

HASTINGS INSURANCE SERVICES LIMITED

ANNUAL REPORT AND ACCOUNTS 2006

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HASTINGS INSURANCE SERVICES LIMITED

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HASTINGS INSURANCE SERVICES LIMITED

Directors

P Connell
I A Godfrey
P Knight (resigned 29 June 2007)
P Barette
D J Pye
C L Day
M Hawker (resigned 1 March 2007)
A S Pickup
G Seymour (resigned 3 September 2007)

Secretary

S Griffin

Auditors

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

Principal and Registered Office

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

HASTINGS INSURANCE SERVICES LIMITED

REPORT OF THE DIRECTORS

The Directors submit their Report and Accounts of the company for the year ended 31 December 2006

PRINCIPAL ACTIVITY

The principal activity of the company is the provision of insurance services

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

There have been no significant changes in the activities of the company during the year
Turnover for the year was £70,415,090 (2005 - £60,020,059)

On 29th September 2006 the Company's parent, Logan Consultants Limited, was acquired by Insurance Australia Group Limited (IAG). This change in ownership has not affected the principle activity of the company
No significant changes in the nature of the business are expected in 2007 and the directors are confident of future prospects

FINANCIAL RISK MANAGEMENT

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

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

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

Price risk

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

Credit risk

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

Liquidity risk

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

Interest rate risk

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

RESULTS FOR THE YEAR

The loss for the year after taxation amounted to £5,778,037 (2005 - Profit £5,950,333). The results for the year have been adversely effected by the exceptional items detailed in note 19

The Directors do not recommend the payment of a dividend

HASTINGS INSURANCE SERVICES LIMITED

DIRECTORS

The names of the Directors at the date of this report appear on page 3. They served throughout the year, except as stated below.

On 2 October 2006 Mr D G Gundlach resigned his appointment as a Director.

On 29 November 2006 Mr G Seymour was appointed as a Director.

On 29 November 2006 Mr M Hawker was appointed as a Director.

On 29 November 2006 Ms A S Pickup was appointed as a Director.

On 1 March 2007 Mr M Hawker resigned his appointment as a Director.

On 29 June 2007 Mr P Knight resigned his appointment as a Director.

On 3 September 2007 Mr G Seymour resigned his appointment as a Director.

According to the register kept for the purposes of the Companies Act 1985, no Director had any beneficial interest in the shares of the company.

Disclosure of information to the auditors

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

EMPLOYEES

The Directors recognise that staff should be kept informed, so far as practicable, on matters of interest and concern to them as employees. Their views are sought and taken into account in making decisions which affect them. Information is conveyed through meetings and the distribution of circulars.

The company is very conscious of the difficulties experienced by people with disabilities. Its attitude to the employment of disabled persons is the same as that relating to all other staff in matters of recruitment, continuity of employment, training, development and promotion, and it will take sympathetic account of individual circumstances.

AUDITORS

A resolution to re-appoint KPMG Audit Plc as the company's auditor will be put to the forthcoming Annual General Meeting.

DONATIONS

The company made donations of £9,541 (2005 - £27,321) for charitable purposes.

By Order of the Board



P Connell

Director

Date 29 October 2007

HASTINGS INSURANCE SERVICES LIMITED

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

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

The company's financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit and loss 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts,
- prepare accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business

The Directors are responsible for keeping proper accounting records that 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 of 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

HASTINGS INSURANCE SERVICES LIMITED

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 31 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Audit Practice Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

29 October 2007

KPMG AUDIT Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

HASTINGS INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2006

| | Notes | 2006 £ | 2005 £ |
|---|-------|--------------------|------------------|
| TURNOVER | 1 | 70,415,090 | 60,020,059 |
| Administrative expenses | | (73,780,240) | (52,928,542) |
| Goodwill amortisation | 9 | (780,356) | (780,356) |
| OPERATING (LOSS)/PROFIT | | (4,145,506) | 6,311,161 |
| Interest receivable and similar income | 5 | 971,744 | 1,005,549 |
| Interest payable and similar charges | 6 | (3,388,596) | (104,018) |
| (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 2 | (6,562,358) | 7,212,692 |
| Taxation | 7 | 784,321 | (1,262,359) |
| (LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | 8 | (5,778,037) | 5,950,333 |
| RETAINED (LOSS)/PROFIT FOR THE YEAR | | <u>(5,778,037)</u> | <u>5,950,333</u> |

