HASTINGS INSURANCE SERVICES LIMITED

FINANCIAL STATEMENTS
30 JUNE 2008

COMPANY NUMBER 3116518

Hastings DIRECT
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HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2008

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HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2008

Directors (who held office at the date of this report)

T Ablett
J Castagno
E Fitzmaurice
I Sutherland
N Utley

Secretary

V Cuggy
S Griffin (appointed as joint Company Secretary on 31 August 2007 and resigned on 3 November 2008)

Auditors

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 Canada Square
Canary Wharf
London

Principal and Registered Office

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

For the year to 30 June 2008

DIRECTORS' REPORT

The Directors submit their Report and Accounts of the Company for the year ended 30 June 2008.

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 underlying activities of the Company during the year. No significant changes in the nature of the business are expected in 2009 and the directors are confident that the Company will return to profitability during the coming year.

On 8 July 2008, the ultimate parent company IAG Limited ("IAG") made an announcement to the Australian Securities Exchange on changes to the group's strategy. This is to concentrate on its core capabilities and home markets, which has resulted in a refinement to its UK business. IAG's new strategy in the UK is to focus on its specialist underwriting and distribution businesses, therefore it has decided that it will focus its UK operations on Equity Red Star ("ERS"), the Equity Direct division within Equity Insurance Brokers Limited and Barnett & Barnett as a stand-alone specialist underwriter/distributor.

As a consequence of this announcement, and following a number of approaches, IAG has agreed to sell the Company to a Management Buy Out team led by senior executives from the Equity group. As at the date of the signing of these accounts, the exchange of contracts for the sale has taken place. Completion is expected to occur in early February 2009.

Performance and key performance Indicators

Turnover for the year was £47,981,414 (2007 (6 months) - £32,766,751)

The loss for the year after taxation amounted to £19,275,024. The profit after taxation for 2007 (6 months) amounted to £372,530. The Directors do not recommend the payment of a dividend.

The directors monitor the performance of the business with specific regard to turnover, administration expenses and average headcount

	2008 (£)	2007 (£)	Change %
Turnover	47,981,414	32,766,751	46%
Administration expenses	66,213,998	25,404,650	160%
Average headcount	1,045	1,298	(19%)

The turnover and administration expenses for 2007 are in respect of a six month period to 30 June. Turnover for the year to 30 June 2008 is lower than the corresponding period in the previous year following a reduction in both the marketing campaign and the number of insurers with which the Company transacted business. Administration expenses are significantly higher than in the corresponding period primarily due to the occurrence of one off exceptional items (see Note 17).

In light of these and other factors, the directors have reviewed the carrying value of the Company's intangible assets and concluded that the carrying value of goodwill has been impaired. Accordingly it has been written down to its expected realisable value of £nil. This resulted in an impairment charge of £3,964,841.

As a result of the above, the Company's financial position has been materially impacted, ending the year with net liabilities of £6,815,232. Accordingly on 18 December 2008 it was recapitalised by its parent by £14,975,000.

Post balance sheet events

FSA settlement

On 28 July 2008, the Company reached a settlement with the Financial Services Authority ("FSA") over the cancellation of policies resulting from a pricing error. In June 2007, the Company became aware that a software systems error had incorrectly rated policies issued to around one per cent of customers. After assessing the situation, the Company contacted every affected customer and refunded unearned premium to those who decided to discontinue their cover.

DIRECTORS' REPORT (continued)

The settlement reached was for £735,000 and the Company has apologised to customers for any inconvenience caused and has written to affected customers to explain that they may be entitled to compensation. The Company is pleased that the FSA has acknowledged that the breach was not deliberate and has taken substantial remedial action in relation to its systems and management.

The settlement, and any potential associated cost, has been provided for in these financial statements (see Note 18).

Call centres
On 9 July 2008 the Company announced the closure of the Leicester and Manchester call centres. No provision for redundancy or run off costs have been made in these accounts.

