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HASTINGS INSURANCE SERVICES LIMITED

FINANCIAL STATEMENTS 30 JUNE 2009

COMPANY NUMBER 3116518



HastingsDIRECT
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HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

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HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

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

E Fitzmaurice
T Ablett
R M Brewster
J Castagno
P B Pavey
N Utley

Secretary

A S Leppard

Auditors

Rawlinson & Hunter
Eighth Floor
6 New Street Square
New Fetter Lane
London EC4A 3AQ

Principal and Registered Office

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

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

DIRECTORS' REPORT

The Directors submit their Report and Financial Statements of the Company for the year ended 30 June 2009

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 2010 and the Directors are confident that the Company will return to profitability at the pre tax level 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, which was to concentrate on its core capabilities and home markets, resulting in a refinement to its UK business. IAG's new strategy in the UK was to focus on its specialist underwriting and distribution businesses, therefore it decided that it would 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 agreed to sell the Company to a Management Buy Out team led by senior executives from the Equity group. Completion occurred on 3rd February 2009 and resulted in a change in the parent undertaking from Logan Consultants Limited to Hastings 888 (UK) Limited, a UK incorporated company established to act as the parent company for the Hastings Group.

As a result of the 2008 losses, the Company's financial position had been materially impacted, ending 2008 with net liabilities of £4,556,861 (as restated). Accordingly, on 18 December 2008 it was recapitalised, by its then parent, by £14,975,000 with the issue of 14,975,000 A Ordinary shares of £1 each at par for cash. As part of the acquisition agreement on 2nd February 2009 another 3,000,000 A Ordinary shares were issued for £3,000,000 to further improve the capital base of the Company.

Performance and key performance Indicators

Turnover for the year was £47,845,366 (2008 - £47,668,500 - as restated)

The profit for the year after taxation amounted to £2,797,893. The loss after taxation for 2008 amounted to £19,928,419 (as restated). The Directors do not recommend the payment of a dividend.

The Directors monitor the performance of the business with regard to key performance indicators including turnover, administration expenses and average headcount.

	2009	2008 (As restated)	Change %
Turnover	£47,845,366	£47,668,500	0.4%
Administration expenses	£50,855,433	£70,519,320	(28%)
Average headcount	726	1,045	(31%)

The Directors were very pleased that despite the upheaval associated with the change in ownership, turnover for the year to 30 June 2009 has slightly increased over the corresponding period in the previous year. Administration expenses are significantly lower than in the corresponding period, mainly as the result of necessary difficult decisions taken in 2008 that resulted in one off costs being reflected in the profit and loss account for that year. This included early in the current financial year the decision to close the call centres at Manchester and Leicester which has resulted in the significant reduction in head count and has resulted in a lower cost base for the Company going forward. The Directors are optimistic and confident that the performance of the Company will continue to show improvement in 2010.

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.

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

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 associated cost, was fully provided for in the 2008 financial year (see Note 15).

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, full provision has been made for the amounts claimed by HMRC (see Note 19).

Change of accounting policies

The Directors have carried out a review of the accounting policies used by the Company and identified areas where they believe that the policies previously applied did not correctly reflect the nature of the underlying transactions and were considered to be inconsistent with other companies in the industry. This has resulted in a change in accounting policies in relation to premium finance income and certain marketing costs and necessitated a prior year restatement of the comparatives. Details of the impact of these changes are set out in Note 2.

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.

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. 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 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. Prior to the MBO, all intercompany loans were repaid and the Company no longer has debt finance.

Legislative, Regulatory and Solvency risk

The Company actively monitors its compliance and 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 has both interest bearing assets and liabilities. Interest bearing assets include cash balances and money market liquidity funds which earn interest at fixed and variable rates. The Directors review the appropriateness of this policy regularly.

ISSUE OF SHARES

On 18 December 2008 the Company increased the authorised share capital by £19,995,000 and the Company's then parent, Logan Consultants Limited, was allotted 14,975,000 A Ordinary shares for consideration of £1 per share. On 2 February 2009, the shareholder Logan Consultants Limited was allotted a further 3,000,000 A Ordinary shares for consideration of £1 per share. Both share issues were made with a view to increase the capital base of the Company.

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

DIRECTORS' REPORT (continued)

DIRECTORS

The names of the current Directors appear on page 1. Details of changes in Directors are shown below.

