

# **Ai CLAIMS SOLUTIONS PLC**

## **Interim Report 31 December 2006**

### **FINANCIAL HIGHLIGHTS**

- Adjusted PBT up by 20.8% to £609k - before FRS 20 and goodwill amortisation (2005: £504k).
- Gross margin 29.9% (2005: 21.3%).
- Operating cash flow £1.6m (2005: £0.7m).
- Total borrowings reduced by £0.7m to £3.1m, from £3.8m at 30 June 2006.
- Debtor days reduced to 70 days (30 June 2006: 75 days).
- Interim dividend increased by 15.0% to 0.23p per share, payable on 17 May 2007 to shareholders on the share register at 20 April 2007.
- The overall result for the full year is expected to be significantly weighted to the second half year, which has started well.

### **OPERATIONAL HIGHLIGHTS**

- Ai's own repair network established during the six months ended 31 December 2006.
- Award of a 3 year fleet accident management contract with Avis (UK) – with an estimated 30,000 incidents and 5,000 repairs per annum expected when fully established.
- Further development of fleet and automotive markets.
- Pilot with a leading insurer commenced in December, accessing an estimated 15,000 non-fault cases per annum.
- Significant pilots with 3 further leading motor insurers commenced post December.

## CHAIRMAN'S STATEMENT

I am pleased to report that the Group has delivered a 20.8% increase in adjusted profit for the first half of the year and that we have seen a significant rise in the number of opportunities for profitable growth in our core insurer market.

### RESULTS OVERVIEW

	6 months to 31 December 2006 Unaudited £'000	6 months to 31 December 2005 Unaudited (Restated) £'000	Year ended 30 June 2006 Audited (Restated) £'000
<b>Turnover</b>	<b>14,772</b>	20,943	37,986
Profit before taxation – before amortisation of goodwill and FRS 20 charge (adjusted profit)	<b>609</b>	504	1,452
Amortisation of goodwill	<b>(269)</b>	(269)	(539)
FRS 20 charge	<b>(30)</b>	(24)	(48)
Profit before taxation	<b>310</b>	211	865
Taxation charge	<b>(186)</b>	(213)	(416)
Profit/(loss) after taxation	<b>124</b>	(2)	449

Whilst overall turnover reduced during the six month period to £14.8m (2005: £20.9m), this is attributable to the planned reduction in lower margin repair income. Underlying hire income increased by 9%. This change in mix of business increased gross margin to 29.9% (2005: 21.3%).

Overheads (before goodwill and FRS 20 charges) reduced from £3,757k to £3,695k. Whilst the depreciation charge increased by £151k, it was mitigated by reductions in direct staff costs, despite additional recruitment towards the end of the period in readiness for a substantial pilot which commenced in December 2006.

Operational cash flow continued to strengthen. Cash generated from operations of £1.6m (2005: £0.7m) contributed to a reduction in overall debt from £3.8m to £3.1m, after absorbing capital expenditure of £0.8m, principally incurred on continued development of our new purpose-built IT platform.

Cash generation was excellent once again due to strong claims collection, with average debtor days calculated on the count back method reducing to 70 days from 75 days at 30 June 2006, 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 £120k (2005: £205k), reflecting the benefit of reduced borrowings.

## **PROSPECTS AND DIVIDENDS**

Your directors believe that we are witnessing a significant change in the motor insurance market's approach to servicing policyholders and pro-actively managing third party costs, in particular showing increasing interest in the solutions offered by Ai. Ai has a well respected brand in the insurance marketplace and we are actively engaged in several new significant pilots with leading insurance companies. We continue to increase the breadth of our offer to the automotive, fleet and intermediary channels, with encouraging levels of interest. We believe these initiatives will provide a pivotal opportunity for us to grow the size of the business and the breadth of service offerings and widen our distribution footprint.

The company has continued to focus on the competitiveness and quality of service delivered to customers and their policyholders. The change in our fleet provider to Avis has ensured Ai remains competitive both in terms of price and operational robustness. The establishment of Ai's own repair network has enabled us to achieve greater control over repairer performance.

The board are looking forward to delivering a strong second half as Ai continues to build on existing and new customer relationships. The overall result for the full year is expected to be significantly weighted to the second half year, which has started well. Your directors are pleased to declare an interim dividend of 0.23p per share to be paid on 17 May 2007, an increase of 15.0% over last year.