HMRC assessment
On 23 September 2008 HM Revenue & Customs "HMRC" issued an assessment challenging the Company's VAT partial exemption status. The Company does not agree with HMRC's opinion and has appealed against the challenge. However, as it is possible that HMRC's position may be upheld. A full provision has been made for the amounts involved (see Note 17).

Recapitalisation
In order to provide further working capital and satisfy FSA solvency requirements, the Company on 18 December 2008 increased the authorised share capital in the ordinary A shares by 19,995,000 and the Company's parent, Logan Consultants Limited, was allotted a further 14,975,000 ordinary A shares for consideration of £1 per share.

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 and intercompany loans that are designed to ensure the company has sufficient available funds for operations and planned expansions.

Solvency risk

The Company actively monitors its solvency requirements in accordance with FSA guidelines.

Interest rate risk

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

For the year to 30 June 2008

DIRECTORS' REPORT (continued)

DIRECTORS

The names of the Directors at the date of this report appear on page 1. Full details of changes in directors are shown below:

G Seymour (resigned on 3 September 2007)
D J Pye (resigned on 20 November 2007)
P Barette (resigned on 31 December 2007)
C L Day (resigned on 22 January 2008)
I A Godfrey (resigned on 22 January 2008)
A S Pickup (resigned on 22 January 2008)
P Connell (resigned on 28 March 2008)
T A Ablett (appointed on 22 January 2008)
J Castagno (appointed on 22 January 2008)
E Fitzmaurice (appointed on 1 May 2008)
M Hutton (appointed on 22 January 2008 and resigned on 8 January 2009)
N Potts (appointed on 22 January 2008 and resigned on 8 January 2009)
I R Sutherland (appointed on 22 January 2008)
N A Utley (appointed on 22 January 2008)

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.

As permitted by the Companies Act 1985, the Group has maintained insurance cover for directors and officers against liabilities arising in relation to the Group.

DISCLOSURE OF INFORMATION TO THE AUDITORS

The directors who held office at the date approval of this directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG audit Plc will therefore continue in office.

DONATIONS

The company made donations of £383 (2007 (6 months) - £2,819) for charitable purposes.

By Order of the Board

I Sutherland
Director
2 February 2009

For the year to 30 June 2008

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. Company Law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare 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 keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act of 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements of Hastings Insurance Services Limited for the year ended 30 June 2008 which comprises the Profit and Loss Account, the Balance Sheet, and the related notes. 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 opinions we have formed.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

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 whether in our opinion the information given in 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 consider 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2008 and of its loss 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.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 Canada Square
Canary Wharf
London

2 February 2009

PROFIT AND LOSS ACCOUNT
For the Year to 30 June 2008

	Notes	Year Ended 30 June 2008 £	6 Months Ended 30 June 2007 £
TURNOVER	2	47,981,414	32,766,751
Administrative expenses	17	(70,178,839)	(25,404,650)
OPERATING (LOSS) / PROFIT		(22,197,425)	7,362,101
Interest receivable and similar income	5	1,300,703	606,684
Interest payable and similar charges	6	(2,206,511)	(350,328)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(23,103,233)	7,618,457
Taxation credit/(charge)	7	3,828,209	(7,245,927)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	8	**(19,275,024)**	**372,530**
RETAINED (LOSS) / PROFIT FOR THE PERIOD		**(19,275,024)**	**372,530**

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

There are no recognised gains or losses other than the results above and therefore no separate statements of total recognised gains and losses have been prepared.

There is no difference between the (losses)/profits on ordinary activities before tax and the retained (losses)/profits for the financial periods stated above, and their historical cost equivalents.

The notes on pages 9 to 19 form an intergral part of these financial statements.