M Hutton (resigned 8 January 2009)

N Potts (resigned 8 January 2009)

I R Sutherland (resigned on 3 February 2009)

R M Brewster (appointed on 3 February 2009)

P B Pavey (appointed on 6 February 2009)

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.

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.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that the appropriate training is arranged.

It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

PROVISION OF INFORMATION TO AUDITORS

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

- so far as that Director is aware, there is no relevant audit 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

KPMG Audit Plc resigned as auditors during the year and Rawlinson & Hunter were appointed in their stead. The auditor, Rawlinson & Hunter, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

By Order of the Board



E Fitzmaurice
Director

8th March 2010

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 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 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 the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

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 2009 which comprises the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors

As explained more fully in the Statement of Directors' Responsibilities, 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 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

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 30 June 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, 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 period for which the financial statements are prepared is consistent with the financial statements.

HASTINGS INSURANCE SERVICES LIMITED

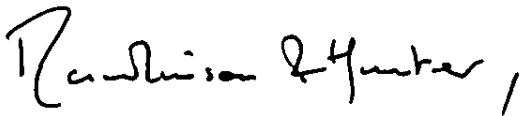
For the year to 30 June 2009

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

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



Kulwarr Nagra (Senior Statutory Auditor)

for and on behalf of Rawlinson & Hunter

Statutory Auditor & Chartered Accountants

Eighth Floor

6 New Street Square

New Fetter Lane

London EC4A 3AQ

8th March 2010

HASTINGS INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT **For the Year to 30 June 2009**

	Notes	Year Ended 30 June 2009 £	Year Ended 30 June 2008 (as restated) £
TURNOVER	1,3	47,845,366	47,668,500
Administrative expenses		(50,855,433)	(70,519,320)
OPERATING LOSS	4	(3,010,067)	(22,850,820)
Interest receivable and similar income	6	1,068,041	1,300,703
Interest payable and similar charges	7	(794,954)	(2,206,511)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,736,980)	(23,756,628)
Tax credit on loss on ordinary activities	8	5,534,873	3,828,209
PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION	17	2,797,893	(19,928,419)
All of the company's operations are classed as continuing			

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES **for the year ended 30 June 2009**

		2009 £	2008 (as restated) £
Profit/(Loss) for the financial year and total recognised gains and losses relating to the year		2,797,893	(19,928,419)
Prior year restatement	2	2,258,371	-
Total gains and losses recognised since last annual report		5,056,264	(19,928,419)

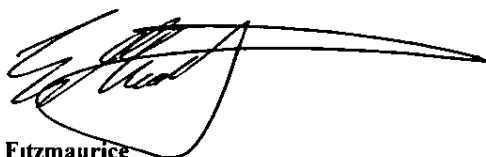
The notes on pages 10 to 20 form an integral part of these financial statements

HASTINGS INSURANCE SERVICES LIMITED

Company Number 3116518
BALANCE SHEET
As at 30 June 2009

	Notes	2009 £	2008 (as restated) £
FIXED ASSETS			
Intangible assets	9	-	572 709
Tangible assets	10	4 409,675	3,574 482
		<u>4 409,675</u>	<u>4,147,191</u>
CURRENT ASSETS			
Debtors	11	50 775,495	67,425 328
Listed current asset investment	12	20 000,000	-
Cash at bank and in hand		15 354,270	31,919 257
		<u>86 129,765</u>	<u>99 344,585</u>
CREDITORS: Amounts falling due within one year	13	(65 365,474)	(96 089 364)
		<u>20,764,291</u>	<u>3,255 221</u>
NET CURRENT ASSETS			
		<u>25 173,966</u>	<u>7 402,412</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
CREDITORS Amounts falling due after more than one year	14	(3 817,526)	(5 134,273)
PROVISIONS FOR LIABILITIES & CHARGES	15	(5,140,408)	(6 825 000)
		<u>16,216,032</u>	<u>(4,556,861)</u>
NET ASSETS/(LIABILITIES)			
CAPITAL AND RESERVES			
Called up share capital	16	22 980 000	5,005 000
Profit and loss account	17	<u>(6 763,968)</u>	<u>(9,561 861)</u>
SHAREHOLDERS' FUNDS/(DEFICIT) - All equity	17	<u>16,216,032</u>	<u>(4,556,861)</u>

