

5698370

Castle Cover Limited

Directors' report and financial statements

For the year ended 31 December 2010



# **CASTLE COVER LIMITED**

## **COMPANY INFORMATION**

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### **Registered No.**

5698370

### **Directors**

PR Carter (Chairman)

AJ Cole

PE Leppington

AN Murray

### **Secretary**

PE Leppington

### **Auditors**

Mazars LLP

8 New Fields

2 Stinsford Road

Poole

Dorset

BH17 0NF

### **Bankers**

HSBC Bank plc

2nd Floor

HSBC House

Mitchell Way

Southampton

Hampshire

SO18 2XU

### **Solicitors**

Clark Holt

Hardwick House

Prospect Place

Swindon

SN1 3LJ

### **Registered Office**

5th Floor Merck House

Seldown Lane

Poole

Dorset

BH15 1TW

# CASTLE COVER LIMITED

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# CASTLE COVER LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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The directors present their annual report together with the audited financial statements of the company for the year ended 31 December 2010

### **Principal activities and review of the business**

The company is an intermediary personal lines insurance broker specialising in the 50+ age group. The business is completely based in the United Kingdom.

### **Business review**

Full details of the company's results can be found on pages 8 to 22 of these financial statements. Castle Cover continues with its focus on being a leading over 50s specialist insurance personal lines broker.

### Performance

Castle Cover continued with its planned organic growth strategy in 2010 - delivering a 20% increase in turnover. Although still a loss making venture, 2010 produced a £1.9 million improvement in loss before tax compared with 2009. The company is a significant player in the over 50s insurance market - with over 280,000 policyholders at the end of 2010. 2011 will see continued internal growth - with particular focus on internet and outbound telemarketing activity.

### Risks

#### Market Risk

The business is subject to the typical risks associated with its sector, the principal one being customer price sensitivity. Increased price competition could erode margins or market share. On a quarterly basis the business reviews its price competitiveness versus the general market. Competitor activity is tracked on a regular basis. In addition the cyclical nature of the insurance market may impact the company's income in an extended period of falling rates.

#### Operational Risk

Key operational risks include potential disruption to the call centre - through loss of telephony or IT infrastructure, inability to physically access the building or lack of employees to handle call volumes. A business continuity plan has been drawn up and is regularly reviewed to mitigate such risks. In addition, the company pays very close attention to resourcing levels to ensure sufficient call centre staff are employed to handle expected call volumes.

There are a variety of financial risks that the company is exposed to by the nature of its operation - as follows:

#### Credit risk

The company is rigorous in chasing overdue debts from its customers. The exposure is significantly reduced by the very high proportion of customers who pay annually in advance for their policies. The debt consists of large volumes of small amounts - there is no exposure to a small number of customers for a large proportion of the debt.

#### Liquidity risk

The company has regular and rigorous focus on cash management. Cash forecasting is covered within the annual budget, 12 month rolling forecasts, quarterly forecasts and on a weekly basis. Future financing requirements are discussed with the majority shareholder and plans put in place to cover any future demands to fund growth.

# CASTLE COVER LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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### Business review (continued)

#### Regulatory risk

The company operates in a regulated market and could be adversely affected by changes to existing regulation, new regulation or failure to comply with regulation. This is mitigated by keeping up to date with regulatory changes and through regular monitoring of sales adviser calls together with reviews of key processes and controls.

#### Interest rate risk

The company has both interest bearing assets and interest bearing liabilities. The interest rate bearing assets are cash balances. No hedging takes place on the liabilities.

### Employee involvement

The Company involves employees in its business activities and decision making through various methods ranging from regular team meetings to more formal, company-wide briefings and communications. In addition to this the company holds quarterly meetings with the Employee Forum which is a consultative committee comprising of elected employee representatives and senior managers and chaired by the Head of Human Resources.

### Employment of disabled persons

The Company's recruitment and employment practices are designed to provide equality of opportunity to disabled persons who have the appropriate skills and qualifications to carry out roles within the Company.