BALANCE SHEET
As at 30 June 2008

	Notes	2008	2007
		£	£
FIXED ASSETS			
Intangible assets	9	572,709	5,324,656
Tangible assets	10	3,574,482	3,840,343
		4,147,190	9,164,999
CURRENT ASSETS			
Debtors	11	65,166,958	60,048,269
Listed current asset investment		-	298,850
Cash at bank and in hand		31,919,257	4,378,540
		97,086,215	64,725,659
CREDITORS: Amounts falling due within one year	12	(96,089,364)	(64,157,093)
NET CURRENT ASSETS		996,850	568,566
TOTAL ASSETS LESS CURRENT LIABILITIES		5,144,041	9,733,565
CREDITORS: Amounts falling due after more than one year	14	(5,134,273)	(2,273,773)
PROVISIONS FOR LIABILITIES & CHARGES	18	(6,825,000)	-
NET (LIABILITIES)/ASSETS		**(6,815,232)**	**7,459,792**
CAPITAL AND RESERVES			
Called up share capital	13	5,005,000	5,000
Profit and loss account	8	(11,820,232)	7,454,792
SHAREHOLDERS' (DEFICIT)/FUNDS		**(6,815,232)**	**7,459,792**

Approved by the Board of Directors and signed on its behalf on 2 February 2009

I Sutherland
Director
2 February 2009

The notes on pages 9 to 19 form an intergral part of these financial statements.

NOTES TO THE ACCOUNTS

1. Statement of accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention and on a going concern basis, which the directors believe to be appropriate for the following reasons:

- The company was recapitalised on 18 December 2008 by its immediate parent company through the issuance of A Ordinary shares at par for consideration of £14,975,000.
- The directors have reviewed the business plans and cash flow forecasts of the Company for the period of not less than 12 months from the date of signing these financial statements, which shows that the Company has sufficient resources to meet its obligations as they fall due.

Accordingly, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

(b) Turnover

Turnover, represented by brokerage commission, is recognised when cover commences with deferral of revenue for ongoing contractual obligations as appropriate. Policy fees, including mid-term adjustments, are recognised when received. Commissions due from instalment business are recognised on an accruals basis. Premium finance fee income is recognised when the service on the relevant contract is performed and contractual obligations are extinguished.

In accordance with FRS5, revenue is deferred in respect of claims handling.

(c) Intangible assets and goodwill

Goodwill represents the excess of cost of acquisition over the fair value of separable net assets acquired. The directors consider the estimated useful economic life of the goodwill to be 10 years and goodwill is therefore amortised in equal annual instalments over this period. The carrying value of goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets purchased separately from a business are capitalised at their cost. They are amortised over their estimated lives as follows:

Other - 4 years straight line

(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) Cash flow statement

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996) as a result of the Company being a wholly owned subsidiary of Insurance Australia Group Limited, which prepares consolidated financial statements.

For the year to 30 June 2008

1. **Statement of accounting policies (continued)**

(f) **Group accounts**

The Company is a wholly owned subsidiary of Logan Consultants Limited. In accordance with section 228 of the Companies Act 1985, it has taken advantage of the exemption to prepare and deliver group accounts to the Registrar since there was a full consolidation in the consolidated financial statements of Insurance Australia Group Limited, the ultimate parent company, a company incorporated in Australia.

(g) **Trade debtors and creditors**

Insurance brokers normally act as agents in placing the insurable risks of their clients with insurers and, as such, generally are not liable as principals for amounts arising from such transactions. Notwithstanding such legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities in recognition of the fact that the insurance broker is entitled to retain investment income on any cash flows arising from such transactions.

Balances arising from insurance broking transactions included under debtors and creditors are only offset to the extent permitted under the provisions of Financial Reporting Standard 5 'Reporting the substance of transactions'

(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. **Turnover**

Turnover represents net income from insurance broking and claims handling business, and legal representation fees receivable, all originating from within the United Kingdom.

For the year to 30 June 2008

3. Loss/profit on ordinary activities before taxation

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

	Year to 30 June 2008 £	Six months to 30 June 2007 £
Auditors remuneration - audit services	100,000	80,000
Depreciation - tangible fixed asset - owned	1,708,977	765,955
- leased	227,956	169,925
Amortisation - intangible fixed asset	195,707	78,172
Amortisation of goodwill	780,363	390,178
Impairment charge - goodwill	3,964,841	-
(Profit)/Loss on disposal of tangible fixed assets	(3,603)	37,920
Operating lease rentals - land and buildings	2,445,151	1,233,849
Operating lease rentals - office equipment and vehicles	137,083	49,684

