

# Ai Claims Solutions PLC

## Preliminary Announcement

For the year ended 30 June 2006

RNS Number:5874J

AI Claims Solutions PLC

28 September 2006

## Group Financial Summary and Highlights

Note: Due to the Group's change in year end from December to June in 2004, the results presented below for the twelve months ended 27 June 2004 have been restated and are unaudited.

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
			<b>Unaudited (Restated)</b>
Turnover	<b>37,986</b>	36,945	21,509
Adjusted profit before taxation – before amortisation of goodwill and exceptional administrative costs	<b>1,452</b>	249	1,745
Profit/(loss) before taxation	<b>913</b>	(468)	1,089
Taxation (charge)/credit	<b>(416)</b>	19	(116)
Dividend	<b>(276)</b>	(153)	(306)
Retained profit/(loss) transferred to/(from) reserves	<b>221</b>	(602)	667
Earnings per share			
Basic before amortisation of goodwill and exceptional administrative costs	<b>1.69p</b>	0.44p	2.89p
Basic	<b>0.81p</b>	(0.73)p	1.59p
Dividend per share	<b>0.45p</b>	0.25p	0.50p

### **Financial Highlights**

- Adjusted PBT (before goodwill amortisation and exceptional administrative costs) increased by £1.2m to £1.45m (2005: £249,000).
- Gross margin increased to 24.8% (2005: 21.0%).
- Operating cash flow of £4.8m (2005: £(3.7)m).
- Borrowings reduced by £2.6m to £3.8m (2005: £6.4m).
- Basic EPS (before amortisation of goodwill and exceptional administrative costs) increased by 1.25p to 1.69p (2005: 0.44p).
- Proposed final dividend of 0.25p per share. Full year dividend per share of 0.45p (2005: 0.25p).

### **Operational Highlights**

- 2 new relationships with leading insurers came on stream.
- A pilot with a top 5 insurer due to commence.
- Successful strengthening of board team with David Sandhu becoming Managing Director in July 2005 (and CEO from July 2006) and Peter Harrison joining as Finance Director in September 2005.

- Introduction of training academies to train claims handlers and develop the management community.
- Sun Financial Systems implemented. New integrated claims package on schedule for implementation in early 2007.

## Chairman's Statement

I am pleased to report that the Group has delivered a strong improvement in profitability and cash flow over the last 12 months. These results build upon the improvements reported at the interim and provide a reassuring platform from which the Group will continue to move forward.

### Results

Adjusted profit before tax (before goodwill amortisation and exceptional administrative costs) was £1.45m (2005: £249,000). As anticipated at the interim, the result was weighted in the second half year, with £948,000 being generated in the second half year compared to £504,000 in the first half year.

Turnover grew by 2.8% to £38.0m (2005: £36.9m). As anticipated, pricing actions taken on certain contracts and a change in mix towards higher margin vehicle replacement services led to an increase in gross margins to 24.8% (2005: 21.0%) in the current year.

Our cash position improved considerably during the year and particularly during the second half year. Cash generated from operations of £4.8m was particularly strong. Our debtor days average 75 days (2005: 88 days) which compares favourably to the sector. This is a testament to the relationship we have with the large insurance companies and the strategic focus we have placed on this activity during the year.

Our net debt reduced by £2.6m during the year, after absorbing £1.2m of capital expenditure on IT and infra-structure development. Our commitment to maintaining and developing IT and infra-structure ensure the Group has the capacity needed to maintain growth moving into 2007.

### Strategy

Our core insurance market is particularly active with a significant increase in the number of companies exploring new avenues to increase the service offered to their 'not at fault' policyholders. The timing of when the market would move in this direction has been difficult to predict, but there now appears to be real momentum. We believe that we are well positioned to work closely with the insurance market in developing and delivering these solutions.

