

# **Ai CLAIMS SOLUTIONS PLC (“Ai”)**

## **Interim Report 31 December 2007**

### **FINANCIAL HIGHLIGHTS**

- Adjusted PBT up by 35.3% to £824k – before IFRS 2 charges (2006: £609k).
- Increased gross margin of 31.8% (2006: 29.9%).
- Revenue increased by 29.9% to £19.2m (2006: £14.8m)
- Operating cash flow of £3.6m (2006: £1.4m).
- Total borrowings reduced by £2.8m to net surplus of cash less debt of £901k (30 June 2007: net debt of £1.9m).
- Debtor days of 65 days (31 December 2006: 70 days).
- Interim dividend increased by 13.0% to 0.26p per share, payable on 3 July 2008 to shareholders on the share register at 5 June 2008.
- Basic EPS increased by 25% to 0.80p (2006: 0.64p)
- The comparatives within this report have been restated in accordance with IFRS.

### **OPERATIONAL HIGHLIGHTS**

- Significant contract wins give Ai a secure base of contracted income.
- Broadening of service proposition through successful piloting of our claims handling service (Defenda) to more than half of the top 20 insurers.
- Implementation of a bespoke new claims management system (CARS).
- Further development of broker, fleet and automotive markets.

For further information, please contact:

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## CHAIRMAN'S STATEMENT

I am pleased to report that the Group has delivered a 35% increase in Adjusted Profit Before Tax for the first half of the year accompanied by continuing strong cash generation.

### RESULTS OVERVIEW

	6 months to 31 December 2007 Unaudited £'000	6 months to 31 December 2006 Unaudited £'000	Year ended 30 June 2007 Unaudited £'000
<b>Revenue</b>	<b>19,191</b>	14,772	34,326
Profit before taxation and IFRS2 charge (Adjusted Profit Before Tax)	<b>824</b>	609	1,635
IFRS 2 charge	<b>(35)</b>	(30)	(95)
Profit before taxation	<b>789</b>	579	1,540
Tax on profit on ordinary activities	<b>(295)</b>	(186)	(308)
Profit after taxation	<b>494</b>	393	1,232

Revenue has increased by 30% during the six month period to £19.2m (2006: £14.8m). Underlying hire income has increased by 50% whilst repair related revenue has declined slightly, by 3%. The launch of the 'Defenda' product and the implementation of a major Fleet Accident Repair contract, both of which are fee based, contributed to significant growth in service income. These changes have improved gross margin to 32% from 30%.

Overheads have increased from £3,725k to £5,263k, an increase of 41%. This increase reflects a shift in the breadth and scale of our activities and the investment made in strengthening our senior and middle management team and distribution footprint. We will continue to invest in strengthening the team, however in terms of operational efficiency will see improvements in the second half of the year as the CARS system is fully rolled out across all our contracts.

The taxation charge increased from 32% to 37% due to a reduction in value of the deferred tax asset arising from the reduction in Corporation Tax from 30% to 28%. The underlying effective tax rate before the reduction in value of the deferred tax asset was 31%.

Operational cash flow continued to strengthen during the period. Cash generated from operations was £3.6m (2006: £1.4m) and has contributed to a reduction in overall debt from £1.9m to a surplus of £0.9m, after absorbing capital expenditure of £0.8m, principally incurred on continued development of our new purpose-built IT platform, which has been extended to support our fee based service activities.

Cash generation was excellent once again due to strong claims collection, with average debtor days calculated on the count back method of 65 days (31 December 2006: 70 days), significantly lower than our peer group and testament to the strong relationship Ai has established in the insurance market.

As a result of our strong cash flow, interest costs reduced to £56k (2006: £120k), reflecting the benefit of reduced borrowings.

## **PROSPECTS AND DIVIDENDS**

We are continuing to witness a significant change in the motor insurance market's approach to servicing policyholders and pro-actively managing third party motor claims costs. It is very encouraging to be working with more than half the top 20 insurers on our innovative 'Defenda' product and to have secured a major contract with a top 3 insurer to service their non-fault policy holders. The second half has started well, and the Board are confident of delivering an encouraging result as Ai continues to build on existing and new customer relationships, supported by a strong base of revenue contracted for more than 12 months. Your Directors are pleased to declare an interim dividend of 0.26 per share to be paid on 3 July 2008, an increase of 13% over last year.

Charles Good

Chairman

26 February 2008

## CONSOLIDATED INCOME STATEMENT

	Note	6 months ended 31 December 2007 Unaudited £'000	6 months ended 31 December 2006 Unaudited £'000	Year ended 30 June 2007 Unaudited £'000
Revenue		19,191	14,772	34,326
Cost of sales		<u>(13,083)</u>	<u>(10,348)</u>	<u>(24,043)</u>
<b>Gross profit</b>		<b>6,108</b>	4,424	10,283
Administrative expenses		<u>(5,263)</u>	<u>(3,725)</u>	<u>(8,530)</u>
<b>Operating profit</b>		<b>845</b>	699	1,753
Finance costs		<u>(56)</u>	<u>(120)</u>	<u>(213)</u>
<b>Profit before taxation</b>		<b>789</b>	579	1,540
Income tax expense	4	<u>(295)</u>	<u>(186)</u>	<u>(308)</u>
<b>Profit for the period</b>		<u><b>494</b></u>	<u>393</u>	<u>1,232</u>
Basic EPS	3	<u><b>0.80 p</b></u>	<u>0.64 p</u>	<u>2.01 p</u>
Diluted EPS	3	<u><b>0.79 p</b></u>	<u>0.64 p</u>	<u>2.00 p</u>

All operations are continuing.