4. Staff costs

Staff costs were as follows :	Year to 30 June 2008 £	Six months to 30 June 2007 £
Salaries	19,366,487	7,897,951
Social security costs	2,790,118	(1,395,566)
Pension costs	396,087	214,543
	22,552,692	6,716,928

The average number of persons employed during the year was

Sales and customer services	545	730
Claims	212	248
Administration	288	320
	1,045	1,298

The emoluments of N Utley, T Ablett, J Castagno, E Fitzmaurice, M Hutton, N Potts and I Sutherland are paid by Equity Insurance Management Limited a fellow IAG group undertaking and charged to other group companies. There were no recharges (2007 - £nil) made from this or any other IAG group company in respect of their services as a director of the Company.

The directors' emoluments, excluding pension contributions, during the period amounted to £647,204 (2007 - £426,736). The remuneration of the highest paid director during the period amounted to £184,226 (2007 - £126,762).

The group headed by IAG UK Holdings Limited provides a number of pension schemes. The aggregate value of Company contributions in respect of the directors during the period amounted to £26,217 (2007 - £43,000).

Company contributions to the defined contribution pension scheme in respect of the highest paid director were £nil (2007 - £12,500). There were no (2007 – none) directors in the Group's defined benefit scheme and 7 (2007 – 7) directors in the Company's defined contribution scheme during the period.

For the year to 30 June 2008

5. Interest receivable and similar income

Interest receivable comprises :	Year to 30 June 2008 £	Six months to 30 June 2007 £
Income on current asset investments	-	208,287
Interest on loan to Logan Consultants Limited (see note 19)	812,346	374,903
Bank interest receivable	488,357	23,494
	1,300,703	606,684

6. Interest payable and similar charges

Interest payable comprises :	Year to 30 June 2008 £	Six months to 30 June 2007 £
Finance charges payable under finance leases	17,911	15,092
Other interest	-	149,741
HMRC late payment interest (see note 17 (b))	1,500,000	-
Interest payable on receivables financing	688,600	185,495
	2,206,511	350,328

7. Tax on profit on ordinary activities

(a) Analysis of (credit)/charge in period	Year to 30 June 2008 £	Six months to 30 June 2007 £
Current tax		
UK Corporation tax on (losses)/profits of the year	(1,616,405)	1,808,640
(Over)/under provision in respect of prior periods	(2,211,804)	(719,432)
	(3,828,209)	1,089,208
Deferred tax		
Current period deferred tax charge	-	6,156,719
Tax (credit)/charge on ordinary activities	(3,828,209)	7,245,927

(b) Factors affecting tax charge for the period	Year to 30 June 2008 £	Six months to 30 June 2007 £
(Loss)/profit before taxation	(23,103,233)	7,618,457
Tax at 29.5% (2007 - 30%)	(6,815,454)	2,285,537
Disallowed expenditure	1,505,534	(10,754)
Depreciation in excess of capital allowances	628,935	186,080
Utilisation of tax losses brought forward	-	(652,223)
Tax losses not recognised	3,064,580	-
Adjustment in respect of prior periods	(2,211,804)	(719,432)
	(3,828,209)	1,089,208

For the year to 30 June 2008

7. Tax on profit on ordinary activities (continued)

(c) Deferred tax asset

The movement in the period in the net deferred tax asset is as follows:

	Year to 30 June 2008	Six months to 30 June 2007
	£	£
At beginning of period	930,105	7,086,824
Deferred tax charge for the period	-	(6,156,719)
At end of period	930,105	930,105

Deferred tax asset is analysed as follows:

Decelerated capital allowances	128,559	128,559
Other timing differences	801,546	801,546
	930,105	930,105

The deferred tax asset of £128,559 (2007 - £128,559) relates to capital allowances in deficit of depreciation, and the deferred tax asset of £801,546 (2007 - £801,546) relates to other timing differences that have been recognised in debtors.

Unprovided deferred tax losses in relation to trading losses amounts to £2,908,754.