It is pleasing to report that 2 new relationships came on stream during the year and we now act for 7 of the top 20 UK motor insurers. We will also shortly commence a pilot with another top 5 insurer. Our business is now de-risked such that we are not dependent on any single, large client.

I am pleased to report that we will once again be partnered by Avis UK in the provision of vehicle requirements. This arrangement secures our rental rates for a two year period and provides further opportunity to explore new business development areas including the Group's first steps into the 'Fleet Repair Market'.

The broader control of our supply chain is critical to managing service quality and costs. We have recently taken repairs in house with our own repair network and engineering function. We have also developed a dedicated legal resource to be branded Ai Law, which will become fully operational in October 2006.

Our business principle of delivering excellent service and cost containment is now widely recognised in the insurance sector and we will be broadening our range of offerings in the coming year. The recent launch of our broker market product was well received and we have already secured a pilot with a leading broker intermediary to service an element of their work.

### Management and Board Changes

In our annual report last year I referred to the substantial strengthening of the main board through a number of appointments. One year on I am happy to say these appointments have proved successful and I have pleasure in confirming that, with effect from July 2006, David Sandhu has been confirmed as CEO reflecting the energy and commitment he has brought us.

We have continued to build up the experience and depth of the executive management of Ai a matter upon which David reports further in the CEO's Report. We are always looking for the best talent to take Ai forward and at top level I am satisfied that we have a first class team in place to take the group forward.

### **Dividends**

The board is pleased to propose a final dividend of 0.25p per share for the year to 30 June 2006 to be paid on 4 January 2007. Dividends paid in the year totalled £276,000 (2005: £153,000)

It is the board's policy to have a progressive dividend and broadly to increase dividends in line with profits and future prospects and weighted towards the second half year.

### **Future Prospects**

The level of new business activity within the insurance market is very encouraging. Ai is actively engaged with the market in developing innovative solutions which assist the insurance sector in providing excellent service to customers whilst at the same time containing the level of cost inflation in the market.

I am pleased with the progress made during the year and am confident that we can consolidate on this and then take advantage of the new opportunities as they crystallise. It is a testament to our people and the commitment shown by them across all levels of the business that this progress has been achieved and I pass on my sincere thanks on behalf of the directors.

**Charles A Good**  
**Chairman**

**27 September 2006**

## **CEO's Report**

### **Introduction**

I am delighted to present my first report as CEO, since taking over from Adrian Palmer in July 2005. Ai has delivered a PBT of £913,000 for the year (2005: loss of £468,000) and made significant advances in cash management, increasing the strength and flexibility of the balance sheet.

Ai now provides services to 7 of the top 20 insurers. As our product offering develops the actual number of 'solutions' Ai provides directly to the insurance market during the year has grown both in terms of the number of insurers and total solutions being managed to a total of 15. This progress significantly reduces the risk associated with the lumpy nature of contract wins at Ai.

Our core solutions provide high levels of service to the customer yet continue to respect the need to cooperate with insurers to protect against claims inflation. Whilst my team and I remain committed to the primary strategy of working with insurers, precise timing in terms of contract wins remains challenging. As a result we have broadened our distribution strategy moving forward and have launched initiatives in the areas of brokers, repairers, fleets and manufacturers/dealerships which I expect to be earnings enhancing during the year.

### **A Changing Market Place**

Ai's core strategy has focussed on delivering end to end claims management solutions for the motor insurance market, principally to insurance companies, who ultimately pay the cost of claims. Our services are available for all parties to an accident – fault and not at fault customers.

The motor insurance market is experiencing significant challenges to profitability with claims cost increases, primarily third party claims, causing rates to harden significantly in both the primary and re-insurance markets. Claims cost containment remains a high priority for insurers and Ai's strategy is to offer protection to insurers to manage claims coming against them when their policyholder is at fault and offer market leading services to their not at fault customers.

