

REGISTERED NUMBER: 05987949 (England and Wales)

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012
FOR
AA MECHANICAL INSURANCE SERVICES LIMITED**

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28/09/2012
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AA MECHANICAL INSURANCE SERVICES LIMITED (REGISTERED NUMBER. 05987949)

CONTENTS OF THE FINANCIAL STATEMENTS
for the year ended 31 March 2012

	Page
Company Information	1
Report of the Directors	2
Report of the Independent Auditors	5
Profit and Loss Account	7
Balance Sheet	8
Cash Flow Statement	9
Notes to the Cash Flow Statement	10
Notes to the Financial Statements	11

AA MECHANICAL INSURANCE SERVICES LIMITED

COMPANY INFORMATION

for the year ended 31 March 2012

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

AA MECHANICAL INSURANCE SERVICES LIMITED (REGISTERED NUMBER: 05987949)

REPORT OF THE DIRECTORS
for the year ended 31 March 2012

The directors present their report with the financial statements of the company for the year ended 31 March 2012

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

	2012	2011
Net rated premium income	£8 2m	£14 3m
Turnover relative to principal activity	£3.7m	£4 3m
Profit/(loss) before tax & exceptional items	(£0 10m)	(£0 37m)
Retained profit/(loss) for the year	(£0.10m)	(£0 35m)
Current ratio	1.23	1 15

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

Overall premium income has decreased by 42.6% (2011 - decrease of 11.7%) on that reported in the previous year. This is predominantly a reflection of the first full year's effect of the rationalisation of the dealer market, which took place in December 2010, in addition to a transfer of business to administration-only schemes. The rationalisation programme was introduced to improve quality standards, as governed by The AA, whilst removing the product from under-performing dealers. The directors feel that the impact upon profitability has been limited, due to ongoing improved performance of the dealer market, despite a reduction in net rated premium income from dealers of 37%.

The introduction of a new administration-only service has seen a move from premium income to a management fee, which has also contributed to the downturn in premium income derived from dealers. The turnover and profitability are not materially impacted by the transfer to administration-only services.

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

	2012	2011
Commission as a percentage of turnover	25.1%	23.0%

New financial provisions with The AA were introduced from February 2012 which have provided improved terms for the company.

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

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 satisfied with the financial performance of the business and the results for the period under review and are encouraged by the forward outlook. The company continues to be supported financially by its parent company, Motorway Direct Plc.

DIVIDENDS

No dividends will be distributed for the year ended 31 March 2012

REPORT OF THE DIRECTORS
for the year ended 31 March 2012

DIRECTORS

The directors shown below have held office during the whole of the period from 1 April 2011 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 2012

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

28/09/12

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

We have audited the financial statements of AA Mechanical Insurance Services Limited for the year ended 31 March 2012 on pages seven to fifteen. 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 Report of the Directors 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 2012 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

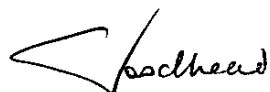
In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS 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 28 9 12.

AA MECHANICAL INSURANCE SERVICES LIMITED (REGISTERED NUMBER. 05987949)**PROFIT AND LOSS ACCOUNT**
for the year ended 31 March 2012

	Notes	2012 £	2011 £
TURNOVER		3,696,700	4,289,456
Cost of sales		134,824	97,450
GROSS PROFIT		3,831,524	4,386,906
Administrative expenses		(4,504,803)	(5,483,108)
		(673,279)	(1,096,202)
Other operating income		764,600	1,244,238
OPERATING PROFIT	3	91,321	148,036
Interest receivable and similar income		1,338	1,972
		92,659	150,008
Interest payable and similar charges	4	(197,171)	(516,668)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(104,512)	(366,660)
Tax on loss on ordinary activities	5	-	15,000
LOSS FOR THE FINANCIAL YEAR		(104,512)	(351,660)

CONTINUING OPERATIONS

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

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the losses for the current year or previous year

The notes form part of these financial statements

AA MECHANICAL INSURANCE SERVICES LIMITED (REGISTERED NUMBER: 05987949)

