ABBEY PROTECTION PLC

Abbey Protection plc
Report and Accounts 2007

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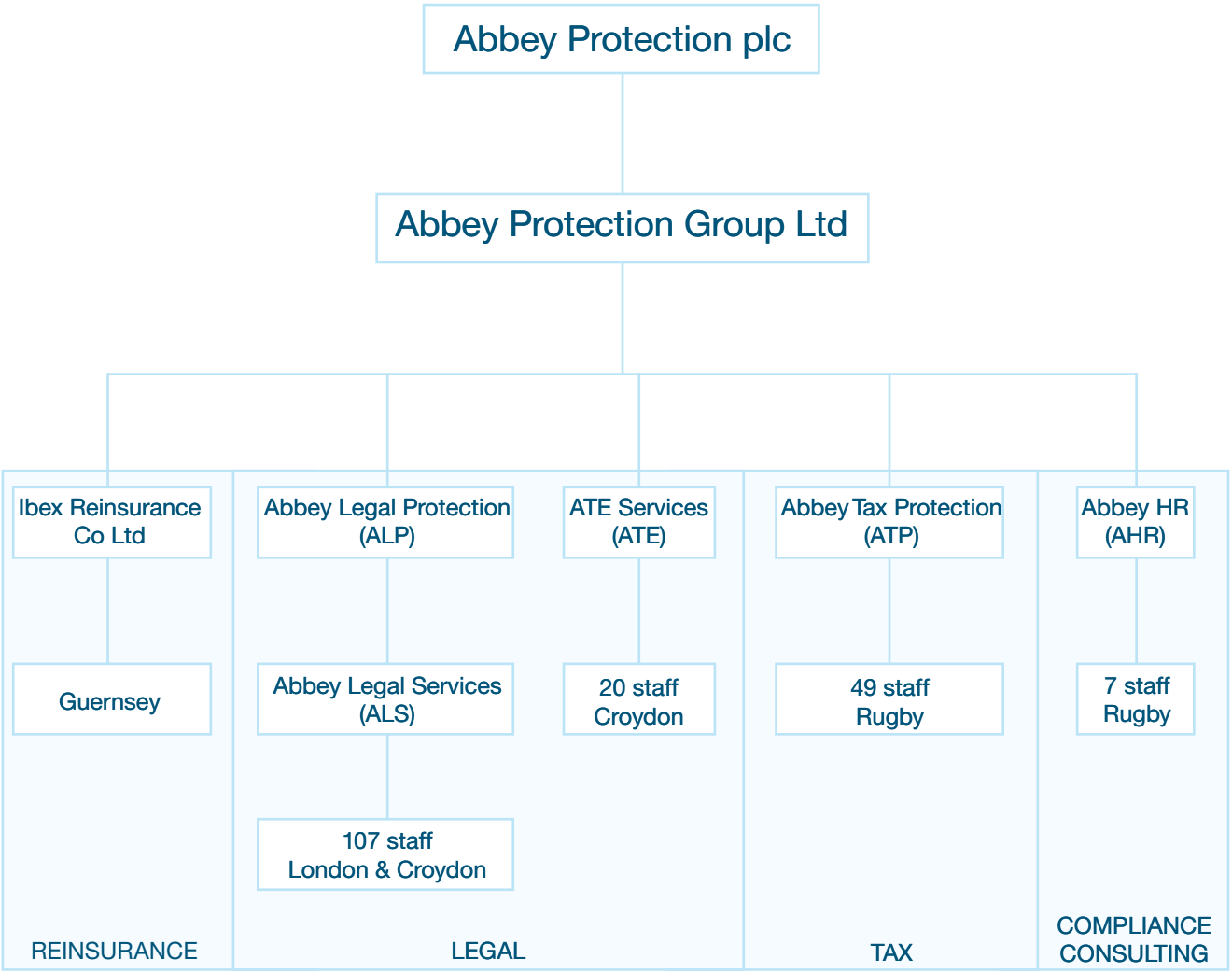
Overview

Who we are

Abbey Protection plc is a specialist insurance and consultancy Group focused on the delivery of legal and taxation related professional fees insurance products and services to UK small to medium sized enterprises ("SME's"). Abbey Protection plc is the ultimate holding company for:

- Abbey Protection Group Limited, which is the Group's intermediary and consultancy arm. It is authorised and regulated by the Financial Services Authority (firm ref: 308829).
- Ibex Reinsurance Company Limited, the Group's reinsurance subsidiary. It is authorised and regulated by the Guernsey Financial Services Commission (registration no: 40683).

Group structure



Finance, IT, HR and compliance services are provided centrally by 17 staff based in London and Croydon.

Group structure (continued)

The Group has 200 staff working from three locations and in 2007, gross premiums (produced for underwriters) and other income totalling £35m.

It distributes its services via a wide network of insurance brokers, insurance companies, accountants, solicitors and affinity groups and operates under the following divisions:

Abbey Legal Protection (ALP)

ALP, based in the City of London, sells and underwrites commercial legal expenses insurance that reimburses the legal fees incurred by businesses, typically SME's, in the event of legal actions, such as employment and contract disputes. ALP has built up an extensive and diverse distribution network of over 500 insurance brokers, five insurance companies and over 150 affinity groups.

Abbey Legal Services (ALS)

ALS, based in Croydon, provides legal advice and related employment services to ALP clients as part of their insurance policies, together with consultancy services direct to clients. ALS services in excess of 275,000 calls a year.

Abbey Tax Protection (ATP)

ATP, based in Rugby, sells and underwrites professional fees insurance which reimburses fees incurred by taxpayers when HMRC undertakes an investigation into a taxpayer's taxation, VAT or PAYE return. ATP distributes its products through a network of over 1,400 accountants.

Abbey HR (AHR)

AHR, based in Rugby, provides HR consultancy services direct to businesses. AHR was established in January 2007 to leverage off the Group's existing specialist skills in employment law and to penetrate further the £400m independent compliance services market.

After The Event (ATE) Services

ATE Services, based in Croydon, manages the Law Society's only personal injury compensation scheme, Accident Line and its related ATE insurance policies, designed to support solicitors who undertake a personal injury claim on a conditional fee agreement. It also manages the run-off of various defunct claims management schemes on behalf of insurers.

Ibex Reinsurance Company Limited (Ibex)

Ibex, based in Guernsey, is the Group's reinsurance vehicle. In order to provide a rated insurance counterparty, the Group places its insurance policies through its insurance partner, Brit Insurance. With the exception of its ATE policies, and certain other specialist risks, Ibex reinsures Brit on a quota share basis.

Financial highlights

Abbey Protection plc is committed to high service levels and is the leading supplier of legal expenses and taxation related professional fees insurance to UK SME's.

Our objective is to achieve strong, sustainable earnings and progressive dividend yield through a strategy of driving organic growth, developing opportunities for the Group's consultancy divisions and making selective and complementary acquisitions.

Highlights

9% growth in pre-tax profits to £7.3m

Revenue up 11% to £27.3m

Steady and profitable underwriting profits (claims ratio of 69.7%)

Cash and financial investment balances up 17% to £33.9m

Shareholders' funds up 22% to £14.7m

Outlook positive, as Group trades in a non-cyclical sector of the insurance market

Financial results 2007

	2007	2006
Revenue	£27.3m	£24.6m
Profit before tax	£7.3m	£6.7m
Claims ratio	69.7%	67.9%
Profit after tax	£5.3m	£4.9m
Basic earnings per share	5.86p	5.42p

Chairman's statement

Tony Shearer
Chairman

Our accounts show a profit before tax for 2007 of £7.3 million, and post tax profits of £5.3 million. This very pleasing result exceeds the market expectations at the time of listing last November.

The Listing took a great deal of the time and energy of our senior management, and so these excellent results are a reflection of the strength and depth of the management team.

As well as a strong profit and loss account, we also have a healthy balance sheet, with adequate cash resources to make selective acquisitions which will add shareholder value, and support the intended aggregate dividend of £3.5m for the 2008 financial year. We continue to look at potential acquisitions that meet our criteria of being fairly priced, are consistent with our existing skills, services and resources, have a low risk to integrate, and can be expected to deliver an increase in our earnings per share without straining our balance sheet.

I took over as Chairman last November from Oliver Hemsley, who had been the Chairman from 2002. I am very grateful to Oliver for all he has done for the company. We are all sorry that he decided to resign as a Director at the time of the admission to AIM, but I am grateful that his advice is still available to us as a major shareholder.

John Acornley joined the Board as a Non-Executive Director at the same time as me, and Paul Wilson joined us on 11th March 2008. We thank the management and employees for their commitment and contribution, and all shareholders for their support.

I believe that the Group operates in business areas that are likely to see consistent growth over the next few years, that we have the financial resources to develop the business, and the management team to do so. The Board looks to the coming year and future with confidence.

Tony Shearer
20th May 2008

Business review

Chief Executive's statement

Colin Davison
Chief Executive

As this is our first annual report as an AIM listed group, it is worth highlighting some of the background to Abbey Protection plc.

The original trading company, Abbey Legal Protection Limited, was founded as an underwriting agency for Lloyd's of London, focused on the provision of commercial legal expenses insurance to UK businesses. As the Group has expanded it has developed a range of complementary legal, professional and reinsurance services (see **Key Milestones**). Today we sit proudly as the leading supplier of legal and professional fees insurance protection to UK SME's.

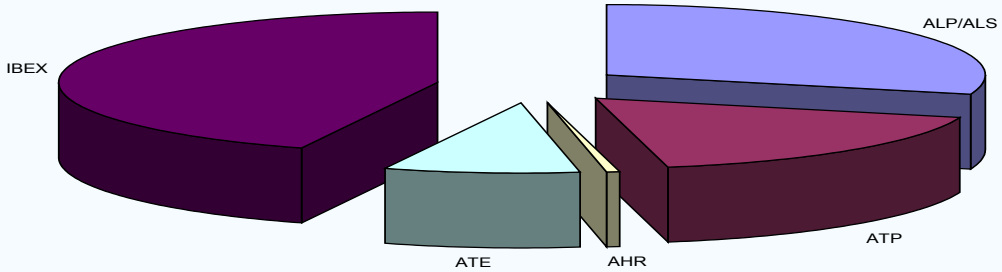
With gross written premiums and other income for 2007 in excess of £35m and record pre-tax profits of £7.3m, we have benefited from our consistent emphasis on high service standards. Ultimately this is a reflection upon our staff and the professionalism and dedication they bring to our business.

Key Milestones

- The Group was founded in **1992** with the **formation of ALP**
- In **1995** the Group **launched an after the event policy** for the Law Society's Accident Line scheme, with a re-launch in 2000 to coincide with the changes in the law in personal injury litigation
- In **1996**, the Group entered the market for tax related professional fee protection schemes, through the **formation of ATP**
- To provide legal advice to ALP clients, the Group **set up ALS in 1998**, subsequently developing litigation, representation and consultancy services
- The Group was selected in **2002** to assist underwriters with **management of the run-off of claims** arising under defunct claims management insurance schemes, such as Claims Direct and The Accident Group
- In **2003**, the Group **established Ibex** as its captive reinsurance company in Guernsey, in order to benefit from the underwriting profits being generated by ALP and ATP
- In **January 2007**, the Group **formed Abbey HR**, marketing compliance consultancy services direct to business customers
- In **November 2007**, the Group **floated on the AIM market** of the London Stock Exchange.

Chief Executive's statement (continued)

Group Revenue - 2007
£27.3m



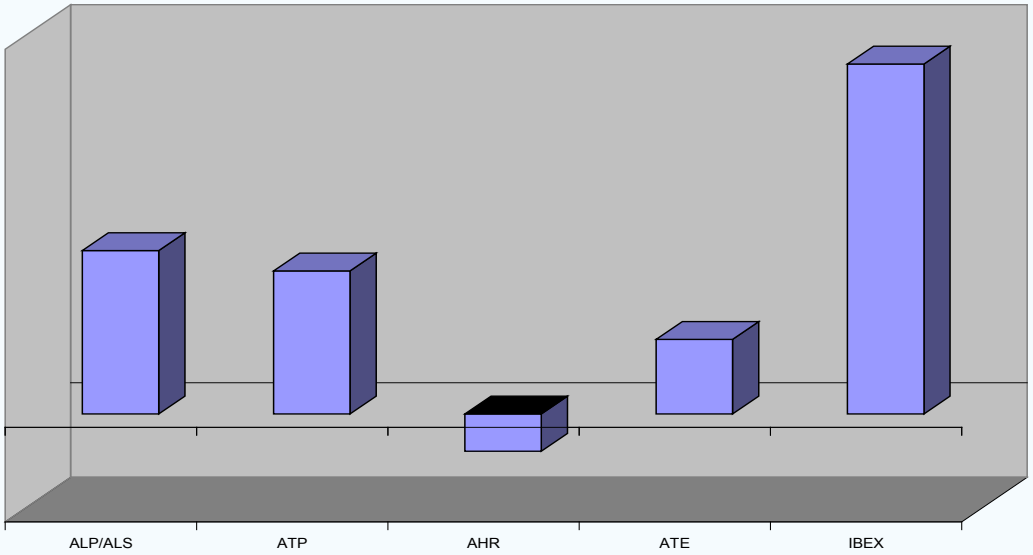
Review of this year

2007 was an exciting year for the Group, culminating in its successful IPO in November. During the year the core trading divisions (ALP/ALS and ATP) consolidated their positions as market leaders in their respective fields and our reinsurance company, Ibex, produced another excellent profit.