There were no recognised income and expense items other than that reported above for each of the periods. Accordingly no separate consolidated statement of total recognised income and expense has been prepared.

## CONSOLIDATED BALANCE SHEET

	Note	31 December 2007 Unaudited £'000	31 December 2006 Unaudited £'000	30 June 2007 Unaudited £'000
<b>Non current assets</b>				
Goodwill		6,726	6,726	6,726
Other Intangible assets		2,400	1,197	1,665
Property, plant and equipment		2,675	2,930	2,936
Deferred tax asset		450	867	745
		<u>12,251</u>	<u>11,720</u>	<u>12,072</u>
<b>Current assets</b>				
Trade and other receivables	5	12,883	11,198	13,161
Cash and cash equivalents		2,134	1	6
		<u>15,017</u>	<u>11,199</u>	<u>13,167</u>
<b>Current liabilities</b>				
Trade and other payables	6	(13,397)	(10,022)	(11,669)
		<u>1,620</u>	<u>1,177</u>	<u>1,498</u>
<b>Net current assets</b>				
Total assets less current liabilities		13,871	12,897	13,570
<b>Non current liabilities</b>				
Financial liabilities - borrowings	7	(1,076)	(1,227)	(1,126)
		<u>12,795</u>	<u>11,670</u>	<u>12,444</u>
<b>Net assets</b>				
<b>Equity</b>				
Called up share capital		6,142	6,136	6,142
Share premium account		1,579	1,573	1,579
Other reserve		193	93	158
Retained earnings		4,881	3,868	4,565
		<u>12,795</u>	<u>11,670</u>	<u>12,444</u>
<b>Total equity attributable to the equity holders of the parent</b>				
		<u>12,795</u>	<u>11,670</u>	<u>12,444</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium account £'000	Other reserve £'000	Profit and loss account £'000	Total equity £'000
<b>Balance at 30 June 2006</b>	<b>6,136</b>	<b>1,573</b>	<b>63</b>	<b>3,628</b>	<b>11,400</b>
Profit for the period	-	-	-	393	393
Dividend declared in the period	-	-	-	(153)	(153)
Share options IFRS 2 charge	-	-	30	-	30
<b>Balance at 31 December 2006</b>	<b>6,136</b>	<b>1,573</b>	<b>93</b>	<b>3,868</b>	<b>11,670</b>
Profit for the period	-	-	-	839	839
Dividend declared in the period	-	-	-	(142)	(142)
Share options IFRS 2 charge	-	-	65	-	65
Issue of new share capital	6	6	-	-	12
<b>Balance at 30 June 2007</b>	<b>6,142</b>	<b>1,579</b>	<b>158</b>	<b>4,565</b>	<b>12,444</b>
Profit for the period	-	-	-	494	494
Dividend declared in the period	-	-	-	(178)	(178)
Share options IFRS 2 charge	-	-	35	-	35
<b>Balance at 31 December 2007</b>	<b>6,142</b>	<b>1,579</b>	<b>193</b>	<b>4,881</b>	<b>12,795</b>

## CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 31 December 2007 Unaudited £'000	6 months ended 31 December 2006 Unaudited £'000	Year ended 30 June 2007 Unaudited £'000
<b>Reconciliation of operating profit to operating cash flow</b>			
Net cash inflow / (outflow) from operating activities			
Profit for the year	494	393	1,232
Finance costs	56	120	213
Income tax expense	295	186	308
Depreciation of property, plant and equipment	327	309	632
Gain on disposal of property, plant and equipment	-	-	(2)
Share based payment expense	35	30	95
<b>Operating cash flows before movements in working capital</b>	<b>1,207</b>	<b>1,038</b>	<b>2,478</b>
Decrease / (increase) in receivables	278	769	(772)
Increase / (decrease) in payables	2,198	(239)	2,244
<b>Cash generated by operations</b>	<b>3,683</b>	<b>1,568</b>	<b>3,950</b>
Interest paid	(56)	(120)	(213)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>3,627</b>	<b>1,448</b>	<b>3,737</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment	(801)	(770)	(1,571)
Proceeds on disposal of property, plant and equipment	-	-	6
<b>Net cash used in investing activities</b>	<b>(801)</b>	<b>(770)</b>	<b>(1,565)</b>
<b>Financing activities</b>			
Dividends paid	-	-	(295)
Repayment of borrowings	(592)	(567)	(1,653)
Capital element of finance lease repayments	(106)	(114)	(234)
Proceeds on issue of shares	-	-	12
<b>Net cash used in financing activities</b>	<b>(698)</b>	<b>(681)</b>	<b>(2,170)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>2,128</b>	<b>(3)</b>	<b>2</b>
Cash and cash equivalents at beginning of period	6	4	4
<b>Cash and cash equivalents at end of period</b>	<b>2,134</b>	<b>1</b>	<b>6</b>