The Company also strives to retain in employment, wherever practicable, employees who become disabled by making suitable arrangements and adaptations to roles and facilities.

### Key performance indicators

The company's key performance indicators are

	2010	Restated 2009
Growth in turnover	20.5%	29.9%
Reduction in operating loss	£1,935,870	£2,457,031
Loss before tax as a % of turnover	5.8%	17.7%

### Results and dividends

Turnover for the year was £21,937,977 (2009 £18,210,265 restated). The loss after tax was £1,281,335 (2009 £3,219,520 restated). No dividend is recommended to be paid.

### Directors

The current directors are shown on page 2.

AP Marchington was a director until 11 January 2011 when he resigned. TJ Smyth was a director until 3 December 2010 when he resigned. SR Morley-Ham was appointed as a director on 3 December 2010 and resigned on 21 January 2011.

### Charitable donations

During the year, the company made charitable donations of £734 (2009 £605).

# CASTLE COVER LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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### Directors' responsibilities

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 the directors 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 those 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,
- 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 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.

### Provision of information to auditors

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

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) that 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

On behalf of the board

  
PE Leppington

Date 17 March 2011

# **CASTLE COVER LIMITED**

## **INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010**

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We have audited the financial statements of Castle Cover Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally

### **Respective responsibilities of the directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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. 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.

### **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](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on the 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 2010 and of its loss 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 the 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.

Graham Platts (Senior statutory auditor)  
for and on behalf of Mazars LLP, Chartered Accountants (Statutory auditor)

8 New Fields, 2 Stinsford Road,  
Poole, Dorset, BH17 0NF

Date: 17 March 2011

# CASTLE COVER LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £	Restated 2009 £
Turnover		21,937,977	18,210,265
Cost of sales		( 15,970,298)	( 15,750,370)
Gross profit		5,967,679	2,459,895
Administrative expenses		( 6,674,433)	( 5,102,519)
Operating loss	2	( 706,754)	( 2,642,624)
Interest receivable and similar income	3	11,641	9,177
Interest payable and similar charges	4	( 586,222)	( 586,073)
Loss on ordinary activities before taxation		( 1,281,335)	( 3,219,520)
Tax on loss on ordinary activities	7	-	-
Loss for the year	17	( 1,281,335)	( 3,219,520)

The profit and loss account has been prepared on the basis that all operations are continuing operations

# CASTLE COVER LIMITED

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	Restated 2009
Loss for the financial year	( 1,281,335)	( 3,219,520)
Total losses relating to the year	( 1,281,335)	( 3,219,520)
Prior year adjustment	( 399,254)	
Total losses recognised since the last annual report	( 1,680,589)	

The notes to the accounts on pages 11 to 22 form an integral part of these financial statements



# CASTLE COVER LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2010

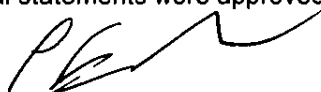
Company Registration No 5698370 (England and Wales)

	Notes	£	2010 £	£	Restated 2009 £
<b>Fixed assets</b>					
Tangible fixed assets	8	1,003,633		1,408,076	
Intangible fixed assets	9	-		-	
			1,003,633		1,408,076
<b>Current assets</b>					
Debtors	10	9,389,233		7,415,214	
Cash at bank and in hand	11	5,020,040		4,809,160	
		14,409,273		12,224,374	
<b>Creditors: amounts falling due within one year</b>	12	( 33,945,037)		( 30,245,560)	
<b>Net current liabilities</b>			( 19,535,764)		( 18,021,186)
<b>Total assets less current liabilities</b>			( 18,532,131)		( 16,613,110)
<b>Creditors: amounts falling due after more than one year</b>	13		( 5,675,724)		( 6,318,484)
			( 24,207,855)		( 22,931,594)
<b>Capital and reserves</b>					
Called up share capital	16		1		1
Share premium account	17		5,628		554
Profit and loss account	17		( 24,213,484)		( 22,932,149)
<b>Shareholders' funds - equity interests</b>	18		( 24,207,855)		( 22,931,594)

