REPORT OF THE DIRECTORS AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

FOR

HASTINGS INSURANCE SERVICES LIMITED

HASTINGS INSURANCE SERVICES LIMITED
For the year ended 31 December 2011

CONTENTS

DIRECTORS AND OTHER INFORMATION

Directors	EM Fitzmaurice M Adams P Pavey M Lee T van der Meer RM Brewster NA Utley J Castagno T Ablett
Secretary	AS Leppard
Auditors	KPMG Audit Plc. 15 Canada Square London E14 5GL
Banker	Barclays Corporate Level 11 1 Churchill Place London E14 5HP
Registered office	Conquest House Collington Avenue Bexhill-on-Sea, East Sussex TN39 3LW Tel: 01424 735735 Fax: 01424 735730

Registered number: 03116518 (England and Wales)

REPORT OF THE DIRECTORS

The Directors submit their report and the audited financial statements of Hastings Insurance Services Limited ("the Company") for the year ended 31 December 2011

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was that of the provision of insurance broking services.

DIRECTORS

The Directors who served during the year are listed below

E M Fitzmaurice	Chief Executive	
M Adams		appointed 15 June 2011
P Pavey		
M Lee		appointed 16 August 2011
T Van Der Meer		appointed 6 September 2011
A Parry		resigned 31 January 2012
R M Brewster	Non-executive	
N A Utley	Non-executive	
J Castagno	Non-executive	
T Ablett	Non-executive	

Directors' and officers' liability insurance
As permitted by the Companies Act 2006, the Company has maintained insurance cover for Directors and officers against liabilities arising in relation to the Company

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 2012

In 2010 the Directors elected to change the Company's accounting year end to 31 December from 30 June in order to be consistent with other market participants

The Directors are extremely pleased to report a profit before tax for the period of £18 5m, which has been driven by a strong customer focused acquisition strategy and a continuous drive on cost management Revenue has grown to £57 8m in the last 6 months to 31 December (comparative 6 months to 31 December 2010 £43 0m), which represents a 34% increase Through effective cost control, EBITDA (Earnings before interest, tax, depreciation and amortisation) for the last 6 months of the year has seen growth to £9 6m (6 months to 31 December 2010 £5 4m), which represents a 78% improvement The Company's live customer policy base increased 37% from 710k to 972k during the year and in March 2012, the number reached one million, further reinforcing the Company's growth and the timely delivery of its strategic goals

The Company has continued to invest heavily in its people, with the addition of experienced senior management along with a number of initiatives and a focused effort on staff career development, as a result in the latest staff surveys employee engagement has improved 6% from 2010 Furthermore the Company has achieved a one star accreditation by the Sunday Times in its 'Best Companies to Work For' list

The Company has also invested further this year in technology platforms with a number of new initiatives being deployed Benefits of this investment have been passed to our insurance partners and customers fuelling customer growth

These investments have allowed the Company to be recognised with a number of industry awards Two key prestigious accolades this year have been winning the Fraud Broker Initiative of the Year (Insurance Fraud Awards 2011), and the Personal Lines Broker of the Year (2011 Insurance Times Awards)

The Company's products also claimed recognition in the market with its 'Hastings Direct' and 'Hastings Premier' brands being awarded an industry leading 5 Star Defaqto rating Defaqto is a star rating which reflects the quality of a financial product, helping consumers to make a more informed decision about which product best suits their needs, five being the highest rating a product can attain

PERFORMANCE AND KEY PERFORMANCE INDICATORS

The Directors use Key Performance Indicators (KPIs) to monitor the performance of the Company The KPIs most relevant to the business are live customer policy count and a number of revenue and cost measures The Directors review performance on a regular basis and take appropriate remedial action for any underperformance

	6 months to Dec 2011	6 months to Jun 2011	6 months to Dec 2010
	£'000	£'000	£'000
Revenue	57,811	47,280	42,970
EBITDA (Earnings before interest tax depreciation and amortisation)	9,628	11,478	5,391
Live customer policies ('000)	972	795	710

In addition, the Board continues to look for opportunities to maximise shareholder return, add value to the business and support the continued growth of the business

FINANCIAL RISK MANAGEMENT

The Company's operations expose it to a number of financial risks as set out below

The Company has in place a risk management process that seeks to limit the adverse effects of these risks on the financial performance of the Company

Competitive risk
Competitive pressure in the UK is a continuing risk for the Company, which could result in it losing sales to its key competitors The Company maintains a competitive panel of insurers and constantly reviews margins to ensure competitive pricing. Competitor reviews with market peers are also carried out on a regular basis to identify any emerging risks and opportunities The Company further manages this risk by providing added value services to its customers, having fast response times not only in supplying products but also in handling all customer queries and by maintaining strong relationships with customers

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 is exposed to credit risk on instalment sales from customers who pay monthly The Company is further exposed to credit risk on cash and cash equivalents held by credit institutions and on loans receivable which are linked to London Interbank Offered Rate ("LIBOR"). These balances are monitored regularly

Liquidity risk
The Company actively maintains a mixture of cash, current asset investments and intercompany loans that are designed to ensure the Company has sufficient available funds for its operations

Legislative, Regulatory and Solvency risk
The Company actively monitors its compliance and the solvency requirements of the Financial Services Authority and is proactive in establishing robust policies and procedures to ensure effective compliance

Interest rate risk
The Company is exposed to interest rate risk on its cash and cash equivalents and related party loans receivable

GOING CONCERN

After a full review of the Company's cash flows and forecasts, including analysis of its KPIs for the next 12 months and after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements

EMPLOYMENT POLICIES

The Directors seek to achieve a common awareness among its employees on matters of interest and concern to them and on matters affecting the Company's performance Regular staff surveys are conducted throughout the year and the views of staff are widely sought and taken into account in making decisions which affect them Information is conveyed through meetings and the distribution of circulars

The Company is an equal opportunities employer The Company's equal opportunities policy is designed to treat all jobs applicants and employees equally, based on individual ability regardless of race, religion and belief, gender, age or disability This principle applies to recruitment and selection, promotion, transfer, training, discipline and grievance and all terms and conditions of employment

ENVIRONMENT POLICY

The Company is committed to reducing its impact on the environment by.

- Minimising energy, water and paper use;
- Optimising waste recycling by providing facilities and encouraging employees to recycle,
- Reducing travel, encouraging employees to communicate without travelling when practicable,
- Encouraging staff members to cycle to work and car share through its Travel Green Scheme,
- Ensuring appropriate regulatory compliance

PROVISION OF INFORMATION TO AUDITOR

Each of the persons who are Directors at the time when this Report of the Directors is approved has confirmed that.

- so far as the Director is aware, there is no relevant information of which the Company's auditors are unaware, and
- each Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information

AUDITORS

The auditors KPMG Audit Plc, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006

Approved by the Board of Directors and signed on its behalf by·

E M Fitzmaurice
Director

Date 1 May 2012

Registered number 03116518

STATEMENT OF 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 financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law

Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 each of the financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006 They have 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 AUDITOR'S REPORT TO THE MEMBERS OF HASTINGS INSURANCE SERVICES LIMITED

We have audited the financial statements of Hastings Insurance Services Limited for the year ended 31 December 2011 set out on pages 9 to 38 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion.