2007 also saw the establishment of a new division for the group, Abbey HR, to penetrate further the £400m independent compliance consultancy market. The client base grew well during the year, providing the division with a strong renewal bank to build upon in the future.

ALP and ALS in particular had an impressive 19% growth in turnover to £8.1m for the year, benefiting from the development of key strategic accounts. The Employment, Litigation and Consultancy service units saw a growth in fee income in excess of 15%, particularly pleasing being an increasing contribution from non-insurance related fees.

Group Profit by Division - 2007
£7.3m



2007 was a year of consolidation for ATP with a relatively modest 4% increase in reported revenue. However, 2006 benefits from a one-off receipt in respect of a taxation planning solution which conceals the underlying growth for 2007. During the year, the division put energy and resource into establishing a platform for increasing its income from non-insurance related consultancy services. Overall, 2007 was a pleasing year for the division.

The Accident Line product was upgraded for 2007 and this, together with continuing income from the management of the run-off business, ensured that the ATE division made a healthy contribution to Group profits.

Ibex produced record profits of £3.7m (2006 - £3.2m), benefiting from a stable claims environment (spread of risk, predictable frequencies of loss and no catastrophe exposures), the Group's integrated approach to risk management and the use of in-house lawyers and consultants aiding costs control.

Chief Executive's statement (continued)

Current Trading and Outlook

We trade in a non-cyclical sector of the general insurance market and as such we are not suffering from the rate softening currently being experienced in many other sectors of the market. Current trading is in line with our expectations and with our strong emphasis on risk management we are well positioned to mitigate potential claims arising from any down sizing of businesses as a result of the current economic downturn.

The Independent Compliance services Market is robust and is set to see continued growth over the coming years (see **Market Profile**).

We are committed to high service levels and we intend to build on this base, taking the opportunity to expand in the Compliance Consultancy Market and to become the partner of choice for solutions to business's legal and taxation needs and exposures.

Our strategy is focused on driving organic growth, developing opportunities for the Group's consultancy division and broadening the product range through complementary acquisitions.

We will continue to play to our strengths (see **Key Strengths**) which will ensure that the Group's core businesses will continue to grow in 2008. An additional investment in capital for Ibex has facilitated the extension of its quota share reinsurance agreement with Brit, enabling it to further benefit from underwriting the Group's business.

Opportunities have been identified by ATP in the field of bespoke insurance products to support tax planning, together with consulting opportunities for capital allowances products – all of which will generate increased income in 2008.

We continue to review acquisition opportunities, but are insistent that they be complementary to our existing business and be capable of adding real shareholder value.

Market Profile

- Abbey Protection plc operates in the **independent compliance services market**, which comprises organisations offering protection against predominately employment, tax and health & safety related risks, by offering advice/consultancy services backed by fees insurance or indemnity cover
- The independent compliance services market is a high growth one and is expected to **grow from £400m in 2007 to £500m by 2010**
- The **increasing burden of legislation and red tape** on businesses (the Government values this at £11bn for 2007), together with an **increasingly litigious society**, ensures an expanding latent demand for the group's products
- The recommendations in the **Clementi report** and the subsequent **Legal Services Act 2007**, have signalled the Government's intention to make the market for the delivery of legal services less restrictive, enabling new commercial entrants to carry out work currently restricted to businesses owned by solicitors.

Chief Executive's statement (continued)

Key Strengths

- Existing market leader – in the supply of legal protection and tax related professional fee protection insurance to SME's, a specialist sector where market leaders require a complementary advisory service which can be difficult to build or outsource
- Consistent record of profitability – operates in a non-cyclical sector of the insurance market and has historically had a stable and low claims ratio
- Risk Control – underwriting risk of Ibex is mitigated by the fact that the Group provides its own advisory and representative services to its insurance clients, which assists in the control of costs and can avoid claims arising
- Diversified – Abbey Protection comprises an insurance intermediary, an underwriting business and consultancy practices covering several product areas.
- Integrated – Abbey Protection's trading divisions work together with the aim of capturing multiple revenue streams for a single product sale or distribution channel
- Management – experienced, stable and committed management team who have delivered Abbey Protection's strong organic growth
- Staff – experienced and appropriately trained staff working together in Abbey Protection's trading divisions, help facilitate a quick and cost effective understanding of the issues concerned
- Distribution – long standing relationships with a wide network of distribution channels including insurance brokers, insurance companies, accountants and affinity groups.

Directors

We are delighted that Tony Shearer joined the board as our Non-Executive Chairman prior to the IPO and are also pleased to welcome John Acornley and Paul Wilson as Non-Executive Directors. They all bring a wealth of experience to the Group which will prove invaluable during the next stage of the Group's development.

I would also like to pay tribute to Oliver Hemsley (who stood down as Chairman prior to the IPO in November 2007) who has made a significant contribution to the success of the Group over the years.

Finally, I would like to acknowledge my fellow Executive Directors, particularly those on the trading company board, whose devotion to duty and un-flagging enthusiasm, ensured that focus on the business was not lost during the IPO process.

Staff & Shareholders

I would also like to say thank you to all our staff for their work during the year – and to our investors (both new and long-standing) for their support. We can all look with confidence as Abbey Protection plc embarks on the next leg of its journey.

Colin Davison
Chief Executive

Financial review

Introduction

2007 has been a successful and rewarding year for the business, culminating with the admission of the Group to the Alternative Investment Market of the London Stock Exchange on 29 November 2007. The Group has two principal segments, an insurance intermediation and consultancy arm together with an underwriting arm. Within the insurance intermediation and consultancy arm, the business is divisionalised. This review considers the financial development of the Group as a whole.

Revenue

Revenue before investment income for the year increased by £2.2m to £25.7m (2006: £23.5m) representing growth of 9.3%. Commission as a percentage of gross written premiums increased from 21.7% to 22.9%. Investment income at £1.6m (2006: £1.0m) was up 58% driven by increased cash and investment balances together with higher yields. Rising Bank of England base rates together with the "credit crunch" which manifested itself during the latter part of 2007 has led to higher rates available to depositors. This has so far continued through 2008 and the group has enjoyed higher returns without sacrificing counterparty quality.

Expenses & Claims

Operating and administration expenses increased by 12% to £11.7m (2006: £10.5m). This was partly due to professional fees incurred preparing the business for listing on AIM but was mainly due to staff costs. As the business grows, it is important to maintain an appropriate infrastructure. Accordingly, the staff complement was increased by 12 full time equivalent members during the year. Staff costs including associated expenses represent circa 73% (2006: 75%) of operating and administration expenses. An analysis of average headcount by division is included in note 12 to the financial statements.

Claims incurred (including provision for claims Incurred But Not Reported "IBNR") across all underwriting years represented 69.74% (2006: 67.94%) of net earned premiums. The underwriting business has seen rapid growth since the formation of Ibex Reinsurance Company Limited, the Group's Guernsey based reinsurance subsidiary, in 2003. A summary of the development of each underwriting year is shown in the tables within note 4(i) to the financial statements.

Profit

Reported profits before taxation from insurance intermediation and consultancy increased by 4.5% which was satisfactory given the costs borne in respect of the IPO. Reported profits from underwriting activities were strongly ahead at £3.7m (2006 £3.2m). Across the group, profit after taxation increased by 9% to £5.3m (2006: £4.9m).

Taxation

The effective rate of corporation tax was broadly constant at 27.4% (2006: 27.2%). The profits arising in Ibex Reinsurance Company Limited are taxable on remittance to the UK. Under HMRC rules, 90% of these profits must be remitted to the UK within 18 months of the end of the relevant financial year. Deferred tax is provided on profits held in Guernsey pending their remittance to the UK.

Cashflow

Net cash from operating activities was up 10% at £7.8m (2006: £7.1m) and an additional £3.7m was raised from the issue of share capital when the Company joined AIM. After the payment of pre-IPO dividends, cash and financial investment balances increased by 17% to £33.9m (2006: £29.0m).

Balance sheet

During the year the Group redeemed all the preference shares issued by subsidiaries leaving the Group debt free. Whilst debt funding remains an option, the Group has sufficient cash resources for its immediate needs.

Dividends

Details of dividends paid during the year are disclosed within note 16 to the financial statements. The Group intends to pay a dividend of £3.5m in respect of the 2008 financial year representing 3.5 pence per ordinary share.

Risk Management

A comprehensive summary of the risks facing the business and how those risks are managed is disclosed within note 4 to the financial statements.

Financial review (continued)

Treasury policy

The Group has adopted a prudent treasury policy for its cash and investments. Counterparty exposure is limited and credit quality monitored to ensure a low risk of default.

A successful growth story

The table below demonstrates the growth and consistent profitability of the business over the last three years:

	2005	2006	2007
Revenue	£21.787m	£24.568m	£27.349m
Profit before taxation	£6.530m	£6.716m	£7.339m
Profit after taxation	£4.556m	£4.887m	£5.327m
Incurred claims ratio	68.30%	67.90%	69.70%
Cash & investments	£22.383m	£28.977m	£33.901m
Shareholders' funds	£7.165m	£12.001m	£14.661m

The business is extremely well placed to continue to deliver positive returns for shareholders and to take advantage of opportunities as they present themselves.

Adrian Green
Group Finance Director

Management & governance

Board of Directors

Non Executive Directors

Tony Shearer (Chairman)

Tony (59) is Chairman of the Company, Chairman of the Nomination and Remuneration Committees and member of the Audit Committee. He is Non-Executive Chairman of Uruguay Mineral Exploration Inc. (the AIM listed gold mine and exploration company), of Yorkshire Investment Group Ltd, (the independent financial advisers), and of Caxton FX (the foreign exchange trader). He is also a Non-Executive Director and Chairman of the Audit Committee of AIM listed minerals trader Wogen plc, and a Non-Executive Director of Alba plc (the listed consumer electronics group).

Tony has held main board executive positions in listed companies M&G Group (1988 to 1996) and Singer & Friedlander Group (2003 to 2005, as Finance Director and Chief Executive). He has worked in investment management, banking, life assurance, general insurance and Lloyd's of London.

Tony is a chartered accountant, having spent over 20 years with Deloitte Haskins & Sells, of which 8 years were as a partner specialising in financial services.

John Acornley

John Acornley (54) is a Non-Executive Director of Abbey Protection plc. He is chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

He is also Senior Non-Executive Director of NWF Group plc, Chairman of Rainford EMC Holdings Limited and Non-Executive Director of Ore.an Limited. John was Group Finance Director of Baxi plc from 1997 to 2000.

Paul Wilson

Paul Wilson (57) is a Non-Executive Director of Abbey Protection plc and sits on the Audit, Nomination and Remuneration Committees.

Paul is a Senior Advisor at Bain & Co and is also a Non-Executive Director at R J Kiln & Co Ltd and a Group Board Member at Unigestion. He is also Chairman of Action Against Hunger, an international charity addressing nutrition and water issues in crisis situations.

Paul has over twenty five years experience of the Financial Services industry and has been a leader of several professional services businesses.

Executive Directors

Colin Davison (Chief Executive Officer)

Colin Davison (48) founded ATP in December 1996 as a sister company to ALP. Colin was Managing Director of ATP until December 2004 when ATP became a trading division of Abbey Protection. In January 2004, Colin was appointed Chief Executive Officer of Abbey Protection Group, following a management buy out of the majority shareholding in the Group.

Colin has overseen the growth of ATP to the £12 million gross premiums and other income business it is today and has been responsible for the introduction of its new products. He has also arranged several bespoke insurances for 'one off' tax solution arrangements which have generated fees in excess of £500,000 for the Group.

Prior to joining ATP, Colin worked for the Inland Revenue for six years, then spent a further six years working for IRPC (now CCH Fee Protection, a competitor fee protection provider).

Chris Ward (Group Managing Director)

Chris Ward (47) joined ALP in 1993 as Business Development Director. He became its Managing Director in 1996 and joined the Group board in 2002. Chris is responsible for all aspects of the Group's legal business divisions with gross premiums and other income in excess of £22 million and has overseen the development of the ALS and ATE divisions, as well as the establishment of the Group's captive re-insurer, Ibex.

Having worked in the insurance industry since 1979 Chris has had underwriting, sales and marketing responsibilities, largely with the Prudential, where, prior to leaving in 1992, he was Casualty Account Manager for the London Market with responsibility for the professional indemnity and contingency accounts.

Adrian Green (Group Finance Director, Company Secretary)

Adrian Green (43) joined Abbey Protection Group at the end of 2006. He has experience in general insurance covering both underwriting and broking. Following seven years with Fortis Insurance in various positions, he joined Folgate Insurance Company Ltd in 1997 and was promoted to Finance Director in 2002. Following the sale of Folgate Insurance Company Ltd to Towergate Group, he managed the run-off of the Folgate business before being appointed Regional Finance Director for Towergate.

