

AI CLAIMS SOLUTIONS PLC

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Ai Claims Solutions PLC (AICS) will present consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ('IFRS') for periods commencing on or after 1 January 2007.

As part of its transition to IFRS, AICS today presents its comparative balance sheet at the transition date (1 July 2006), income statement for the six months ended 31 December 2006 and the full year ended 30 June 2007 and key accounting policies.

The transition to IFRS is an accounting change only, and does not reflect a change in the operations of the Group. Apart from the elimination of goodwill amortisation, it has not had a substantial effect on the consolidated financial results of AICS but will result in some enhanced disclosures, which will be incorporated in the financial statements for the year ended 30 June 2008.

As a result of the transition to IFRS:

- Revenues are unaffected (£14,772,000 for the six months ended 31 December 2006 and £34,326,000 for the twelve months ended 30 June 2007).
- The cessation of goodwill amortisation (IFRS 3) has led to an increase in Group operating profit for the six months ended 31 December 2006 of £269,000 to £699,000, and an increase in Group operating profit for the twelve months ended 30 June 2007 of £539,000 to £1,753,000.
- Net assets have increased from £11,401,000 to £11,670,000 at 31 December 2006 and from £11,905,000 to £12,444,000 at 30 June 2007.
- Basic Earnings per share (before the dilutive effect of options) have increased from 0.20p to 0.64p for the six months ended 31 December 2006 and from 1.13p to 2.01p for the year ended 30 June 2007 as a result of the changes above.
- Computer software previously capitalised as a tangible asset has been reclassified to intangible assets. This has not effected net assets.
- Deferred tax assets have been reclassified from current to non-current assets. This has not effected net assets.
- Free cash flow and movement in net borrowings are unaffected.

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1 Introduction

Following a change in the rules of the Alternative Investment Market (AIM), AICS is required, as a company quoted on the AIM Market of the London Stock Exchange, to present its consolidated financial statements in accordance with EU-adopted International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) for periods commencing on or after 1 January 2007.

As AICS's statutory year end is 30 June, the Group will present results under IFRS for the first time for the half year ended 31 December 2007 together with restated comparatives for the half year ended 31 December 2006. As such these standards apply from the date of transition, 1 July 2006, onwards.

This unaudited announcement presents and explains the Group's restated results for the half year ended 31 December 2006 and the full year to 30 June 2007 as converted from UK GAAP to IFRS.

The accounting standard which produces the most significant impact on the consolidated statements of the Group is IFRS 3 'Business Combinations' which results in goodwill no longer being amortised, but is instead subject to an annual impairment review.

2 Basis of preparation

The restated financial information has been prepared in accordance with all applicable IFRS and related interpretations in force at the date of this announcement, under the assumption that all existing standards in issue from the International Accounting Standards Board (IASB) will be fully endorsed by the EU. The failure of the EU to endorse all of these standards for the Group's financial year ending 30 June 2008, the issue of any new or revised standards, or the publishing of further interpretational guidance, could result in changes to the financial information presented in this document. In addition, as the financial community gains more experience, and best practice and interpretative guidance develop, there may be consequential changes to the methodologies and approaches used in preparing the financial information shown in this document.

The primary statements included here are presented in accordance with current IAS 1, Presentation of Financial Statements guidelines. This format and presentation may require modification in the event that further guidance is issued and as best practice develops. An amendment to IAS1 has already been issued and incorporated into this announcement.

IAS 1 does not provide definitive guidance on the format of the income statement or balance sheet, but states key lines that should be disclosed. It also requires additional line items and headings to be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance. Factors to be considered include materiality and the nature and function of the components of income and expense.

3 Transition to IFRS - first time adoption

IFRS 1 'First-time Adoption of International Financial Reporting Standards' determines that the transition date for AICS will be 1 July 2006. It permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS during the transition period.

AICS has taken the following key exemptions:

3.1 Business combinations

The Group has elected not to apply IFRS 3 'Business Combinations' retrospectively and restate business combinations completed prior to the date of transition. As a result, in the opening balance sheet, the net book value of goodwill arising from past business combinations of £6,726,000 remains as stated under UK GAAP at 1 July 2006, as deemed cost.

3.2 Share-based payments

The Group has elected to apply IFRS 2 'Share-based Payments' only to awards of equity instruments made after 7 November 2002, which had not vested by 1 July 2006.