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HASTINGS INSURANCE SERVICES LIMITED (continued)

Timothy Butchart (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

4 May 2012

HASTINGS INSURANCE SERVICES LIMITED
For the year ended 31 December 2011

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

In this section:

HASTINGS INSURANCE SERVICES LIMITED
For the year ended 31 December 2011

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Year to 31 Dec 2011 £'000	6 months to 31 Dec 2010 £'000
Revenue	3	105,091	42,970
Operating expenses	4	(86,938)	(39,195)
Operating profit		**18,153**	**3,775**
Finance income	7	403	215
Finance costs	7	(46)	(6)
Profit before tax		**18,510**	**3,984**
Taxation expense	8	(3,927)	(1,222)
Total comprehensive income		**14,583**	**2,762**

All profit for the year arose from continuing operations.

The notes on pages 13 to 38 form an integral part of these financial statements.

HASTINGS INSURANCE SERVICES LIMITED
For the year ended 31 December 2011

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	**31 Dec 2011** £'000	31 Dec 2010 £'000	1 Jul 2010 £'000
Non-current assets				
Other intangible assets	9	2,729	2,222	2,308
Property, plant and equipment	10	3,560	3,577	2,605
Investments	11	4,034	4,034	4,034
Loans receivable	13	10,574	12,642	13,613
Deferred tax assets	15	1,717	3,160	4,071
		22,614	25,635	26,631
Current assets				
Trade and other receivables	12,18	137,753	91,556	72,381
Loan receivable	13	2,408	-	-
Prepayments		654	745	1,172
Cash and cash equivalents	14,18	33,958	34,663	32,990
		174,773	126,964	106,543
TOTAL ASSETS		**197,387**	**152,598**	**133,174**
Equity				
Share capital	19	22,980	22,980	22,980
Retained earnings	19	10,058	(4,525)	(7,287)
		33,038	18,455	15,693
Non-current liabilities				
Loans and borrowings	16,18	200	340	-
Deferred income	20	4,408	3,234	2,977
Provisions	21	1,510	2,553	2,867
		6,118	6,127	5,844
Current liabilities				
Loans and borrowings	16,18	487	492	61
Trade and other payables	17,18	142,375	117,543	103,563
Current tax		161	-	10
Deferred income	20	14,589	9,575	7,565
Provisions	21	619	406	438
		158,231	128,016	111,637
TOTAL LIABILITIES		**164,349**	**134,143**	**117,481**
TOTAL EQUITY AND LIABILITIES		**197,387**	**152,598**	**133,174**

The financial statements on pages 9 to 38 were approved by the Board of Directors on 1 May 2012 and signed on its behalf by

E M Fitzmaurice
Director
Date 1 May 2012

Registered number 03116518

The notes on pages 13 to 38 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	Share Capital	Retained earnings	Total equity
	£'000	£'000	£'000
Balance at 1 January 2011	22,980	(4,525)	18,455
Total comprehensive income for the year	-	14,583	14,583
Balance at 31 December 2011	**22,980**	**10,058**	**33,038**
Balance at 1 July 2010	22,980	(7,287)	15,693
Total comprehensive income for the period	-	2,762	2,762
Balance at 31 December 2010	22,980	(4,525)	18,455

The notes on pages 13 to 38 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Year to 31 Dec 2011 £'000	6 months to 31 Dec 2010 £'000
Cash flows from operating activities			
Profit after tax		14,583	2,762
Adjustments			
Depreciation of property, plant and equipment	10	1,852	930
Amortisation of intangible assets	9	1,082	708
Income tax expense	8	3,927	1,222
Impairment of property, plant and equipment		256	-
Impairment of intangible assets		119	-
Net finance income	7	(357)	(209)
		21,462	5,413
Increase in trade and other receivables	12,13	(46,446)	(17,776)
Increase in trade and other payables	16,17,20	31,020	16,247
Change in fixed assets due to hive across		-	(216)
Change in deferred tax due to hive across		-	(321)
Decrease in provisions	21	(830)	(346)
Taxation paid		(2,323)	-
Net cash flows from operating activities		2,883	3,001
Cash flows from investing activities			
Acquisition of property plant and equipment	10	(2,091)	(1,776)
Acquisition of intangible assets	9	(1,708)	(532)
Interest received	7	403	215
Net cash flows used in investing activities		(3,396)	(2,093)
Cash flows from financing activities			
Repayment of borrowings		(440)	(80)
Interest paid	7	(46)	-
Loan from related entity	16	300	900
Payment of finance lease liabilities	16	(6)	(55)
Net cash flows used in financing activities		(192)	(765)
Net (decrease)/increase in cash and cash equivalents		(705)	1,673
Cash and cash equivalents at beginning of year/period	14	34,663	32,990
Cash and cash equivalents (outflow)/inflow for the year/period		(705)	1,673
Cash and cash equivalents at end of year/period	14	33,958	34,663

All cash flows for the year and for prior period arose from continuing operations

The notes on pages 13 to 38 form an integral part of these financial statements

INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Hastings Insurance Services Limited (the 'Company') is a company incorporated in England and Wales Its registered office is at Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex TN39 3LW The financial statements comprise the results of the Company for the year ended 31 December 2011 and comparative figures for the 6 month period ended 31 December 2010

1 SIGNIFICANT ACCOUNTING POLICIES

Accounting conversion

a) Statement of compliance with IFRS
The Company has prepared its financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) as adopted in the European Union that are in effect as at 31 December 2011 These are the Company's first financial statements prepared in accordance with IFRS

b) Overall consideration and first time adoption of IFRS
The financial statements have been prepared on the historical cost basis, except for where adopted IFRS require an alternative treatment Historical cost is generally based on the fair value of the consideration given in exchange for acquired assets or issued liabilities

The significant accounting policies that have been applied in the preparation of these financial statements are outlined below The accounting policies have been used consistently throughout all the periods presented in the financial statements The effects of the transition to IFRS and the exemptions applied by the Company on transition to IFRS are presented in note 27

Basis of preparation

a) Going concern
Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the primary statements and described in the notes to the accounts

Having considered the foregoing items for the next 12 months and beyond, and after making enquiries, the Directors have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

b) Basis of measurement
The functional currency is sterling and the financial statements are presented in sterling Amounts are rounded to the nearest thousand pounds (£'000) except where otherwise indicated

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Standards and Interpretations issued but not yet effective
The Company has not early adopted the following standard which has been issued and endorsed by the EU, but is not yet effective

Standard	Effective date
Amendments to IFRS 2010 – IFRS 7 Financial Instruments Disclosures	Annual periods beginning on or after 1 July 2011

The expected impact of the standard issued but not yet effective is still being assessed, however, the Company does not anticipate that the above standard will have a significant impact in the period of initial application.

d) Presentation of financial statements in accordance with IAS 1
The financial statements are prepared in accordance with IAS 1 'Presentation of Financial Statements' The Company has elected to present a single Statement of Comprehensive Income.