Senior Management

Senior Management

The following persons are not Directors of the Company but are Directors of one or more of the Company's subsidiaries and are considered by the Directors of Abbey Protection plc to be part of the Group's senior management team.

Liz Grace (Operations Director – Abbey Tax Protection)

Liz Grace (55) joined Colin Davison in setting up ATP in December 1996, as underwriting manager.

Liz became Operations Director of ATP in 2001 with responsibility for the day to day running of ATP. Liz became a Director of Abbey Protection Group in January 2004.

Prior to joining ATP, Liz worked for 9 years for IRPC (now CCH Fee Protection), a competitor tax fee protection provider, and prior to that for 5 years at the Inland Revenue.

Richard Candy (Underwriting Director – Abbey Legal Protection)

Richard Candy (38), originally joined ALP in 1994. By 1997 he was the Underwriting Manager responsible for the Company's insurance market relationships. Richard left ALP in 2002 to join newly established Professional Risks Insurance where he was Legal Expenses Underwriter. He rejoined ALP in 2003 to undertake the creation and management of Ibex, and is responsible for the underwriting profitability of the Abbey Protection Group account and setting the ALP underwriting terms.

Murray Fairclough (Director – Abbey Legal Protection)

Murray Fairclough (44) joined ALP in 1998 to establish the Group's legal services centre. He is a graduate of Nottingham Law School and of the University of Leicester where he received a Masters degree in Employment Law and Industrial Relations. In 1998, he was awarded a Doctorate by the University of Leicester for his research into Civil Legal Aid and the Legal Expenses Insurance Industry.

Previously, he was head of employment law for the Legal Protection Group Limited before becoming senior Employment Law Associate with law firm Sonnenshein. He is a published author and has contributed many articles and commentary to the national press, radio and trade journals. Murray is a practising barrister and a member of the Employment Law Bar Association and the Employment Lawyer's Association.

David Hartley (Director – After The Event Services)

David Hartley (54) is a solicitor. He joined ALP in 2001 to run Accident Line, the only personal injury referral and insurance service endorsed by the Law Society. He also leads the management of the run-off of a number of after the event insurance schemes on behalf of various underwriters.

David has previously worked at the Law Society as a senior policy official with particular emphasis on the funding of legal services. Prior to that he was a solicitor in private practice, running his own firm for ten years. David was appointed in 2003 as a deputy district judge to sit in civil courts.

Simon Howes (Managing Director – Abbey HR)

Simon Howes (46) joined the Group in December 2006 to establish Abbey HR. He became involved in Regulatory Consulting in 1992, becoming Business Director (Non-statutory) of IRPC Taxation Services (now CCH Fee Protection), a competitor tax fee protection provider.

In 2002 Simon assumed responsibility for the integration of LPMS Ltd an Employment Law and Health & Safety consultancy business which has been acquired by Wolters Kluwer ('WK'). In 2003 Simon was appointed Business Director (non-statutory) of Professional Personnel Consultants Ltd, an employment consultancy also acquired by WK.

Toby Clarke (Group IT Director)

Toby Clarke (37), joined the Group in early 2002, having been the European IT Director (non-statutory) for an international internet research company, Jupiter MMXI (Europe). Prior to joining Jupiter he spent 6 years broking in the Lloyd's market with Aldgate Group Brokers before transitioning into IT and working for IBM Global Services.

At Abbey Protection Toby has been responsible for the IT infrastructure that supports business needs. Toby is also responsible for the in-house development of business applications that service the Group and respective clients.

Directors' report

The Directors present their report and the audited consolidated financial statements of Abbey Protection plc for the year ended 31 December 2007.

Formation and acquisition of Abbey Protection Group Limited by Abbey Protection plc

Abbey Protection Limited was incorporated on 24 August 2007 as a shell company to facilitate the acquisition and admission to the Alternative Investment Market of the London Stock Exchange (AIM) of Abbey Protection Group Limited. On 14 November 2007, Abbey Protection Limited was re-registered as Abbey Protection plc and on 19 November 2007 acquired Abbey Protection Group Limited under a share for share exchange agreement. On 29 November 2007, Abbey Protection plc was admitted to AIM.

The transaction has been accounted for in accordance with the reverse acquisition provisions of IFRS 3 business combinations. Further details on the accounting treatment of the business combination are disclosed in note 1 to the financial statements.

Principal activities and Business Review

The principal activities of the group are the intermediation and underwriting of legal and professional expenses insurance and "after the event" personal injury insurance together with legal and human resources consultancy.

Full details of the group's activities, products, markets and key performance indicators are set out within the business review on pages 8 to 13.

Principal risks and uncertainties facing the Company and its subsidiary undertakings and how they are controlled are described in note 4 to the financial statements.

The Group has offices in London, Croydon and Rugby.

Share capital

Prior to the execution of the share for share agreement facilitating the acquisition of Abbey Protection Group Limited by Abbey Protection plc, a number of changes were made to the share capital of the company. These changes are disclosed in note 30 to the financial statements.

Of the 99,994,773 shares in issue at the year end, 763,398 are held by the Trustee of the Abbey Protection Group Limited Employee Benefit Trust for the benefit of the Company and employees. The Trustee has elected to waive all dividends in respect of any shares held by the Trustee.

Restriction on transfer of the company's shares

Following admission, the Directors and certain other management shareholders have agreed with the Company, its Broker (Numis) and its Nominated Advisor (PwC) not to sell any Ordinary Shares until the announcement of the Company's results for the year ending 31 December 2008, subject to certain customary exceptions. In addition, they have agreed to an orderly marketing arrangement for the one year period thereafter. For tax reasons, an exception from these arrangements has been granted to Chris Ward to sell up to £500,000 of shares between 7 April 2008 and 30 June 2008, which he would otherwise have sold as part of the Placing. Following admission, Numis Corporation plc has agreed with PricewaterhouseCoopers LLP (PwC) and the Company not to sell any Ordinary Shares for a period of six months from admission, subject to certain customary exceptions, and has agreed to an orderly marketing arrangement thereafter until the announcement of the Company's results for the year ending 31 December 2008.

New Articles of Association

On 19 November 2007 a special resolution was passed which adopted new Articles of Association.

Results and dividends

The consolidated results for the Group for the year ended 31 December 2007 are shown on page 27. The profit for the year attributable to shareholders was £5,327,000, compared with £4,887,000 in 2006. Details of dividends paid during the year are disclosed in note 16 to the financial statements. The Directors do not recommend the payment of a further dividend in respect of the year ended 31 December 2007.

Directors

Profiles of the Directors who held office during the year are set out on page 15. Mr Davison was appointed on 14 August 2007. Messrs Ward, Green, Shearer and Acornley were appointed on 31 October 2007. Mr Wilson was appointed on 11 March 2008. As the forthcoming AGM will be the first general meeting since the Directors were appointed, they will all be seeking election in accordance with the Company's Articles of Association.

Directors' interests

The interests of the Directors in the Company's shares are detailed in the Directors' remuneration report on page 24.

Related party transactions

Details of related party transaction are provided in Note 35 to the financial statements.

Directors' report (continued)

Substantial shareholdings

At 20 May 2008 the Company had been notified of the following interests of 3% or more in the Company's ordinary shares:

	Number of Ordinary Shares	% of voting rights held
C Ward	16,318,740	16.32%
C Davison	15,727,518	15.73%
Numis Securities Limited	13,101,834	13.10%
E Grace	10,598,952	10.60%
M Fairclough	6,729,929	6.73%
Invesco Perpetual	4,784,927	4.79%
Rensburg Sheppards Investment Management	4,545,454	4.55%
R Candy	3,512,479	3.51%

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors and certain Directors of the Company's subsidiaries. These were made during the year and remain in force at the date of this report.

Creditor payment policy

Although the Company does not follow a specific code when settling its payment obligations with creditors, it is the policy of the Company to ensure that all suppliers of goods and services are paid promptly and in accordance with contractual and legal obligations.

Employee involvement and environmental policy

The Group's policies on staff welfare and the environment are set out on page 19.

Charitable and political donations

During the year, charitable donations amounted to £nil (2006: £nil). No political contributions were made.

Auditors

Deloitte & Touche LLP have agreed to offer themselves for reappointment as Auditors of the Company and a resolution requesting approval of their reappointment and to authorise the Directors to determine their remuneration will be presented at the AGM.

Audit information

Each of the Directors at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of the information. This disclosure is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.

Annual General Meeting ("AGM")

The AGM will be held at the Company's Rugby offices, 1 Mitchell Court, Castle Mound Way, Rugby, CV23 OUY at 11am on 26 June 2008. A separate Notice of Meeting is enclosed with this report.

By order of the Board

Adrian Green
Group Company Secretary
20 May 2008

Corporate social responsibility

The Board believes that it should have regard for its community obligations when conducting its business. These obligations include considering any environmental impact of its business strategy and operations, promoting staff welfare and ensuring that it maintains the highest ethical standards when dealing with its customers and suppliers. It takes collective responsibility for Corporate Social Responsibility (CSR) policy and seeks to ensure a framework exists which is appropriate to the size of the organisation. This framework is contained within the staff handbook and various written policies and procedures which are available to all members of staff via an intranet.

Staff welfare

The Board endeavours to ensure that staff have a safe and comfortable environment in which to work whist ensuring that a culture exists where staff are free to express their ideas and concerns. It is our aim to retain our staff, who are vital to the continued success of the business, and attract additional well qualified people to join us by ensuring that remuneration packages are competitive whilst also offering flexibility in working hours and office location where possible and appropriate. The Group also encourages participation in the success of the business through share options and has a range of benefits to support staff including pension provision, private medical insurance and life insurance cover. The Group operates an equal opportunities policy.

Customers and suppliers

Part of the business is regulated by the Financial Services Authority which requires that business processes are formulated to ensure that customers are treated fairly (TCF). This ethos has been embedded across the business and compliance reports are regularly reviewed by the Board. We aim to be equally fair in our dealings with suppliers and aim to ensure that supplier payments are made within their normal terms of business.

The environment

The Group has implemented processes to manage environmental risks so as to reduce, reuse and recycle, wherever possible, waste materials.

Corporate governance

The Board of Directors of Abbey Protection plc recognises the importance of sound Corporate Governance and intends that best practice is adopted and applied in so far as it is appropriate for a company and group of its size and stage of development. This report describes how the Company has implemented and applied the principles of good Corporate Governance during the year.

Background

Abbey Protection plc acquired 100% of the ordinary shares in Abbey Protection Group Limited via a share for share exchange agreement on 14 November 2007 and was subsequently admitted to the Alternative Investment Market of the London Stock Exchange on 29 November 2007. As explained in the Company's Placing and Admission document, the Board of Directors intends to comply with the requirements of the Corporate Governance guidelines published by the Quoted Companies Alliance (the QCA Guidelines) for AIM companies.

Prior to 29 November 2007, the business traded as a private unlisted company which operated in accordance with a shareholders' agreement which governed matters such as Board composition, matters requiring Board decision and other matters relating to shareholders' rights and duties. During this period there were standing committees of the Board for Audit and Remuneration matters. These committees were comprised of Mr Hemsley, Non-Executive Chairman and Mr Davison, Chief Executive Officer. The constitution of and terms of reference for these committees together with a schedule of matters reserved for Board decision, were revised during the year and an additional standing committee to deal with Board nominations was created on 31 October 2007. They are now comprised solely of Non-Executive Directors.

The Board

The Board as a whole is responsible for the Group's objectives and policies and the proper governance of the Company. It normally meets monthly and has a formal agenda of items for consideration at each meeting. The Board provides overall strategic direction to management by:

- monitoring the operating and financial results against plans and budgets;
- assessing the adequacy of risk management systems and monitoring their application;
- reviewing the performance of management; and
- setting corporate policy.

All Directors receive appropriate and timely information to ensure that they are properly briefed in advance of Board meetings and have unlimited access to the advice and services of the Company Secretary and other senior management should further information be required. A procedure has been established for Non-Executive Directors to have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors. No such advice was required during the year.

The Company maintains Directors' and Officers' liability insurance, which is reviewed annually to ensure that cover is held at an appropriate level.

The Board has established guidelines requiring specific matters to be decided by the full Board of Directors, including material acquisitions and disposals, investments and capital projects. Matters that are reserved for the Board are generally forwarded to the Board for consideration with a recommendation from the executive management or appropriate committee.

Appointment, induction and training

All new Directors appointed by the Board are required to seek election by shareholders at the next general meeting of the Company following their appointment and subsequently all Directors are required to retire by rotation in accordance with the Articles. On appointment, new Directors are offered induction and training considered appropriate by the Board and subsequently as necessary.

Composition

The Board comprised of five Directors as at 31 December 2007, three of the Directors are Executive and two Non-Executive. An additional Non-Executive was appointed on 11 March 2008. The roles of Chairman and Chief Executive are separate. The Directors who served during the year are listed on page 17 and their individual biographies appear on page 15.

In assessing the independence of Non-Executive Directors, the Board took account of their experience, character and judgement, together with their dependence on, or relationships with the Company. In all cases the Board felt the Non-Executive Directors were independent. Their role as Non-Executive Directors is to challenge constructively, and contribute to, the development of strategy; to scrutinise the performance of management in meeting agreed goals and objectives and monitor their performance; and through the various committees to satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.