These financial statements have been prepared in accordance with the Companies Act 2006

The notes to the accounts on pages 11 to 22 form an integral part of these financial statements

The financial statements were approved by the Board on 17 March 2011



PE Leppington

# CASTLE COVER LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £	Restated 2009 £
<b>Net cash inflow / (outflow) from operating activities</b>	19 (a)	<u>396,389</u>	<u>( 1,307,582)</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		10,394	13,296
Interest paid		( 37,524)	( 48,333)
Interest element of finance lease rental payments		<u>( 2,178)</u>	<u>( 2,832)</u>
		<u>( 29,308)</u>	<u>( 37,869)</u>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		<u>( 332,529)</u>	<u>( 570,272)</u>
<b>Net cash inflow / (outflow) before financing</b>		<u>34,552</u>	<u>( 1,915,723)</u>
<b>Financing</b>			
New loans	19 (c)	245,000	3,358,509
Repayment of other loans	19 (c)	( 52,226)	( 608,508)
Repayments of capital element of finance leases and hire purchase contracts	19 (c)	<u>( 46,546)</u>	<u>( 44,807)</u>
		<u>146,228</u>	<u>2,705,194</u>
<b>Increase in cash</b>	19 (c)	<u><u>180,780</u></u>	<u><u>789,471</u></u>

# CASTLE COVER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### 1 Accounting policies

#### (a). Basis of preparation

The financial statements are prepared under the historical cost convention

#### (b). Compliance with accounting standards

The financial statements are prepared in accordance with the applicable accounting standards, which have been applied consistently (except as otherwise stated)

#### (c). Comparatives

Comparative figures are restated where there is new classification which is more reflective of the nature of the transaction

#### (d). Turnover

Turnover represents the company's brokerage commission earned on insurance premiums written. Commission is recognised in full on the inception date of the insurance policy, irrespective of the timing of monies being received from the customer for this policy. This is the most appropriate date for when risk transfer has occurred. Instalment income from policies on monthly direct debit is recognised over the period of the policy. No policies written last beyond 12 months. A provision has been made at an appropriate level to reflect future cancellations / policy lapses for policies in force at the year end. In addition a provision has been made for potential bad debts based on ageing of debt at the year end. 100% of turnover is from UK based operations.

#### (e). Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer hardware and software	up to 4 years straight line
Fixtures, fittings and office equipment	up to 5 years straight line
Leasehold improvements	remaining years of the lease

#### (f). Intangible fixed assets

Intangible fixed assets represent intellectual property rights purchased in a prior period. These were fully amortised in a prior period due to uncertainty of the timing of future profits from this activity.

#### (g). Lease commitments

Assets obtained under finance leases are capitalised as tangible fixed assets and depreciated over the lease term. Obligations under such agreements are included in creditors net of the finance charge allocated to future years. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each year.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### (h). Pensions

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company in an independently administered scheme. The annual contributions payable are charged to the profit and loss account.

# CASTLE COVER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

### 1 Accounting policies (continued)

#### (i). Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

#### (j). Insurance broking assets and liabilities

The company acts as an agent in broking the insurable risks of its clients and is not liable as a principal for premiums due to insurance companies or for claims payable to clients. Notwithstanding the company's legal relationship with clients and insurance companies and since in practice premiums are usually accounted for by insurance intermediaries, it has followed generally accepted accounting practice by showing cash, debtors and creditors relating to insurance business as assets and liabilities of the company itself. Insurance debtors and creditors are reported in accordance with the requirements of Financial Reporting Standard No 5 'Reporting the Substance of Transactions' (FRS5). The standard precludes assets and liabilities being offset unless net settlement is legally enforceable and as a result the insurance broking debtors and creditors have been shown as the gross amounts due in respect of each contract, instead of the net amount due to or from clients and underwriters.