All of the company's operations are classed as continuing

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2006

| | 2006 £ | 2005 £ |
|--|--------------------|------------------|
| Retained (loss)/profit for the financial year and total recognised gains and losses relating to the year | (5,778,037) | 5,950,333 |
| Prior year adjustment | - | 576,715 |
| Total gains and losses recognised since last annual report | <u>(5,778,037)</u> | <u>6,527,048</u> |

HASTINGS INSURANCE SERVICES LIMITED

BALANCE SHEET **at 31 December 2006**


| | Notes | 2006 | 2005 |
|---|-------|-------------------------|--------------------------|
| | | £ | £ |
| FIXED ASSETS | | | |
| Intangible assets | 9 | 5,697,396 | 5,915,738 |
| Tangible assets | 10 | 4,044,039 | 4,542,714 |
| Investments | 11 | - | 510 |
| | | <hr/> | <hr/> |
| | | 9,741,435 | 10,458,962 |
| CURRENT ASSETS | | | |
| Debtors | 12 | 59,299,565 | 48,899,675 |
| Deferred tax asset | 12 | 7,086,824 | 128,559 |
| Listed current asset investment | | 1,415,880 | 1,218,417 |
| Cash at bank and in hand | | 8,557,985 | 4,365,477 |
| | | <hr/> | <hr/> |
| | | 76,360,254 | 54,612,128 |
| CREDITORS Amounts falling due within one year | 13 | (78,683,337) | (51,726,920) |
| | | <hr/> | <hr/> |
| NET CURRENT (LIABILITIES) ASSETS | | (2,323,083) | 2,885,208 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 7,418,352 | 13,344,170 |
| CREDITORS Amounts falling due after more than one year | 15 | (331,090) | (478,871) |
| | | <hr/> | <hr/> |
| NET ASSETS | | <u><u>7,087,262</u></u> | <u><u>12,865,299</u></u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 14 | 5,000 | 5,000 |
| Profit and loss account | | <hr/> 7,082,262 | <hr/> 12,860,299 |
| EQUITY SHAREHOLDERS' FUNDS | 8 | <u><u>7,087,262</u></u> | <u><u>12,865,299</u></u> |

Approved by the Board of Directors and signed on its behalf



P Connell
Director

Date **21 OCTOBER 2007**


P Barette
Director

Date **29 OCTOBER 2007**

HASTINGS INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS

1 Statement of accounting policies

(a) Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards, which have been consistently applied, except as stated in 1(b) below

The financial statements have been prepared on the going concern basis, notwithstanding the net current liabilities of £2,323,083 in the balance sheet which the directors believe to be appropriate for the following reasons. The company is dependant for its working capital on funds provided to it by Insurance Australia Group Limited, the ultimate parent undertaking. Insurance Australia Group Limited has provided the directors with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis

The comparative data for the year ended 31 December 2005 has been restated to be consistent with the disclosure in the 2006 accounts

(b) Turnover

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

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

All turnover relates to business written in the UK

(c) Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of separable net assets acquired. The carrying value of goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable

The directors consider the estimated useful economic life of the goodwill to be 10 years and goodwill is amortised in equal annual instalments over this period

(d) Intangible fixed assets

Intangible fixed assets are amortised on a straight line basis over their useful economic lives and are stated in the balance sheet at cost less accumulated amortisation. All intangible assets are amortised over 4 years

(e) 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

(f) Fixed asset investments

Fixed asset investments are stated at cost less impairment

(g) Insurance debtors and creditors

The company acts as an agent in broking insurable risks and, generally, is not liable as a principal for premiums due to underwriters, premium refunds due to clients or for claims payable to clients

Notwithstanding the company's legal relationship with clients and underwriters, and, since in practice premium and claim moneys are usually accounted for by insurance intermediaries, the company has followed generally accepted accounting practice by showing debtors and creditors relating to insurance business as assets and liabilities of the company itself