In accordance with IFRS 1 'First time adoption of International Financial Reporting Standards' the Company presents three statements of financial position in its first IFRS financial statements, which are as at 31 December 2011, as at 31 December 2010 and as at 1 July 2010 (being the IFRS transition date for Hastings Insurance Services Limited)

e) Adoption of new International Financial Reporting Standards
The accounting policies below, developed in accordance with the standards effective under IFRS for the year ended 31 December 2011, have been applied consistently to all periods presented in these financial statements There have been no changes to accounting policies during the year other than on adoption of IFRS, the impact of which can be seen in note 27

Accounting policies

a) Revenue recognition
Revenue consists principally of brokerage, interest and fees relating to the provision of insurance broking and related services All revenue arises within the UK and is recorded net of sales tax

Total commission entitlement is recognised at inception of the policy with a deferral of revenue as set out below

Policy fees include brokerage fees and fees on cancellations and mid-term adjustments These are all recognised when effective

Interest earned on instalment sales is recognised over the term of the related agreement using the effective interest method

Any adjustments to revenue are recognised when effective Other income is recognised on an accruals basis

A portion of revenue is deferred which is calculated as the expected loss of revenue which will be incurred as a result of future cancellations on policies in existence at the Statement of Financial Position date Additionally where there is an expectation of future servicing, an element of income is deferred to cover the expected costs of contractual obligations together with a reasonable profit on those services

b) Intangible assets
Computer software is stated at cost less accumulated amortisation and accumulated impairment losses

Purchased computer software is initially recorded at cost which is the fair value of consideration provided plus directly attributable costs incurred in order to prepare the asset for its intended use

Internally developed computer software is only recognised when costs can be measured reliably, completion is technically and financially feasible, future economic benefits are probable and there is intention to use the asset Other research and development expenditure is recognised in the income statement as incurred

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortisation is provided on all computer software, including those held under finance lease, at rates calculated to write off the cost of the assets less their estimated residual value over their expected useful lives

Amortisation is calculated using the straight line method

Expected useful economic lives and residual values are reviewed at each period end and, where necessary, changes are accounted for prospectively

The expected useful economic lives are as follows

Computer software	3 – 6 years

Carrying amounts are reviewed at each period end to determine if there are indications of impairment If there are indications of impairment the asset's recoverable amount is estimated and compared to the carrying amount The recoverable amount is the higher of the fair value less costs to sell and the asset's value in use Impairment losses are recognised in the income statement

c) Employee benefits

The Company operates a defined contribution pension scheme The amount charged to the income statement in respect of pension costs is the contributions payable in the year Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position The Company has no legal or constructive obligation to make any further payments to the plans other than the contributions due

d) Financial instruments

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and liabilities carried at fair value through profit or loss, which are measured initially at fair value. Financial assets and liabilities are measured subsequently as described below

- **Investments**
  Investments are identified as those equity investments over which the Company does not have significant influence. The investment is classified as available for sale Available for sale financial investments are carried at fair value and changes in fair value are recognised in other comprehensive income whilst an investment is held, and are subsequently transferred to the income statement upon sale or derecognition of the investment

- **Loans and receivables**
  Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any impairment losses Loans and receivables comprise trade and other receivables, intercompany loans and related party loans

- **Cash and cash equivalents**
  Cash and cash equivalents include current accounts at banks and money market funds Money market funds are funds which have a redemption period of no more than 1 day Cash and cash equivalents are designated on initial recognition as at fair value through profit or loss.

- **Financial liabilities**
  The Company's financial liabilities include intercompany loans, external borrowings, trade and other payables and related entity payables Borrowings, trade and other payables are initially measured at fair value plus transaction costs and subsequently measured at amortised cost

- **Impairment of financial assets**
  All financial assets except those at fair value through profit or loss are subject to review for impairment at least at each reporting date Financial assets are impaired when there is any objective evidence that the carrying value of the asset exceeds a revised estimate of future cash flows relating to that asset Relevant criteria to determine impairment are applied for each category of financial assets

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Individual receivables such as intercompany loans, related party loans and trade receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty might default Impairment of such trade receivables is presented within the income statement. There was no impairment of intercompany or related party loans during the period

e) Leases
In accordance with IAS 17 'Leases', leases are classified as finance leases, where the Company assumes substantially all the risks and rewards of ownership Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the balance outstanding

The asset subject to the finance lease is depreciated over the shorter of its useful life and the lease term The corresponding rental obligations, net of finance charges, are included as a liability

All other leases are treated as operating leases Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term Incentives provided by the lessor are credited to the income statement on a straight-line basis over the full lease term

f) Property, plant and equipment
Property, plant and equipment is stated at historical cost less depreciation and less any recognised impairment losses Cost is the fair value of consideration provided plus incidental costs incurred to bring an asset to the condition and location necessary for its intended use

Subsequent costs incurred which relate to the initial production or improvement of an asset are added to its cost and depreciated over the asset's useful economic life Costs incurred significantly later than the initial production of the asset are treated as a separate asset if they meet the criteria of IAS 16 or else expensed as incurred

Depreciation is provided on all property, plant and equipment, including those held under finance lease, at rates calculated to write off the cost of fixed assets less their estimated residual value over their expected useful lives Depreciation is calculated using the straight line method

The expected useful economic lives are as follows

Fixtures and fittings	5 years
Leasehold improvements	4 - 10 years
Computer equipment	3 years

Expected useful economic lives and residual values are reviewed at each period end and, where necessary, changes are accounted for prospectively

Carrying amounts are reviewed at each period end to determine if there are indications of impairment If there are indications of impairment the asset's recoverable amount is estimated and compared to the carrying amount The recoverable amount is the higher of the fair value less costs to sell and the asset's value in use Impairment losses are recognised immediately in the income statement

Property plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset On de-recognition any gain or loss arising is calculated as the difference between the net disposal proceeds and the carrying amount of the item This is recognised in the income statement in the period of de-recognition

g) Insurance intermediary assets and liabilities
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 the 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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Taxation
Income tax on the result for the period comprises current and deferred tax Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates for the UK, and any adjustment to tax payable in respect of previous financial periods. Deferred tax expense is the change in deferred tax assets and liabilities between the reporting periods.

Deferred tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

i) Share capital
Ordinary shares are classified as equity Share premium is the difference between the nominal value of the shares issued and the value of the consideration received

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the Directors to make judgements and assumptions that affect the reported amounts of assets and liabilities and the reported income and expense during the reported periods as well as the content of any disclosures Although these judgements and assumptions are based on the Directors' best knowledge of the amount, event or actions, actual results may differ from these estimates

The estimates, assumptions and judgements that have a significant effect on the carrying amounts of Company's assets and liabilities are

a) Property, plant and equipment and intangible assets
Assets are carried at historical cost less depreciation calculated to write off the cost of such assets over their estimated useful lives Management determines the estimated useful lives and residual values The estimated useful life is reviewed annually and the depreciation charge is revised where useful lives or residual values are subsequently found to be different to those previously estimated

b) Impairment of assets
Assets not measured at fair value in the statement of financial position are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset exceeds its recoverable amount Management judgement is required to establish indicators of impairment based upon knowledge of the business strategy and results and upon expected future cash flows

c) Provisions
The Company measures provisions at the Directors' best estimate of expenditure required to settle the obligation at the financial position date Estimates are made taking account of information available and different possible outcomes

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

d) Deferred income

A portion of income is deferred where the Company retains the obligation to handle claims on policies placed The amount of income deferred is calculated as the forecast associated costs of claims handling on live policies at the statement of financial position date In addition, an amount of revenue is deferred to reflect anticipated cancellations of contracts by clients

e) Deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which losses can be utilised Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies The tax rates used are the current rates anticipated to be effective at the date the taxable profits would be recognised These are subject to any changes in tax laws and rates effective at that date

3 REVENUE

	Year to 31 Dec 2011	6 months to 31 Dec 2010
	£'000	£'000
Brokerage and fees	77,961	33,624
Interest income	26,472	8,821
Other income	658	525
Total revenue	105,091	42,970

