

REGISTERED NUMBER: 05987949 (England and Wales)

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011
FOR
AA MECHANICAL INSURANCE SERVICES LIMITED**

TUESDAY



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27/09/2011
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for the year ended 31 March 2011

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AA MECHANICAL INSURANCE SERVICES LIMITED

COMPANY INFORMATION

for the year ended 31 March 2011

DIRECTORS:

D Antcliff
S J Tennyson
F D Pinkney
D L Pinkney
P N Pinkney

SECRETARY:

D Antcliff

REGISTERED OFFICE:

1 Waterside Court
Bold Street
Sheffield
South Yorkshire
S9 2LR

REGISTERED NUMBER:

05987949 (England and Wales)

AUDITORS:

C J Woodhead & Co Ltd
Chartered Accountants and
Statutory Auditors
158 Hemper Lane
Sheffield
South Yorkshire
S8 7FE

REPORT OF THE DIRECTORS
for the year ended 31 March 2011

The directors present their report with the financial statements of the company for the year ended 31 March 2011

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of the supply and administration of insurance based products to the motor industry

REVIEW OF BUSINESS

The results for the year and financial position of the company are as shown in the annexed financial statements

Financial Key Performance Indicators

	2011	2010
Net rated premium income	£14.3m	£16.2m
Turnover relative to principal activity	£4.3m	£5.0m
Profit/(loss) before tax & exceptional items	(£0.37m)	(£0.17m)
Retained profit/(loss) for the year	(£0.35m)	(£0.17m)
Current ratio	1.15	1.24

The company's sole activity has been the sale of mechanical breakdown insurance and associated motor insurance products using the brand AA Warranty under licence from The AA

The dealer market, which is the company's core marketplace, has been the subject of a rationalisation between the months of October and December 2010 due to quality assurance standards governed by The AA. Early indications show a net rated premium income reduction of 18.3% although, due to a stringent selection criteria to remove brand usage in under-performing dealers, the directors envisage minimal impact on reported turnover within this market.

The costs associated with the use of the AA Warranty brand are significant

	2011	2010
Profit share and commission as a percentage of turnover	23.03%	20.35%

Since the balance sheet date, the company has renegotiated its financial provisions with The AA. However, the impact of the improved terms will not be evident until February 2012.

The main risk affecting the company is the decline in sales across the motor industry resulting from the current economic downturn. The directors feel that whilst the new car market is suffering, demand for warranty products in the used car market will continue to be high.

There is still a credit risk in respect of debts due from dealers who are experiencing trading difficulties, although this has been managed through tight credit control and by maintaining close links with the company's dealers, through the group's nationwide network of sales representatives.

The directors are disappointed with the financial performance of the business and the results for the period under review. The company has been supported financially throughout the period by its parent company, Motorway Direct Plc. The directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements on the basis that Motorway Direct Plc have committed to continue their financial support.

DIVIDENDS

No dividends will be distributed for the year ended 31 March 2011

REPORT OF THE DIRECTORS
for the year ended 31 March 2011

DIRECTORS

The directors shown below have held office during the whole of the period from 1 April 2010 to the date of this report

D Antcliff
S J Tennyson
F D Pinkney
D L Pinkney
P N Pinkney

COMPANY'S POLICY ON PAYMENT OF CREDITORS

It is the company's normal practice to agree payment terms with its suppliers when it enters into binding purchase contracts. The company seeks to abide by the payment terms agreed whenever it is satisfied that the goods or services have been provided in accordance with the agreed terms and conditions. The company does not apply a standard code, which deals specifically with the payment of creditors.

FINANCIAL INSTRUMENTS

The company does not actively use financial instruments as part of its financial risk management. It is exposed to the usual credit risk and cash flow risk associated with selling on credit, and manages this through credit control procedures. The nature of its financial instruments means that they are not subject to price risk or liquidity risk.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AA MECHANICAL INSURANCE SERVICES LIMITED (REGISTERED NUMBER: 05987949)

REPORT OF THE DIRECTORS
for the year ended 31 March 2011

AUDITORS

The auditors, C J Woodhead & Co Ltd, will be proposed for re-appointment at the forthcoming Annual General Meeting

ON BEHALF OF THE BOARD:



D Antcliff - Secretary

Date

26/09/11

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF AA MECHANICAL INSURANCE SERVICES LIMITED

We have audited the financial statements of AA Mechanical Insurance Services Limited for the year ended 31 March 2011 on pages seven to sixteen. 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 a Report of the Auditors 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 set out on page three, 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 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. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 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 other matter prescribed by the Companies Act 2006