HASTINGS INSURANCE SERVICES LIMITED

(h) Current asset investments

Current asset investments are stated at the lower of cost and net realisable value, which at the balance sheet date was equal to their market value and are classified as liquid resources

(i) Issue costs

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

(j) Deferred tax

Deferred taxation is provided for on a full provision basis on all timing differences, which have arisen but not reversed at the balance sheet date. No timing differences are recognised in respect of gains on sale of assets where those assets are rolled over into replacement assets. A deferred tax asset is not recognised to the extent that the transfer of economic benefit in future is uncertain. Any assets and liabilities recognised have not been discounted.

(k) 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.

(l) Pensions

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

(m) Cashflow statement

Under Financial Reporting Standard No 1 Cash flow statements (revised 1996) (FRS 1) the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Insurance Australia Group Limited, a company that prepares a consolidated cash flow statement.

2 Loss on ordinary activities before taxation

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

| | 2006 | 2005 |
|---|-------------|-------------|
| | £ | £ |
| Auditors remuneration | | |
| - Audit of the financial statements of the company | 60,760 | 55,760 |
| - Non-audit services provided by associated company | - | 59,068 |
| Depreciation - Tangible fixed asset | 1,814,714 | 1,490,506 |
| Depreciation - Intangible fixed asset | 22,366 | - |
| Amortisation of goodwill | 780,356 | 780,356 |
| Profit on disposal of tangible fixed assets | (1,883) | (996) |
| Profit on disposal of investment | (9,490) | - |
| Operating lease rentals - land and buildings | 1,825,849 | 1,901,287 |
| Operating lease rentals - office equipment and vehicles | 49,858 | 3,966 |

Depreciation in respect of assets held under finance leases amounted to £326,913 (2005 - £301,930)

HASTINGS INSURANCE SERVICES LIMITED

3 Directors' emoluments

| | 2006 | 2005 |
|--|----------------|----------------|
| | £ | £ |
| (a) The emoluments of the Directors for the year were as follows | | |
| Remuneration and other emoluments | 606,539 | 539,209 |
| Pension contributions | 59,566 | 40,934 |
| | <u>666,105</u> | <u>580,143</u> |
| (b) The emoluments of the highest paid Director were | | |
| Remuneration and other emoluments | 204,147 | 131,973 |
| Pension contributions | 20,205 | 13,000 |
| | <u>224,352</u> | <u>144,973</u> |
| (c) The defined contribution pension scheme contributions above are in respect of five current directors | | |

4 Staff costs

Staff costs were as follows

| | 2006 | 2005 |
|--|-------------------|-------------------|
| | £ | £ |
| Salaries | 32,295,669 | 21,030,277 |
| Social security costs | 5,323,728 | 1,664,428 |
| Pension costs | 407,435 | 301,973 |
| | <u>38,026,832</u> | <u>22,996,678</u> |
| The average number of persons employed during the year was | | |
| Sales and Customer Services | 711 | 638 |
| Claims | 204 | 196 |
| Administration | 321 | 324 |
| | <u>1,236</u> | <u>1,158</u> |

HASTINGS INSURANCE SERVICES LIMITED

5 Interest receivable and similar income

| Interest receivable comprises | 2006 | 2005 |
|---|----------------|------------------|
| | £ | £ |
| Income on current asset investments | 278 069 | 328 819 |
| Interest on loan to Logan Consultants Limited (see note 16) | 647 957 | 613,697 |
| Bank interest receivable | 45 718 | 63 033 |
| | <u>971 744</u> | <u>1,005 549</u> |

6 Interest payable and similar charges

| Interest payable comprises | 2006 | 2005 |
|--|------------------|----------------|
| | £ | £ |
| Finance charges payable under finance leases | 55,909 | 4 890 |
| Other interest | 2,800,446 | 13 981 |
| Interest payable on receivables financing | 532,241 | 85,147 |
| | <u>3,388 596</u> | <u>104,018</u> |