These financial statements were approved and authorised for issue by the Board of Directors on 8th March 2010 and were signed on its behalf by



E Fitzmaurice
Director
8th March 2010

The notes on pages 10 to 20 form an integral part of these financial statements

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS

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 under the historical cost convention, in accordance with applicable accounting standards in the United Kingdom, the Companies Act 2006 and on a going concern basis, which the Directors believe to be appropriate for the following reasons

- The Company was recapitalised during the year by its immediate parent company through the issuance of A Ordinary shares for cash consideration of £17,975,000
- The Directors have reviewed the business plans and cash flow forecasts of the Company for a 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 are of the opinion that it remains appropriate to prepare the financial statements on a going concern basis

(b) Group accounts

The Company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual entity and not about its group

(c) Cash flow statement

The Company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publically available, is exempt from the requirement to draw up a cash flow statement in accordance with Financial Reporting Standard 1

(d) Turnover

Turnover, represented by brokerage commission, is recognised when cover commences with deferral of revenue for ongoing contractual obligations. Policy fees, including mid-term adjustments, are recognised when received. Premium finance fee income is recognised at the inception of the agreement when the Company has substantially met its obligations, which is considered to be at inception of the agreement, with a deferral of revenue for associated future costs

As detailed in Note 2 the Directors have carried out a review of the accounting policies used by the Company and identified areas where they believe that the policies previously applied did not correctly reflect the nature of the underlying transactions and were considered to be inconsistent with other companies in the industry. Premium finance income had previously been recognised on the basis of sum of digits basis and is now recognised at the inception of the agreement with deferral of revenue for associated future costs to reflect the fact that the Company has substantially met its obligations at inception. The impact on these financial statements of this change in policy is detailed in Note 2

(e) Marketing costs

Marketing costs that can be directly related to the introduction of customers are expensed over the period that it is expected that the customer will be retained by the Company

As detailed in Note 2 the Directors have carried out a review of the accounting policies used by the Company and identified areas where they believe that the policies previously applied did not correctly reflect the nature of the underlying transactions and were considered to be inconsistent with other companies in the industry. The specific marketing costs identified had previously been expensed to the Profit and Loss Account as incurred. The impact on these financial statements of this change in policy is detailed in Note 2

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Statement of accounting policies (continued)

(f) Intangible assets and goodwill

Goodwill represents the excess of cost of acquisition over the fair value of separable net assets acquired and is amortised in equal annual instalments over its estimated useful life. 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 and amortised over their estimated lives.

(g) 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, unless their useful economic life is assessed to be shorter, in which case the shorter period is used.

(h) Listed investments

Investments held as current assets are stated at the lower of cost and net realisable value as determined by their quoted price at the balance sheet date.

(i) Insurance 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'.

(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.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

(k) Pensions

Some employees participate in a defined contribution pension scheme. The pension charge represents the amount payable by the Company to that scheme in respect of the period.

(l) Deferred tax

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted, unless material.

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Prior year restatement

The Directors have carried out a review of the accounting policies used by the Company and identified areas where they believe that the policies previously applied did not correctly reflect the nature of the underlying transactions and were considered to be inconsistent with other companies in the industry. This has resulted in a change in accounting policies in relation to premium finance income and certain marketing costs (as detailed in Note 1) and necessitated a prior year restatement of the comparatives.

The impact of the change of accounting policies on the prior period comparatives is noted below.

	As previously reported	Prior period restatement	As restated
	£	£	£
2008			
Turnover	47,981,414	(312,914)	47,668,500
Administrative expenses	(70,178,839)	(340,481)	(70,519,320)
Loss on ordinary activities before taxation	(23,103,233)	(653,395)	(23,756,628)
Debtors	65,166,957	2,258,371	67,425,328
Profit and loss account reserve	(11,820,232)	2,258,371	(9,561,861)

The profit and loss account reserve prior period restatement adjustment of £2,258,371 includes an adjustment to the reserves as at 1 July 2007 of £2,911,766, as detailed in Note 17.

The impact of the change of accounting policies on the current year financial results is noted below.

