of £149,490 to Text2Insure Limited. The amount is interest free and repayable on demand.

These amounts are included within debtors at the year end.

18. Cash flow

i) Reconciliation of operating profit to net cash flow from operating activities :

	2005	2004
	£	£
Operating profit	6,311,161	9,192,292
Depreciation charges	1,490,506	855,334
Amortisation of goodwill	780,356	780,356
Profit on disposal of tangible fixed assets	(996)	(510)
Increase in debtors	(5,119,406)	(6,360,013)
Decrease in creditors	(395,814)	(12,843,318)
Cash inflow/(outflow) from operating activities	3,065,807	(8,375,859)

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ii) Analysis of net (debt)/funds

	1 January 2005 £	Cash flow £	Other changes £	31 December 2005 £
Cash at bank and in hand	5,850,135	(1,484,658)	-	4,365,477
Bank overdraft	(2,519,507)	327,497	-	(2,192,010)
	3,330,628	(1,157,161)	-	2,173,467
Listed current asset investment	1,226,013	(7,596)	-	1,218,417
Receivables finance	-	(8,558,408)	-	(8,558,408)
Finance leases	-	147,265	(784,870)	(637,605)
	4,556,641	(9,575,900)	(784,870)	(5,804,129)

During the year the company entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £784,870 (2004 - nil).

iii) Reconciliation of net cash flow to movement in (debt)/funds

	2005 £	2004 £
Decrease in cash in the year	(1,157,161)	(7,814,228)
Sale of listed fixed income managed funds	(7,596)	(3,635,815)
Net cash inflow from increase in receivables finance	(8,558,408)	-
Capital repayment of finance leases	147,265	110,327
	(9,575,900)	(11,339,716)
New finance leases	(784,870)	-
Movement in net (debt)/funds in the year	(10,360,770)	(11,339,716)
Net funds at beginning of year	4,556,641	15,896,357
Net (debt)/funds at end of year	(5,804,129)	4,556,641

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19. Subsidiary undertakings

Investments in subsidiary undertakings at 31 December 2005 were as follows :

	Ordinary Shareholding %	Principal Activity
<i>1st Advantage Insurance Services Limited</i>	100%	<i>Dormant</i>
<i>121 Auto Insurance Services Limited</i>	100%	<i>Dormant</i>
<i>1066 Direct Limited</i>	100%	<i>Dormant</i>
<i>250/500 Insurance Services Limited</i>	100%	<i>Dormant</i>
<i>Aardvark Insurance Management Limited</i>	100%	<i>Dormant</i>
<i>Advantage Insurance Services Limited</i>	100%	<i>Dormant</i>
<i>Agenda Insurance Services Limited</i>	100%	<i>Dormant</i>
<i>Angel Insurance Services Limited</i>	100%	<i>Dormant</i>
<i>Auto 121 Direct Limited</i>	100%	<i>Dormant</i>
<i>Call 2000 Plus Insurance Services Limited</i>	100%	<i>Dormant</i>
<i>Halo Insurance Management Limited</i>	100%	<i>Dormant</i>
<i>Hastings Direct Accident Management Limited</i>	100%	<i>Dormant</i>
<i>Hastings Direct Limited</i>	100%	<i>Dormant</i>
<i>Help Insurance Services Limited</i>	100%	<i>Dormant</i>
<i>Key Insurance Management Limited</i>	100%	<i>Dormant</i>
<i>Peoples Choice (Europe) Limited</i>	100%	<i>Dormant</i>
<i>Peoples Choice (Europe) Trustees Limited</i>	100%	<i>Dormant</i>
<i>Ridesure Insurance Services Limited</i>	100%	<i>Dormant</i>
<i>Student Finance Company Limited</i>	100%	<i>Dormant</i>
<i>The Automobile Insurance Services Centre Limited</i>	100%	<i>Dormant</i>
<i>Text2Insure Limited</i>	51%	<i>Travel insurance broker</i>

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.