We are slowly seeing leading insurers move forward more actively in both these areas and commence pilots with Ai. We believe these trends are unlikely to reverse and that Ai is well positioned as an

advisor and partner of choice to the insurance market, gained through a reputation for customer service, technical excellence in claims management and an ethos to control claims cost inflation. We recognise that a 'one size fits all service' is not a response to a complex and changing market and that our solutions will evolve as our partners experiment with a range of possibilities.

### **Business and commercial development**

Ai continues to provide two primary products to insurers. Our 'non fault' product provides a gap fill in terms of the service the policyholder receives from the insurer in that it satisfies specifically their mobility need and our intervention product 'Pr£dicta,' that approaches the innocent third party to satisfy all their needs following the road traffic accident.

I am pleased to report that we have seen a net growth of 2 in the number of insurers procuring services with Ai as well as broadening the range of products delivered to our partners. This is a continued trend and has resulted in Ai not being dependent on any one account.

Ai now serves 7 of the top 20 insurers in the UK. We have recently been selected by a top 5 insurer to partner them from October 2006 in a series of pilots across our portfolio.

Ai has seen a strong growth (21%) in the number of cases managed under our intervention service Pr£dicta. This product saves on average 35% of the cost of a claim if it had been presented in the market by an accident management company and 10.3% against insurer's own managed cost. This product ensures that hire and repair periods are minimised and third party personal injury requirements are dealt with responsibly.

Whilst the volume of insurer non fault referrals reduced by 15% due to the exit of the contract previously highlighted at the interim, the number of insurers using our scheme increased to 5 out of the top 20 insurers.

We will be developing our product range and distribution footprint further during the coming year, utilising Ai's ethical brand, customer service and technical excellence and efficient infra-structure. We have developed a new product suite for the insurance broker market and are about to commence a pilot with significant potential. We will build on our brand strength that a claim managed by Ai is recognised in the insurance market as one embracing cost containment and will be settled expeditiously – which benefits both claimant and insurer.

The commencement of a new strategic partnership with Avis UK will make them Ai's main rental provider and they will work closely with us in developing new propositions. By utilising Avis' scale we are able to compete in procurement and service terms with any provider in the market place, without the need to tie up capital to finance a fleet of vehicles.

Ai has also recently established an in house engineering function with its own network of repairers. 'Ai Repair Solutions' will enable more active management of repair costs and down time – key cost drivers. I wish to thank Fleet Accident Repair Group Limited (FARG) and their shareholders for their loyal support over the past 5 years. This change simply removes an administration link in the chain allowing greater control of the customer experience. Ai Repair Solutions continues to draw primarily upon the same network of repairers that has serviced Ai and its insurers' clients over the last 5 years.

We have also established 'Ai Law' with a solicitor partner to provide a full range of legal services, on an operational and financial basis similar to owning our own law firm. Ai Law will also assist us guarantee ethical management of personal injury cases, whilst actively attending to the needs of claimants in need of some form of rehabilitation following an accident.

With the broadening and growth in our offering, it is vital to continue to invest in the development of our system competence and the platform upon which the operation sits. It was reported previously that significant investment has been made in developing our new Claims And Recovery System (C.A.R.S) which has a go live date in early 2007. Couple this with the investment made in System Union's Sun System for financial control and Ai is ready to handle substantial volume growth in the future.

### **People**

We strengthened our Group board team during the year with Peter Harrison joining us as Finance Director in September 2005, having previously held a number of senior financial roles at Aviva plc and RSA plc. Peter's knowledge of the sector and commercial financial expertise has been a significant addition to the Group board. His leadership both in terms of the finance function and in more robust budgeting and forecasting procedures has been instrumental in our better performance in this regard

We have also strengthened the broader management team during the year, with Chris Shaw joining as Head of Claims in April 2006 and Jimmy Monteith joining as Technical Services Director in June 2006 with responsibility for establishing Ai's own repair network and managing the operational team. Chris previously worked for Ai up to December 2004 and rejoined from Accident Exchange Group PLC. Jimmy joined Ai from FARG, where he was Managing Director.