7 Tax on (loss)/profit on ordinary activities

| The tax charge is based on the profit for the year and comprises | 2006 | 2005 |
|--|--------------------|------------------|
| | £ | £ |
| UK Corporation tax at 30% (2005 - 30%) | (3,608 265) | 1,215,731 |
| Under Provision in respect of prior periods | 6,173 944 | - |
| Current period deferred tax (credit)/charge | <u>(3,350 000)</u> | <u>46 628</u> |
| Current tax (credit)/charge for the year | <u>(784,321)</u> | <u>1 262,359</u> |

Tax reconciliation

| | 2006 | 2005 |
|--|--------------------|--------------------|
| | £ | £ |
| (Loss)/Profit before taxation | (6,562,358) | 7,212,692 |
| Tax at 30% (2005 - 30%) | (1,968,707) | 2 163,808 |
| Disallowed expenditure | 3,742,807 | 118,353 |
| Expenditure allowed in current period - disallowed in previous periods | (3 900,000) | - |
| Capital allowances in excess/(deficit) of depreciation | 307,290 | 46,243 |
| Utilisation of tax losses brought forward | <u>(1,789 655)</u> | <u>(1 112,673)</u> |
| | <u>(3 608,265)</u> | <u>1 215 731</u> |

A deferred tax asset of £128,559 (2005 - £128,559) relating to capital allowances in deficit of depreciation, has been recognised within other debtors. A deferred tax asset of £3 608,265 (2005 - £nil) has been recognised relating to tax losses carried forward and £3,350,000 (2005 - £nil) relating to timing differences on expenses, has been recognised within other debtors (note 12)

The company has a further unrecognised deferred tax asset of £652 223 (2005 - £2,441,877) relating to tax losses carried forward within its acquired Peoples Choice division. The asset has not been recognised on the basis that its utilisation is not sufficiently probable.

HASTINGS INSURANCE SERVICES LIMITED

8 Movements on shareholders funds

| | Share capital £ | Profit and loss account £ | Total shareholders' funds £ |
|--|--------------------|---------------------------------|--------------------------------------|
| At 1 January 2006 | 5,000 | 12,860,299 | 12,865,299 |
| Loss on ordinary activities after taxation | - | (5,778,037) | (5,778,037) |
| Carned forward at 31 December 2006 | 5,000 | 7,082,262 | 7,087,262 |

9 Intangible assets

| | 2006 £ | 2005 £ |
|--------------------------------------|-------------------------|-------------------------|
| <i>Cost</i> | | |
| At 1 January and 31 December | | |
| Goodwill | 7,803,559 | 7,803,559 |
| Other intangibles | 584,380 | - |
| | <u>8,387,939</u> | <u>7,803,559</u> |
| <i>Amortisation</i> | | |
| At 1 January | 1,887,821 | 1,107,465 |
| Charge for the year - Goodwill | 780,356 | 780,356 |
| Charge for the year - Other | 22,366 | - |
| At 31 December | <u>2,690,543</u> | <u>1,887,821</u> |
| Net book value at 31 December | <u>5,697,396</u> | <u>5,915,738</u> |

10 Tangible assets

| | Fixtures and Fittings £ | Computer Equipment £ | Motor Vehicles £ | Leasehold Improvements £ | Total £ |
|----------------------------|-------------------------------|----------------------------|------------------------|--------------------------------|--------------------------|
| <i>Cost</i> | | | | | |
| At 1 January 2006 | 4,020,255 | 11,096,595 | 134,129 | 2,094,649 | 17,345,628 |
| Purchases in the year | 364,051 | 860,750 | - | 106,454 | 1,331,255 |
| Disposals | - | - | (53,830) | - | (53,830) |
| At 31 December 2006 | <u>4,384,306</u> | <u>11,957,345</u> | <u>80,299</u> | <u>2,201,103</u> | <u>18,623,054</u> |
| <i>Depreciation</i> | | | | | |
| At 1 January 2006 | 2,471,982 | 8,912,729 | 80,111 | 1,338,092 | 12,802,914 |
| Charge for the year | 593,579 | 964,169 | 21,706 | 235,260 | 1,814,714 |
| Disposals | - | - | (38,613) | - | (38,613) |
| At 31 December 2006 | <u>3,065,561</u> | <u>9,876,898</u> | <u>63,204</u> | <u>1,573,352</u> | <u>14,579,015</u> |
| Net book value | | | | | |
| At 31 December 2006 | <u>1,318,745</u> | <u>2,080,447</u> | <u>17,095</u> | <u>627,751</u> | <u>4,044,039</u> |
| At 31 December 2005 | <u>1,548,273</u> | <u>2,183,866</u> | <u>54,018</u> | <u>756,557</u> | <u>4,542,714</u> |