8. Movement in Reserves and Shareholders' Funds

	Share capital	Profit and loss account	Total shareholders' funds
	£	£	£
At 1 July 2007	5,000	7,454,792	**7,459,792**
Issued share capital	5,000,000	-	**5,000,000**
Loss on ordinary activities after taxation	-	(19,275,024)	**(19,275,024)**
At 30 June 2008	5,005,000	(11,820,232)	**(6,815,232)**

9. Intangible assets

	Goodwill	Other	Total
	£	£	£
Cost			
At 1 July 2007	7,803,559	679,990	**8,483,549**
Additions	-	188,964	**188,964**
At 30 June 2008	7,803,559	868,954	**8,672,513**
Amortisation			
At 1 July 2007	3,058,355	100,538	**3,158,893**
Charge for year	780,363	195,707	**976,070**
Impairment charge	3,964,841	-	**3,964,841**
At 30 June 2008	7,803,559	296,245	**8,099,804**
Net book value at 30 June 2008	-	572,709	**572,709**
Net book value at 1 July 2007	4,745,204	579,452	**5,324,656**

Following an assessment of the carrying value of intangible assets, the directors considered that an impairment had occurred and accordingly wrote down goodwill to £nil.

For the year to 30 June 2008

10. Tangible assets

	Fixtures and Fittings	Computer Equipment	Motor Vehicles	Leasehold Improvements	Capital Work in Progress	Total
	£	£	£	£	£	£
Cost :						
At 1 July 2007	4,493,718	12,225,456	30,948	2,223,363	-	**18,973,485**
Purchases in the year	2,533	1,123,080	-	32,698	517,133	**1,675,444**
Disposals	-	-	(16,442)	-	-	**(16,442)**
At 30 June 2008	**4,496,251**	**13,348,536**	**14,506**	**2,256,061**	**517,133**	**20,632,487**
Depreciation :						
At 1 July 2007	3,363,938	10,045,355	24,674	1,699,175	-	**15,133,142**
Charge for the year	572,147	1,115,993	1,902	246,891	-	**1,936,933**
Disposals	-	-	(12,070)	-	-	**(12,070)**
At 30 June 2008	**3,936,085**	**11,161,348**	**14,506**	**1,946,066**	**-**	**17,058,005**
Net book value :						
At 30 June 2008	**560,166**	**2,187,188**	**-**	**309,995**	**517,133**	**3,574,482**
At 30 June 2007	1,129,780	2,180,101	6,274	524,188	-	3,840,343

The net book value of computer equipment above includes £248,522 (2007 - £458,173) in respect of assets held under finance leases.

The net book value of fixtures & fittings above includes £113,342 (2007 - £249,352) in respect of assets held under finance leases.

11. Debtors

	30 June 2008	30 June 2007
	£	£
Trade debtors	39,048,928	35,361,955
Amounts owed by Logan Consultants Ltd (see note 19)	18,389,505	17,552,749
Amounts owed by group companies	74,028	-
Other debtors	854,849	223,299
Corporation tax receivable	2,970,766	-
Deferred tax asset (Note 7c)	930,105	930,105
Prepayments and accrued income	2,898,777	5,980,161
	65,166,958	60,048,269

For the year to 30 June 2008

12. Creditors : amounts falling due within one year

	30 June 2008 £	30 June 2007 £
Receivables finance	-	2,328,384
Less: deferred issue costs	-	(84,861)
	-	2,243,523
Trade creditors	3,010,459	5,487,398
Bank overdraft	175,233	3,359,632
Amounts owed to group companies	73,721,046	33,958,888
Obligations under finance leases (see note 14)	259,282	502,397
Accruals and deferred income	18,049,497	8,850,056
Other creditors including taxation and social security	873,847	9,755,199
	96,089,364	64,157,093

As at the balance sheet date the Company had a receivables financing agreement. The facility under the agreement was £15,000,000 and interest is charged at LIBOR plus 1.25%. As required under the terms of the facility, six months notice was given on 8 May 2008 and the facility was terminated on 8 November 2008.

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.