Individual accident victims expect high levels of attentive service following an accident. Recruitment development and retention of a skilled workforce are critical to the success of the business. Ai invests in every employee when they join the business through a comprehensive induction programme. We have also established 'academies' to facilitate the development of critical skills. The Claims Academy enables operational handlers to be proficient in technical and customer service skills; our training suite provides a simulated environment for staff to be trained for 3 weeks before becoming fully operational. The Talent Academy has been established to identify and develop the high potential managers and leaders of the future and provide them with MBA type development in the real workplace, under the mentoring of the executive directors. I believe this will develop a highly skilled and motivated pool of talent to support the directors in driving the business forward.

### **Operational Performance**

We have continued to deliver excellent and responsive customer service to our partners and their customers. We continually monitor our performance and agree KPI's with our partners. It is very pleasing to see the positive comments from policyholders and partners and a minimal level of complaints. As an FSA regulated business we fully adopt the principle of 'Treating Customers Fairly.' We have a 95% overall customer satisfaction rating from our own customer satisfaction surveys.

Average Pr£dicta hire durations decreased by 12% as Ai actively manage vehicle downtime which provides an obvious benefit both to our insurer and claimants. Our Pr£dicta replacement vehicle solutions have increased by 48% over the year. The total number of repairs carried out by Ai increased by 40% through our approved repair network. The volume of PI cases referred to Ai's panel of solicitors increased by 43%.

We believe that our responsible approach to the containment of claims costs means our claims get paid more quickly. Our major quoted competitors have a level of debtor days, which we calculate, at 206 days based on average debtor days for the year. Our debtor days average 75 days. We will continue to look for further improvements in operational and financial efficiency in the coming year, whilst at the same time investing in development of the business. We will continue to strengthen our team to support our development and will benefit from the new claims system coming on line in early 2007.

### **Outlook**

Good progress has been made during the year in delivering a strong development in financial and operational performance. With the broadening of our distribution strategy, continued investment in the very best in the market in terms of people and a greater awareness within the insurance market of the real factors causing claims inflation I look forward with confidence to delivering a successful 2007. I expect that profits will be weighted towards the second half of the 2006/07 financial year reflecting the development of commercial relations and seasonality in the business.

I would like to thank my co directors for their commitment and dedication, and the support and challenge from all the management and staff of Ai. We are a passionate team with real ambition and I very much look forward to leading the business during this exciting time.

**David B Sandhu**  
CEO

**27 September 2006**

## **Finance Director's Report**

### **Introduction**

I am pleased to report that the Group has delivered a significant increase in profits and that this is underpinned by a broader range of relationships with the insurance market. Furthermore, focused improvements in working capital management have produced an excellent return through a reduction in

net debt of £2.6m. Significant investment has continued in our IT and property infra-structure to create an attractive and highly efficient environment to service our partners' policyholders going forward, the benefits of which will be seen during 2007.

### **Restatement of Prior Period Results**

The annual report has been prepared using accounting policies that are consistent with those adopted in the statutory accounts for the period ended 26 June 2005 other than the adoption of 'FRS 21' Events after the balance sheet date and 'FRS 22' Earnings per share. Adoption of policies consistent with these standards is required in accordance with United Kingdom best practice.

### **Financial Overview**

The Group generated a pre-tax profit of £913,000 in the year (2005: loss of £468,000) an improvement of £1.4m. Pre-tax profit before goodwill amortisation and exceptional administrative costs was £1.45m (2005: £249,000).

Turnover of £38.0m grew by 2.8% over the previous year. Growth was impacted in the second half year by the cessation of a repair only contract, which generated little margin for the Group. This together with re-pricing actions on certain contracts contributed to the improvement in gross margin to 24.8% (2005: 21.0%) for the year as a whole.