BALANCE SHEET

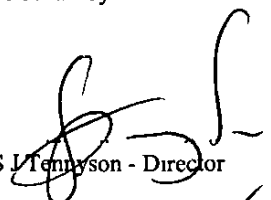
31 March 2012

	Notes	2012 £	2011 £
CURRENT ASSETS			
Debtors	6	4,043,583	7,815,530
Cash at bank		176,222	2,411
		<u>4,219,805</u>	<u>7,817,941</u>
CREDITORS			
Amounts falling due within one year	7	(3,439,881)	(6,798,681)
NET CURRENT ASSETS		<u>779,924</u>	<u>1,019,260</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		779,924	1,019,260
PROVISIONS FOR LIABILITIES	9	(626,572)	(761,396)
NET ASSETS		<u>153,352</u>	<u>257,864</u>
CAPITAL AND RESERVES			
Called up share capital	10	1	1
Profit and loss account	11	153,351	257,863
SHAREHOLDERS' FUNDS	15	<u>153,352</u>	<u>257,864</u>

The financial statements were approved by the Board of Directors on its behalf by

28/09/12

and were signed on


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 2012

		2012 £	2011 £
Net cash inflow/(outflow) from operating activities	Notes 1	360,776	(551,084)
Returns on investments and servicing of finance	2	(195,833)	(514,696)
Taxation		15,000	-
		179,943	(1,065,780)
Financing	2	27,093	897,747
Increase/(decrease) in cash in the period		<u>207,036</u>	<u>(168,033)</u>
Reconciliation of net cash flow to movement in net debt	3		
Increase/(decrease) in cash in the period		<u>207,036</u>	<u>(168,033)</u>
Change in net debt resulting from cash flows		<u>207,036</u>	<u>(168,033)</u>
Movement in net debt in the period		<u>207,036</u>	<u>(168,033)</u>
Net (debt)/funds at 1 April		<u>(130,326)</u>	<u>37,707</u>
Net funds/(debt) at 31 March		<u>76,710</u>	<u>(130,326)</u>

The notes form part of these financial statements

NOTES TO THE CASH FLOW STATEMENT
for the year ended 31 March 2012

1 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2012 £	2011 £
Operating profit	91,321	148,036
Increase/(Decrease) in admin provision	(134,824)	(97,450)
Decrease in debtors	740,140	738,069
Decrease in creditors	(335,861)	(1,339,739)
Net cash inflow/(outflow) from operating activities	360,776	(551,084)

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

	2012 £	2011 £
Returns on investments and servicing of finance		
Interest received	1,338	1,972
Interest paid	(197,171)	(516,668)
Net cash outflow for returns on investments and servicing of finance	(195,833)	(514,696)
Financing		
Loans with group companies	27,093	897,747
Net cash inflow from financing	27,093	897,747

3 ANALYSIS OF CHANGES IN NET DEBT

	At 1/4/11 £	Cash flow £	At 31/3/12 £
Net cash			
Cash at bank	2,411	173,811	176,222
Bank overdraft	(132,737)	33,225	(99,512)
	(130,326)	207,036	76,710
Total	(130,326)	207,036	76,710

The notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2012

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 2012 nor for the year ended 31 March 2011

3 OPERATING PROFIT

The operating profit is stated after charging

	2012	2011
	£	£
Auditors' remuneration	<u>5,684</u>	<u>6,000</u>
Directors' remuneration	<u>-</u>	<u>-</u>

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2012	2011
	£	£
Bank interest	-	24
Funding charges and interest	<u>197,171</u>	<u>516,644</u>
	<u>197,171</u>	<u>516,668</u>

5 TAXATION

Analysis of the tax credit

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

	2012	2011
	£	£
Current tax		
UK corporation tax	-	(15,000)
Tax on loss on ordinary activities	<u>-</u>	<u>(15,000)</u>

UK corporation tax was charged at 28% in 2011

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 March 2012

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

	2012 £	2011 £
Loss on ordinary activities before tax	(104,512)	(366,660)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26% (2011 - 28%)	(27,173)	(102,665)
Effects of		
Expenses not deductible for tax purposes	(8,764)	(6,737)
Utilisation of tax losses	35,937	(33,829)
Losses carried forward	-	128,231
Current tax credit	-	(15,000)

Factors that may affect future tax charges

At 31 March 2012 the company had accumulated trading losses of £313,622 (2011 - £313,622) which are available to carry forward