4 OPERATING EXPENSES

	Year to 31 Dec 2011	6 months to 31 Dec 2010
	£000	£'000
Depreciation of property, plant and equipment	1,852	930
Amortisation of intangible assets	1,082	708
Auditor's remuneration		
• statutory audit of the Company	50	50
Taxation services	16	10
Operating lease rentals		
• land and buildings	538	290
• other	15	6
Staff costs	30,330	12,401
Other administration and distribution costs	53,055	24,800
	86,938	39,195

5 EMPLOYEES' COSTS, HEADCOUNT AND DIRECTORS' EMOLUMENTS

Employees' costs	**Year to 31 Dec 2011**	6 months to 31 Dec 2010
	£'000	£'000
Salaries	27,135	11,137
Social security costs	2,783	1,101
Pension costs	412	163
	30,330	12,401

5. EMPLOYEES' COSTS, HEADCOUNT AND DIRECTORS' EMOLUMENTS (continued)

Average headcount during the year/period	**Year to 31 Dec 2011**	6 months to 31 Dec 2010
	No	No
Customer facing employees	916	696
Non-customer facing employees	340	262
	1,256	958

The Directors' emoluments, excluding pension contributions, during the year amounted to £1,666,314 (6 months to 31 December 2010 £615,474). The remuneration of the highest paid Director during the year was £509,038 (6 months to 31 December 2010 £285,722).

Directors' participation in the Company's defined contribution pension scheme during the year amounted to £61,863 (6 Months to 31 December 2010 £7,650)

6 RETIREMENT BENEFIT OBLIGATIONS

The Company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the Company in an independently administered fund The pension cost charge represents contribution payable by the Company to the fund and amounted to £412,445 for the year (6 months to 31 December 2010 £162,741)

7 FINANCE INCOME AND FINANCE COSTS

Finance income	**Year to 31 Dec 2011**	6 months to 31 Dec 2010
	£'000	£'000
Interest from external sources	92	64
Interest from related entity	311	151
	403	215

Finance costs	**Year to 31 Dec 2011**	6 months to 31 Dec 2010
	£'000	£'000
Interest payable to related entity	46	6

8 TAXATION EXPENSE

	Year to 31 Dec 2011	6 months to 31 Dec 2010
	£'000	£'000
Tax expense comprises		
Current year tax:		
Current tax on profits for the year	3,587	-
Adjustment for prior years	(1,103)	(47)
	2,484	(47)
Deferred tax		
Origination and reversal of temporary differences	1,105	1,269
Impact of change in the UK tax rate	338	-
	1,443	1,269
Total taxation charge	3,927	1,222
Reconciliation:		
Profit before tax	18,510	3,984
Tax calculated at applicable corporation tax rate 26.49% (2010: 28%)	4,903	1,116
Tax effects of:		
Income not taxable for tax purposes	(47)	-
Expenses not deductible for tax purposes	69	107
Temporary differences not recognised in the computation	(58)	101
Group relief surrendered / (claimed)	(109)	(55)
Impact of change in the UK tax rate	272	-
Adjustment in respect of previous periods	(1,103)	(47)
Tax charge reported in the Statement of Comprehensive Income	3,927	1,222

9. OTHER INTANGIBLE ASSETS

	Computer software £'000	Work in progress £'000	Total £'000
As at 31 Dec 2011			
Cost			
Balance at 1 Jan 2011	8,588	175	8,763
Additions	1,073	635	1,708
Transfer	172	(172)	-
Write off	(744)	(8)	(752)
Balance at 31 Dec 2011	9,089	630	9,719
Amortisation and impairment loss			
Balance at 1 Jan 2011	6,541	-	6,541
Amortisation	1,082	-	1,082
Write off	(633)	-	(633)
Balance at 31 Dec 2011	6,990	-	6,990
As at 31 Dec 2010			
Cost			
Balance at 1 Jul 2010	8,131	67	8,198
Hive across from sister company	79	-	79
Additions	400	132	532
Transfer	24	(24)	-
Disposals	(40)	-	(40)
Reclassification	(6)	-	(6)
Balance at 31 Dec 2010	8,588	175	8,763
Amortisation and impairment loss			
Balance at 1 Jul 2010	5,890	-	5,890
Amortisation	708	-	708
Disposals	(40)	-	(40)
Reclassification	(17)	-	(17)
Balance at 31 Dec 2010	6,541	-	6,541
Carrying amount			
At 31 Dec 2011	2,099	630	2,729
At 31 Dec 2010	2,047	175	2,222
At 1 Jul 2010	2,241	67	2,308

At the end of the prior period the useful economic life of computer software was reviewed for appropriateness This review resulted in the useful economic lives of certain assets being extended from 3 to 6 years The impact on the year to 31 December 2011 was a decrease in amortisation of £286,126 The impact on the year to 31 December 2012 is expected to be a decrease in amortisation of £397,675

The hive across from sister company relates to a transfer of assets owned by Renew Insurance Services Limited to the Company on 31st July 2010 The remaining net book value of these assets has been recorded as their cost in these financial statements

Reclassifications between asset classes have been made to correct misallocations in prior periods

Work in progress includes assets in production and which are considered to fulfil the criteria for recognition outlined in IAS 38 but which have not yet reached the state where they are ready for their intended use As such no amortisation has yet been charged on these assets

10 PROPERTY, PLANT AND EQUIPMENT

	Fixtures &fittings £'000	Computer equipment £'000	Leasehold Improvements £'000	Work in progress £'000	Total £'000
As at 31 Dec 2011					
Cost					
Balance at 1 Jan 2011	3,320	8,105	3,817	-	15,242
Additions	145	1,123	141	682	2,091
Write off	(55)	(135)	(480)	-	(670)
Balance at 31 Dec 2011	3,410	9,093	3,478	682	16,663
Accumulated depreciation					
Balance at 1 Jan 2011	2,954	5,973	2,738	-	11,665
Depreciation	131	1,274	447	-	1,852
Write off	(17)	(127)	(270)	-	(414)
Balance at 31 Dec 2011	3,068	7,120	2,915	-	13,103
As at 31 Dec 2010					
Cost					
Balance at 1 Jul 2010	3,110	6,875	3,523	-	13,508
Hive across of 'Renew'	32	74	31		137
Additions	59	1,253	463	-	1,775
Disposals	(6)	(91)	(88)	-	(185)
Reclassification	125	(6)	(112)	-	7
Balance at 31 Dec 2010	3,320	8,105	3,817	-	15,242
Accumulated depreciation					
Balance at 1 Jul 2010	2,893	5,472	2,538	-	10,903
Depreciation	85	558	287	-	930
Disposals	(6)	(91)	(88)	-	(185)
Reclassification	(18)	34	1	-	17
Balance at 31 Dec 2010	2,954	5,973	2,738	-	11,665
Carrying amount					
At 31 Dec 2011	343	1,973	562	682	3,560
At 31 Dec 2010	366	2,132	1,079	-	3,577
At 1 Jul 2010	217	1,403	985	-	2,605

At the end of the prior period the useful economic lives of assets were reviewed for appropriateness This review resulted in the useful economic lives of fixtures and fittings being extended from 4 to 5 years and certain leasehold improvements being extended from 4 to 10 years The impact on the year to 31 December 2011 was a decrease in depreciation of £41,681 The impact on the year to 31 December 2012 is expected to be a decrease in depreciation of £76,561

The hive across from sister company relates to a transfer of assets owned by Renew Insurance Services Limited to the Company on 31st July 2010 The remaining net book value of these assets has been recorded as their cost in these financial statements