Administrative expenses (excluding certain exceptional operating costs) before exceptional costs increased by £361,000 over the previous year, reflecting higher depreciation and operating lease costs associated with investment in additional capacity, together with costs associated with strengthening the board and senior management team.

### **Interest**

The increase in cash in the period of £2.8m, driven predominantly by a cash inflow from operating activities of £4.8m, has led to a reduction in the overdraft to £2.2m. Despite this the overall interest charge has increased to £401,000 (2005: £293,000) due to the impact of a first full year of mortgage interest on the new building and increased finance lease costs due to additions in the year.

### **Taxation**

The Group does not expect to pay Corporation Tax in relation to the current year due to the availability of tax losses brought forward from prior periods. As a result of the Group generating a profit in the year, the deferred tax asset held in the balance sheet reduced by £416,000 to £1,053,000.

### **Earning Per Share**

Basic Earnings Per Share (EPS) increased by 1.54p to 0.81p (2005: (0.73)p). Adjusted EPS, which measures EPS before goodwill amortisation, also rose by 1.54p to 1.69p (2005: 0.15p).

### **Dividends**

The dividend paid from reserves of £276,000 reflects the payment of a final dividend in relation to the previous period of £153,000 (0.25p per share paid in January 2006) and an interim dividend for the current period of £123,000 (0.20p per share paid in April 2006). The board have proposed the payment of a final dividend for the year of £153,000 (0.25p per share), payable on 4 January 2007 to shareholders on the share register at 15 December 2006.

Under 'FRS 21' Events after the Balance Sheet Date only dividends declared in a financial period are reflected in the financial statements for that period. Accordingly, the proposed payment of £153,000 is not reflected in these financial statements.

### **Cashflow and Working Capital**

The Group has generated a significant improvement in its cash position during the year. Net cash inflow from operating activities was £4.8m (2005: outflow of £3.7m). The improvement is attributable to an improvement in underlying profits and to focused management of billings and collections.

The Group's strategy of working positively with the insurance market to contain claims costs has assisted collection activity. Our investment in working capital largely consists of billed and unbilled receivables, the latter being incomplete cases. The value of trading current assets (excluding deferred

tax) was £12.4m at 30 June 2006, down by £3.7m compared to the previous year. Our trading creditors (including VAT) provided £8.6m of funding at 30 June 2006, down by £1.1m.

### Fixed Assets

Fixed asset additions of £1.6m reflects the investment made in new computer equipment, development of software for the new claims system and finance systems and residual premises fit out costs. During the year the new finance system was brought into use. Further investment was made in the new claims system, which will be fully integrated with the financial system when it comes into use in early 2007. The new system will enhance the data exchanges we have with our partners and improve service levels, efficiency and control over our entire operation through streamlined processes and workflow management. The benefits of this system will start to materialise in 2007.

### Capital Structure and Financing

Proceeds from share issues generated £13,000 during the year upon the exercise of share options.

Net debt stands at £3.8m (2005: £6.4m), a reduction of £2.6m. Debt consists of a bank overdraft of £2.2m and structured finance in the form of a property loan and computer leases. The Group has a revolving overdraft funding facility with Yorkshire Bank for up to £10m.

Interest charges on the overdraft and property loan are variable, linked to Yorkshire Bank's base rate.

### Financial Risk Management

The Group does not enter into derivative transactions nor trade in financial instruments. The main risk arising from financial instruments is interest rate risk, linked to movements in Yorkshire Bank's base rate. The Group enters into contracts with customers, for which vehicle provision prices may be prescribed for periods of up to 12 months. The Group secures supply arrangements with rental companies to mitigate the impact of volatility in vehicle prices over broadly similar periods.

### Implementation of International Financial Reporting Standards

As an AIM listed company the Group is required to report under International Financial Reporting Standards (IFRS) for the year ended 30 June 2008. A project has commenced defining actions and a timescale to adopt IFRS involving financial and business wide processes which will be impacted by the transition.