The net book value of computer equipment above includes £501,343 (2005 - £268,240) in respect of assets held under finance leases

The net book value of fixtures & fittings above includes £317,357 (2005 - £453,368) in respect of assets held under finance leases

HASTINGS INSURANCE SERVICES LIMITED

11 Investments

| | 2006 | 2005 |
|-------------------|-------|-------|
| Cost | £ | £ |
| At 1 January 2006 | 510 | - |
| Additions | - | 510 |
| Disposals | (510) | - |
| | <hr/> | <hr/> |
| At 31 December | - | 510 |

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

During 2006 the company disposed of 51% of the share capital of Text2Insure Limited, and purchased 100 Class A shares at par. These were disposed of in 2006 for a consideration of £10,000

12 Debtors

| | 2006 | 2005 |
|---|------------|------------|
| Debtors comprise | £ | £ |
| Trade debtors | 37,410,356 | 30,367,895 |
| Amounts owed by Logan Consultants Limited (see note 16) | 17,150,318 | 13,784,061 |
| Other debtors | 133,799 | 1,172,569 |
| Deferred tax asset | 7,086,824 | 128,559 |
| Prepayments and accrued income | 4,605,092 | 3,575,150 |
| | <hr/> | <hr/> |
| | 66,386,389 | 49,028,234 |

13 Creditors amounts falling due within one year

| | 2006 | 2005 |
|---|------------|------------|
| Creditors comprise | £ | £ |
| Receivables finance | 7,916,043 | 8,738,738 |
| Less deferred issue costs | (116,684) | (180,330) |
| | <hr/> | <hr/> |
| Trade creditors | 7,799,359 | 8,558,408 |
| Bank overdraft | 35,670,506 | 29,590,620 |
| Obligations under finance leases (see note 15) | 5,313,541 | 2,192,010 |
| Accruals and deferred income | 446,195 | 158,734 |
| Other creditors including taxes and social security (see note 19) | 10,324,628 | 7,887,848 |
| | <hr/> | <hr/> |
| | 78,683,337 | 51,726,920 |

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

A fixed and floating charge has been put in place over all assets of the company for securing all monies due or becoming due to Barclays Bank plc from the company or Logan Consultants Limited (see note 16).

HASTINGS INSURANCE SERVICES LIMITED

14 Share capital

| | 2006 | 2005 |
|---|--------------|--------------|
| | £ | £ |
| Authorised allotted, called up and fully paid share capital | | |
| A Ordinary shares of £1 each | 3,750 | 3,750 |
| B Ordinary shares of £1 each | 625 | 625 |
| C Ordinary shares of £1 each | 625 | 625 |
| | <u>5,000</u> | <u>5,000</u> |

The holders of the A Ordinary shares are entitled to participate in the distributable profits of the company and are thus entitled to any dividends declared. The holders of B and C Ordinary shares have no entitlement to participate in any profit distributions. On winding up, after returning the nominal value of Ordinary shares, any assets are distributed amongst the holders of A, B and C Ordinary shares pro rata. A, B and C Ordinary shares carry one vote per member.