4 IFRS Financial Statements for the half year ended 31 December 2006

4.1 Consolidated Balance Sheet at Transition Date (1 July 2006)

	UK GAAP	Effect of transition to Adopted IFRS Reclassifications	IFRS
	£000	£000	£000
Non-current assets			
Intangible assets - goodwill	6,726	-	6,726
Intangible assets - other	-	586	586
Property, plant and equipment	3,666	(586)	3,080
Deferred tax assets	-	1,053	1,053
Total non-current assets	10,392	1,053	11,445
Current assets			
Trade and other receivables	12,389	-	12,389
Deferred tax assets	1,053	(1,053)	-
Cash and cash equivalents	4	-	4
Total current assets	13,446	(1,053)	12,393
Total assets	23,838	-	23,838
Current liabilities			
Bank overdraft	(2,174)	-	(2,174)
Other interest-bearing loans and borrowings	(362)	-	(362)
Trade and other payables	(8,620)	-	(8,620)
Total current liabilities	(11,156)	-	(11,156)
Non-current liabilities			
Other interest-bearing loans and borrowings	(1,282)	-	(1,282)
Total non current liabilities	(1,282)	-	(1,282)
Total liabilities	(12,438)	-	(12,438)
Total assets less total liabilities	11,400	-	11,400
Equity attributable to equity holders of the parent			
Share capital	6,136	-	6,136
Share premium	1,573	-	1,573
Other reserves	63	-	63
Retained earnings	3,628	-	3,691
Total equity attributable to equity holders of the parent	11,400	-	11,400

4.2 Consolidated Income Statement for the half year ended 31 December 2006

	UK GAAP	Effect of transition to Adopted IFRS Goodwill amortisation	IFRS
	£000	£000	£000
Revenue	14,772	-	14,772
Cost of sales	(10,348)	-	(10,348)
Gross profit	4,424	-	4,424
Administrative expenses	(3,994)	269	(3,725)
Operating profit	430	269	699
Finance expense	(120)	-	(120)
Profit before tax	310	269	579
Income tax expense	(186)	-	(186)
Profit for the period attributable to equity holders of the parent	124	269	393

4.3 Consolidated Balance Sheet at 31 December 2006

	UK GAAP	Effect of transition to Adopted IFRS		IFRS
		Goodwill amortisation	Reclassifications	
	£000	£000	£000	£000
Non-current assets				
Intangible assets – goodwill	6,457	269	-	6,726
Intangible assets – other	-	-	1,197	1,197
Property, plant and equipment	4,127	-	(1,197)	2,930
Deferred tax assets	-	-	867	867
Total non-current assets	10,584	269	867	11,720
Current assets				
Trade and other receivables	11,198	-	-	11,198
Deferred tax assets	867	-	(867)	-
Cash and cash equivalents	1	-	-	1
Total current assets	12,066	-	-	11,199
Total assets	22,650	269	-	22,919
Current liabilities				
Bank overdraft	1633	-	-	1633
Other interest-bearing loans and borrowings	277	-	-	277
Trade and other payables	8112	-	-	8112
Total current liabilities	10,022	-	-	10,022
Non-current liabilities				
Other interest-bearing loans and borrowings	1,227	-	-	1,227
Total non current liabilities	1,227	-	-	1,227
Total liabilities	11,249	-	-	11,249
Total assets less total liabilities	11,401	269	-	11,670
Equity attributable to equity holders of the parent				
Share capital	6,136	-	-	6,136
Share premium	1,573	-	-	1,573
Other reserves	93	-	-	93
Retained earnings	3,599	269	-	3,868
Total equity attributable to equity holders of the parent	11,401	269	-	11,670

5 IFRS Financial Statements for the year ended 30 June 2007

5.1 Consolidated Income Statement for the year ended 30 June 2007

	UK GAAP	Effect of transition to Adopted IFRS Goodwill amortisation	IFRS
	£000	£000	£000
Revenue	34,326	-	34,326
Cost of sales	(24,043)	-	(24,043)
Gross profit	10,283	-	10,283
Administrative expenses	(9,069)	539	(8,530)
Operating profit	1,214	539	1,753
Finance expense	(213)	-	(213)
Profit before tax	1,001	539	1,540
Income tax expense	(308)	-	(308)
Profit for the period attributable to equity holders of the parent	693	539	1,232