**Peter J Harrison**  
Group Finance Director

27 September 2006

## Consolidated Profit and Loss Account

For the year ended 30 June 2006

	Note	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
Turnover		37,986	36,945
Cost of sales		(28,566)	(29,200)
<b>Gross profit</b>		<b>9,420</b>	<b>7,745</b>
Administrative expenses before exceptional costs		(8,106)	(7,745)
Administrative expenses – exceptional costs	1	-	(178)

	Note	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
<b>Group operating profit</b> – before amortisation of goodwill		<b>1,853</b>	361
Amortisation of goodwill		(539)	(539)
<b>Group operating profit/(loss)</b>		<b>1,314</b>	(178)
Interest receivable and similar income		-	3
Interest payable and similar charges	2	(401)	(293)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>913</b>	(468)
Tax on profit/(loss) on ordinary activities	3	(416)	19
<b>Profit/(loss) after taxation</b>		<b>497</b>	(449)
Basic EPS	5	<b>0.81p</b>	(0.73)p
Diluted EPS	5	<b>0.81p</b>	(0.73)p

All operations are continuing.

There were no recognised gains or losses other than the profit/(loss) reported above for each of the periods.

## Consolidated Balance Sheet

at 30 June 2006

	Note	30 June 2006 £'000	26 June 2005 (Restated) £'000
<b>Fixed assets</b>			
Intangible assets	6	6,726	7,265
Tangible assets		3,666	2,531
		<b>10,392</b>	9,796
<b>Current assets</b>			
Debtors		13,442	17,514
Cash at bank and in hand		4	78
		<b>13,446</b>	17,592
<b>Creditors:</b> Amounts falling due within one year		<b>(11,156)</b>	(14,952)
<b>Net current assets</b>		<b>2,290</b>	2,640
<b>Total assets less current liabilities</b>		<b>12,682</b>	12,436
<b>Creditors:</b> Amounts falling due after one year		<b>(1,282)</b>	(1,270)

<b>Net assets</b>		<u>11,400</u>	<u>11,166</u>
<b>Capital and reserves</b>			
Called up share capital		6,136	6,128
Share premium account		1,573	1,568
Profit and loss account		<u>3,691</u>	<u>3,470</u>
<b>Equity shareholders' funds</b>	7	<u>11,400</u>	<u>11,166</u>

## Consolidated Cash Flow Statement

For the year ended 30 June 2006

	Note	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
<b>Net cash inflow/(outflow) from operating activities</b>	8	4,832	(3,690)
<b>Returns on investment and servicing of finance</b>	9	(401)	(290)
<b>Capital expenditure</b>	9	(1,151)	(313)
<b>Equity dividends paid</b>		(276)	(153)
<b>Net cash inflow/(outflow) before financing</b>		<u>3,004</u>	<u>(4,446)</u>
<b>Financing</b>			
- proceeds of issue of shares		13	12
- repayment of hire purchase and lease financing		(221)	(1,729)
- bank loan		(25)	1,187
<b>Net cash outflow from financing</b>		<u>(233)</u>	<u>(530)</u>
<b>Increase/(decrease) in cash in the period</b>		<u>2,771</u>	<u>(4,976)</u>

## Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
<b>Increase/(decrease) in cash in the period</b>		2,771	(4,976)
Cash outflow from decrease in hire purchase and lease financing		221	1,729
Cash outflow/(inflow) from loan		25	(1,187)
<b>Movement in net debt from cash flows in the period</b>		<u>3,017</u>	<u>(4,434)</u>
Hire purchase and lease obligations acquired with subsidiary		-	(74)
New finance leases incepting in the period		(415)	(360)

Change in net debt		2,602	(4,868)
Opening net debt		(6,416)	(1,548)
Closing net debt	10	(3,814)	(6,416)

## Notes to the Preliminary Announcement

For the year ended 30 June 2006

### 1. Administrative expenses – exceptional costs

Administrative expenses – exceptional costs consist of:

	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
Duplicated costs	-	178

These items represent costs of relocating the business formerly undertaken in Diss, Norfolk, by the Colegate Group, which was acquired on 22 June 2004 and subsequently transferred to Blackpool. Duplicated costs arose in July and August 2004 whilst the Colegate companies' activities were being relocated to Blackpool.