	Reported under previous policy	Impact of policy change	As reported
	£	£	£
2009			
Turnover	47,588,495	256,871	47,845,366
Administrative expenses	(53,268,137)	2,412,704	(50,855,433)
Loss on ordinary activities before taxation	(5,406,555)	2,669,575	(2,736,980)

3 Turnover

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

4 Operating loss

The operating loss is stated after charging / (crediting)

	Year to 30 June 2009	Year to 30 June 2008 (as restated)
	£	£
Auditors remuneration - audit services	50,000	100,000
Auditors remuneration - non-audit services	69,151	117,775
Depreciation - tangible fixed asset - owned	1,721,308	1,708,977
- leased	361,864	227,956
Amortisation - intangible fixed asset	-	195,707
Amortisation of goodwill	-	780,363
Impairment charge - goodwill	-	3,964,841
Loss/(Profit) on disposal of tangible fixed assets	469,233	(3,603)
Operating lease rentals - land and buildings	741,005	2,445,151
Operating lease rentals - office equipment and vehicles	35,562	137,083

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Staff costs

Staff costs were as follows

	Year to 30 June 2009 £	Year to 30 June 2008 £
Salaries	18,958,450	19,366,487
Social security costs	1,455,013	2,790,118
Pension costs	354,363	396,087
	20,767,826	22,552,692

The average number of persons employed during the year was

Sales and customer services	321	545
Claims	181	212
Administration	224	288
	726	1,045

Prior to the Management Buy Out (see page 2) the emoluments of N Utley, T Ablett, E Fitzmaurice, M Hutton, N Potts and I Sutherland were paid by Equity Insurance Management Limited a fellow IAG group undertaking and charged to other group companies. There were no recharges (2008 - £Nil) made from this or any other IAG group company in respect of their services as Directors of the Company.

The Directors' emoluments, excluding pension contributions, during the year amounted to £898,170 (2008 - £647,204). The remuneration of the highest paid director during the period amounted to £782,915 (2008 - £184,226).

The aggregate value of Company pension contributions in respect of the Directors during the year amounted to £35,945 (2008 - £26,217). Company contributions to the defined contribution pension scheme in respect of the highest paid director were £30,067 (2008 - £nil). There were 2 (2008 - 7) Directors in the Company's defined contribution scheme during the year.

6 Interest receivable and similar income

	Year to 30 June 2009 £	Year to 30 June 2008 £
Interest receivable comprises		
Interest on loan to Logan Consultants Limited	381,887	812,346
Interest on loan to Hastings 888 (UK) Limited	24,723	-
Interest on loan to Lucky 888 Global Limited	8,626	-
Bank interest receivable	652,805	488,357
	1,068,041	1,300,703

7 Interest payable and similar charges

	Year to 30 June 2009 £	Year to 30 June 2008 £
Interest payable comprises		
Finance charges payable under finance leases	10,695	17,911
Interest payable on subordinated loans	159,014	-
Interest payable to Advantage Insurance Company Limited	616,978	-
Other Interest	8,267	-
HMRC late payment interest (see Note 19)	-	1,500,000
Interest payable on receivables financing	-	688,600
	794,954	2,206,511

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 Tax on loss on ordinary activities

(a) Analysis of credit in year

	Year to 30 June 2009	Year to 30 June 2008 (as restated)
	£	£
Current tax		
UK Corporation tax on losses of the year	-	(1,616,405)
Over provision in respect of prior periods	(3,460,108)	(2,211,804)
Total current tax credit	(3,460,108)	(3,828,209)
Deferred tax		
Current period deferred tax credit (Note 8(c))	(2,074,765)	-
Tax credit on ordinary activities	(5,534,873)	(3,828,209)

(b) Factors affecting tax charge for the period

	Year to 30 June 2009	Year to 30 June 2008 (as restated)
	£	£
Loss before taxation	(2,736,980)	(23,756,628)
Tax at 28% (2008 - 29.5%)	(766,354)	(7,008,205)
Disallowed expenditure	64,792	1,505,534
Depreciation in excess of capital allowances	414,515	628,935
Income of prior periods taxed in current year	632,344	-
Relief for expenditure of prior periods in current year	(2,958,009)	-
Tax losses group relieved without payment	154,471	-
Tax losses not recognised	2,458,241	3,257,331
Adjustment in respect of prior periods	(3,460,108)	(2,211,804)
Current tax credit	(3,460,108)	(3,828,209)

(c) Deferred tax asset

The movement in the period in the net deferred tax asset (see Note 11) is as follows