Reclassifications between asset classes have been made to correct misallocations in prior periods

Work in progress includes assets in production and which are considered to fulfil the criteria for recognition outlined in IAS 16 but which have not yet reached the state where they are ready for their intended use As such no depreciation has yet been charged on these assets

11 INVESTMENTS

	31 Dec 2011	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Investment	4,034	4,034	4,034

The investment relates to 11 nil par Ordinary Shares in Lucky JV Limited and £4,033,561 Preference shares of £1 each in the entity (representing an 11% interest in that entity)

The investment is carried at fair value, that being the fair value of its preference shares and the rights to future profits that the Company may have

12 TRADE AND OTHER RECEIVABLES

	31 Dec 2011	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Due within one year			
Receivables from related entities	21,334	6,555	942
Other trade receivables	116,419	84,366	70,879
Other receivables	-	635	560
	137,753	91,556	72,381

The following table sets out trade receivables which are not overdue as well as an analysis of overdue amounts impaired and provided for

Fees charged to customers at the point of cancellation are deferred until received and so are not included in the provision for impairment but are instead recognised as deferred income

At 31 December 2011	Trade Receivables	Provision for impairment	Net trade receivables	Portion as deferred income
	£'000	£'000	£'000	£'000
Current	136,356	(621)	135,735	197
Overdue,				
by not more than 3 months	1,909	(1,302)	607	495
by more than 3 but not more than 6 months	1,766	(1,242)	524	500
by more than 6 but not more than 12 months	2,526	(1,762)	764	763
by more than 12 months	1,155	(1,032)	123	123
	143,712	(5,959)	137,753	2,078

At 31 December 2010	Trade Receivables	Provision for impairment	Net trade receivables	Portion as deferred income
	£'000	£'000	£'000	£'000
Current	91,634	(1,343)	90,291	211
Overdue,				
by not more than 3 months	1,448	(913)	535	364
by more than 3 but not more than 6 months	1,478	(1,054)	424	420
by more than 6 but not more than 12 months	4,631	(4,362)	269	-
by more than 12 months	2,504	(2,467)	37	-
	101,695	(10,139)	91,556	995

12 TRADE AND OTHER RECEIVABLES (continued)

At 1 July 2010	Trade Receivables	Provision for impairment	Net trade receivables	Portion as deferred income
	£'000	£'000	£'000	£'000
Current	69,692	(11)	69,681	-
Overdue,				
by not more than 3 months	2,796	(966)	1,830	-
by more than 3 but not more than 6 months	2,038	(1,434)	604	-
by more than 6 but not more than 12 months	1,501	(1,338)	163	-
by more than 12 months	1,602	(1,499)	103	-
	77,629	(5,248)	72,381	-

Movements on the Company's provision for impairment are as follows

	Total provisions
	£'000
At 1 Jan 2011	10,139
Utilised	(11,227)
Increase in provision	7,047
At 31 Dec 2011	**5,959**
At 1 Jul 2010	5,248
Utilised	(365)
Increase in provision	5,256
At 31 Dec 2010	10,139

13 LOANS RECEIVABLE

	31 Dec 2011	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Due in more than one year			
Loan receivable from related entity	10,574	10,339	10,227
Intercompany loan receivable	-	2,303	3,386
	10,574	12,642	13,613
Due within one year			
Intercompany loan receivable	2,408	-	-

14 CASH AND CASH EQUIVALENTS

	31 Dec 2011	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Cash at bank and in hand	26,137	9,658	19,474
Money market funds	7,821	25,005	13,516
Cash and cash equivalents	33,958	34,663	32,990

Cash and cash equivalents at the end of the period include deposits with banks of £25,455,412 (31 December 2010 £26,864,152, 1 July 2010 £31,814,883) relating to cash held on behalf of insurers

15 DEFERRED TAX ASSETS

a) Composition

	31 Dec 2011	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Accelerated capital allowances	1,201	1,222	1,050
Taxation Losses	-	1,133	2,134
Provisions	516	805	887
	1,717	3,160	4,071

15 DEFERRED TAX ASSETS (continued)

b) Movements

	31 Dec 2011	31 Dec 2010
	£'000	£'000
At beginning of year/period	3,160	4,071
(Decelerated)/accelerated capital allowances	(21)	172
Provisions	(289)	(82)
Tax losses carried forward	(1,133)	(1,001)
At end of year/period	1,717	3,160

There are no unrecognised deferred tax assets at the statement of financial position date nor in the comparative periods.

The Finance Act 2011 enacted the reduction in corporation tax rate to 26% with effect from April 2011 and 25% from April 2012 The UK Government announced in the Budget 2012 on 21 March 2012 that the corporation tax rate would instead reduce to 24% from April 2012 with two further annual 1% cuts to 22% by April 2014 Other than the enacted changes to 26% and 25%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 December 2011 as they were not enacted at the statement of financial position date.

16 LOANS AND BORROWINGS

a) Current loans and borrowings	**31 Dec 2011**	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Obligations under finance leases	-	6	61
Related party loans	487	486	-
Total current loans and borrowings	487	492	61

b) Non-current loans and borrowings	**31 Dec 2011**	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Related party loans	200	340	-
Total non-current loans and borrowings	200	340	-

c) Loans maturity analysis	**31 Dec 2011**	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Amounts repayable within one year	487	492	61
In the second year	200	340	-
Total loans and borrowings	687	832	61

17 TRADE AND OTHER PAYABLES

	31 Dec 2011	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Due within one year:			
Payables to related entity	115,170	101,744	91,610
Trade creditors	15,554	5,688	1,831
Other payables	11,651	10,111	10,122
	142,375	117,543	103,563

18. FINANCIAL INSTRUMENTS, CAPITAL MANAGEMENT AND RELATED DISCLOSURES

a) Financial assets and liabilities

The Company's financial instruments held at amortised cost can be analysed as follows

	31 Dec 2011	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Financial Assets:			
Loan receivable	12,982	12,642	13,613
Trade and other receivables	137,753	91,556	72,381
	150,735	104,198	85,994
Financial Liabilities:			
Loans and borrowings non-current	200	340	-
Loans and borrowings current	487	492	61
Trade and other payables	142,375	117,543	103,563
	143,062	118,375	103,624

The carrying value of financial instruments held at amortised cost is considered to be an approximation of fair value

The Company's financial instruments held at fair value can be analysed as follows:

	Level 1	Level 2	Level 3
As at December 2011	£'000	£'000	£'000
Financial Assets:			
Investment	-	-	4,034
Cash and cash equivalents	33,958	-	-
	33,958	-	4,034

	Level 1	Level 2	Level 3
As at December 2010	£'000	£'000	£'000
Financial Assets:			
Investment	-	-	4,034
Cash and cash equivalents	34,663	-	-
	34,663	-	4,034

	Level 1	Level 2	Level 3
As at 1 July 2010	£'000	£'000	£'000
Financial Assets:			
Investment	-	-	4,034
Cash and cash equivalents	32,990	-	-
	32,990	-	4,034

Level 3 non-current financial assets constitute an investment for the purposes of making loans to Directors of the Company and its parent. The fair value of this investment is determined by reference to its recoverable value, being the recoverable value of the loans which is equivalent to its carrying value

Fair value hierarchy level is determined by the methods used in establishing the value of financial assets and liabilities