### 2. Interest payable and similar charges

	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
Interest on bank loans and overdrafts	325	280
Exceptional hire purchase and finance lease costs	71	13
Other	5	-
	401	293

### 3. Taxation

	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
<b>Deferred taxation</b>		
Net origination/(reversal) of timing differences	416	(19)
<b>Tax charge/(credit) on profit on ordinary activities</b>	416	(19)

	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
<b>Current tax reconciliation</b>		
Profit/(loss) on ordinary activities before taxation	913	(468)
Theoretical tax at UK corporation tax rate of 30% (2005: 30%)	274	(140)
Effects of:		
Expenditure not tax deductible	128	200
Income not chargeable to corporation tax	-	(38)
Utilisation of losses	(495)	364
Accelerated capital allowances	12	(339)
Short term timing differences	67	22
Movement on deferred tax not provided	14	(69)
<b>Actual current taxation charge</b>	-	-

The Group's effective rate of tax in the future will be influenced by the Group's ability to recover unrelieved losses and any changes in the standard rate of corporation tax.

#### 4. Dividends

	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
Equity dividend		
<b>Ordinary shares of 10p each</b>		
- Interim dividends paid of 0.20p per share (2005: nil)	123	-
- Final dividends paid of 0.25p (2005: 0.25p)	153	153
	276	153

The directors propose a final dividend of £153,000 (0.25p per ordinary share) payable on 4 January 2007. The accounts for the year do not reflect the proposed dividend which will be treated as an appropriation of profit in the accounts to 30 June 2007.

#### 5. Earnings per share

	Year ended 30 June 2006			Year ended 26 June 2005		
	Earnings	Weighted average number of shares	EPS	Earnings	Weighted average number of shares	EPS
<b>FRS14 basis</b>	£'000	'000	£'000	£'000	'000	P
Basic earnings per share	497	61,332	0.81	(449)	61,255	(0.73)
Dilutive effect of options	-	174	-	-	-	-
Diluted earnings per share	497	61,506	0.81	(449)	61,255	(0.73)
<b>Adjusted to exclude goodwill</b>						

<b>amortisation</b>						
Basic – FRS14 basis	<b>497</b>	<b>61,332</b>	<b>0.81</b>	(449)	61,255	(0.73)
Goodwill amortisation	<b>539</b>	-	<b>0.88</b>	539	-	0.88
Adjusted basic earnings per share	<b>1,036</b>	<b>61,332</b>	<b>1.69</b>	90	61,255	0.15
Dilutive effect of options	-	<b>174</b>	<b>(0.01)</b>	-	388	-
Adjusted diluted earnings per share	<b>1,036</b>	<b>61,506</b>	<b>1.68</b>	90	61,643	0.15

Adjusted earnings per share calculated on post tax earnings before goodwill amortisation is reported above to inform market professionals and investment analysts who will include this measure as part of their assessment of the Group's financial performance for the period. As the Group made a loss in the year ended 26 June 2005, outstanding share options are non-dilutive on the basic earnings per share balance.