13. Share capital

	30 June 2008 £	30 June 2007 £
Authorised		
A Ordinary shares of £1 each	10,003,750	3,750
B Ordinary shares of £1 each	625	625
C Ordinary shares of £1 each	625	625
	10,005,000	5,000
Allotted, called up and fully paid share capital		
A Ordinary shares of £1 each	5,003,750	3,750
B Ordinary shares of £1 each	625	625
C Ordinary shares of £1 each	625	625
	5,005,000	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 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.

On 27 June 2008 the shareholder passed a written resolution increasing the authorised share capital by the creation of 10,000,000 A Ordinary shares of £1 each. On the same date the shareholder applied for and was allotted 5,000,000 A Ordinary shares of £1 for £5,000,000.

On 18 December 2008 the shareholder passed a written resolution increasing the authorised share capital by the creation of 19,995,000 A Ordinary shares of £1 each. On the same date the shareholder applied for and was allotted 14,975,000 A Ordinary shares of £1 each for £14,975,000.

For the year to 30 June 2008

14. Creditors : amounts falling due after more than one year

	30 June 2008 £	30 June 2007 £
Finance leases (a)	55,644	228,692
Claims handling provision	3,078,629	2,045,081
Subordinated loan (b)	2,000,000	-
	5,134,273	2,273,773

(a) Finance leases

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

	30 June 2008 £	30 June 2007 £
Amounts payable within one year	270,160	523,278
In two to five years	56,394	237,351
	326,554	760,629
Less : finance charges allocated to future periods	(11,628)	(29,540)
	314,926	731,089
Finance lease obligations are analysed as follows:		
Current obligations (see note 12)	259,282	502,397
Non-current obligations	55,644	228,692
	314,926	731,089

(b) Subordinated loan

On 27 February 2008, the Company entered into a Subordinated Loan Agreement with Equity Insurance Holdings Limited for the sum of £2,000,000. Interest is charged at 2% above the Bank of England base rate. The loan is unsecured and is not required to be repaid until at least 26 February 2010.

(c) Operating leases

At 30 June the company was committed to making the following payments under operating leases in the following year.

	2008 Land and Buildings £	2008 Other £	2007 Land and Buildings £	2007 Other £
Operating leases which expire :				
Within 1 - 2 years	833,832	-	-	-
Within 2 - 5 years	-	-	675,700	184,733
After 5 years	1,200,000	-	1,421,381	-
	2,033,832	-	2,097,081	184,733

For the year to 30 June 2008

15. Subsidiary undertakings

Investments in subsidiary undertakings at 30 June 2008 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
Peoples Choice (Europe) Limited	100%	Dormant
Powerline Insurance Services Limited	100%	Dormant
Ridesure Insurance Services Limited	100%	Dormant
Student Finance Company Limited	100%	Dormant
The Automobile Insurance Services Centre Limited	100%	Dormant

16. Contingent liability

On 8 July 2008 the closure of the call centres in Leicester and Manchester was announced. No provision has been made in these accounts for the estimated redundancy and closure costs of £5,700,000.

17. Exceptional items

(a) Taxation

The Company is in negotiation with the HMRC regarding the taxation of certain arrangements entered into in previous periods. The appropriate treatment of those arrangements is uncertain but provision was made in the 2006 accounts for the estimated full potential costs associated with them. Certain matters have now been agreed with HMRC and a proportion of the provision released. However, the disposition of the charges between different captions of the accounts has changed as a result of the matters agreed thus far, as shown in the 2007 column below:

	30 June 2008 £	30 June 2007 £
Administrative expenses	-	(7,412,000)
Interest payable	-	40,000
Current and Deferred tax charge	-	5,437,000
Net release	-	(1,935,000)

At 30 June 2008 £2,224,513 remains provided to cover the ongoing dispute. There were no further releases in the year.

For the year to 30 June 2008

17. **Exceptional items (continued)**

The Company has the benefit of a tax indemnity provided to its intermediate parent company, IAG International Pty Limited, by the vendor of its immediate parent company in 2006. The indemnity is secured at a level which is expected to exceed the ultimate liability to HMRC. IAG International Pty Limited has made and is seeking to make further recoveries due under this indemnity. No recoveries have been assumed in these accounts.