#### (k). Going Concern Basis

At the balance sheet date the company had net liabilities of £24,207,855. Day to day working capital requirements are met through an overdraft facility that is repayable on demand together with funding support from certain shareholders and other loans. The position of the company improved in 2010 with a positive net operating cashflow generated for the year. The directors have prepared a projected cash flow forecast for the period ending 12 months after the date of the approval of these financial statements. On the basis of this forecast and discussions with shareholders the directors consider that the company can continue to operate within its currently agreed facility. On this basis the directors consider it appropriate to prepare the financial statements on a going concern basis.

#### (l) Comparatives

The comparative figures have been restated in order to provide a more appropriate presentation of the transactions or balances.

2	Operating profit/loss	2010 £	2009 £
	Operating loss is stated after charging		
	Depreciation of owned assets	648,128	652,496
	Depreciation of assets held under finance lease agreements	43,019	55,311
	Operating lease charges - land and buildings	351,166	335,393
	Auditors remuneration - audit fee	22,625	20,556
	Auditors remuneration - fee for non-audit services		
	- taxation services	3,555	3,356
	- company valuation	30,000	-
	- advice regarding share plan	-	7,506
		<u>11,641</u>	<u>9,177</u>
3	Interest receivable	2010 £	2009 £
	Bank interest	11,641	9,157
	Other interest	-	20
		<u>11,641</u>	<u>9,177</u>

# CASTLE COVER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

4 Interest payable	2010 £	2009 £
Included in interest payable are the following amounts		
Bank interest	37,183	40,490
Other loan interest	424,149	413,113
Finance charges	2,178	2,832
Shareholder's loan interest	122,712	129,638
	<u>586,222</u>	<u>586,073</u>

5 Directors' emoluments	2010 £	2009 £
Emoluments	1,372,435	698,158
Contributions to defined contribution pension scheme	61,935	66,532
	<u>1,434,370</u>	<u>764,690</u>

The number of directors for whom retirement benefits are accruing under money purchase schemes amounted to 3 (2009 4)

The number of directors who exercised share options in the year amounted to 3 (2009 3)

The emoluments of the directors above include the following amounts paid to the highest paid director

Emoluments	1,184,803	300,320
Contributions to defined contribution pension scheme	<u>25,849</u>	<u>27,849</u>

20 shares were awarded for prior year performance (2009 86 restated)

£925,000 was paid to the highest paid director in connection with loss of office

6 Staff costs	2010 £	2009 £
Wages and salaries	8,824,275	6,777,237
Social security costs	692,159	603,023
Other pension costs	248,913	185,485
	<u>9,765,347</u>	<u>7,565,745</u>

Average number of employees during the year.

	2010 Number	2009 Number
Operations	306	260
Support functions	<u>38</u>	<u>34</u>
	<u>344</u>	<u>294</u>

7 Taxation	2010 £	2009 £
Tax on loss on ordinary activities	<u>-</u>	<u>-</u>

The company has tax losses to carry forward of £22,730,788 (2009 £22,093,703) that are available for offset against future taxable profits

# CASTLE COVER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

8 Tangible fixed assets	Computer hardware and software £	Fixtures, fittings and office equipment £	Leasehold improvements £	Total £
<b>Cost</b>				
At 1 January 2010	2,805,518	307,401	48,244	3,161,163
Additions	266,068	20,636	-	286,704
At 31 December 2010	<u>3,071,586</u>	<u>328,037</u>	<u>48,244</u>	<u>3,447,867</u>
<b>Depreciation</b>				
At 1 January 2010	1,614,127	119,993	18,967	1,753,087
Charge for the year	623,668	62,655	4,824	691,147
At 31 December 2010	<u>2,237,795</u>	<u>182,648</u>	<u>23,791</u>	<u>2,444,234</u>
<b>Net book value</b>				
At 31 December 2010	<u>833,791</u>	<u>145,389</u>	<u>24,453</u>	<u>1,003,633</u>
At 31 December 2009	<u>1,191,391</u>	<u>187,408</u>	<u>29,277</u>	<u>1,408,076</u>