	Year to 30 June 2009	Year to 30 June 2008 (as restated)
	£	£
At beginning of year	930,105	930,105
Deferred tax credit for the period (Note 8(a))	2,074,765	-
At end of period	3,004,870	930,105

Deferred tax asset is analysed as follows

Decelerated capital allowances	1,083,072	128,559
Taxation losses	1,373,240	-
Other timing differences	548,558	801,546
	3,004,870	930,105

The deferred tax asset of £1,083,072 (2008 - £128,559) relates to carried forward available capital allowances in excess of depreciation, £1,373,240 (2008 - £Nil) relates to taxation losses available for offset against future trading profits and £548,558 (2008 - £801,546) relates to other timing differences that are expected to reverse in later accounting periods

(d) Factors affecting the tax charge for future periods

Unprovided deferred tax asset in relation to trading losses amounts to £1,085,000 (2008 - £2,908,754)

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Intangible assets

	Goodwill £	Other £	Total £
<i>Cost</i>			
At 1 July 2008	7,803,559	868,954	8,672,513
Reclassification (Note 10)	-	(868,954)	(868,954)
At 30 June 2009	7,803,559	-	7,803,559
<i>Amortisation</i>			
At 1 July 2008	7,803,559	296,245	8,099,804
Reclassification (Note 10)	-	(296,245)	(296,245)
At 30 June 2009	7,803,559	-	7,803,559
Net book value at 30 June 2009	-	-	-
Net book value at 30 June 2008	-	572,709	572,709

In January 2009, the net book value of the Websphere project was reclassified from Intangible assets to Computer Software within Tangible assets

10 Tangible assets

	Fixtures and Fittings £	Computer Equipment £	Motor Vehicles £	Leasehold Improvements £	Capital Work in Progress £	Total £
<i>Cost</i>						
At 1 July 2008	4,496,251	13,348,536	14,506	2,256,061	517,133	20,632,487
Purchases in the year	191,516	1,153,009	-	805,036	665,828	2,815,389
Reclassifications	-	1,502,498	-	-	(633,544)	868,954
Disposals	(1,512,561)	(4,012,564)	(14,506)	(84,387)	(182,266)	(5,806,284)
At 30 June 2009	3,175,206	11,991,479	-	2,976,710	367,151	18,510,546
<i>Depreciation</i>						
At 1 July 2008	3,936,085	11,161,348	14,506	1,946,066	-	17,058,005
Charge for the year	431,395	1,345,075	-	306,702	-	2,083,172
Reclassifications	-	296,745	-	-	-	296,745
Disposals	(1,483,312)	(3,765,074)	(14,506)	(74,159)	-	(5,337,051)
At 30 June 2009	2,884,168	9,038,094	-	2,178,609	-	14,100,871
Net book value						
At 30 June 2009	291,038	2,953,385	-	798,101	367,151	4,409,675
At 30 June 2008	560,166	2,187,188	-	309,995	517,133	3,574,482

Reclassifications include the transfer of the Websphere project from intangible fixed assets as detailed in Note 9

The net book value of computer equipment above includes £Nil (2008 - £248,522) in respect of assets held under finance leases

The net book value of fixtures & fittings above includes £Nil (2008 - £113,342) in respect of assets held under finance leases

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Debtors	30 June 2009	30 June 2008 (as restated)
	£	£
Due in more than one year		
Deferred tax asset (Note 8(c))	3,004,870	930,105
Due within one year		
Trade debtors	36,155,047	39,048,928
Amounts owed by Hastings 888 (UK) Limited / Logan Consultants Limited	3,309,491	18,389,505
Amounts owed by related companies (Note 21)	749,156	74,028
Other debtors	3,203,009	2,599,214
Corporation tax receivable	-	2,970,766
Prepayments and accrued income	4,353,922	3,412,782
	50,775,495	67,425,328
12 Listed current asset investment	30 June 2009	30 June 2008
	£	£
Listed investments	20,000,000	-
The market value of the listed investments is not materially different from their carrying amount		
13 Creditors amounts falling due within one year	30 June 2009	30 June 2008
	£	£
Trade creditors	1,780,994	3,010,459
Bank overdraft	-	175,233
Amounts owed to related companies (Note 21)	52,762,284	73,721,046
Obligations under finance leases (Note 14(a))	11,468	259,282
Accruals and deferred income	9,940,326	18,049,497
Other creditors including taxation and social security	870,402	873,847
	65,365,474	96,089,364
14 Creditors amounts falling due after more than one year	30 June 2009	30 June 2008
	£	£
Obligations under finance leases (Note 14 (a))	-	55,644
Claims handling provision	3,817,526	3,078,629
Subordinated loan (Note 14 (b))	-	2,000,000
	3,817,526	5,134,273
(a) Finance leases		
Amounts payable in respect of finance leases for plant and machinery are as follows		
Amounts payable within one year	12,401	270,160
In two to five years	-	56,394
	12,401	326,554
Less finance charges allocated to future periods	(933)	(11,628)
	11,468	314,926
Finance lease obligations are analysed as follows		
Current obligations (Note 13)	11,468	259,282
Non-current obligations	-	55,644
	11,468	314,926