6 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £	2011 £
Trade debtors	1,486,881	1,991,097
Amounts owed by group undertakings	1,008,898	4,025,705
Other debtors	1,367,319	1,559,164
Claims control	102,765	109,039
Tax	-	15,000
VAT	-	921
Prepayments	77,720	114,604
	4,043,583	7,815,530

7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £	2011 £
Bank loans and overdrafts (see note 8)	99,512	132,737
Trade creditors	574,644	225,858
Amounts owed to group undertakings	1,223,739	4,213,453
VAT	38,578	-
Other creditors	1,381,611	2,023,278
Accruals & deferred income	121,797	203,355
	3,439,881	6,798,681

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 March 2012

8 LOANS

An analysis of the maturity of loans is given below

	2012 £	2011 £
Amounts falling due within one year or on demand		
Bank overdrafts	<u>99,512</u>	<u>132,737</u>

9 PROVISIONS FOR LIABILITIES

	2012 £	2011 £
Other provisions		
Claims administration	<u>626,572</u>	<u>761,396</u>

10 CALLED UP SHARE CAPITAL

Allotted, issued and fully paid Number	Class	Nominal value £1	2012 £	2011 £
1	Ordinary		<u>1</u>	<u>1</u>

11 RESERVES

	Profit and loss account £
At 1 April 2011	257,863
Deficit for the year	<u>(104,512)</u>
At 31 March 2012	<u>153,351</u>

12 ULTIMATE PARENT COMPANY

The ultimate parent company at 31 March 2012 was Car Protect Holdings Limited, a company registered in Gibraltar

13 RELATED PARTY DISCLOSURES**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 £41,268 (2011 - £55,741)
Mrs S Pinkney, wife of the director Mr P N Pinkney, totalling £41,527 (2011 - £47,340)
Mr P D Pinkney, son of the director Mr P N Pinkney, totalling £24,017 (2011 - £29,791)

Motorway Direct Plc

Parent company

During the year Motorway Direct Plc recharged group overheads to AA Mechanical Insurance Services Limited

AA MECHANICAL INSURANCE SERVICES LIMITED (REGISTERED NUMBER: 05987949)

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 March 2012

	2012	2011
	£	£
Amount due to related party at the balance sheet date	<u>781,386</u>	<u>4,213,453</u>

Car Protect Limited

Fellow subsidiary of Motorway Direct Plc

During the year Car Protect Limited paid net costs on behalf of the company

	2012	2011
	£	£
Amount due (to)/from related party at the balance sheet date	<u>(345,749)</u>	<u>187,703</u>

London Wall Insurance Services Limited

Fellow subsidiary of Motorway Direct Plc

During the year the company paid net costs on behalf of London Wall Insurance Services Limited

	2012	2011
	£	£
Amount due from related party at the balance sheet date	<u>1,008,898</u>	<u>3,838,002</u>

RAC Mechanical Insurance Services Limited

Fellow subsidiary of Motorway Direct Plc

During the year RAC Mechanical Insurance Services Limited paid net costs on behalf of the company

	2012	2011
	£	£
Amount due to related party at the balance sheet date	<u>96,604</u>	<u>-</u>

CHF Accountancy Limited

A company in which Mr D Antcliff is a director and shareholder

During the year the company was invoiced £99 excluding VAT for company secretarial services by CHF Accountancy Limited

Boomerang-Tag Limited

A company in which Mr F D Pinkney & Mr S J Tennyson are shareholders

During the year the company received invoices from Boomerang-Tag Limited on normal commercial terms for goods and services to the value of £17,079 (2011 - £28,382)

	2012	2011
	£	£
Amount due to related party at the balance sheet date	<u>3,608</u>	<u>1,374</u>

14 ULTIMATE CONTROLLING PARTY

The ultimate controlling party at 31 March 2012 was the Board of Directors of Motorway Direct Plc, a company registered in England and Wales

NOTES TO THE FINANCIAL STATEMENTS - continued
for the year ended 31 March 2012

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2012 £	2011 £
Loss for the financial year	(104,512)	(351,660)
Net reduction of shareholders' funds	(104,512)	(351,660)
Opening shareholders' funds	257,864	609,524
Closing shareholders' funds	153,352	257,864