Corporate governance (continued)

Composition (continued)

Mr Shearer was appointed Non-Executive Chairman of Abbey Protection plc on 31 October 2007 taking over from Mr Hemsley who resigned from the Board of Abbey Protection Group Limited on 15 November 2007. The Chairman is responsible for leadership of the Board. His primary role is to ensure that the Board and individual Directors are able to operate efficiently by setting the agenda, style and tone of Board discussions to promote constructive debate and effective decision making. The Group Chief Executive, Mr Davison, together with the Group Managing Director, Mr Ward, lead the executive management team and are primarily responsible for the implementation of the Board's policies and strategies, effective communication with shareholders and for managing the activities of the Company other than in relation to those matters specifically reserved to the Board or delegated to its committees.

Board committees

The Board has delegated certain specific areas of responsibility to three standing committees.

Audit Committee

The Audit Committee was chaired by Mr Hemsley until 31 October 2007. Following his appointment on 31 October 2007, Mr Acornley became Chairman. Mr Shearer was appointed to the committee on 31 October 2007 and Mr Wilson on 11 March 2008. The Audit Committee formally meets at least twice a year. Only Committee members and observers are entitled to attend meetings, however the Group Chief Executive, the Group Managing Director, the Group Finance Director and other members of the senior management may be invited to attend for all or part of the meetings. The external Auditors of the Company will attend the meetings on a regular basis and will have unrestricted access to the Committee and its Chairman.

Remuneration Committee

The Remuneration Committee was chaired by Mr Hemsley until 31 October 2007. Following his appointment on 31 October 2007, Mr Shearer became Chairman. Mr Acornley was appointed to the committee on 31 October 2007 and Mr Wilson on 11 March 2008. The Remuneration Committee meets as required and at least twice each year. Other senior management and external advisers may be invited to attend meetings as the Remuneration Committee considers appropriate.

Nomination Committee

The Nomination Committee was formed on 31 October 2007. On that date Mr Shearer became Chairman and Mr Acornley was appointed a member of the committee. Mr Wilson was appointed on 11 March 2008. The Nomination Committee is responsible for considering appointments to the Board of the Company and will be involved in the selection process of new Directors. The appointments of Messrs Shearer, Acornley and Wilson were handled by the whole Board and all the Directors met and approved the appointments.

Internal control

The Board has overall responsibility for the Group's system of internal control including financial operational compliance and risk management controls, although the review of internal financial controls is delegated to the Audit Committee.

The Group's intermediation activity is regulated by the Financial Services Authority of the United Kingdom (FSA) and the Board has adopted procedures and controls designed to ensure its obligations under the FSA Rules and the Financial Services and Markets Act 2000 are met. The Group's underwriting activity is regulated by the Guernsey Financial Services Commission and the Board has appointed specialist local managers to ensure its obligations are fulfilled.

The Group's system of internal control is designed to manage, rather than eliminate, risk of failure to achieve business objectives. It is recognised that such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Relations with shareholders

The Company welcomes dialogue with institutional shareholders in order to achieve a mutual understanding of objectives. The Group Chief Executive Officer, the Group Managing Director and the Group Finance Director offer meetings with larger institutional shareholders and private client stockbrokers after the announcement of year end and interim results. The AGM also provides a forum for investors to meet the Directors, both formally and informally. The Chairmen of all of the Board's committees will be available to answer questions at the AGM of the Company. The Company's website (www.abbeyprotectionplc.com) contains regularly updated information regarding the Group, and is where all announcements and shareholder reports can be obtained.

Remuneration committee report

Introduction

As a company whose shares are traded on the London Stock Exchange's AIM market, the Company is not required to comply with the disclosure requirements of Directors' Remuneration Report Regulations 2002 or Schedule 7A of the Companies Act 1985. The following disclosures are provided on a voluntary basis as a matter of best practice.

Remuneration committee

As disclosed in note 1 to the financial statements, the group's consolidated financial statements are issued in the name of the legal parent, Abbey Protection plc. However, as a consequence of applying reverse takeover accounting, the results for the year ended 31 December 2007 represent a continuation of the consolidated activities of Abbey Protection Group Limited for the year ended 31 December 2006 plus those of Abbey Protection plc from 14 November 2007. The Remuneration Committee was formed on 31 October 2007 comprising of two Independent Non-Executive Directors, Tony Shearer (Chair) and John Acornley. On 11 March 2008, Paul Wilson was appointed as an Independent Non-Executive Director and also joined the remuneration committee.

The remuneration of each Executive Director, including bonuses and share option grants, is determined by the Committee, as are the terms of their service agreements. From time to time, if it is considered appropriate, the Committee will commission reports from expert remuneration consultants. The Committee does not determine the fees paid to Non-Executive Directors. These are determined by the Board on the recommendation of the Group Chief Executive and Group Managing Director. In determining the Directors' remuneration for 2008, the Committee considered each individual Director's performance during the previous year along with external market factors.

Policy on remuneration of Executive Directors

It is the Company's policy to provide remuneration packages that are competitive with those of other companies of a similar size, complexity and stage of development. Furthermore, it is the objective of the Board, advised by the Remuneration Committee, to provide remuneration packages that will attract, retain and motivate Executive Directors of the highest calibre.

The Group recognises the benefits of performance-related remuneration and both the award of annual bonuses and the exercise of share options are linked to various performance measures. These measures are balanced between internal measures and growth in earnings per share to achieve maximum alignment between executive and shareholder objectives.

Components of the remuneration package

The principal components of Executive Directors' remuneration packages are basic salary, pension contributions and performance-related bonuses. Additionally, at the discretion of the remuneration committee, Executive Directors are eligible to participate in medium and long-term incentives in the form of share options. The policy in relation to each of these components, and key terms of the various incentive and benefit programmes are explained further below and in the notes to the financial statements.

Basic salary

Basic salaries are reviewed annually, taking into account recommendations on individual performance and salary levels in comparable companies.

Performance-related bonus

The Executive Directors, along with the executive Directors of Abbey Protection Group Limited, are eligible for an annual cash bonus. The bonus pool is calculated as up to 10% of group profit before tax (after deducting any underwriting profit arising in Ibex Reinsurance Limited). The award of bonuses from this pool is based on the recommendations of the Group Chief Executive and Group Managing Director and are approved by the remuneration committee.

Share options

Details of the share option schemes operated by the company are disclosed in note 33 to the financial statements. The grant of share options is subject to the approval of the Remuneration Committee. Share options may normally only be granted within 42 days of the announcement by the Company of its interim or final results each year. Share options may be granted outside these periods if the Remuneration Committee considers that there are sufficiently exceptional circumstances to justify the grant of share options at that time. No payment is required for the grant of a share option.

An individual Director's maximum level of participation under the share option schemes will be set by the Board in accordance with the rules of each scheme and under advice from the remuneration Committee. The benefits under the share option schemes are not pensionable. An option will lapse if the participant ceases to be employed within the Group otherwise than due to death and to the extent otherwise determined by the Board in its absolute discretion. If a participant dies, the option may be exercised within twelve months after his/her death.

During the year options have been granted to all Executive Directors under the save as you earn scheme and to Adrian Green, Group Finance Director, under the long term incentive plan.

Full details of Directors' interests in ordinary shares of the Company are set out below in this report.

Remuneration committee report (continued)

Pension arrangements

All employees, including Executive Directors are invited to participate in a Group Personal Pension Plan ("GPPP"), which is money purchase in nature. Alternatively, the Company may make contributions to personal pension schemes held by employees or Executive Directors equal to those that would have been made to the GPPP. The only pensionable element of remuneration is basic salary. The Company contributes 7.5% of basic salary to the pension arrangements of Executive Directors.

Other Benefits

Benefits in kind for Executive Directors include the provision of a car allowance, life assurance, and private medical insurance.

Directors' Service Contracts

Non-Executive Directors receive letters of appointment, setting out the terms and conditions of their appointment and their expected time commitment. It is the Company's policy that Non-Executive Directors should be appointed for an initial period of three years (from the next general meeting following their initial appointment in the case of new Non-Executive Directors) and that they may be re-elected for two further terms of three years each. Re-appointment at the end of such periods should not be considered automatic and each Director's contribution will be carefully assessed. The letters of appointment provide for termination of the Director's appointment under certain circumstances and in all cases without any compensation. Each Non-Executive Director is entitled to a fee at the rate of £35,000 per annum. Tony Shearer, the Group Chairman, is entitled to a fee at the rate of £50,000 per annum.

The Company's policy is for Executive Directors to have contracts of employment with an indefinite term. The contracts are terminable by either party giving not less than 12 months notice. The Executive Directors are subject to certain restrictive covenants for a period of 12 months following termination of their employment. All Executive Directors are subject to re-election at an AGM at intervals of no more than three years.

Audited Information

Directors' remuneration

The remuneration of the Directors of the company for the year ended 31 December 2007 is set out below:

	Salaries	Fees	Benefits	Pension contributions	Cash bonus	Year ended 31 December 2007
	£	£	£	£	£	£
Executive Directors						
C Davison	20,034	-	2,101	1,502	8,333	31,970
C Ward	20,034	-	1,742	1,502	8,333	31,611
A F Green	16,958	-	1,126	1,272	8,333	27,689
Non-Executive Directors						
T Shearer	-	8,333	-	-	-	8,333
J Acornley	-	5,833	-	-	-	5,833
Total	57,026	14,166	4,969	4,276	24,999	105,436

Remuneration committee report (continued)

The remuneration shown above represents amounts payable from 1 November 2007. Messrs Davison, Ward and Green are also Directors of Abbey Protection Group Limited, a subsidiary company. Their emoluments for the period prior to 1 November are disclosed within the financial statements of Abbey Protection Group Limited. Total remuneration receivable for the year ended 31 December 2007 is set out below:

	Salaries	Fees	Benefits	Pension contributions	Cash bonus	Year ended 31 December 2007
	£	£	£	£	£	£
C Davison	120,202	-	12,604	9,015	50,000	191,821
C Ward	120,203	-	10,449	9,015	50,000	189,667
A F Green	101,750	-	6,755	7,631	50,000	166,136
Total	342,155	-	29,808	25,661	150,000	547,624

Directors' interests

The current Directors and their interests in the share capital of the Company at 31 December 2007 were as follows:

	31 December 2007 Ordinary shares of 1p each
C Davison	15,727,518
C Ward	16,318,740
A F Green	1,782,528
T Shearer	90,909
J Acornley	18,182
Total	33,937,877

Options to acquire ordinary shares held by the Directors during the year ended 31 December 2007 are shown in the table below:

Director	Plan	Options granted/ (lapsed) during the year	Options held at 31 December 2007	Exercise price	Date from which first exercisable	Expiry date
C Davison	2007 SAYE	21,818	21,818	£0.44	01/01/2011	30/06/2011
C Ward	2007 SAYE	21,818	21,818	£0.44	01/01/2011	30/06/2011
A F Green	2007 SAYE	21,818	21,818	£0.44	01/01/2011	30/06/2011
A F Green	2007 LTIP	363,636	363,636	£0.00	02/01/2011	29/11/2017
Total		429,090	429,090			

Financial statements & notes

Directors' responsibilities

The Directors are responsible for preparing the Annual Report, Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements under International Financial Reporting Standards (IFRS's) as adopted by the European Union and the parent company financial statements under United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Audit information

Each of the Directors at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of the information. This disclosure is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.

Going concern

The Directors confirm that they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Independent Auditors' report to the shareholders

We have audited the Group and Parent Company financial statements (the ''financial statements") of Abbey Protection plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Parent Company Balance Sheet and the Parent Company Cash Flow Statement and the related notes 1 to 50. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the business review that is cross referred from the Principal Activities and Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2007;
- the Group and Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985;
- the part of the remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
20 May 2008

Consolidated income statement

For the year ended 31 December 2007

	Note	2007		2006	
		£000	£000	£000	£000
Revenue					
Intermediary, advisory and other income	7		14,803		13,614
Gross premiums written	6	11,945		10,982	
Outward reinsurance premiums	6	(321)		(282)	
Net change in provision for unearned premiums	6	(703)		(774)	
Net premiums earned	6		10,921		9,926
Net investment return	8		1,625		1,028
Total revenue			27,349		24,568
Expenses					
Claims and change in insurance liabilities	9	(7,617)		(6,744)	
Acquisition costs	10	(683)		(619)	
Other operating and administrative expenses	11	(11,710)		(10,459)	
Total operating expenses			(20,010)		(17,822)
Operating profit			7,339		6,746
Finance costs	14		-		(30)
Profit before tax			7,339		6,716
Tax expense	15		(2,012)		(1,829)
Profit attributable to equity shareholders of the parent			5,327		4,887
Earnings per share					
From continuing operations			Pence per share		Pence per share
Basic	17		5.86		5.42
Diluted	17		5.81		5.42

There were no discontinued operations.