(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 was charged at 2% above Bank of England base rate. The loan was secured and was not required to be repaid until at least 26 February 2010. The loan was repaid as part of the MBO process.

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Provisions for Liabilities and Charges

	Potential claims	Leicester and Manchester	Dilapidations	Compensation payments and fine	Total provisions
	£	£	£	£	£
At 1 July 2008	3,875,000	-	1,750,000	1,200,000	6,825,000
Utilised	(3,875,000)	(1,963,182)	(543,405)	(1,150,000)	(7,531,587)
Charge/(credit) for year	-	6,146,995	(250,000)	(50,000)	5,846,995
At 30 June 2009	-	4,183,813	956,595	-	5,140,408

As at 30 June 2008 a commercial dispute existed with International Insurance Company of Hannover Limited. This has been settled during the year at a cost of £3,875,000 including legal costs.

During the year the Directors decided to close the Leicester and Manchester call centres. Despite strenuous efforts and significant incentives offered, the Directors have been unable to identify new tenants for these premises. Due to the current economic climate and the location of the properties, the Directors are of the opinion that they are unlikely to be able to sublet these premises without difficulty. This provision is expected to be utilised over the remaining lease periods up to 2015.

In 2007/8 year a full evaluation was made of the Company's repairing lease properties. As a consequence of this review, the Company made a provision of £1,750,000 in order to make good maintenance and decorative obligations which is expected to be utilised between one to three years. This has been revised during the year following various decorative works carried out during the year.

A provision of £1,200,000 was made in 2007/8 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 wrote to all those affected. During the current year the resulting fine and associated costs of £1,150,000 was paid and the excess provision released.

16 Share capital

	30 June 2009 £	30 June 2008 £
Authorised		
A Ordinary shares of £1 each	-	10,003,750
B Ordinary shares of £1 each	-	625
C Ordinary shares of £1 each	-	625
Ordinary shares of £1 each	30,001,250	-
	30,001,250	10,005,000
Allotted, called up and fully paid share capital		
A Ordinary shares of £1 each	-	5,003,750
B Ordinary shares of £1 each	-	625
C Ordinary shares of £1 each	-	625
Ordinary shares of £1 each	22,980,000	-
	22,980,000	5,005,000

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.

On 2 February 2009 the shareholder applied for and was allotted 3,000,000 A Ordinary shares of £1 each for £3,000,000.

On 17 March 2009 the A, B, and C Ordinary shares of £1 each were reclassified as Ordinary shares of £1 each.

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Reserves and reconciliation of movement in shareholders' funds

	Share capital	Profit and loss account	Total shareholders' funds
	£	£	£
At 1 July 2007 (as previously reported)	5,000	7,454,792	7,459,792
Prior year restatement	-	2,911,766	2,911,766
At 1 July 2007 (as restated)	5,000	10,366,558	10,371,558
Issued share capital	5,000,000	-	5,000,000
Loss for the year (as previously reported)	-	(19,275,024)	(19,275,024)
Prior year restatement	-	(653,395)	(653,395)
At 1 July 2008 (as restated)	5,005,000	(9,561,861)	(4,556,861)
Issued share capital	17,975,000	-	17,975,000
Profit on ordinary activities after taxation	-	2,797,893	2,797,893
At 30 June 2009	22,980,000	(6,763,968)	16,216,032

The profit and loss reserve and total shareholders funds have been restated following the prior year restatement as detailed in Note 2. Details of the amounts at which these were originally stated are detailed below.