18. FINANCIAL INSTRUMENTS, CAPITAL MANAGEMENT AND RELATED DISCLOSURES (continued)

Assets and liabilities held at level 1 are those for which valuations can be obtained by reference to identical assets or liabilities traded on an active market

Assets and liabilities held at level 2 are defined by having inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i e as prices) or indirectly (i e derived from prices)

Assets and liabilities held at level 3 are defined by having inputs that are not observable

All trade and other receivables are due within 12 months of the Financial Position date.

b) Objectives, policies and procedures for managing financial assets and liabilities
The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due The most important components of financial risk for the Company are credit risk, market risk and liquidity risk

Credit Risk
Credit risk is the risk that a counterparty will be unable to pay amounts in full when due The main areas where the Company is exposed to credit risk are brokerage not yet received, investments and cash and cash equivalent holdings

The Company manages its exposure to credit risk by establishing investments only in money market funds with credit ratings of AA or above The credit rating of the Company's bank is monitored on a regular basis along and where there is adverse movement appropriate action would be determined by the risk committee As at 31 December 2011 the credit ratings of the institutions and funds holding the Company's cash and cash equivalents were as follows

	Rating	**31 Dec 2011** £'000	31 Dec 2010 £'000	1 Jul 2010 £'000
Money market funds	AAA	7,821	25,005	13,516
Bank current account	AA	26,137	9,658	19,474
		33,958	34,663	32,990

In addition, the Company has investment guidelines that restrict the amount of the investment portfolio that can be placed with a single counterparty other than members of the Hastings Insurance Group and the Advantage Global Holdings group

The Company has an investment in Lucky JV limited. Since the purpose of this investment is to provide loans to Directors of the Company the major credit risk associated with this investment is the ability of the Directors to repay these loans on demand Assurances are regularly sought around the liquidity of Directors personal funds and their ability to repay At the year end the loans were considered to be recoverable in full

Brokerage and fee receivables are monitored closely with a view to minimising the collection period of those items

The Company's maximum exposure to credit risk at 31 December 2011 is £79,306,976 (31 December 2010 £74,173,787, 1 July 2010 £68,937,538), being the carrying value of brokerage and fee receivables, investments, cash and cash equivalents and loans receivable The exposure is not hedged by the use of derivatives or similar instruments. Bad debt expense exposure relating to policyholder debt charged to the income statement and the value of past due financial assets are disclosed in note 12

18 FINANCIAL INSTRUMENTS, CAPITAL MANAGEMENT AND RELATED DISCLOSURES (continued)

Market Risk
The only significant Market Risk the Company is exposed to is interest rate risk.

Interest rate risk is defined by the Company as the impact of unfavourable movements in market interest rates which consequently could produce adverse result on the values of financial assets and liabilities, or the future cash flows from them. This is applicable to cash and cash equivalents and related party loans receivable

Cash and cash equivalent balances are held in current accounts or in short term money market instruments, these are generally less than 60 days in duration, considerably reducing sensitivity to significant movements in interest rates compared to longer duration assets

Loan receivable relates to a balance owed by Advantage Global Holdings Limited Interest is paid on this balance on a LIBOR plus basis The impact of a rise of 100 bps in interest rates at the reporting date, on an annualised basis, would have increased equity and profit by £379,010 (31 December 2010 £354,401)

Liquidity Risk
Liquidity risk is the risk that cash may not be available to meet obligations when due The Company maintains significant holdings in liquid funds to mitigate this risk. The Company makes use of detailed forecasts and budgets to monitor and control its cash flow and working capital requirements.

Financial liabilities – trade and other payables, are settled in line with agreed payment terms and managed in accordance with cash availability and inflow expectations All financial liabilities except loans and borrowings are due within 12 months Loans and borrowings fall due as outlined in the maturity analysis contained in note 16

Liquidity risk is thus not considered to be significant

c) Objectives, policies and procedures for managing capital
The Company's capital largely constitutes loans from related entities and residual profit from its broking activities The Company also generates a small amount of capital from sales of its shares to its employees

The Directors regularly review the amount of capital of the Company through monitoring of the financial performance of the business Daily cash flows are produced to accurately predict when the Company's liabilities will fall due Trends against these forecasts are used to more accurately predict the maturity of short and long term liabilities

The Company as an insurance intermediary is also subject to a minimum capital requirement under FSA rules The Company exceeded that minimum capital requirement at all times

19 SHARE CAPITAL AND RESERVES

	31 Dec 2011	31 Dec 2010	1 Jul 2010
	£'000	£'000	£'000
Share capital	22,980	22,980	22,980
Retained earnings	10,058	(4,525)	(7,287)
Total equity	33,038	18,455	15,693

	31 Dec 2011 Issued share capital	31 Dec 2010 Issued share capital	1 Jul 2010 Issued share capital
Allotted, called up and fully paid	**£'000**	£'000	£'000
Ordinary shares of £1 each	22,980	22,980	22,980

Rights in relation to shares
All shares in issue at 31 December 2011 are of a single class with common rights in relation to distribution, return of capital and voting

20. DEFERRED INCOME

	31 Dec 2011 £'000	31 Dec 2010 £'000	1 Jul 2010 £'000
Due within one year:			
Deferred income	14,589	9,575	7,565
Due in more than one year:			
Deferred income	4,408	3,234	2,977

21. PROVISIONS

	Lease commitments £'000	Dilapidations £'000	Total provisions £'000
Due within one year:			
At 1 Jan 2011	406	-	406
Utilised	(646)	-	(646)
Transfer from non-current provision	859	-	859
At 31 Dec 2011	**619**	-	**619**
At 1 Jul 2010	438	-	438
Utilised	(346)	-	(346)
Transfer from non-current provision	314	-	314
At 31 Dec 2010	406	-	406
Due in more than one year:			
At 1 Jan 2011	2,303	250	2,553
Amounts written off	-	(184)	(184)
Transfer to non- current provision	(859)	-	(859)
At 31 Dec 2011	**1,444**	**66**	**1,510**
At 1 Jul 2010	2,617	250	2,867
Transfer to non-current provision	(314)	-	(314)
At 31 Dec 2010	2,303	250	2,553
Total due:			
At 31 Dec 2011	**2,063**	**66**	**2,129**
At 31 Dec 2010	2,709	250	2,959
At 1 Jul 2010	3,055	250	3,305

The above relates to a property lease in Manchester which became onerous when the Company closed its call centre there Since then the Company has been unable to sub-let the vacant space
The provision relating to dilapidations was established to cover the costs relating to returning the Manchester offices to the condition agreed with the Landlord at the end of the lease

22 CONTINGENT LIABILITIES

The Company continues to be subject to claims and lawsuits that arise in the ordinary course of business consisting principally of alleged errors and omissions in connection with the placement of insurance and reinsurance Some of these claims and lawsuits seek damages including punitive damages in amounts which are not expected to be significant

23 COMMITMENTS

a) Operating leases

At 31 December 2011 the Company was committed to making the following payments under operating leases in the following years

	31 Dec 2011		31 Dec 2010	
	Land and Buildings	**Other**	Land and Buildings	Other
Operating leases	**£'000**	**£'000**	£'000	£'000
Rentals are payable as follows:				
The next year	849	6	842	13
Years 2 through 5 combined	2,428	12	3,140	3
Beyond 5 years	4,000	-	4,375	-
	7,277	18	8,357	16

b) Other commitments

	31 Dec 2011	31 Dec 2010
	£'000	£'000
IT transaction and support costs	3,974	5,293

The above represents amounts committed under an IT contract which expires in September 2014