Included above are assets held under finance leases or hire purchase contracts as follows

	Computer hardware and software £
<b>Net book values</b>	
At 31 December 2010	7,682
At 31 December 2009	<u>50,701</u>
<b>Depreciation charge for the year</b>	
At 31 December 2010	43,019
At 31 December 2009	<u>55,311</u>

# CASTLE COVER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

9 Intangible fixed assets	Intellectual Property Rights £	Total £
<b>Cost</b>		
At 1 January 2010	461,065	461,065
Additions	-	-
At 31 December 2010	<u>461,065</u>	<u>461,065</u>
<b>Amortisation</b>		
At 1 January 2010	461,065	461,065
Charge for the year	-	-
At 31 December 2010	<u>461,065</u>	<u>461,065</u>
<b>Net book value</b>		
At 31 December 2010	<u>-</u>	<u>-</u>
At 31 December 2009	<u>-</u>	<u>-</u>
<b>10 Debtors</b>	<b>2010 £</b>	<b>Restated 2009 £</b>
Insurance debtors	8,877,079	6,874,773
Other debtors	14,786	4,729
Prepayments and accrued income	<u>497,368</u>	<u>535,712</u>
	<u>9,389,233</u>	<u>7,415,214</u>

### 11 Cash at bank and in hand

Included in cash at bank and in hand is £4,804,885 (2009 £4,718,063 restated) held in designated client statutory money trust accounts. These balances are used to pay premiums to underwriters (net of the company's brokerage commission) as they fall due.

# CASTLE COVER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

	2010	Restated 2009
	£	£
<b>12 Creditors' amounts falling due within one year</b>		
Loans	11,703,509	10,458,509
Bank overdraft	1,568,716	1,538,617
Insurance creditors	11,365,580	10,093,271
Trade creditors	357,276	321,561
Obligations under finance leases	23,704	46,546
Other tax and social security payable	204,267	179,604
Shareholder's loan	4,908,488	4,908,488
Other creditors	19,460	16,448
Accruals and deferred income	3,794,037	2,682,516
	<u>33,945,037</u>	<u>30,245,560</u>

The bank holds a debenture with a fixed and floating charge over all assets of the company, both present and future

The company has a Limited Guarantee given by Primary Group (UK) Limited over banking facilities for £1,000,000 dated 5 May 2010

	2010	2009
	£	£
<b>13 Creditors' amounts falling due after more than one year</b>		
Loan	5,444,022	6,288,078
Other	225,000	-
Obligations under finance leases	6,702	30,406
	<u>5,675,724</u>	<u>6,318,484</u>

Obligations under finance leases are secured on the assets concerned

The loan has a fixed and floating charge over the assets of the company dated 17 May 2006

**Included in the above.**

Convertible Debt	<u>8,444,022</u>	<u>8,288,078</u>
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Interest is payable at 2% over Bank of England base rate. However until 1 February 2008 interest incurred was not paid, but was rolled up in to the loan. From 2 February 2008 to 1 February 2009 interest was paid at 1% over base rate with the remaining 1% over base rolled in to the loan. Thereafter all interest is paid quarterly as due.