Charles Good

Chairman

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	6 months ended 31 December 2006 Unaudited £'000	6 months ended 31 December 2005 Unaudited (Restated) £'000	Year ended 30 June 2006 Audited (Restated) £'000
Turnover		14,772	20,943	37,986
Cost of sales		<u>(10,348)</u>	<u>(16,477)</u>	<u>(28,566)</u>
<b>Gross profit</b>		<b>4,424</b>	4,466	9,420
Administrative expenses		<u>(3,994)</u>	<u>(4,050)</u>	<u>(8,154)</u>
<b>Group operating profit:</b>				
Before amortisation of goodwill		699	685	1,805
Amortisation of goodwill		(269)	(269)	(539)
<b>Group operating profit</b>		<b>430</b>	416	1,266
Interest payable and similar charges		<u>(120)</u>	<u>(205)</u>	<u>(401)</u>
<b>Profit on ordinary activities before taxation</b>		<b>310</b>	211	865
Tax on profit on ordinary activities	2	<u>(186)</u>	<u>(213)</u>	<u>(416)</u>
<b>Profit/(loss) after taxation</b>	3	<u><b>124</b></u>	<u>(2)</u>	<u>449</u>
Basic EPS	1	<u><b>0.20p</b></u>	<u>(0.00) p</u>	<u>0.73p</u>
Diluted EPS	1	<u><b>0.20p</b></u>	<u>(0.00) p</u>	<u>0.73p</u>

All operations are continuing.

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

## CONSOLIDATED BALANCE SHEET

	Note	31 December 2006 Unaudited £'000	31 December 2005 Unaudited (Restated) £'000	30 June 2006 Audited (Restated) £'000
<b>Fixed assets</b>				
Intangible assets		6,457	6,996	6,726
Tangible assets		4,127	3,409	3,666
		<u>10,584</u>	<u>10,405</u>	<u>10,392</u>
<b>Current assets</b>				
Debtors	4	12,065	18,643	13,442
Cash at bank and in hand		1	6	4
		<u>12,066</u>	<u>18,649</u>	<u>13,446</u>
<b>Creditors:</b> Amounts falling due within one year	5	<u>(10,022)</u>	<u>(16,532)</u>	<u>(11,156)</u>
<b>Net current assets</b>		<u>2,044</u>	<u>2,117</u>	<u>2,290</u>
Total assets less current liabilities		12,628	12,522	12,682
<b>Creditors:</b> Amounts falling due after one year	6	<u>(1,227)</u>	<u>(1,474)</u>	<u>(1,282)</u>
<b>Net assets</b>		<u>11,401</u>	<u>11,048</u>	<u>11,400</u>
<b>Capital and reserves</b>				
Called up share capital		6,136	6,136	6,136
Share premium account		1,573	1,573	1,573
Other reserve		93	39	63
Profit and loss account		3,599	3,300	3,628
<b>Equity shareholders' funds</b>	3	<u>11,401</u>	<u>11,048</u>	<u>11,400</u>

## CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 31 December 2006 Unaudited	6 months ended 31 December 2005 Unaudited (Restated)	Year ended 30 June 2006 Audited (Restated)
Note	£'000	£'000	£'000
<b>Reconciliation of operating profit to operating cash flow</b>			
Operating profit	430	416	1,266
Goodwill amortisation	269	269	539
Depreciation of fixed assets	309	158	431
FRS 20 charge	30	24	48
Decrease/(increase) in debtors	769	(1,342)	3,656
(Decrease)/increase in creditors	(239)	1,176	(1,108)
<b>Net cash inflow from operating activities</b>	<b>1,568</b>	<b>701</b>	<b>4,832</b>
<b>Returns on investments and servicing of finance</b>	<b>(120)</b>	<b>(205)</b>	<b>(401)</b>
<b>Capital expenditure</b>	<b>(770)</b>	<b>(621)</b>	<b>(1,151)</b>
<b>Equity dividends paid</b>	<b>-</b>	<b>(153)</b>	<b>(276)</b>
<b>Net cash inflow/(outflow) before financing</b>	<b>678</b>	<b>(278)</b>	<b>3,004</b>
<b>Financing</b>			
Proceeds of issue of shares	-	13	13
Repayment of hire purchase and lease financing	(114)	(111)	(221)
Bank loan	(26)	-	(25)
<b>Net cash outflow from financing</b>	<b>(140)</b>	<b>(98)</b>	<b>(233)</b>
<b>Increase/(decrease) in cash in the period</b>	<b>538</b>	<b>(376)</b>	<b>2,771</b>
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## NOTES TO THE INTERIM REPORT TO 31 DECEMBER 2006

### 1 EARNINGS PER SHARE

	6 months ended 31 December 2006 Unaudited £'000	6 months ended 31 December 2005 Unaudited (Restated) £'000	Year ended 30 June 2006 Audited (Restated) £'000
These have been calculated on earnings of:	<u>124</u>	<u>(2)</u>	<u>449</u>
The weighted average number of shares used was:-	'000	'000	'000
Basic	61,357	61,317	61,332
Dilutive effect of options	<u>65</u>	<u>-</u>	<u>174</u>
Diluted	<u>61,422</u>	<u>61,317</u>	<u>61,506</u>

### 2 TAXATION

	6 months ended 31 December 2006 Unaudited £'000	6 months ended 31 December 2005 Unaudited £'000	Year ended 30 June 2006 Audited £'000
Current year tax charge	<u>186</u>	<u>213</u>	<u>416</u>

The tax charge is based on the estimated expected tax rate for the full year. The effective tax rate after adjusting for goodwill amortisation for the 6 months ended 31 December 2006 is 32%. This varies from the basic rate of corporation tax (30%) as a result of non-deductible expenditure.