(b) Exceptional items

	30 June 2008 £	30 June 2007 £
Administrative expenses	14,005,801	-
Interest payable and similar charges	1,500,000	-

During the period the Company incurred exceptional costs of £15,505,801. Included within administration expenses is £14,005,801 of which £7,180,801 relates to the HMRC challenge to the Company's VAT partial exemption status. The Company does not agree with HMRC's opinion and has appealed against the challenge. A further £6,825,000 of exceptional costs are explained in Note 18 below.

Included within interest payable is £1,500,000 relating to interest that may be payable if the HMRC VAT challenge is upheld .

18. **Provisions for Liabilities and Charges**

	Potential claims £	Dilapidations £	Compensation payments and fine £	Total provisions £
At 1 July 2007	-	-	-	-
Charge for year	3,875,000	1,750,000	1,200,000	6,825,000
At 30 June 2008	3,875,000	1,750,000	1,200,000	6,825,000

As at the year end a commercial dispute existed with International Insurance Company of Hannover Limited. This has been settled post year end at a cost of £3,875,000 including legal costs.

During the year a full evaluation was made of the Company's repairing lease properties. As a consequence of this review, the Company has had to make a provision of £1,750,000 in order to make good maintenance and decorative obligations.

A provision of £1,200,000 has been made in respect of a potential fine and associated compensation payments following a Financial Services Authority investigation under the Treating Customers Fairly regulations. This incident arose due to a systems problem which resulted in customers being sent letters cancelling their policies. The Company took immediate corrective action on discovery of the problem and is writing to all those affected. The provision of £1,200,000 is thought to be at the upper end of any remedial costs.

For the year to 30 June 2008

19. Related Parties

The Company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions that are part of the IAG UK Holdings Limited group.

During 2007 the company entered into a new undertaking with Donns LLP and Destiny Legal Services Limited of which N Utley was a non-executive director and in which he holds a 25.77% interest. On 11 November 2008 he resigned as a director of the company. As at the year end the company recognised commission of £623,536 in the period from this arrangement (2007 - £nil).

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% above the Barclays Bank PLC base rate. Interest in the period was £812,346 (2007 - £374,903) (see note 5). The value of this loan as at 30 June 2008 was £18,389,505 (2007 - £17,552,749) (see note 11).

One director of the Company during the period, I Godfrey (resigned 22 January 2008), is also a director 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 period in respect of policies sold that were underwritten by Advantage Insurance Company was £22,564,867 (2007 - £15,091,422). Amounts owed to group companies include a creditor balance due to Advantage Insurance Company of £63,678,635 (2007 - £33,958,889). Trade debtors include a debtor balance due from Advantage Insurance Company of £nil (2007 - £2,190,101) which relates to claims.

Within trade creditors is an amount for rent payable to IAG Conquest House Limited of £2,100,000 (2007 - £900,000). All transactions have been conducted on an arms length basis.

On 27 February 2008 the Company entered into a subordinated loan agreement with Equity Insurance Holdings Ltd. Interest on the loan is charged at 2% over the Bank of England base rate. The value of the loan during the year and as at 30 June 2008 was £2,000,000 (see note 14).

20. Holding company

The Company's immediate holding company is Logan Consultants Limited, which is incorporated in Gibraltar and whose registered office is at Suite 23, Portland House, Glacis Road, Gibraltar.

The Company's ultimate parent undertaking is Insurance Australia Group Limited, incorporated in Australia ("IAG"). Following a number of approaches, IAG has agreed to sell the Company to a Management Buy Out team led by senior executives from the Equity group. As at the date of the signing of these accounts, the exchange of contracts for the sale has taken place. Completion is expected to occur in early February 2009.

The largest group in which the results are consolidated is that headed by Insurance Australia Group Limited, incorporated in Australia.

The consolidated financial statements of these groups are available to the public and may be obtained from www.iag.com.au.