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

**REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF
AA MECHANICAL INSURANCE SERVICES LIMITED**

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



Christopher Woodhead F C A (Senior Statutory Auditor)
for and on behalf of C J Woodhead & Co Ltd
Chartered Accountants and
Statutory Auditors
158 Hemper Lane
Sheffield
South Yorkshire
S8 7FE

Date 26 09 11

AA MECHANICAL INSURANCE SERVICES LIMITED (REGISTERED NUMBER: 05987949)**PROFIT AND LOSS ACCOUNT**
for the year ended 31 March 2011

	Notes	2011 £	2010 £
TURNOVER		4,289,456	5,038,315
Cost of sales		97,450	(34,635)
GROSS PROFIT		4,386,906	5,003,680
Administrative expenses		(5,483,108)	(5,810,952)
		(1,096,202)	(807,272)
Other operating income		1,244,238	1,251,003
OPERATING PROFIT	3	148,036	443,731
Interest receivable and similar income		1,972	1,319
		150,008	445,050
Interest payable and similar charges	4	(516,668)	(615,590)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(366,660)	(170,540)
Tax on loss on ordinary activities	5	15,000	-
LOSS FOR THE FINANCIAL YEAR		<u>(351,660)</u>	<u>(170,540)</u>

CONTINUING OPERATIONS

None of the company's activities were acquired or discontinued during the current year or previous year

The notes form part of these financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2011

	2011 £	2010 £
LOSS FOR THE FINANCIAL YEAR	(351,660)	(170,540)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	<u>(351,660)</u>	<u>(170,540)</u>
Prior year adjustment		<u>(775,509)</u>
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT		<u><u>(946,049)</u></u>

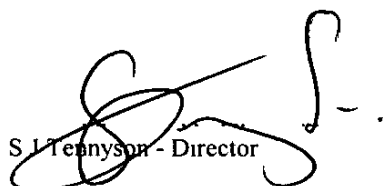
The notes form part of these financial statements

AA MECHANICAL INSURANCE SERVICES LIMITED (REGISTERED NUMBER: 05987949)

BALANCE SHEET
31 March 2011

	Notes	2011 £	2010 £
CURRENT ASSETS			
Debtors	7	7,815,530	7,242,363
Cash at bank		2,411	223,296
		<u>7,817,941</u>	<u>7,465,659</u>
CREDITORS			
Amounts falling due within one year	8	(6,798,681)	(5,997,289)
NET CURRENT ASSETS		<u>1,019,260</u>	<u>1,468,370</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,019,260	1,468,370
PROVISIONS FOR LIABILITIES	10	(761,396)	(858,846)
NET ASSETS		<u>257,864</u>	<u>609,524</u>
CAPITAL AND RESERVES			
Called up share capital	11	1	1
Profit and loss account	12	257,863	609,523
SHAREHOLDERS' FUNDS	16	<u>257,864</u>	<u>609,524</u>

The financial statements were approved by the Board of Directors on 26 September 2011 and were signed on its behalf by


S J Tennyson - Director

The notes form part of these financial statements

AA MECHANICAL INSURANCE SERVICES LIMITED (REGISTERED NUMBER 05987949)

CASH FLOW STATEMENT
for the year ended 31 March 2011

	Notes	2011 £	2010 £
Net cash outflow from operating activities	1	(551,084)	(628,348)
Returns on investments and servicing of finance	2	(514,696)	(614,271)
		(1,065,780)	(1,242,619)
Financing	2	897,747	(340,718)
Decrease in cash in the period		<u>(168,033)</u>	<u>(1,583,337)</u>
Reconciliation of net cash flow to movement in net funds	3		
Decrease in cash in the period		<u>(168,033)</u>	<u>(1,583,337)</u>
Change in net funds resulting from cash flows		<u>(168,033)</u>	<u>(1,583,337)</u>
Movement in net funds in the period		<u>(168,033)</u>	<u>(1,583,337)</u>
Net funds at 1 April		<u>37,707</u>	<u>1,621,044</u>
Net (debt)/funds at 31 March		<u>(130,326)</u>	<u>37,707</u>