Consolidated statement of changes in equity

For the year ended 31 December 2007

	Note	2007 £000	2006 £000
Opening shareholders' equity		12,001	7,166
Proceeds from issue of new shares	30	1,050	-
Shares acquired in share for share exchange	30	(873)	-
Redemption of shares	30	(52)	-
Share premium	31	3,315	-
Transfer on reverse acquisition	32	188	-
Equity settled share based payments	32	8	-
Preference dividend paid	32	15	(52)
Ordinary dividend paid	32	(6,250)	-
Purchase of own shares	32	(68)	-
Profit for the year		5,327	4,887
Closing shareholders' equity		14,661	12,001

Consolidated balance sheet

At 31 December 2007

	Notes	2007 £000	2006 £000
Assets			
Goodwill	18	1,028	1,028
Other intangible assets	19	190	195
Property, plant and equipment	20	574	671
Financial investments	22	17,961	15,086
Trade and other receivables	25	17,940	14,672
Cash and cash equivalents	26	15,940	13,891
Total assets		53,633	45,543
Liabilities			
Insurance contract provisions	23	16,334	13,952
Financial liabilities	27	-	505
Finance lease obligations	36	218	214
Deferred tax liabilities	24	1,710	1,433
Current tax liabilities		859	330
Accruals and deferred income	28	7,508	7,577
Other liabilities	29	12,343	9,531
Total liabilities		38,972	33,542
Equity			
Share capital	30	1,000	875
Share premium	31	3,539	224
Own shares	30	(298)	(230)
Retained earnings	32	9,385	10,850
Merger reserves	32	282	282
Reverse takeover reserve	32	188	-
Capital redemption reserve	32	557	-
Equity settled share incentive reserve	32	8	-
Total shareholders' equity		14,661	12,001

The financial statements on pages 27 to 68 were approved by the board of Directors and authorised for issue on 20 May 2008. They were signed on its behalf by:

Chris Ward
Group Managing Director

Adrian Green
Group Finance Director

Consolidated cash flow statement

For the year ended 31 December 2007

	Note	2007 £000	2006 £000
Profit before tax		7,339	6,716
Interest receivable		(1,594)	(1,048)
Interest payable		-	30
Loss on sale of assets		8	2
Amortisation of intangible assets	19	80	60
Depreciation of property, plant and equipment	20	235	202
Equity settled share based payments		8	-
Increase/(decrease) in work in progress		97	(17)
Increase in debtors		(3,206)	(1,497)
Increase in creditors		4,624	3,138
Cash generated by operations		7,591	7,586
Interest received		1,435	1,048
Interest paid		-	(30)
Tax paid		(1,206)	(1,510)
Net cash from operating activities		7,820	7,094
Investing activities			
Purchases of financial investments		(2,875)	(15,086)
Purchases of intangible assets	19	(75)	(145)
Purchases of property, plant and equipment	20	(146)	(298)
Net cash used in investing activities		(3,096)	(15,529)
Financing activities			
Preference dividend paid	16	15	(52)
Equity dividend paid	16	(6,250)	-
Redemption of share capital	30	(52)	-
Issue of share capital	30	3,680	-
Purchase of own shares	32	(1,068)	-
Sale of own shares	32	1,000	-
Net cash used in financing activities		(2,675)	(52)
Net increase/(decrease) in cash and cash equivalents		2,049	(8,487)
Cash and cash equivalents at beginning of the period		13,891	22,378
Cash and cash equivalents at the end of the period		15,940	13,891

Notes to the financial statements

1 General information

Abbey Protection Limited was incorporated on 24 August 2007 as a shell company to facilitate the acquisition and listing on the alternative investment market of the London Stock Exchange (AIM) of the Abbey Protection Group Limited. On 14 November 2007, Abbey Protection Limited was re-registered as Abbey Protection plc and then acquired Abbey Protection Group Limited under a share for share exchange agreement. On 29 November 2007, Abbey Protection plc was listed on AIM.

In order to appropriately reflect the substance of the transaction outlined above, the new holding company has been accounted for using the reverse acquisition principles outlined in IFRS3 business combinations. Consequently, Abbey Protection Group Limited is deemed to be the acquirer for accounting purposes and the legal parent, Abbey Protection plc is treated as the acquiree whose identifiable assets and liabilities are incorporated into the group at fair value.

The group's consolidated financial statements are issued in the name of the legal parent, Abbey Protection plc. However, as a consequence of applying reverse takeover accounting, the results for the year ended 31 December 2007 represent a continuation of the consolidated activities of Abbey Protection Group Limited for the year ended 31 December 2007 plus those of Abbey Protection plc from 14 November 2007. The consolidated balance sheet at 31 December 2007 reflects the issued share capital of Abbey Protection plc and the retained reserves of Abbey Protection Group Limited. The comparative figures are those of Abbey Protection Group Limited as originally reported having been restated to comply with International Financial Reporting Standards. The comparative earnings per share are not altered by the application guidance of IFRS3.

2 Significant accounting policies

The principal accounting policies adopted in preparing the International Financial Reporting Standards (IFRS) consolidated financial statements of Abbey Protection plc and its subsidiaries (the "AP Group") are set out below:

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB) as adopted by the European Union (EU). Abbey Protection Group Limited's consolidated financial information for the period 1 April 2004 to 31 December 2006 was restated to comply with IFRS requirements and was published in the Group's Placing and Admission to AIM document. No adjustments are necessary to the amounts measured previously for their inclusion as comparatives in these consolidated financial statements. The effect of restating the comparative financial information of Abbey Protection Group Limited is disclosed in note 39.

The Group has two Employee Benefit Trusts and makes contributions to these trusts. The assets and liabilities of these trusts are maintained separately from the Group. In accordance with IAS27, IAS32 and SIC12, the assets, liabilities and transactions of the trusts have been recognised in the financial statements. The shares purchased through the trusts have been held at cost and taken as a deduction from shareholder's funds.

In accordance with IFRS 4, Insurance Contracts, the AP Group has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

In the current year the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 Presentation of Financial Statements.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

The AP Group has not applied IFRS 8, Operating Segments, which is effective for accounting periods from 1 January 2009. The standard refers to new disclosures about segment reporting and replaces the disclosures required by IAS 14, Segment Reporting, (see accounting policy i).

The AP Group presents its balance sheet in order of liquidity in accordance with IAS 1, Presentation of Financial Statements. For each asset and liability line item in the balance sheet that combines amounts expected to be recovered or settled within twelve months, or more than twelve months after the balance sheet date, a classification at the balance sheet date is included within the notes.

(b) Basis of preparation

The consolidated financial statements are presented in Pounds Sterling and are rounded to the nearest thousand unless otherwise stated. They are prepared on the historical cost basis except that financial investments (see accounting policy m) are classified as fair value through profit and loss account and stated at their fair value.

The financial statements for the Parent Company have been prepared in accordance with UK Generally Accepted Accounting Principles. Advantage has been taken of the merger relief provisions within S131 Companies Act 1985. Accordingly, the initial investment in subsidiary undertakings has been recorded at the nominal value of the shares issued to acquire the subsidiary.

Notes to the financial statements

2 Significant accounting policies (continued)

(b) Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are discussed in note 3.

Subsidiaries are those entities in which the group, directly or indirectly, has the power to govern the financial and operating policies in order to gain economic benefits. The results and cash flows relating to subsidiaries acquired or disposed of in the year are included in the consolidated income statement and the consolidated cash flow statement from the date of acquisition or up to the date of disposal. All inter-Group transactions, balances and profits are eliminated.

The accounting policies set out below have been applied consistently to all periods presented.

(c) Recognition and measurement of revenue

Intermediary, advisory and other income
Intermediary, advisory and other income comprises:

- commission receivable (net of the direct costs of legal and technical advisory services) from clients in respect of the arrangement of legal professional fees insurance and “after the event” policies and is recognised at the date of inception of the contract;
- fees for the provision of non-insured helpline services which are recognised over the contract periods;
- fees for legal and tax representation work which are recognised on a proportional basis as the work is completed;
- subscriptions receivable from members of the Accident Line panel of solicitors for their participation in the Accident Line personal injury referral scheme which are recognised over the subscription year;
- management and claims handling fees arising from claims run-off contracts which are recognised over the lives of the contracts having regard to the average periods required to settle claims; and

Where contractual obligations exist for the performance of post placement activities, a relevant proportion of revenue recognised on placement is deferred and recognised over the period during which these activities are performed.

Insurance Premiums

Gross premiums written comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of acquisition costs and exclude taxes and levies based on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for “pipeline” premiums. An estimate is made at the balance sheet date to recognise retrospective adjustments to premiums. The earned portion of premiums received, is recognised as revenue. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums. Outward reinsurance premiums are recognised as a deduction from net insurance revenue in accordance with the contractual arrangements with reinsurers.

Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the monthly pro rata method.

Notes to the financial statements

2 Significant accounting policies (continued)

(c) Recognition and measurement of revenue (continued)

Claims

Claims incurred consist of claims paid during the financial year, together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the AP Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, adjusted for the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Anticipated reinsurance recoveries are presented separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

Whilst the Directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

Unexpired risk provision

Provision is made for unexpired risks arising from business where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account the relevant investment return.

Claims liabilities

The provision represents the estimated ultimate cost of settling all claims including direct and indirect settlement costs, arising from events that occurred up to the balance sheet date. Unpaid losses consist of estimates for reported losses and provisions for losses not reported.

Reinsurance

The Group purchased a stop loss reinsurance policy in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders. The board re-assessed the requirement for a stop loss re-insurance policy during the year and decided to commute the policy on 31 December 2007. Premiums ceded and benefits reimbursed are presented in the income statement and balance sheet on a gross basis.

Deferred acquisition costs

Acquisition costs which are incurred for acquiring insurance business that is primarily related to the production of that business are deferred (see accounting policy l). Such deferred acquisition costs are finite and are amortised by reference to the basis on which the related premiums are earned which is generally one year or less.

(d) Investment income

Investment income comprises interest income and net gains/losses from financial assets designated as fair value through profit & loss earned in the period (see note 8).

(e) Expenses

(i) Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(ii) Finance lease payments
Leases, under the terms of which the AP 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 year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Finance costs
Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and are expensed in the Income Statement in the period to which they relate. No finance costs are capitalised.

Notes to the financial statements

2 Significant accounting policies (continued)

Recognition and measurement of revenue (continued)

(f) Employee benefits

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

(g) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement.

Current tax is the expected tax payable on the taxable profit for the year, 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 balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for. 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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are not discounted.

(h) Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the presentational currency (pounds sterling) at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to pounds sterling at foreign exchange rates ruling at the dates the fair value was determined.

(i) Segment reporting

A business segment is an operation that provides products or services that are subject to risks and returns that are different from other business segments. A geographical segment provides products or services within a particular economic environment that are subject to risks and returns that are different from other geographical segments.

(j) Other intangible assets

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of other intangible assets.

The estimated useful lives are as follows:

Computer software	Over 4 years

(k) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost (or deemed cost) less accumulated depreciation (see below) and impairment losses (see accounting policy p). Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under the terms of which the AP Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at fair value as property plant and equipment and depreciated in accordance with the AP Group's accounting policy k(iii). Lease payments are accounted for as described in accounting policy e(ii). Other leases are classified as operating leases and are not recognised on the AP Group's balance sheet.

Notes to the financial statements

2 Significant accounting policies (continued)

(k) Property, plant and equipment (continued)

(iii) Depreciation

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 improvements	Over the duration of the lease
Equipment and motor vehicles	Over 3 to 5 years
IT equipment	Over 4 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in the income statement. The residual value, if not insignificant, is reassessed annually.

(l) Deferred acquisition costs

Acquisition costs comprise all direct costs arising from entering into insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the unearned premiums provision. Acquisition costs are not deferred to the extent that available future margins are not expected to cover such deferred costs.

(m) Financial assets

The group classifies its investments as financial assets designated at fair value through profit and loss.
Purchases and sales of investments are recognised on the trade date, which is the date that the group commits to purchase or sell the assets, at their fair values less transaction costs. Investments classified at fair value through the income statement are subsequently carried at fair value, with changes in fair value included in the income statement in the period in which they arise.

The fair values of investments are based on quoted bid prices.

(n) Other receivables

Other receivables are stated at their cost less impairment losses (see accounting policy p).

(o) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

(p) Impairment

The carrying amounts of the AP 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 carrying value is reduced to the estimated recoverable amount by means of a charge to the income statement.

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.

(q) Financial liabilities

Financial liabilities comprise redeemable preference shares and also bank overdrafts and other payables. Financial liabilities are recognised on the balance sheet when the AP Group becomes a party to the contractual provisions of the financial instrument. Redeemable preference shares are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the year of the borrowings on an effective interest basis.

Management has determined that the carrying amounts of bank overdrafts and other payables reasonably approximate their fair values because these liabilities are mostly short term in nature or are repriced frequently. Financial liabilities are derecognised if the AP Group's obligations specified in the contract expire or are discharged or cancelled.

Notes to the financial statements

2 Significant accounting policies (continued)

(r) Provisions and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources, embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is more probable than not.

The group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if the future obligation is probable but the amount cannot be reliably estimated.

(s) Dividends

Dividends payable on ordinary shares are recognised when they are paid. Dividends payable on preference shares are recognised over the financial year.

(t) Accounting developments

The AP Group is reviewing IFRS 8 “Operating segments” to determine its effect on its financial reporting. The standard will be adopted with effect from 1 January 2009. In addition to the above standard the AP Group has considered other new international accounting interpretations (IFRIC 11, 12, and 13) issued during the year.