The loan is convertible in full at the option of the lender at any date on or after 1 January 2009 on the following basis:

The number of ordinary shares that will be issued is calculated in proportion to the number of fully paid shares in issue at the date of conversion according to the following:

For a default event: Outstanding loan divided by 7.5 x EBITDA

For a non-default event: Outstanding loan divided by 10 x EBITDA

**Analysis of debt maturity:**

Obligations under finance leases are due within 1 - 2 years



# CASTLE COVER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

### 14 Operating lease commitments

At 31 December 2010 the company had annual commitments under non-cancellable operating leases expiring as follows

	Land & Buildings 2010 £	Land & Buildings 2009 £
Within two to five years	413,750	399,757

### 15 Provision for deferred taxation

	Deferred tax asset 2010 £	Deferred tax asset 2009 £
Fixed asset timing difference	18,294	( 52,492)
Tax losses carried forward	6,364,621	6,186,237
Other temporary timing difference	5,449	9,418
	6,388,364	6,143,163

The deferred tax asset has not been recognised due to the length of timescale over which the losses are to be recovered although the company has a 5 year plan with an improving profitable position

### 16 Share capital

	2010 £	2009 £
<u>Authorised</u> 10,000,000 ordinary shares of £0 0001	1,000	1,000
<u>Allotted, issued and fully paid</u> 10,127 ordinary shares of £0 0001 (2009 10,126)	1	1

On 16 February 2010 the company repurchased 59 ordinary shares of £0 0001 for a total consideration of £27

On 2 February 2010 the company issued 40 ordinary shares of £0 0001 for £70 each under the company "nil paid" share scheme, and a further 20 ordinary shares of £0 0001 for £135 each on 8 September 2010, details disclosed in note 23

The total number of unpaid ordinary shares at the year end is 185 (2009 - 551)

# CASTLE COVER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

### 17 Statement of movements on reserves

	Share premium account £	Profit and loss account £	Total £
At 1 January 2010			
As previously reported	554	( 22,532,895)	( 22,532,341)
Prior year adjustment		( 399,254)	( 399,254)
As restated	554	( 22,932,149)	( 22,931,595)
Premium on issue of ordinary shares	5,074	-	5,074
Retained loss for the year	-	( 1,281,335)	( 1,281,335)
At 31 December 2010	<u>5,628</u>	<u>( 24,213,484)</u>	<u>( 24,207,856)</u>

A change in accounting policy in relation to instalment income from policies on monthly direct debit (now recognised over the period of the policy rather than at inception) has led to the above restatement of income for 2009

### 18 Reconciliation of movements in shareholders' funds

	2010 £	2009 £
Loss for the financial year	( 1,281,335)	( 3,219,520)
Issue of ordinary share capital	<u>5,075</u>	<u>191</u>
Net addition to shareholders' funds	( 1,276,260)	( 3,219,328)
Opening shareholders' funds	<u>( 22,931,594)</u>	<u>( 19,712,266)</u>
Closing shareholders' funds	<u>( 24,207,854)</u>	<u>( 22,931,594)</u>

# CASTLE COVER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

### 19 Notes to the cash flow statement

#### (a). Reconciliation of operating loss to net cash outflow from operating activities

	2010 £	Restated 2009 £
Operating profit / (loss)	( 706,754)	( 2,642,624)
Depreciation of tangible fixed assets	691,147	707,807
(Increase) in insurance debtors	( 1,930,122)	( 3,749,255)
(Increase) / decrease in debtors	( 4,984)	5,166
Decrease in prepayments and accrued income	38,344	1,701,885
Increase in insurance creditors	1,272,309	2,096,887
Increase in other creditors	285,379	52,327
Increase in accruals and deferred income	820,241	369,575
(Decrease) / increase in provisions	( 72,183)	148,797
Difference between pension charge and cash contributions	3,012	1,853
Net cash outflow from operating activities	<u>396,389</u>	<u>( 1,307,582)</u>

#### (b). Analysis of net debt

	At 1 January 2010 £	Cash flow £	At 31 December 2010 £
Cash at bank and in hand	4,809,160		5,020,039
Bank overdrafts	<u>( 1,538,617)</u>		<u>( 1,568,716)</u>
Cash	3,270,543	180,780	3,451,323
Loans	( 21,655,075)	( 400,944)	( 22,056,019)
Finance leases	<u>( 76,952)</u>	<u>46,546</u>	<u>( 30,406)</u>
	<u>( 18,461,484)</u>	<u>( 173,618)</u>	<u>( 18,635,102)</u>