## 6. Intangible assets

### Goodwill

	<b>£'000</b>
<b>Cost</b>	
At 27 June 2005 and 30 June 2006	11,697
<b>Amortisation</b>	
At 27 June 2005	4,432
Charged in the period	539
At 30 June 2006	4,971
<b>Net book value</b>	
At 30 June 2006	<b>6,726</b>
At 26 June 2005	7,265

## 7. Reconciliation of movements in equity shareholders' funds

	<b>Year ended 30 June 2006</b>	<b>Year ended 26 June 2005 (Restated)</b>
	<b>£'000</b>	<b>£'000</b>
Total recognised gains and losses	<b>497</b>	(449)
Dividends paid	<b>(276)</b>	(153)
Net proceeds of share issue	<b>13</b>	12
Increase/(decrease) in shareholders' funds	<b>234</b>	(590)
Opening shareholders' funds	<b>11,166</b>	11,756

Closing shareholders' funds	<b>11,400</b>	11,166
	<hr/>	<hr/>
Opening shareholders' funds as originally reported	<b>11,013</b>	11,603
Effect of adopting FRS 21 (note 11)	<b>153</b>	153
	<hr/>	<hr/>
Opening shareholders' funds as restated	<b>11,166</b>	11,756
	<hr/>	<hr/>

## 8. Reconciliation of operating profit/(loss) to operating cash flows

	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
Operating profit/(loss)	1,314	(178)
Depreciation charges	431	285
Profit on disposal of tangible fixed assets	-	(27)
Amortisation of goodwill	539	539
Decrease/(increase) in debtors	3,656	(7,136)
(Decrease)/increase in creditors	(1,108)	2,827
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	<b>4,832</b>	(3,690)
	<hr/>	<hr/>

## 9. Analysis of cash flows

	Year ended 30 June 2006 £'000	Year ended 26 June 2005 £'000
<b>Returns on investment and servicing of finance</b>		
Interest received	-	3
Interest paid	(330)	(280)
Interest element of finance lease payments	(71)	(13)
	<hr/>	<hr/>
<b>Net cash outflow</b>	<b>(401)</b>	(290)
	<hr/>	<hr/>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(1,151)	(1,481)
Sale of tangible fixed assets	-	1,168
	<hr/>	<hr/>
<b>Net cash outflow</b>	<b>(1,151)</b>	(313)
	<hr/>	<hr/>

## 10. Analysis of net debt

At 26 June 2005 £'000	Cash flow £'000	Non cash movements £'000s	At 30 June 2006 £'000
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Cash in hand and at bank	78	(74)	-	4
Bank overdraft	(5,019)	2,845	-	(2,174)
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash	(4,941)	2,771	-	(2,170)
Bank loan:				
Due within one year	(82)	28	-	(54)
Due after one year	(1,105)	(3)	-	(1,108)
Hire purchase and finance leases	(288)	221	(415)	(482)
	<hr/>	<hr/>	<hr/>	<hr/>
Total net debt	(6,416)	3,017	(415)	(3,814)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 11. Prior year adjustments

This statement has been prepared using accounting policies that are consistent with those adopted in the statutory accounts for the period ended 26 June 2005 other than the adoption of 'FRS 21' Events after the balance sheet date and 'FRS 22' Earnings per share. Adoption of policies consistent with these standards is required in accordance with United Kingdom best practice.

The change in policies has resulted in a re-statement of comparative information in respect of dividends declared after the balance sheet date. The effect is as follows:

- Brought forward shareholder's funds at 27 June 2005 have increased by £153,000 (see note 7)
- Dividend creditors have reduced by £153,000

## 12. Preliminary Announcement

The unaudited preliminary statement, which has been agreed with the auditors, was approved by the Board of Directors on 27 September 2006. It is not the Company's statutory accounts. Copies of the Group's audited statutory accounts for the year ended 30 June 2006 will be despatched to shareholders and the AIM Team shortly. The auditors have not yet reported on these accounts. Copies will also be available to the public at the Company's registered office; Indemnity House, Sir Frank Whittle Way, Blackpool Business Park, Blackpool, FY4 2FB.

The statutory accounts for the period ended 26 June 2005 received an unqualified audit report and did not contain statements under Section 237(2) or Section 237(3) of the Companies Act 1985. The statutory accounts for the period ended 26 June 2005 have been delivered to the Registrar of Companies.

For further information please contact:-

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