5.2 Consolidated Balance Sheet at 30 June 2007

	UK GAAP	Effect of transition to Adopted IFRS		IFRS
	£000	Goodwill amortisation £000	Reclassification £000	£000
Non-current assets				
Intangible assets – goodwill	6,187	539	-	6,726
Intangible assets – other	-	-	1,665	1,665
Property, plant and equipment	4,601	-	(1,665)	2,936
Deferred tax assets	-	-	745	745
Total non-current assets	10,788	539	745	12,072
Current assets				
Trade and other receivables	13,161	-	-	13,161
Deferred tax assets	745	-	(745)	-
Cash and cash equivalents	6	-	-	6
Total current assets	13,912	-	(745)	13,167
Total assets	24,700	539	-	25,239
Current liabilities				
Bank overdraft	(570)	-	-	(570)
Other interest-bearing loans and borrowings	(235)	-	-	(235)
Trade and other payables	(10,864)	-	-	(10,864)
Total current liabilities	(11,669)	-	-	(11,669)
Non-current liabilities				
Other interest-bearing loans and borrowings	(1,126)	-	-	(1,126)
Total non current liabilities	(1,126)	-	-	(1,126)
Total liabilities	(12,795)	-	-	(12,795)
Total assets less total liabilities	11,905	539	-	12,444
Equity attributable to equity holders of the parent				
Share capital	6,142	-	-	6,142
Share premium	1,579	-	-	1,579
Other reserves	158	-	-	158
Retained earnings	4,026	539	-	4,565
Total equity attributable to equity holders of the parent	11,905	539	-	12,444

6 Explanation of Principal IFRS Adjustments

6.1 Goodwill and impairments

Under UK GAAP, the Group amortised goodwill on a straight line basis over the useful economic life of the acquired asset. AICS amortised goodwill over a maximum of twenty years. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently when necessary, if circumstances indicate that its carrying value may not be recoverable. This is in accordance with FRS 10 'Goodwill and Intangible Assets' and FRS 11 'Impairment of Fixed Assets and Goodwill'.

Under IFRS 3 'Business Combinations' annual amortisation is no longer permitted. Instead goodwill is allocated to each cash generating unit expected to benefit from the synergies of the combination, and an annual impairment review is performed for each discrete unit in accordance with IAS 36 'Impairment of Assets'. A cash-generating unit is the smallest identifiable group of cash inflow generating assets being largely independent of the cash inflows from other assets or groups of assets.

The Group has performed this allocation and subsequent review at each relevant date, and no impairment has been noted.

- Impact on net assets at 1 July 2006: No impact noted.
- Impact on income statement for the half year ended 31 December 2006: Amortisation of goodwill is reduced from £269,000 under UK GAAP to £nil under IFRS.
- Impact on net assets at 31 December 2006: The interim balance sheet for 2006 is subject to an increase in the value of intangible assets of £269,000.
- Impact on income statement for the year ended 30 June 2007: Amortisation of goodwill is reduced from £539,000 under UK GAAP to £nil under IFRS.
- Impact on net assets at 30 June 2007: The closing balance sheet for 2007 is subject to an increase in the value of intangible assets of £539,000.

6.2 Cash flow

The Group's underlying cash position is unaffected by the transition to IFRS. However, there are a number of presentational differences arising in the cash flows reported under IAS 7 'Cash Flow Statements'. The cash flows themselves, now classified under the three headings operating, investing and financing activities (as against eight under UK GAAP) relate to movements in cash and cash equivalents (rather than simply cash).

6.3 Segmental reporting

The Group has no additional disclosure requirements under IAS 14 'Segmental Reporting' since it operates in one business segment - the delivery of accident management solutions to the automotive and insurance sectors, conducted wholly in the United Kingdom.

6.4 Reclassification of computer software

Under UK GAAP, all capitalised software is included within tangible fixed assets. Under IFRS, only computer software that is integral to a related item of hardware should be included as plant and equipment. All other computer software should be recorded as an intangible asset.

Accordingly a reclassification of the net book value amount of capitalised software of £586,000 has been made in the balance sheet at 1 July 2006, £1,197,000 in the balance sheet at 31 December 2006 and £1,665,000 in the balance sheet as at 30 June 2007 between computer equipment and intangible assets.

There is no impact on the income statement as a result of the reclassification since, under both UK GAAP and IFRS, computer software is written down over its estimated useful life.