3 Critical accounting estimates, and judgements in applying accounting policies

The AP Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The most critical judgements and estimates made by the AP Group are those regarding reported and unreported losses in respect of insurance contracts. The ultimate settlement cost of incurred general insurance claims is inherently uncertain. Such uncertainty includes:

i) whether a claim event has occurred or not and how much it will ultimately settle for;
ii) variability in the speed with which claims are notified and in the time taken to settle them, especially complex cases resolved through the courts;
iii) changes in the portfolio affecting factors such as the number of claims and their typical settlement costs, which may differ significantly from past patterns;
iv) new types of claim, including latent claims, which arise from time to time; and
v) changes in legislation and court attitudes to compensation, which may apply retrospectively.

Outstanding claims and provisions

The AP Group establishes reserves in respect of the anticipated losses incurred in respect of business it has written. These reserves reflect the expected ultimate cost of settling claims occurring prior to the balance sheet date, but remaining unsettled at that time, and take into account any related reinsurance recoveries. Such reserves are established separately for each line of business written by the AP Group and fall into two categories – reserves for reported losses and reserves for losses incurred but not reported as of the balance sheet date.

Reserves for reported losses are established on a case-by-case basis and are based largely on past experience of settlements on similar claims. The reserves are set on an undiscounted basis and reflect the anticipated cost of final settlement, taking into account inflation and other factors which might influence the final outcome. Such reserves are reviewed on a regular basis to take account of changing circumstances, such as changes in the law and changes in costs relating to settlement.

Reserves for losses incurred but not reported as of the balance sheet date are also established on an undiscounted basis. They are estimated based on historical data using various actuarial techniques and statistical modelling methodologies. As with case reserves, reserves for losses incurred but not reported are calculated separately for each line of business written and take into account trends in settlement costs in arriving at the final estimates.

For further details on loss reserves see note 23.

Notes to the financial statements

4 Risk management

Objectives and policies for mitigating business risk

The AP Group provides advice, consultancy and management services and also arranges and underwrites insurance. The AP Group places its underwriting liabilities in the UK. Ibex Reinsurance Company Limited, the AP Group's captive reinsurer broadly writes an eighty percent quota share reinsurance of the business placed by AP (increasing to 90 percent for risks incepting after 1 January 2008). As such it is itself exposed to a number of risks, including insurance risk, financial risk, market risk, credit risk and liquidity risk.

The AP Group has various procedures in place to manage these exposures. These include an overall risk management framework, together with a set of clearly defined risk policies which articulate the AP Group's risk appetite. The AP Group also maintains a comprehensive risk register which identifies the individual risks faced in each area of the business and the controls in place to mitigate these. The AP Group's Risk Committee meets regularly to review both the risk policies and the risk register, to ensure they are up-to-date, reflecting the risks currently facing the business, and that corresponding control issues and risk mitigation actions are being addressed in a timely manner. The findings of the Risk Committee are reported to the AP Group's Board.

Looking at the main areas of risk faced by the AP Group, and the strategies in place to manage these:

(a) Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty and timing of the amount of the resulting claim. By the very nature of an insurance contract, this risk is unpredictable and difficult to quantify with certainty.

The principal risk that the group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities, which may occur if the frequency or severity of claims and benefits are greater than estimated. Insurance events are unpredictable and the actual level of claims and benefits may vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger and more diversified the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. The group's insurance underwriting strategy aims to diversify the client base by managing the distribution of its products to reduce the aggregation of exposure to any particular type or client or industry. Factors that typically aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical spread and type of customer covered.

The AP Group's management of insurance risk is a critical aspect of the business. It manages this through various policies and procedures including underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, the purchase of reinsurance and the close monitoring of emerging issues.

The main types of policy reinsured by the AP Group are as follows:

- Commercial Legal Expenses which predominantly compensates the policyholder for legal fees incurred e.g. employment or contract disputes.

- Professional Fee Protection which predominantly compensates the policyholder for costs incurred in respect of professional accountants' fees arising from an enquiry instigated by Her Majesty's Revenue & Customs.

The APG Group uses several methods to assess and monitor the risk exposures associated with each of these for the individual types of risks insured including internal risk measurement models.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risks are that the frequency and severity of the claims are greater than expected. Insurance events are, by their nature random and hence the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The AP Group purchased an aggregate stop loss reinsurance policy in order to control its exposures to losses and protect capital resources. There have been no claims under this policy. The board re-assessed the requirement for a stop loss re-insurance policy during the year and decided to commute the policy on 31 December 2007.

Notes to the financial statements

4 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(b) Concentrations of insurance risk

The AP Group has regard for potential concentration of insurance risk, which may exist where a particular event or series of events could impact significantly upon the AP Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise. This risk is managed by ensuring the AP Group operates a robust underwriting approach through limiting the exposure to any one type of distributor and maintaining policy exposure limits to acceptable levels together with a proactive claims handling methodology.

(c) Changes to legislation

The AP Group is exposed to changes in legislation which could result in claims arising which were not contemplated by underwriters' pricing models. The AP Group addresses this risk by ensuring that developments in the legislative arena are closely monitored and ensuring that policy wordings are regularly reviewed.

(d) Economic downturns

The APG Group's insurance portfolio exposes it to correlations and interdependencies to different types of risks arising in the event of an economic recession. In particular an economic downturn may lead to an increased incidence of claims in respect of commercial legal expenses insurance. The APG Group's initial strategy in the event of a recession would be to address the above risks in order to reduce any excess losses. This would be performed by increasing premium rates in order to cover the anticipated losses. Where an increase in the premium rates is not achievable then an alternative option would be to reduce the level of activity in the market.

(e) Financial risk

The AP Group is exposed to financial risk through its financial assets and financial liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risk affecting the AP Group are interest rate risk and credit risk.

The AP Group actively manages its assets using an approach that balances quality, diversification, liquidity and investment return. The goal of the investment process is to optimise the net of taxes, risk-adjusted investment income and risk-adjusted total return, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis. The AP Group's Board reviews the portfolios on a periodic basis, establishing investment guidelines and limits, and provides oversight of the asset/liability management process which is regularly reported.

(f) Interest rate risk

The AP Group's exposure to market risk for changes in interest rates is primarily concentrated in its investment portfolio. Changes in investment values attributable to interest rate changes are mitigated by investment parameters which mandate the average duration of the portfolio cannot exceed 18 months and no individual holding can exceed 2 years.

The APG Group is also exposed to the risk of changes in future cash flows from fixed income securities arising from changes in market interest rates.
The effective interest rate at the balance sheet dates on investments and cash equivalents was:

	2007	2006
Financial investments	6.12%	5.18%
Cash and cash equivalents	5.86%	4.44%

The investment policy of the AP Group requires that investments are predominantly rated AA by Standard and Poor's (or equivalent) with a minimum counterparty rating of A. Short-term deposits are placed with credit institutions that are rated P1 or equivalent.

Notes to the financial statements

4 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(g) Credit risk

The AP Group's portfolio of fixed income securities and, to a lesser extent, short-term and other investments and debtors and receivables, are subject to credit risk. This risk is defined as the potential loss in market value resulting from adverse changes in a debtor's ability to repay. The risk is managed based on the AP Group's investment strategy which clearly articulates its risk appetite in terms of the debt ratings of securities held and maximum counterparty exposure. This is monitored on a quarterly basis by the Board. Debtor balances are age analysed and reviewed monthly with an active credit control process in place to ensure payments are received within agreed terms.

The AP Group is exposed to potential credit risks through its reinsurance underwriting, where amounts due may not be paid. The AP Group manages this risk through dealing with only A or better grade insurers, based on Standard and Poor's (or equivalent) ratings which are regularly monitored.

With respect to credit risk arising from the other financial assets of the APG Group, which comprise cash and cash equivalents, other receivables and investment securities, the APG Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Since the APG Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

There are no significant concentrations of credit risk within the AP Group which are not offset by liabilities.

(h) Liquidity risk

The AP Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that funds may not be available to pay obligations when due. The AP Group has robust processes in place to manage liquidity risk and has adequate access to funding in case of need. Sources of funding include available cash balances and other readily marketable assets.

The maturity profile of finance lease obligations are set out in note 36.

(i) Claims development

Claims development information is disclosed in order to illustrate the insurance risk inherent in the AP Group. The tables compare the claims paid on an underwriting year basis with the provisions established for these claims. The tables provide a review of current estimates of cumulative claims gross and net of reinsurance and demonstrates how the estimated claims have changed at subsequent reporting or underwriting year-ends. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. As the AP Group uses underwriting year accounting, the premiums exposed to each year of account typically develop over a three year period and ultimate incurred claims have a similar initial development pattern. Under or over provision for ultimate losses becomes apparent from year three.

While the information in the table provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The APG Group believes that the estimate of total claims outstanding as of the end of the period are adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be adequate.

Notes to the financial statements

4 Risk management (continued)

Objectives and policies for mitigating business risk (continued)
(i) Claims development (continued)

Analysis of gross earned premiums and claims development

Gross earned premiums

	Underwriting year					
	2003	2004	2005	2006	2007	Total
	£000	£000	£000	£000	£000	£000
At end of underwriting year	2,956	3,236	3,101	3,539	3,650	16,482
- one year later	4,689	4,922	5,969	6,784	-	22,364
- two years later	259	815	948	-	-	2,022
- three years later	(7)	3	-	-	-	(4)
- four years later	-	-	-	-	-	-
	7,897	8,976	10,018	10,323	3,650	40,864

Estimate of cumulative claims

	Underwriting year					
	2003	2004	2005	2006	2007	Total
	£000	£000	£000	£000	£000	£000
At end of underwriting year	2,582	2,823	2,636	3,014	3,103	14,158
- one year later	3,534	3,418	3,947	4,485	-	15,384
- two years later	(860)	(94)	302	-	-	(652)
- three years later	(123)	(44)	-	-	-	(167)
- four years later	(229)	-	-	-	-	(229)
Estimate of cumulative claims	4,904	6,103	6,885	7,499	3,103	28,494
Cumulative payments to date	(4,699)	(5,297)	(4,849)	(3,423)	(423)	(18,691)
Gross & net outstanding claims liabilities	205	806	2,036	4,076	2,680	9,803

There were no reinsurance recoverables during the periods presented within this financial statements.

Gross earned premiums less claims costs

	Underwriting year					
	2003	2004	2005	2006	2007	Total
	£000	£000	£000	£000	£000	£000
At end of underwriting year	374	413	465	525	547	2,324
- one year later	1,155	1,504	2,022	2,299	-	6,980
- two years later	1,119	909	646	-	-	2,674
- three years later	116	47	-	-	-	163
- four years later	229	-	-	-	-	229
	2,993	2,873	3,133	2,824	547	12,370

Notes to the financial statements

5 Segment information

(a) Primary reporting format - business segments

The AP Group has two primary business segments namely insurance underwriting and intermediary, advisory and other. The analysis of the results, assets and liabilities by segment are shown below:

Year ended 31 December 2007	Insurance Underwriting	Intermediary, Advisory and Other	Total
	£000	£000	£000
Revenue			
Intermediary, advisory and other income	-	14,803	14,803
Gross premiums written	11,945	-	11,945
Outward reinsurance premiums	(321)	-	(321)
Net change in provisions for unearned premiums	(703)	-	(703)
Net earned premiums	10,921	-	10,921
Net investment return	1,183	442	1,625
Total revenue	12,104	15,245	27,349
Expenses			
Claims and change in insurance liabilities	(7,617)	-	(7,617)
Acquisition costs	(683)	-	(683)
Other operating and administrative expenses	(102)	(11,608)	(11,710)
Total operating expenses	(8,402)	(11,608	(20,010)
Operating profit	3,702	3,637	7,339
Finance costs	-	-	-
Profit before income taxes	3,702	3,637	7,339
Income taxes	(1,000)	(1,012)	(2,012)
Profit attributable to equity holders of the parent	2,702	2,625	5,327
Segments assets			
Goodwill	-	1,028	1,028
Other intangible assets	-	180	180
Property, plant and equipment	-	584	584
Financial investments	17,961	-	17,961
Trade and other receivables	4,755	13,185	17,940
Cash and cash equivalents	5,366	10,574	15,940
Total assets	28,082	25,551	53,633

Notes to the financial statements

5 Segment information (continued)
(a) Primary reporting format - business segments (continued)

Year ended 31 December 2007	Insurance Underwriting	Intermediary, Advisory and Other	Total
	£000	£000	£000
Segments liabilities			
Insurance contract provisions	16,334	-	16,334
Financial liabilities	-	-	-
Financial lease obligations	-	218	218
Deferred tax liabilities	1,727	(17)	1,710
Current tax liabilities	-	859	859
Accruals and deferred income	-	7,508	7,508
Other liabilities	515	11,828	12,343
Total liabilities	18,576	20,396	38,972

Notes to the financial statements

5 Segment information (continued)

(a) Primary reporting format - business segments (continued)

Year ended 31 December 2006	Insurance Underwriting	Intermediary, Advisory and Other	Total
	£000	£000	£000
Revenue			
Intermediary, advisory and other income	-	13,614	13,614
Gross premiums written	10,982	-	10,982
Outward reinsurance premiums	(282)	-	(282)
Net change in provisions for unearned premiums	(774)	-	(774)
Net earned premiums	9,926	-	9,926
Net investment return	755	273	1,028
Total revenue	10,681	13,887	24,568
Expenses			
Claims and change in insurance liabilities	(6,744)	-	(6,744)
Acquisition costs	(619)	-	(619)
Other operating and administrative expenses	(83)	(10,376)	(10,459)
Total operating expenses	(7,446)	(10,376)	(17,822)
Operating profit	3,235	3,511	6,746
Finance costs	-	(30)	(30)
Profit before income taxes	3,235	3,481	6,716
Income taxes	(873)	(956)	(1,829)
Profit attributable to equity holders of the parent	2,362	2,525	4,887
Segments assets			
Goodwill	-	1,028	1,028
Other intangible assets	-	195	195
Property, plant and equipment	-	671	671
Financial investments	15,086	-	15,086
Trade and other receivables	4,270	10,402	14,672
Cash and cash equivalents	3,518	10,373	13,891
Total assets	22,874	22,669	45,543

Notes to the financial statements

5 Segment information (continued)

(a) Primary reporting format - business segments (continued)

Year ended 31 December 2006	Insurance Underwriting	Intermediary, Advisory and Other	Total
	£000	£000	£000
Segments liabilities			
Insurance contract provisions	13,952	-	13,952
Financial liabilities	-	505	505
Financial lease obligations	-	214	214
Deferred tax liabilities	1,445	(12)	1,433
Current tax liabilities	-	330	330
Accruals and deferred income	-	7,577	7,577
Other liabilities	410	9,121	9,531
Total liabilities	15,807	17,735	33,542

(b) Secondary segment information - geographical analysis

All of the AP Group's revenues, costs, assets and liabilities are derived from providing its services in the United Kingdom.