15 Financial commitments

Finance leases

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

| | 2006 | 2005 |
|--|-----------------|------------------|
| | £ | £ |
| Amounts payable within one year | 473,278 | 227,465 |
| In two to five years | <u>348,638</u> | <u>515,570</u> |
| | 821,916 | 743,035 |
| Less finance charges allocated to future periods | <u>(44,631)</u> | <u>(105,430)</u> |
| | <u>777,285</u> | <u>637,605</u> |

Finance lease obligations are analysed as follows

| | | |
|-----------------------------------|----------------|----------------|
| Current obligations (see note 13) | 446,195 | 158,734 |
| Non-current obligations | <u>331,090</u> | <u>478,871</u> |
| | <u>777,285</u> | <u>637,605</u> |

Analysis of changes in finance leases during the year

| | £ |
|--|------------------|
| At 1 January 2006 | 637,605 |
| Inception of finance lease contracts | 363,765 |
| Less capital element of finance lease payments | <u>(224,085)</u> |
| At 31 December 2006 | <u>777,285</u> |

Operating leases

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

| | 2006 | 2006 | 2005 | 2005 |
|-------------------------------|--------------------|----------------|--------------------|--------------|
| | Land and Buildings | Other | Land and Buildings | Other |
| | £ | £ | £ | £ |
| Operating leases which expire | | | | |
| Within 2 - 5 years | 625,700 | 150,894 | 470,000 | 5,289 |
| After 5 years | <u>1,421,381</u> | <u>-</u> | <u>1,765,556</u> | <u>-</u> |
| | <u>2,047,081</u> | <u>150,894</u> | <u>2,235,556</u> | <u>5,289</u> |

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16 Related party transactions

During 2002 the company provided a loan facility to Logan Consultants Limited as financial assistance towards the acquisition of the shares of the company from the former immediate holding company. Interest on the loan is charged at 1.5% over LIBOR. Interest in the year was £647,957 (2005 - £613,697) (see note 5). The value of this loan as at 31 December 2006 was £17,150,318 (2005 - £13,784,061) (see note 12).

Two directors of the Company, Mr Godfrey and Mr Knight, were also directors of Advantage Insurance Company Limited during the year ended 31 December 2006. All transactions between the company and Advantage Insurance Company Limited have been conducted on an arms length basis.

Commission earned by the company in the year in respect of policies sold that were underwritten by Advantage Insurance Company was £22,909,223 (2005 - £13,657,496). Trade creditors include a creditor balance due to Advantage Insurance Company of £27,230,874 (2005 - £13,104,235). Trade debtors include a debtor balance due from Advantage Insurance Company of £3,240,316 which relates to claims.

During 2006 the company disposed of 51% of the share capital of Text2Insure Limited, and purchased 100 Class A shares at par. These were disposed of in 2006 for a consideration of £10,000.

17 Subsidiary undertakings

Investments in subsidiary undertakings at 31 December 2006 were as follows:

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

Group accounts have not been prepared as the subsidiaries are immaterial.

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18 Contingent liability

A dispute exists with International Insurance Company of Hannover Limited, which the Board intends to defend vigorously. As the validity of the claim is disputed no provision has been made in these accounts.

19 Exceptional Items

The company is in negotiation with the HM Revenue & Customs ("HMRC") regarding the taxation of certain arrangements entered into in previous periods. The appropriate treatment of those arrangements is uncertain but provision has been made for the estimated full potential costs associated with them. These comprise

| | £'000 |
|-------------------------|---------------|
| Administrative expenses | 12,464 |
| Interest payable | 2,670 |
| Corporation tax charge | 1,473 |
| Deferred tax credit | (3,350) |
| | <u>13,257</u> |

The company has the benefit of a tax indemnity provided to its intermediate parent company, IAG International Pty Limited, by the vendor of its immediate parent company in 2006. This indemnity is secured at a level which is expected to exceed the ultimate liability to HMRC. It is anticipated that IAG International Pty Limited will seek to make any recoveries due under this indemnity and accordingly no recoveries have been assumed in these accounts.

20 Holding company

The Company's immediate holding company is Logan Consultants Limited, which is incorporated in Gibraltar and whose registered office is at The Old Bank, 17/21 Cannon Lane, Gibraltar.

As from 29th September 2006, the Company's ultimate parent undertaking is Insurance Australia Group Limited, incorporated in Australia.

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

The consolidated financial statements of these groups are available to the public and may be obtained from, www.iag.com.au and Companies House (Gibraltar) Limited, 1st Floor, The Arcade, PO Box 848 Gibraltar.