24 RELATED PARTY TRANSACTIONS

The Company considers parties to be related where they or their close family members, either individually or through virtue of their influence over another entity which does not form a part of the Company, exert significant influence or control over the Company and where parties form a part of the key management personnel of the Company

- Conquest House Limited and Advantage Insurance Company Limited are related parties of the Company by virtue of the common ownership of their ultimate parent undertaking Advantage Global Holdings Ltd and the Company

- Commission earned by the Company in the year in respect of policies sold that were underwritten by Advantage Insurance Company Limited was £24,128,894 (6 months to 31 December 2010 £12,096,063) Amounts owed to related companies include a balance relating to premiums on policies sold due to Advantage Insurance Company Limited of £115,170,216 (31 December 2010. £101,744,467, 1 July 2010 £91,159,097) relating to the net of premiums and IPT payable and commissions receivable on policies sold due to Advantage Insurance Company Limited

- In the period to 31 December 2011, Advantage Insurance Company Limited provided a draw down on a loan to Hastings Insurance Services Limited of £300,000 (6 months to 31 December 2010 £900,000) Interest on the loan is charged at 5% per annum Interest in the period was £45,849 (31 December 2010 £6,135) The value of this loan as at 31 December 2011 was £686,579 (31 December 2010 £826,135, 1 July 2010 £nil)

- Rent payable by the Company to Conquest House Limited during the period amounted to £375,000 (31 December 2010 £187,500)
- During a prior period the Company provided a loan facility to Advantage Global Holdings Limited. Interest on the loan is charged at 1 5% over LIBOR (London Interbank Offered Rate) Interest receivable on this loan in the period was £235,018 (6 months to 31 December 2010 £112,276) The value of this loan as at 31 December 2011 was £10,573,828 (31 December 2010 £10,338,810, 1 July 2010 £10,226,533) and it is repayable on 2 February 2014

24. RELATED PARTY TRANSACTIONS (continued)

- Dunng a prior period the Company provided a loan facility to Hastings (UK) Limited Interest on the loan is charged at 2% over LIBOR Interest receivable on this loan in the period was £76,247 (6 months to 31 December 2010 £38,812) The value of this loan as at 31 December 2011 was £2,408,182 (31 December 2010 £2,302,665, 1 July 2010 £3,385,967)

- The Company has a balance receivable from Hastings (Holdings) Limited of £21,172,030 (31 December 2010 £4,022,150, 1 July 2010 £942,120) relating to payments made on its behalf

- During the period a Director of the Company was a member of the key management personnel of Premier Occupational Healthcare Limited Invoices received by the Company from this entity in the period totalled £24,331 (6 months to 31 December 2010 £3,465) Amounts owing to the entity as at 31 December 2011 were £1,489 (31 December 2010 £nil, 1 July 2010 £nil).

- During the period a Director of the Company was a shareholder of Key Locater Limited Invoices received by the Company from the entity in the period totalled £75,326 (6 months to 31 December 2010 £48,841) No amounts were owed to the entity at the end of the period (31 December 2010 £nil, 1 July 2010 £nil)

- At the end of the period Lucky JV Limited, an investment of the Company had loans receivable from Directors of the Company totalling £7,956,532 (31 December 2010 £8,041,659, 1 July 10 £8,041,659)

- The Company has a balance receivable from its ultimate controlling party Hastings Insurance Group of £139,088 (31 December 2010 nil, 1 July 2010 nil)

- Advantage Insurance Company Limited owed a balance of £23,384 (31 December 2010 £nil, 1 July 2010· £nil) relating to trade receivables at year end

25 ULTIMATE CONTROLLING PARTY

As at 31 December 2011, the Company's immediate parent company is Hastings (UK) Limited, whose registered office is at Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW

Hastings (Holdings) Limited owns 100% of the ordinary shares of Hastings (UK) Limited

On 14 October 2011 the entire share capital of Hastings (Holdings) Limited was purchased by Hastings Insurance Group Limited, a company registered in Jersey through a share for share exchange with the shareholders of Hastings (Holdings) Limited Since no shareholder or group of shareholders of Hastings Insurance Group Limited constitutes a single controlling body, Hastings Insurance Group Limited is considered to be the ultimate controlling party of the Hastings (Holdings) Group

26 SUBSEQUENT EVENTS

On 12 April 2012 the board approved an interim dividend of 56 6 pence per share

On 17 April 2012 Hastings Insurance Group Limited, the Groups ultimate controlling party purchased the entire issued share capital of Advantage Global Holdings Limited for consideration of £82 5m, consisting of £25m in cash and £57 5m of interest bearing loan notes

27 ADJUSTMENTS

First time adoption of IFRS

These are the Company's first financial statements prepared in accordance with IFRS as endorsed by the EU. The transition date is 1 July 2010

The Company's IFRS accounting policies presented in note 1 have been applied consistently in preparing the financial statements for the year ended 31 December 2011, the comparative information and the opening statement of financial position at the transition date

27 **ADJUSTMENTS (continued)**

The Company has applied IFRS 1 in preparing these first IFRS financial statements The effects of the transition to IFRS on the Company's reported financial positions, financial performance and cash flows are presented below

Mandatory exemption adopted

The Company has used estimates under IFRS that are consistent with those applied under UK GAAP (with adjustment for accounting policy differences)

I. Representation of UK GAAP figures to an IFRS Format

a) Financial position UK GAAP reclassification as at 1 July 2010

IFRS headings	Note	UK GAAP £'000	IFRS reclassification £'000	UK GAAP (IFRS format) £'000
Non-current assets				
Other intangible assets	2	-	2,699	2,699
Property, plant & equipment	2	5,575	(2,699)	2,876
Investments in associate		4,034	-	4,034
Loans receivable		13,613	-	13,613
Deferred tax assets		3,900	-	3,900
		27,122	**-**	**27,122**
Current assets				
Trade and other receivables		72,381	-	72,381
Prepayments		1,172	-	1,172
Current asset investment	1	13,516	(13,516)	-
Cash and cash equivalents	1	19,474	13,516	32,990
		106,543	**-**	**106,543**
TOTAL ASSETS		**133,665**	**-**	**133,665**
Share capital		22,980	-	22,980
Retained earnings		(2,995)	-	(2,995)
Total Equity		**19,985**	**-**	**19,985**
Non-current liabilities				
Deferred income	3	4,417	(1,440)	2,977
Provisions	3	3,305	(438)	2,867
		7,722	**(1,878)**	**5,844**
Current liabilities				
Loans and borrowings		61	-	61
Trade and other payables		103,563	-	103,563
Current tax		10	-	10
Deferred income	3	2,324	1,440	3,764
Provisions	3	-	438	438
		105,958	**1,878**	**107,836**
TOTAL LIABILITIES		**113,680**	**-**	**113,680**
TOTAL EQUITY AND LIABILITIES		**133,665**	**-**	**133,665**