The notes form part of these financial statements

NOTES TO THE CASH FLOW STATEMENT
for the year ended 31 March 2011

1 RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2011 £	2010 £
Operating profit	148,036	443,731
Increase/(Decrease) in admin provision	(97,450)	34,635
Decrease in debtors	738,069	1,346,121
Decrease in creditors	(1,339,739)	(2,452,835)
Net cash outflow from operating activities	(551,084)	(628,348)

2 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2011 £	2010 £
Returns on investments and servicing of finance		
Interest received	1,972	1,319
Interest paid	(516,668)	(615,590)
Net cash outflow for returns on investments and servicing of finance	(514,696)	(614,271)
Financing		
Loans with group companies	897,747	(340,718)
Net cash inflow/(outflow) from financing	897,747	(340,718)

3 ANALYSIS OF CHANGES IN NET FUNDS

	At 1/4/10 £	Cash flow £	At 31/3/11 £
Net cash			
Cash at bank	223,296	(220,885)	2,411
Bank overdraft	(185,589)	52,852	(132,737)
	<u>37,707</u>	<u>(168,033)</u>	<u>(130,326)</u>
Total	<u>37,707</u>	<u>(168,033)</u>	<u>(130,326)</u>

The notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2011

1 ACCOUNTING POLICIES

Basis of preparing the financial statements

The financial statements have been prepared on a going concern basis on the assumption that the parent company will continue its financial support of the company

Accounting convention

The financial statements have been prepared under the historical cost convention

Turnover

Turnover represents insurance commission net of underwriting and third party commission after adjustment for amounts not earned in respect of claims administration. Turnover is recognised on the receipt of applications for cover for customers

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date

2 STAFF COSTS

There were no staff costs for the year ended 31 March 2011 nor for the year ended 31 March 2010

3 OPERATING PROFIT

The operating profit is stated after charging

	2011 £	2010 £
Auditors' remuneration	<u>6,000</u>	<u>6,000</u>
Directors' remuneration	<u>-</u>	<u>-</u>

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £	2010 £
Bank interest	24	-
Funding charges and interest	<u>516,644</u>	<u>615,590</u>
	<u>516,668</u>	<u>615,590</u>

5 TAXATION

Analysis of the tax credit

The tax credit on the loss on ordinary activities for the year was as follows

	2011 £	2010 £
Current tax		
UK corporation tax	<u>(15,000)</u>	<u>-</u>
Tax on loss on ordinary activities	<u>(15,000)</u>	<u>-</u>

UK corporation tax has been charged at 28%

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 March 2011

5 TAXATION - continued

Factors affecting the tax credit

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below

	2011 £	2010 £
Loss on ordinary activities before tax	<u>(366,660)</u>	<u>(170,540)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2010 - 28%)	(102,665)	(47,751)
Effects of		
Expenses not deductible for tax purposes	(6,737)	2,735
Prior period losses utilised in period	(33,829)	-
Losses carried forward	<u>128,231</u>	<u>45,016</u>
Current tax credit	<u>(15,000)</u>	<u>-</u>

Factors that may affect future tax charges

At 31 March 2011 the company had accumulated trading losses of £457,967 (2010 - £67,245) which are available to carry forward

6 PRIOR YEAR ADJUSTMENT

Prior year adjustments comprise the following restatements of results for previous periods

	Increase / (Decrease) in prior year profits	
	2011 £	2010 £
Underwriter profit share overstated in earlier periods	-	(556,762)
VAT on AA profit share relating to earlier periods	-	(218,747)
	<u>-</u>	<u>(775,509)</u>

7 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £	2010 £
Trade debtors	1,991,097	2,919,418
Amounts owed by group undertakings	4,025,705	2,729,469
Other debtors	1,559,164	1,326,461
Claims control	109,039	161,592
Tax	15,000	-
VAT	921	21,396
Prepayments	<u>114,604</u>	<u>84,027</u>
	<u>7,815,530</u>	<u>7,242,363</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 March 2011

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011	2010
	£	£
Bank loans and overdrafts (see note 9)	132,737	185,589
Trade creditors	225,858	432,884
Amounts owed to group undertakings	4,213,453	2,019,470
Other creditors	2,023,278	2,980,767
Accruals & deferred income	203,355	378,579
	<u>6,798,681</u>	<u>5,997,289</u>

9 LOANS

An analysis of the maturity of loans is given below

	2011	2010
	£	£
Amounts falling due within one year or on demand		
Bank overdrafts	<u>132,737</u>	<u>185,589</u>