# CASTLE COVER LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

### 19 Notes to the cash flow statement (continued)

#### (c) Reconciliation of net cash flow to movement in net debt

	2010 £	Restated 2009 £
Increase in cash	180,780	789,471
Cash inflow from increase in other loans	( 245,000)	( 3,358,509)
Repayment of other loans	52,226	608,508
Interest rolled up into loan balance	( 208,170)	( 338,868)
Repayment of capital element of finance leases and hire purchase contracts	46,546	44,807
<b>Movement in net debt</b>	<b>( 173,618)</b>	<b>( 2,254,590)</b>
<b>Net debt at 1 January</b>	<b>( 18,461,484)</b>	<b>( 16,206,894)</b>
<b>Net debt at 31 December</b>	<b>( 18,635,102)</b>	<b>( 18,461,484)</b>

### 20 Pension commitments

The company operates a defined contribution personal pension plan. The assets of the plans are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the plans and the amount contributed during the year was £248,801 (2009 £185,485). At the balance sheet date, an amount of £19,460 (2009 £16,448) was owing to the pension fund.

### 21 Capital commitments

	2010 £	2009 £
Capital expenditure contracted for but not provided for in the financial statements	-	42,799

## **CASTLE COVER LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)**

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#### **22 Related party transactions**

During the year Mr James, the majority shareholder, made loans of £nil (2009 £nil) to the company and the company incurred interest charges on the existing loans of £122,712 (2009 £129,638). At the balance sheet date an amount of £4,908,488 (2009 £4,908,488) was owed to Mr James. In addition Mr James was owed £862,096 (2009 £739,384) interest on this loan.

During 2009 and 2010 the company entered into a number of transactions with Primary Group (UK) Limited ("Primary"). The company is also a representative of Lorica Consulting Limited ("Lorica") and incurred charges relating to this of £35,250 (2009 £23,000) during the year. Primary has a director that is also a director of the company.

During the year Primary made loans of £245,000 (2009 £3,358,509) to the company and the company incurred interest charges on the loans of £216,403 (2009 £184,515). At the balance sheet date an amount of £8,703,509 (2008 £8,458,509) was owed to Primary. In addition Primary was owed £556,258 (2009 £339,855) interest on this loan.

A number of the directors, other key managers and their close family members have general insurance policies with the company. Such policies are on normal commercial terms except for a discount which is available to all members of staff. The board has considered the financial effect of such insurance policies and concluded that they are not material to the company and if disclosed would not influence decisions made by users of these financial statements.

#### **23 Share Based payments**

The company has in place a "nil paid" share scheme whereby shares are allocated to employees of the company. Over a two or three year period these shares can be "earned" based on individual and company performance criteria assessed each year and continuing employment.

The total number of shares originally issued under this scheme was 360 ordinary shares of nominal value £0.0001 each.

During 2010 a further 60 ordinary shares of £0.0001 each were issued under the "nil paid" scheme, again with performance and service requirements.

The acquisition price of the shares issued in 2010 was set at £70 for 40 of the shares and £135 for the remaining 20. The exercise price paid by the employees was in line with the valuation price so no profit and loss charge was created through the issue of the ordinary shares.

During the year the company repurchased 24 shares originally issued under this scheme (see details in note 16) due to members leaving employment with Castle Cover.

This valuation was arrived at using 2 separate bases:

- (i) The number of live policies multiplied by an average value per policy - based on typical market sales in comparable companies
- (ii) A discounted cash flow approach

The fact there is no readily available market to sell these shares and each of the shareholders granted these options is a minority shareholder was also reflected in the valuation.

## **CASTLE COVER LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)**

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#### **24 Ultimate controlling party**

The ultimate controlling party is Mr PWH James by virtue of his 86.9% holding in the company