	Profit and loss account	Total shareholders' funds
	£	£
At 1 July 2008 (as previously reported)	(11,820,232)	(6,815,232)
Prior year restatement	2,258,371	2,258,371
At 1 July 2008 (as restated)	(9,561,861)	(4,556,861)

18 Operating lease commitments

At 30 June the Company was committed to making the following payments under operating leases in the following year. For 2009 these figures do not include the commitments arising on the Leicester and Manchester property leases (see Note 15) which have been fully provided for within these financial statements.

	2009 Land and Buildings £	2009 Other £	2008 Land and Buildings £	2008 Other £
Operating leases which expire				
Within 1 - 2 years	-	6,186	833,832	-
Between 2 - 5 years	-	20,924	-	-
After 5 years	538,964	-	1,200,000	-
	538,964	27,110	2,033,832	-

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Exceptional items

	30 June 2009 £	30 June 2008 £
Administrative expenses	5,846,995	14,005,801
Interest payable and similar charges	-	1,500,000

During the year the Company incurred exceptional costs of £5,846,995 (2008 - £15,505,801)

VAT partial exemption status

HMRC has challenged the Company's partial exemption status. The Company does not agree with HMRC's opinion and has appealed against the challenge but provided for £7,180,801 during 2007/8 for the potential cost to the Company should the appeal fail. In addition to this amount, £1,500,000 had been provided relating to interest that may be payable if the HMRC VAT challenge is upheld.

During 2008/9 the Company has continued to provide for VAT based upon the HMRC proposed partial exemption method and therefore should the Company's appeal fail, no further costs will need to be recognised within the financial statements in relation to this matter.

Other provisions

During 2007/8 provisions of £6,825,000 relating to other exceptional costs were made. These are as detailed in Note 15 and are represented by the provisions as at 30 June 2008. Movements on the provisions in 2008/9 are also considered by the Directors to be exceptional in nature and a net £5,846,995 has been charged in administrative expenses during the year in relation to these matters.

20 Subsidiary undertakings

Investments in subsidiary undertakings at 30 June 2009 were as follows:

	Ordinary Shareholding	Principal Activity
1066 Direct Limited	100%	Dormant
Advantage Insurance Services Limited	100%	Dormant
Hastings Direct Accident Management Limited	100%	Dormant
Hastings Direct Limited	100%	Dormant
Peoples Choice (Europe) Limited	100%	Dormant

All of the subsidiaries are incorporated in England and Wales.

21 Related Parties

The Company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Hastings 888 (UK) Limited group and IAG UK Holdings Limited group prior to the Management Buy Out (see page 2).

Following the acquisition of the Company by Hastings 888 (UK) Limited, Conquest House Limited and Advantage Insurance Company Limited both remained related parties of the Company by virtue of the common ownership of their ultimate parent undertaking, Lucky 888 Global Limited and the parent undertaking, Hastings 888 (UK) Limited.

Commission earned by the Company in the period in respect of policies sold that were underwritten by Advantage Insurance Company Limited was £22,556,878 (2008 - £22,564,867). Amounts owed to related companies (Note 13) include a creditor balance due to Advantage Insurance Company of £52,762,284 (2008 - £63,678,635). Trade debtors include a debtor balance due from Advantage Insurance Company of £295,268 (2008 - £Nil) which relates to claims.

Within Accruals (Note 13) is an amount for rent payable to Conquest House Limited of £83,333 (2008 - £2,100,000 - Trade creditors).

During 2009 the Company provided a loan facility to Lucky 888 Global Limited. Interest on the loan is charged at 2% over LIBOR. Interest in the period was £8,626 (2008 - £Nil). The value of this loan as at 30 June 2009 was £749,156 (2008 - £Nil).

Subsequent to the Management Buy Out the Company continued to have a trading relationship with Equity Syndicate Management Limited ("Equity Red Star"), part of the IAG UK Holdings Limited group. Commissions earned by the Company from the date of the Management Buy Out were £1,113,195 and £140,582 was owed to Equity Red Star at the year end.

HASTINGS INSURANCE SERVICES LIMITED

For the year to 30 June 2009

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Parent undertaking and controlling party

At the year end the Company's immediate parent undertaking and ultimate controlling party is Hastings 888 (UK) Limited, whose registered office is at Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex, TN39 3LW. The consolidated accounts for Hastings 888 (UK) Limited are available upon request from its registered office.