6.5 Reclassification of deferred tax asset

Under UK GAAP, deferred tax is included within current assets. Under IFRS, deferred tax is included as a non-current asset.

Accordingly, a reclassification of the deferred tax asset of £1,053,000 has been made in the balance sheet at 1 July 2006, £867,000 in the balance sheet at 31 December 2006 and £745,000 in the balance sheet at 30 June 2007 between current and non-current assets.

There is no impact on the income statement as a result of the reclassification.

7 Principal Accounting Policies

The Group's anticipated principal accounting policies under IFRS for its 31 December 2007 interim financial statements are detailed below.

7.1 Basis of Accounting

The Group is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. The effect of that transition on the reported financial position, financial performance and cash flows of the Group is provided above.

IFRS 1 grants certain exemptions from the full requirements of adopted IFRS in the transition period. The following exemptions have been taken by the Group:

- Business combinations – Business combinations that took place prior to 1 July 2006 have not been restated.
- Share based payments – IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 1 July 2006.

7.2 Accounting Convention

The Financial Statements are prepared on the historical cost basis.

7.3 Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. There are no unrealised gains and losses on transactions between the group and its subsidiaries. The amounts reported in the financial statements of subsidiaries are consistent with the accounting policies adopted by the Group.

7.4 Intangible assets and goodwill

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRS in the transition period. The Group and Company elected not to restate business combinations that took place prior to 1 July 2006. In respect of acquisitions prior to 1 July 2006, goodwill is included at transition date on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense, as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date.

7.5 Other Intangible Assets

Expenditure on research activities is recognised in the income statement as an expense, as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends, has the technical ability and has sufficient resources to complete development and can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense, as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use over their estimated useful lives.

7.6 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use were tested for impairment as at 1 July 2006, the date of transition to Adopted IFRS, even though no indication of impairment existed.

7.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

Leased assets acquired by way of finance lease and similar hire purchase contracts, are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Leasehold buildings	30 years/over the period of the lease
Leasehold improvements	over the period of the lease
Computer equipment and telephone systems	20 to 33% per annum
Plant, fittings and equipment	20% per annum

The gain or loss arising from the disposal of an item of property, plant and equipment is calculated as the difference between the net disposal proceeds and the carrying value of the item, and is included in the income statement.

7.8 Calculation of recoverable amount

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

7.9 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts, that are repayable on demand and form an integral part of the Group’s cash management, are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

7.10 Financial Assets and Liabilities

Financial assets and liabilities are recognised on the Group’s balance sheet as and when the Group becomes a party to the contractual provisions of the instrument.

7.11 Interest-bearing borrowings

Interest-bearing borrowings are recognised, initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

7.12 Revenue

Revenue is measured at the fair value of the consideration received and represents amounts receivable for services provided in the normal course of business, net of discounts and VAT.

Credit hire and repair income and income derived from other accident management services are recognised on transactions which have completed during the period, together with:

- An appropriate proportion of income in respect of hires and repairs and work in progress at the period end;
- Less claims write offs; and
- Movements in provisions for “under recovery” from insurers.

Income earned from insurers under the GTA penalty payments regime when claims are settled late is only recognised when received. Income from referrals of personal injury cases is recognised in the period when a referral is made to the extent that a right to consideration arises.

7.13 Finance lease payments

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

7.14 Operating lease payments

An operating lease is any lease other than a finance lease.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense over the course of the lease.

Where land and buildings are held under leases, the accounting treatment of the land is considered separately from that of the buildings.

7.15 Net financing costs

Net financing costs comprise interest payable, finance charges on finance leases and interest receivable on funds invested, that are recognised in the income statement.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date that the entity’s right to receive payments is established.

7.16 Pensions

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement, as incurred.

7.17 Share based payments

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which unconditional entitlement occurs. The fair value, calculated using an option valuation model, takes into account the terms and conditions upon which the options were granted. The amount, recognised as an expense, is adjusted to reflect the actual number of share options that vest.

The Group and Company took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and had not vested by 1 July 2006. Where the Company grants options over its own shares to the employees of its subsidiaries, it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries. This is equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Upon the exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

7.18 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full using the liability method (with no discounting) on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The following temporary differences are not provided for:

- The initial recognition of goodwill;
- The initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

7.19 Dividends

Dividend distributions payable to equity shareholders are included in current liabilities where the dividends are approved in general meeting prior to the balance sheet date.