### 3 MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	6 months ended 31 December 2006 Unaudited £'000	6 months ended 31 December 2005 Unaudited (Restated) £'000	Year ended 30 June 2006 Audited (Restated) £'000
Profit/(loss) after taxation	124	(2)	449
Equity dividends proposed/declared	(153)	(153)	(276)
Increase in other reserve-FRS 20	30	24	48
Net proceeds of share issue	-	13	13
Increase/(decrease) in shareholders' funds	1	(118)	234
Opening shareholders' funds	<u>11,400</u>	<u>11,166</u>	<u>11,166</u>
Closing shareholders' funds	<u>11,401</u>	<u>11,048</u>	<u>11,400</u>

### 4 DEBTORS

	31 December 2006 Unaudited £'000	31 December 2005 Unaudited £'000	30 June 2006 Audited £'000
Trade debtors	6,472	11,699	8,319
Other debtors	403	565	406
Prepayments	467	263	691
Accrued income	3,856	4,860	2,973
Deferred tax asset	867	1,256	1,053
	<u>12,065</u>	<u>18,643</u>	<u>13,442</u>

## 5 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2006 Unaudited £'000	31 December 2005 Unaudited £'000	30 June 2006 Audited £'000
Hire purchase and finance lease obligations	226	223	308
Bank overdraft	1,633	5,323	2,174
Bank loan	51	82	54
<b>Borrowings</b>	<b>1,910</b>	<b>5,628</b>	<b>2,536</b>
Trade creditors	2,899	3,075	3,146
Other taxation and social security	1,477	2,198	2,142
Other creditors	25	932	17
Proposed dividend	153	-	-
Accruals	3,558	4,699	3,315
	<b>10,022</b>	<b>16,532</b>	<b>11,156</b>

## 6 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	31 December 2006 Unaudited £'000	31 December 2005 Unaudited £'000	30 June 2006 Audited £'000
Hire purchase and finance lease obligations	142	367	174
Bank loan	1,085	1,107	1,108
	<b>1,227</b>	<b>1,474</b>	<b>1,282</b>

## 7 ANALYSIS OF NET DEBT

	At 1 July 2006 £'000	Cash Flow £'000	At 31 December 2006 £'000
Cash in hand and at bank	4	(3)	1
Bank overdraft	(2,174)	541	(1,633)
Net cash	(2,170)	538	(1,632)
Bank loan	(1,162)	26	(1,136)
Hire purchase and finance lease obligations	(482)	114	(368)
Total net debt	(3,814)	678	(3,136)

## 8 INTERIM REPORT

This interim report was approved by the Board on 22 February 2007. It has been prepared using accounting policies that are consistent with those adopted in the statutory accounts for the period ended 30 June 2006 other than the adoption of FRS 20 (Share based payments). Adoption of policies consistent with this standard is required in accordance with United Kingdom best practice. The change in policy has resulted in a restatement of comparative information. Full details of these adjustments will be disclosed in the statutory statements for the year ending 30 June 2007. The effect on brought forward shareholders' funds at 1 July 2006 was £nil being an adjustment to both the profit and loss account reserve and the other reserve of £63,000. A deferred tax asset has not been provided on adoption of FRS 20 as it is not considered material.

The above information does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The balance sheet at 30 June 2006 was derived from the statutory accounts ended on that date. The statutory accounts for the period ended 30 June 2006 have been delivered to the Registrar of Companies and received an audit report which was unqualified and did not contain statements under sections 237(2) or (3) of the Companies Act 1985.

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

## **Introduction**

We have been instructed by the Company to review the financial information set out on pages 4 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. This report is made solely to the Company having regard to guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

## **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules. The directors are also responsible for ensuring 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 having regard to guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Ai Claims Solutions plc management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on 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 2006.

RSM Robson Rhodes LLP  
Chartered Accountants  
Manchester, England

22 February 2007

For further information, please contact:

David Sandhu, Chief Executive - 0870 889 0409

Peter Harrison, Group Finance Director - 0870 701 0521