# NOTES TO THE INTERIM REPORT TO 31 DECEMBER 2007

## 1 BASIS OF PREPARATION

The results for the six months ended 31 December 2007, which are unaudited, have been prepared on a basis consistent with the recognition and measurement principles of International Financial Reporting Standards (IFRS), this is consistent with the accounting policies set out in the announcement made on 19 December 2007 entitled "Transition to International Financial Reporting Standards". The results for the year ended 30 June 2007 and the six month period ended 31 December 2006 have been restated to show the results in accordance with IFRS rather than in accordance with United Kingdom accounting standards which they were originally published under. Reconciliations showing the movements from UK GAAP to IFRS are included in the transition document.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 30 June 2007, prepared under UK GAAP, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Section 237(2) or Section 237(3) of the Companies Act 1985.

## 2 SEGMENT REPORTING

The Directors consider that the activities of the Group represent a single business segment, being the provision of an outsourced claims management solution to motor insurers.

The location and destination of all revenue, operating profits and net assets was the United Kingdom.

## 3 EARNINGS PER SHARE

	<b>6 months ended 31 December 2007 Unaudited £'000</b>	<b>6 months ended 31 December 2006 Unaudited £'000</b>	<b>Year ended 30 June 2007 Unaudited £'000</b>
These have been calculated on earnings of:	<u>494</u>	<u>393</u>	<u>1,232</u>
The weighted average number of shares used was:-	'000	'000	'000
Basic	<b>61,416</b>	61,357	61,416
Dilutive effect of share options	<b>831</b>	65	247
Diluted	<u><b>62,247</b></u>	<u>61,422</u>	<u>61,663</u>

## 4 INCOME TAX EXPENSE

	6 months ended 31 December 2007 Unaudited £'000	6 months ended 31 December 2006 Unaudited £'000	Year ended 30 June 2007 Unaudited £'000
Current year tax charge	<u>295</u>	<u>186</u>	<u>308</u>

The tax charge is based on the estimated expected tax rate for the period. The effective tax rate for the 6 months ended 31 December 2007 is 37% (6 months ended 31 December 2006: 32%). This varies from the basic rate of corporation tax (6 months ended 31 December 2007: 28%; 6 months ended 31 December 2006: 30%) as a result of the change in the deferred tax asset due to the change in the basic rate of corporation tax and non-deductible expenditure.

## 5 TRADE AND OTHER RECEIVABLES

	31 December 2007 Unaudited £'000	31 December 2006 Unaudited £'000	30 June 2007 Unaudited £'000
Trade receivables	9,083	6,472	8,538
Other receivables	807	403	807
Prepayments	392	467	649
Accrued income	2,601	3,856	3,167
	<u>12,883</u>	<u>11,198</u>	<u>13,161</u>

## 6 TRADE AND OTHER PAYABLES

	31 December 2007 Unaudited £'000	31 December 2006 Unaudited £'000	30 June 2007 Unaudited £'000
Hire purchase and finance lease obligations	111	226	186
Bank overdraft	-	1,633	570
Bank loan	46	51	49
Borrowings	<u>157</u>	<u>1,910</u>	<u>805</u>
Trade payables	4,336	2,899	2,231
Other taxation and social security	2,354	1,477	2,161
Other payables	804	25	58
Proposed dividend	178	153	-
Accruals	5,568	3,558	6,414
	<u>13,397</u>	<u>10,022</u>	<u>11,669</u>

## 7 FINANCIAL LIABILITIES

	<b>31 December 2007 Unaudited £'000</b>	<b>31 December 2006 Unaudited £'000</b>	<b>30 June 2007 Unaudited £'000</b>
Hire purchase and finance lease obligations	<b>31</b>	142	62
Bank loan	<b>1,045</b>	1,085	1,064
	<b><u>1,076</u></b>	<u>1,227</u>	<u>1,126</u>

## 8 INTERIM REPORT

This interim report was approved by the Board on 26 February 2008.

# **INDEPENDENT REVIEW REPORT TO Ai CLAIMS SOLUTIONS PLC**

## **Introduction**

We have been instructed by the company to review the financial information for the six months ended 31 December 2007 which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and the consolidated cash flow statement and the related notes 1 to 8 set out on pages 8 to 10. We have read the other information contained in the interim report which comprises the Financial Highlights, Operational Highlights and Chairman's Statement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. Our responsibilities do not extend to any other information.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review 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 for our review work, for this report, or for the conclusion we have formed.

## **Directors' responsibilities**

The interim report, including the financial information therein, is the responsibility of, and has been approved by the Directors. The AIM Rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable to such accounts.

## **Review work performed**

We conducted our review in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of control and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards of Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

## **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2007.

**GRANT THORNTON UK LLP  
REGISTERED AUDITOR  
MANCHESTER, UNITED KINGDOM**

**26 February 2008**