10 PROVISIONS FOR LIABILITIES

	2011	2010
	£	£
Other provisions		
Claims administration	<u>761,396</u>	<u>858,846</u>

11 CALLED UP SHARE CAPITAL

Allotted, issued and fully paid			2011	2010
Number	Class	Nominal value	£	£
1	Ordinary	£1	<u>1</u>	<u>1</u>

12 RESERVES

	Profit and loss account £
At 1 April 2010	609,523
Deficit for the year	<u>(351,660)</u>
At 31 March 2011	<u>257,863</u>

13 ULTIMATE PARENT COMPANY

The ultimate parent company at 31 March 2011 was Car Protect Holdings Limited, a company registered in Gibraltar

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 March 2011

14 RELATED PARTY DISCLOSURES

Motorway Direct Plc

During the year the parent company, Motorway Direct Plc, recharged £4,072,319 of group overheads to AA Mechanical Insurance Services Limited. Motorway Direct Plc paid net costs on behalf of AA Mechanical Insurance Services Limited amounting to £164,319 and AA Mechanical Insurance Services Limited paid net costs on behalf of Motorway Direct Plc amounting to £115,793. AA Mechanical Insurance Services Limited also received further funding totalling £1,714,500 and repaid amounts totalling £3,625,000. A balance of £4,213,453 was owed by AA Mechanical Insurance Services Limited at 31 March 2011 (2010 - £2,003,108) and is included within creditors.

Car Protect Limited

During the year the company paid net costs totalling £205,712 on behalf of Car Protect Limited, a fellow subsidiary of Motorway Direct Plc. Car Protect Limited also paid net costs on behalf of the company totalling £1,647. A balance of £187,703 was owed by Car Protect Limited at 31 March 2011 (2010 - £16,362 owed to Car Protect Limited) and is included within debtors (2010 - creditors).

London Wall Insurance Services Limited

During the year the company charged £1,171,950 to London Wall Insurance Services Limited, a fellow subsidiary of Motorway Direct Plc. This amount represents the re-charge of costs associated with the sale of AA Warranty branded products through that company's Dealer Guarantee scheme. London Wall Insurance Services Limited also paid net costs on behalf of the company totalling £6,593. The company also received £61,542 on behalf of London Wall Insurance Services Limited. A balance of £3,838,002 was owed by London Wall Insurance Services Limited at 31 March 2011 (2010 - £2,721,001) and included within debtors.

RAC Mechanical Insurance Services Limited

During the year the company received funds totalling £8,468 on behalf of RAC Mechanical Insurance Services Limited, a fellow subsidiary of Motorway Direct Plc. A balance of £Nil was owed by RAC Mechanical Insurance Services Limited at 31 March 2011 (2010 - £8,468).

Boomerang-tag Limited

During the year the company was invoiced for goods and services to the value of £28,382 on normal commercial terms from Boomerang-tag Limited, a company in which the directors Mr F D Pinkney and Mr S J Tennyson had a participating interest. A balance of £1,374 remained unpaid at 31 March 2011 (2010 - £3,289) and is included within trade creditors.

CHF Accountancy Limited

During the year the company was invoiced £80 excluding VAT for company secretarial services by CHF Accountancy Limited, a company in which the director Mr D Antcliff is a director and shareholder.

The Trading Floor Limited

During the year the company was invoiced for goods and services to the value of £9,180 on normal commercial terms from The Trading Floor Limited, a company in which the group's parent company, Motorway Direct Plc and the directors Mr D L Pinkney, Mr F D Pinkney, Mr P N Pinkney and Mr S J Tennyson held participating interests until 17 January 2011.

Commission Payments

During the year commissions were paid on normal commercial terms to the following related parties:

Mr C Pinkney, son of the director Mr F D Pinkney, totalling £55,741 (2010 - £48,645)

Mrs S Pinkney, wife of the director Mr P N Pinkney, totalling £47,340 (2010 - £45,942)

Mr P D Pinkney, son of the director Mr P N Pinkney, totalling £29,791 (2010 - £22,026)

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 March 2011

15 ULTIMATE CONTROLLING PARTY

The ultimate controlling party is the Board of Directors of Motorway Direct Plc, a company registered in England and Wales

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £	2010 £
Loss for the financial year	(351,660)	(170,540)
Net reduction of shareholders' funds	(351,660)	(170,540)
Opening shareholders' funds	609,524	780,064
Closing shareholders' funds	257,864	609,524