Notes to the financial statements

6 Net insurance premium

	2007	2006
	£000	£000
Gross premiums written	11,945	10,982
Outward reinsurance premiums	(321)	(282)
Net premiums written	11,624	10,700
Change in the gross provision for unearned premiums	(560)	(667)
Change in the provision for unearned premiums, reinsurers' share	(143)	(107)
Change in the net provision for unearned premiums	(703)	(774)
Earned premiums, net of reinsurance	10,921	9,926

7 Intermediary, advisory and other income

	2007	2006
	£000	£000
Income from intermediation	7,158	6,629
Advisory fees	3,820	3,073
Other income	3,825	3,912
Total intermediary, advisory and other income	14,803	13,614

Other income comprises consultancy, claims handling and management services.

8 Net investment return

	2007	2006
	£000	£000
Investment at fair value through Income statement:		
- certificates of deposit	1,092	472
Other investments:		
-cash and cash equivalents income	502	576
Investment income	1,594	1,048
Gains/(losses) on investments at fair value through the income statement	31	(20)
Net investment return	1,625	1,028

9 Claims and change in insurance liabilities

	2007	2006
	£000	£000
Gross claims paid	(5,795)	(6,031)
Gross change in the provision for claims	(1,822)	(713)
Claims and change in insurance liabilities	(7,617)	(6,744)

A whole account stop loss reinsurance policy has been in force throughout all periods. No claims have been made. The policy was commuted on 31 December 2007.

Notes to the financial statements

10 Acquisition costs

	2007	2006
	£000	£000
Reinsurance commission payable	(717)	(659)
Changes in deferred acquisition costs	34	40
Total acquisition costs	(683)	(619)

11 Profit before tax

Other operating and administrative expenses and operating profit have been arrived at after charging/(crediting):

	2007	2006
	£000	£000
Depreciation of property, plant and equipment	225	202
Amortisation of intangible assets	90	60
Personnel expenses		
- wages and salaries	6,939	6,249
- social security costs	749	743
- pension costs	256	292
Operating lease rentals	464	462
Auditors' remuneration		
- fees for statutory audit services	17	39
- fees for auditing accounts of subsidiaries pursuant to legislation	80	8
- other services pursuant to legislation	25	-
- tax services	5	8
- recruitment and remuneration services	-	23
Share based payment charges	8	-
(Profit)/Loss on sale of property, plant and equipment	8	2

Deloitte & Touche LLP acted as Auditors to the Group during the current and previous financial years. In addition to the fees payable noted above, the auditors also earned fees of £365,000 exclusive of VAT (2006 £nil) in relation to the issuance of share capital which have been deducted from the share premium reserve (note 31).

Notes to the financial statements

12 Staff costs

The average monthly number of employees employed by the Group (including executive Directors) during the period, analysed by category was:

	2007	2006
	No.	No.
Central	16	14
Abbey tax protection	48	47
Abbey HR	6	-
Abbey legal protection	26	27
ATE services	21	26
Legal services centre	79	71
	196	185

	2007	2006
	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	6,939	6,249
Social security costs	749	743
Pension costs - defined contribution plans	256	292
	7,944	7,284

13 Directors' remuneration

	2007	2006
	£000	£000
Directors' emoluments	101	905
Post-employment benefits - defined contribution plans	4	124
Compensation for loss of office	-	136
	105	1,165

Three Directors (2006: six Directors) are members of defined contribution plans.

	2007	2006
	£000	£000
Highest paid Director	30	175
-emoluments	2	9
-post employment benefit - defined contribution plans	32	184

As stated within the general information disclosed in note 1, Abbey Protection plc acquired Abbey Protection Group Limited on 19 November 2007. The transaction has been accounted for using the reverse acquisition principles outlined in IFRS3 business combinations. The Directors emoluments for the year ended 2007 relate to Abbey Protection plc, the legal parent company, whilst Directors emoluments for the year ended 2006 relate to Abbey Protection Group Limited, the legal subsidiary.

Full details of Directors' emoluments are disclosed within the remuneration report.

14 Finance costs

	2007	2006
	£000	£000
Interest expense:		
-other interest paid	-	30
Total finance costs	-	30

Notes to the financial statements

15 Tax expense

Recognised in the income statement

	2007 £000	2006 £000
Current tax expense		
Current year – operations	1,740	1,074
Adjustments for prior years	(5)	(149)
	1,735	925
Deferred tax expense		
Origination and reversal of temporary differences	277	904
Total tax expense	2,012	1,829

Reconciliation of effective tax rate

Tax on the AP Group's profit before tax differs from the United Kingdom standard rate of corporation tax for the reasons set out in the following reconciliation:

	2007 £000	2006 £000
Profit before tax	7,339	6,716
Income tax calculated at the UK standard rate of tax of 30%	2,202	2,015
Factors affecting charge for the year:		
Non deductible expenses and provisions	48	67
Rate differences	-	-
Income taxable on remittance to the UK	(111)	(104)
Adjustments to tax in respect of prior periods	(5)	(149)
Changes in the rate of corporation tax	(122)	-
Total tax expense	2,012	1,829

16 Dividends

	2007 £000	2006 £000
Amounts recognised as distributions to equity holders in the period:		
Dividends on ordinary shares	6,250	-
Fixed cumulative 6% irredeemable preference share dividend	(15)	52
Net appropriation for the year	6,235	52

As stated within the general information disclosed in note 1, Abbey Protection plc acquired Abbey Protection Group Limited on 19 November 2007. The transaction has been accounted for using the reverse acquisition principles outlined in IFRS3 business combinations. The number of shares presented in the equity structure of the group for the year ended 2007 relate to Abbey Protection plc, the legal parent company, whilst in accordance with the reverse acquisition provisions of IFRS 3 business combinations, the number of shares in the equity structure of the group for the year ended 2006 relate to Abbey Protection Group Limited, the legal subsidiary.

On 11 April 2007 a dividend of £2,000,000 was paid representing £29.69 per Abbey Protection Group Limited share. On 19 November 2007 a dividend of £4,250,000 was paid representing £59.69 per Abbey Protection Group Limited share.

Notes to the financial statements

17 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Parent Company by the weighted average number of shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares. Diluted earnings per share is calculated adjusting for the assumed conversion of all dilutive potential ordinary shares. The Group has one category of dilutive potential ordinary shares, share options. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The calculation of the basic and diluted earnings per share is based on the following data:

	2007	2006
	£000	£000
Profit attributable to equity holders of the parent	5,327	4,887
Effect of dilutive potential ordinary shares	-	-
Earnings for the purposes of diluted earnings per share	5,327	4,887

	2007	2006
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue	90,937,477	90,140,466
Effect of dilutive potential ordinary shares (share options)	674,317	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	91,611,794	90,140,466

The denominators for the purposes of calculating both basic and diluted earnings per share have been adjusted to reflect the changes to share capital disclosed in note 30.

18 Goodwill

The cost of goodwill at transition to IFRS (1 April 2004) was deemed to be the amortised value as at that date. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. There has been no impairment throughout the periods presented.

Notes to the financial statements

19 Other intangibles assets - computer software

	2007 £000
Cost	
At 1 January 2007	454
Acquisitions	75
Disposals	(31)
At 31 December 2007	498
Amortisation	
At 1 January 2007	259
Charge for the year	80
Disposals	(31)
At 31 December 2007	308
Net book value at 31 December 2007	190

	2006 £000
Cost	
At 1 January 2006	312
Acquisitions	145
Disposals	(3)
At 31 December 2006	454
Amortisation	
At 1 January 2006	201
Charge for the year	60
Disposals	(2)
At 31 December 2006	259
Net book value at 31 December 2006	195

Notes to the financial statements

20 Property, plant and equipment

	Leasehold property	Equipment and motor vehicles	IT equipment	Total
	£000	£000	£000	£000
Cost				
At 1 January 2007	90	896	290	1,276
Acquisitions	9	77	60	146
Disposals	-	(146)	(24)	(170)
At 31 December 2007	99	827	326	1,252
Depreciation				
At 1 January 2007	31	394	180	605
Charge for the year	13	162	60	225
Disposals	-	(138)	(24)	(162)
At 31 December 2007	44	418	216	678
Net book value at 31 December 2007	55	409	110	574

	Leasehold property	Equipment and motor vehicles	IT equipment	Total
	£000	£000	£000	£000
Cost				
At 1 January 2006	86	683	293	1,062
Acquisitions	4	222	72	298
Disposals	-	(9)	(75)	(84)
At 31 December 2006	90	896	290	1,276
Depreciation				
At 1 January 2006	19	264	203	486
Charge for the year	12	137	53	202
Disposals	-	(7)	(76)	(83)
At 31 December 2006	31	394	180	605
Net book value at 31 December 2006	59	502	110	671

Included within net book value of motor vehicles is £188,000 (2006: £198,000) in respect of assets held under finance leases.

Notes to the financial statements

21 Group companies

The consolidated financial statements presents the financial records of the Group for the years ended 31 December 2007 and 31 December 2006. A list of all investments in Group subsidiaries, including the name and country of incorporation is given below:

Company	Country of incorporation	Activity	Portion of ownership interests	Basis of consolidation
Abbey Protection Group Ltd	Great Britain	Insurance intermediary	100%	100% Consolidation
Ibex Reinsurance Company Limited	Guernsey	Reinsurance company	100%	100% Consolidation
Abbey Legal Holdings Limited	Great Britain	Dormant	100%	100% Consolidation
Abbey Legal Protection Limited	Great Britain	Dormant	100%	100% Consolidation
Abbey Tax Protection Limited	Great Britain	Dormant	100%	100% Consolidation

The Group has not suffered any impairment in the value of its investments in its subsidiaries. Following a restructuring exercise in 2004, Abbey Legal Holdings Limited, Abbey Legal Protection Limited and Abbey Tax Protection Limited have remained dormant.

22 Financial investments

Financial investments at fair value through profit and loss

	2007	2006
	£000	£000
Certificates of deposit	17,961	15,086

The fair values of the Group's financial investments have been arrived at by reference to readily available market prices.

23 Insurance contract provisions and reinsurance assets

(i) Insurance contract provisions

	2007			2006		
	Gross	Reinsur-ance	Net	Gross	Reinsur-ance	Net
	£000	£000	£000	£000	£000	£000
Unearned premiums	6,531	-	6,531	5,971	(143)	5,828
Claims reported by policyholders	6,395	-	6,395	5,451	-	5,451
Claims incurred but not reported	3,408	-	3,408	2,530	-	2,530
Total insurance contract provisions	16,334	-	16,334	13,952	(143)	13,809
Expected to be settled within 12 months of the balance sheet date	13,131	-	13,131	12,156	(143)	12,013
Expected to be settled more than 12 months after the balance sheet date	3,203	-	3,203	1,796	-	1,796
	16,334	-	16,334	13,952	(143)	13,809

Notes to the financial statements

23 Insurance contract provisions and reinsurance assets (continued)

(ii) Analysis of movements in insurance provisions

	2007			2006		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£000	£000	£000	£000	£000	£000
Balance at the beginning of the period	13,952	(143)	13,809	12,573	(250)	12,323
Claims paid	(5,795)	-	(5,795)	(6,031)	-	(6,031)
Movement in claims incurred but not reported	878	-	878	(213)	-	(213)
Claims reported in the period	6,739	-	6,739	6,956	-	6,956
Change in provision for unearned premiums	560	143	703	667	107	774
Balance at the end of the period	16,334	-	16,334	13,952	(143)	13,809

(iii) Analysis of movements in provision for gross unearned premium

	2007	2006
	£000	£000
Balance at the beginning of the period	5,971	5,304
Premiums written during the period	11,945	10,982
Less: premiums earned during the year	(11,385)	(10,315)
Balance at the end of the period	6,531	5,971

(iv) Analysis of movements in outstanding claims (gross & net)

	2007	2006
Gross outstanding claims	£000	£000
Balance at the beginning of the period	7,981	7,269
Cash paid for claims settled in the year	(5,795)	(6,031)
Change in liabilities:		
- arising from current year claims	2,680	3,014
- arising from prior year claims	4,937	3,729
Balance at the end of the period	9,803	7,981

Notes to the financial statements

23 Insurance contract provisions and reinsurance assets (continued)

(v) Assumptions and sensitivities

Process used to determine the assumptions

The sources of data used as inputs for the assumptions behind insurance provisions are internal, using detailed studies that are carried out annually by external advisors. The assumptions are checked to ensure that they are consistent with observable market trends or other published information with more emphasis placed on current trends.