27. **ADJUSTMENTS (continued)**

b) Financial position UK GAAP reclassification as at 31 December 2010

IFRS headings	Note	UK GAAP £'000	IFRS reclassification £'000	UK GAAP (IFRS format) £'000
Non-current assets				
Other intangible assets	2	-	2,631	2,631
Property, plant & equipment	2	6,600	(2,631)	3,969
Investments in associate		4,034	-	4,034
Loans receivable		12,642	-	12,642
Deferred tax assets		2,782	-	2,782
		26,058	-	**26,058**
Current assets				
Trade and other receivables		91,556	-	91,556
Prepayments		745	-	745
Current asset investment	1	25,005	(25,005)	-
Cash and cash equivalents	1	9,658	25,005	34,663
		126,964	-	**126,964**
TOTAL ASSETS		**153,022**	-	**153,022**
Share capital		22,980	-	22,980
Retained earnings		62	-	62
Total Equity		**23,042**	-	**23,042**
Non-current liabilities				
Loans and borrowings		340	-	340
Deferred income	3	5,099	(1,865)	3,234
Provisions	3	2,959	(406)	2,553
		8,398	**(2,271)**	**6,127**
Current liabilities				
Loans and borrowings		492	-	492
Trade and other payables		117,543	-	117,543
Deferred income	3	3,547	1,865	5,412
Provisions	3	-	406	406
		121,582	**2,271**	**123,853**
TOTAL LIABILITIES		**129,980**	-	**129,980**
TOTAL EQUITY AND LIABILITIES		**153,022**	-	**153,022**

27. ADJUSTMENTS (continued)

Notes

1. Under UK GAAP investments in money market funds were recorded as investments. Under IFRS these form a part of cash and cash equivalents, as such a balance of £13,516,057 at 1 July 10 and £25,005,120 at 31 December 2010 has been transferred from current asset investment to cash and cash equivalents

2. Under IFRS, computer software is recognised as an intangible asset in accordance with IAS 38 This has resulted in a reduction in property, plant and equipment of £2,630,579 for 31 December 2010 and £2,699,647 for 1 July 2010 and an increase in intangible assets of the same amount

3. Under IFRS, provisions and deferred income should be split between current and non-current.

27. ADJUSTMENTS (continued)

II. Reconciliation of the financial statements between UK GAAP and IFRS:

a) The statement of financial position under UK GAAP at the date of transition 1 July 2010 can be reconciled to the amounts reported under IFRS as follows

FINANCIAL POSITION AS AT 1 JULY 2010

	Note	UK GAAP (IFRS format) £'000	IFRS adjustment £'000	Under IFRS £'000
Non-current assets				
Other intangible assets	1	2,699	(391)	2,308
Property, plant & equipment	2	2,876	(271)	2,605
Investments in associate		4,034	-	4,034
Loans receivable		13,613	-	13,613
Deferred tax assets	5	3,900	171	4,071
		27,122	**(491)**	**26,631**
Current assets				
Trade and other receivables		72,381	-	72,381
Prepayments		1,172	-	1,172
Cash and cash equivalents		32,990	-	32,990
		106,543	**-**	**106,543**
TOTAL ASSETS		**133,665**	**(491)**	**133,174**
Share capital		22,980	-	22,980
Retained earnings	1-5	(2,995)	(4,292)	(7,287)
Total Equity		**19,985**	**(4,292)**	**15,693**
Non-current liabilities				
Deferred income		2,977	-	2,977
Provisions		2,867	-	2,867
		5,844	**-**	**5,844**
Current liabilities				
Loans and borrowings		61	-	61
Trade and other payables		103,563	-	103,563
Current tax		10		10
Deferred income	3,4	3,764	3,801	7,565
Provisions		438	-	438
		107,836	**3,801**	**111,637**
TOTAL LIABILITIES		**113,680**	**3,801**	**117,481**
TOTAL EQUITY AND LIABIITIES		**133,665**	**(491)**	**133,174**

27 **ADJUSTMENTS (continued)**

b) The statement of financial position under UK GAAP at 31 December 2010 can be reconciled to the amounts reported under IFRS as follows

FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	UK GAAP (IFRS format) £'000	IFRS adjustment £'000	Under IFRS £'000
Non-current assets				
Other intangible assets	1	2 631	(409)	2,222
Property, plant & equipment	2	3,969	(392)	3,577
Investments in associate		4,034	-	4,034
Loans receivable		12,642	-	12,642
Deferred tax assets	5	2,782	378	3,160
		26,058	**(423)**	**25,635**
Current assets				
Trade and other receivables		91,556	-	91,556
Prepayments		745	-	745
Cash and cash equivalents		34,663	-	34,663
		126,964	-	**126,964**
TOTAL ASSETS		**153,022**	**(423)**	**152,598**
Share capital		22,980	-	22,980
Retained earnings	1-5	62	(4,586)	(4,525)
Total Equity		**23,042**	**(4,586)**	**18,455**
Non-current liabilities				
Loans and borrowings		340	-	340
Deferred income		3,234	-	3,234
Provisions		2,553	-	2,553
		6,127	-	**6,127**
Current liabilities				
Loans and borrowings		492	-	492
Trade and other payables		117,543	-	117,543
Deferred income	3,4	5,412	4,163	9,575
Provisions		406	-	406
		123,853	**4,163**	**128,016**
TOTAL LIABILITIES		**129,980**	**4,163**	**134,143**
TOTAL EQUITY AND LIABILITIES		**153,022**	**(423)**	**152,598**

27 **ADJUSTMENTS (continued)**

c) Reconciliation of comprehensive income

Total comprehensive income under UK GAAP for the 6 months period from 1 July 2010 to 31 December 2010 can be reconciled to the amounts reported under IFRS as follows

	Note	UK GAAP £'000	IFRS adjustment £'000	Income Statement £'000
		Comprehensive income statement 6 months to 31 Dec 2010		
Revenue	3,4	43,331	(361)	42,970
Administration expenses	1,2	(39,055)	(139)	(39,195)
Operating profit		4,275	(500)	3,775
Finance income		215	-	215
Finance cost		(6)	-	(6)
Profit before tax		4,484	(500)	3,984
Income tax (expense)/credit	5	(1,429)	207	(1,222)
Total comprehensive income for the period		**3,055**	**(293)**	**2,762**

d) Notes to the reconciliations

1. Under IFRS, expenditure on the research stage of projects should be taken to the Income Statement when incurred This standard must be applied retrospectively Under UK GAAP some costs which were incurred and were capitalised and amortised over the useful economic lives of the related projects do not meet the capitalisation criteria under IFRS As a result for intangible assets a balance of £69,077 for 31 December 2010 and £439,562 for 1 July 2010 has been expensed to retained earnings and a balance of £51,492 for 31 December 2010 and £48,158 for 1 July 2010 relating to depreciation already charged has been written back through retained earnings.

2. As a result of the adjustment above, for tangible assets a balance of £275,225 for 1 July 2010 and a balance of £124,037 for 31 December 2010 has been expensed to retained earnings and a balance of £2,320 for 31 December 2010 and £4,538 for 1 July 2010 relating to depreciation already charged has been written back through retained earnings.

3. Interest earned on instalment sales should be recognised over the credit term using the effective interest method Previously such revenue was recognised upfront As a result an adjustment of £599,324 has been made to revenue through retained earnings for 31 December 2010 with a corresponding adjustment to deferred income of £4,066,876 for 31 December 2010 and £3,467,552 for 1 July 2010

4. Revenue should be recognised on effective date Previously some transactions have been recognised on transaction date As a result an adjustment of £238,285 has been credited to retained earnings for 31 December 2010 A balance of £334,275 has been debited to retained earnings for 1 July 2010

5. As a result of the above changes, deferred tax has been restated for the prior periods This has resulted in a credit to retained earnings of £206,758 for 31 December 2010 with a corresponding adjustment of £378,228 to deferred tax assets for 31 December 2010 and £171,470 for 1 July 2010