The nature of insurance business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The degree of complexity involved will also differ by book of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags

The value of outstanding claims and the IBNR provisions are estimated using various statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claims and ultimate claim numbers for each underwriting year based upon observed development of earlier years and expected loss ratios.

The key methods, which remain unchanged from prior years, are:

- chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- expected loss ratio methods, which use the AP Group's expectation of the loss ratio for a class of business; and
- benchmarking methods, which use the experience of comparable, more mature, classes to estimate the cost of claims.

The actual method or blend of methods used varies by underwriting year being considered and for observed historical claims development.

To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, in so far as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development / recording of claims paid and incurred (such as changes in claim reserving procedures);
- economic, legal, political and social trends (resulting in, for example, a difference in expected levels of inflation);
- changes in mix of business;
- random fluctuations, including the impact of large losses.

IBNR provisions are estimated at a gross level and a separate calculation is carried out to estimate the size of any reinsurance recoveries where applicable reinsurance is in force.

Assumptions

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent underwriting years excluding the current underwriting year which will be significantly underdeveloped. The expected loss ratio assumed for the underwriting years 2005 and 2006 is 68.5% and 72.5% respectively.

Changes in assumptions and sensitivities to changes in key variables

The Group believes that the liability for claims reported in the balance sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions, which could differ when claims arise.

The impact of a 1% change in the loss ratio across all underwriting years would equate to a £409,000 pre-tax change in the reported income.

Notes to the financial statements

24 Deferred tax

Recognised deferred tax

Deferred tax balances are attributable to the following:

	2007	2006
	£000	£000
Property, plant and equipment	12	(6)
Income taxable on remittance to the UK	(1,727)	(1,445)
Other timing differences	5	18
Total deferred tax	(1,710)	(1,433)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007	2006
	£000	£000
Deferred tax liabilities	(1,727)	(1,451)
Deferred tax assets	17	18
	(1,710)	(1,433)

There are no unrecognised deferred tax assets or liabilities.

25 Trade and other receivables

	2007	2006
	£000	£000
Receivables arising from insurance and reinsurance contracts:		
- premiums due from insurers	3,997	4,270
- trade debtors	10,342	7,858
Other receivables:		
- other prepayments and accrued income	1,041	237
- amounts due from related parties	985	104
- other debtors	1,575	2,203
Total insurance and other receivables	17,940	14,672
Due within one year	17,940	14,672

The Directors believe that the carrying amount of trade and other receivables represents their fair value.

Notes to the financial statements

26 Cash and cash equivalents

	2007 £000	2006 £000
Cash at bank and in hand	15,940	13,891
Cash and cash equivalents	15,940	13,891
The effective interest rate on short term bank deposits was:	5.29%	4.44%

Included in cash and cash equivalents held by the Group as at each period end are balances totalling £1m not available for use by the Group because they are held in trust to guarantee claims liabilities.

27 Financial liabilities

This note provides information about the contractual terms of the Group's loans and borrowings.

	2007 £000	2006 £000
Expected to be settled more than 12 months after the balance sheet date		
Redeemable 6% cumulative preference shares	-	505
Total financial liabilities	-	505

The redeemable preference shares were redeemed on 18 October 2007.

28 Accruals and deferred income

	2007 £000	2006 £000
Accruals	1,138	1,560
Deferred income	6,370	6,017
Total accruals and deferred income	7,508	7,577

29 Other liabilities

	2007 £000	2006 £000
Other trade creditors	11,751	8,948
Other taxes and social security	419	327
Other creditors	173	256
Total other liabilities	12,343	9,531

Other liabilities are all expected to be settled within twelve months of the balance sheet date.

Notes to the financial statements

30 Share capital

a) Authorised share capital

	2007		2006	
	Number of shares	Nominal value £000	Number of shares	Nominal value £000
Ordinary shares of 1p each	150,000,000	1,500	-	-
"A" ordinary shares of 1p each	-	-	49,676	1
"B" ordinary shares of 1p each	-	-	20,698	-
Undesignated ordinary shares of 1p each	-	-	862,047,126	8,620
Irredeemable preference shares of £1 each	-	-	874,300	874
	150,000,000	1,500	862,991,800	9,495

b) Issued share capital

Allotted, called up and fully paid

	2007		2006	
	Number of shares	Nominal value £000	Number of shares	Nominal value £000
Ordinary shares of 1p each	99,994,773	1,000	-	-
"A" ordinary shares of 1p each	-	-	49,676	1
"B" ordinary shares of 1p each	-	-	20,698	-
Undesignated ordinary shares of 1p each	-	-	-	-
Irredeemable preference shares of £1 each	-	-	874,300	874
	99,994,773	1,000	944,674	875

The number of shares presented in the equity structure of the group above relates to Abbey Protection plc, the legal parent company. In accordance with the reverse acquisition provisions of IFRS 3 business combinations, the amount of issued share capital included in the consolidated balance sheet as at 31 December 2006 reflects that of Abbey Protection Group Limited, the legal subsidiary.

c) Changes in group share capital

Prior to the execution of the share for share agreement facilitating the acquisition of Abbey Protection Group Limited by Abbey Protection plc, the following changes were made to share capital:

Abbey Protection Group Limited;

On 31 October 2007, the irredeemable preference shares were consolidated into 1,430 ordinary "C" shares of £610 each and the residual 2000 irredeemable preference shares were repurchased by the company out of distributable profits.

On 14 November 2007, the "A" and "B" shares were redesignated as ordinary shares of 1p each.

Abbey Protection plc;

On 24 August 2007, the Company issued 1 £1 subscriber share.

On 14 November 2007, the Company issued 49,999 £1 redeemable ordinary shares.

On 19 November 2007, the Company issued 90,903,764 ordinary shares of 1p each under the share for share exchange agreement.

On 19 November 2007, the Company subdivided the £1 subscriber share into 100 ordinary shares of 1p each and redeemed the 49,999 £1 redeemable ordinary shares at their nominal value.

On 29 November 2007, the Company issued 9,090,909 ordinary shares of 1p each at 55p per share.

Notes to the financial statements

30 Share capital (continued)

d) Treasury shares

On 10 April 2007, the Group purchased 3,005 ordinary "A" shares via the ESOP trust. 2,815 of these shares were then sold to members of the senior management at the acquisition price.

On 31 October 2007, 252,000 irredeemable preference shares held by the Group via an ESOP trust were converted into 413 ordinary "C" shares of £610 each.

On 19 November 2007, the ESOP trust exchanged its holdings for 763,398 ordinary shares of 1p each in Abbey Protection plc.

31 Share premium

	Group		Company
	2007	2006	2007
	£000	£000	£000
At the beginning of the period	224	224	-
Premium on shares issued	3,539	-	3,539
Transfer to reverse takeover reserve	(224)	-	-
At the end of the period	3,539	224	3,539

The premium on shares issued during the year is shown net of transaction costs of £1,370,000.

32 Retained earnings and other reserves

	Merger reserve	Equity settled share incentive reserve	Capital redemption Reserve	Reverse takeover reserve	Own shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2006	282	-	-	-	(230)	6,015	6,067
Profit for the year	-	-	-	-	-	4,887	4,887
Preference dividends paid	-	-	-	-	-	(52)	(52)
Balance at 31 December 2006	282	-	-	-	(230)	10,850	10,902
Reverse takeover reserve	-	-	-	188	-	-	188
Equity settled share incentive reserve	-	8	-	-	-	-	8
Reserve transfers	-	-	557	-	-	(557)	-
Preference dividend paid	-	-	-	-	-	15	15
Ordinary dividend paid	-	-	-	-	-	(6,250)	(6,250)
Purchase of own shares	-	-	-	-	(1068)	-	(1,068)
Sale of own shares	-	-	-	-	1000	-	1,000
Profit for the year	-	-	-	-	-	5,327	5,327
Balance at 31 December 2007	282	8	557	188	(298)	9,385	10,122

Notes to the financial statements

33 Share option schemes

The Directors believe that equity incentives are and will continue to be an important means of retaining, attracting and motivating employees. The AP Group operates three share options schemes:

a) The Abbey Protection plc Savings Related Share Option Scheme (SAYE Scheme)

The SAYE Scheme is approved by HMRC. The scheme enables Directors and employees to acquire options over ordinary shares of the company at a discount of up to 20% of their market price using the proceeds of a related SAYE contract. All employees who have worked for the minimum qualifying period on an invitation date are eligible to join the scheme. Options granted under the SAYE scheme are not subject to performance conditions but beneficiaries must ordinarily be employees of the group for the options to vest. In relation to such invitations, eligible employees may apply to save an amount between £5 and £250 per month in accordance with the rules of the SAYE Scheme under a three or five year savings contract selected by the Company.

b) The Abbey Protection Company Share Option Plan (CSOP)

The CSOP is approved by HMRC. The scheme enables Directors and employees to acquire options over ordinary shares of the company at their market price. Individuals are selected at the discretion of the Remuneration Committee. Options granted under the CSOP scheme are not subject to performance conditions but beneficiaries must ordinarily be employees of the group for the options to vest. Each individual's participation in the CSOP is restricted by HMRC limits so that the aggregate market value of Ordinary Shares subject to all options (calculated at the date of grant of each option), held by that individual and granted under the CSOP or any other HMRC company share option plan operated by the Company or any associated company shall not exceed £30,000.

c) The Abbey Protection plc Long Term Incentive Plan (LTIP)

The LTIP is not approved by HMRC. The scheme enables Directors and employees to acquire nil cost options over ordinary shares of the company. Individuals are selected at the discretion of the Remuneration Committee. Awards are capped at a maximum of twice the annual salary of any individual in any financial year. Ordinarily, in order for options to vest, the individual must be an employee of the Group and the performance conditions must be met.

The performance conditions require that the average annual percentage growth in earnings per ordinary share over the performance period (not less than three years) is equal to or greater than the annual average percentage growth in the retail price index (RPI) plus 3 per cent for 25 per cent of the award to vest. Earnings per share must outperform RPI by 6 percent for 100% of options to vest with a pro-rata scale operated between 3 percent out performance and 6 percent out performance. If events occur which cause the Remuneration Committee to reasonably consider that a different or amended target would be a fairer measure of performance, the Remuneration Committee may recommend that the Trustee waives or amends the original performance target, provided that any such amended target is not materially more difficult to achieve than the original performance target.

Notes to the financial statements

33 Share option schemes (continued)

Options granted

During the year ended 31 December 2007, the following options were granted and were outstanding at the balance sheet date:

	SAYE	CSOP	LTIP
Date of grant	20/12/2007	29/11/2007	29/11/2007
Number of options granted	980,039	381,815	363,636
Exercise price	£0.44	£0.55	£0.00
Share price at date of grant	£0.61	£0.55	£0.55
Contractual life (years)	3.5	10	10
Vesting conditions:	Three Years service	Three Years service	Three Years service
	Savings requirement	-	Growth in earnings per share
Vesting Date	01/01/2011	30/11/2010	01/01/2011
Settlement	Shares	Shares	Shares
Expected volatility	35%	35%	35%
Expected option life at date of grant	Three Years	Three Years	Three Years
Risk free interest rate	5.00%	5.00%	5.00%
Expected dividend yield	5.00%	5.00%	5.00%
Expected annual departures	5.00%	5.00%	0.00%
Probability of meeting performance criteria at date of grant	100%	100%	75%
Fair value per option at date of grant	£0.20	£0.20	£0.52
Valuation model	Binomial	Binomial	Binomial
Total fair value	£168,052	£65,799	£142,636

34 Operating leases

The aggregate minimum lease payments required by the Group under non-cancellable operating leases, over the expected lease terms, are as follows:

	2007 £000	2006 £000
Less than one year	461	446
Between one and five years	1,732	1,876
More than five years	89	306
Total	2,282	2,628

The Group's property leases are short leases and typically run for a period of less than ten years without the transfer of substantially all risks and rewards incidental to ownership of the properties. As a result, these property leases are treated as operating leases and there is no need to split out the land component.

35 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The Group has a related party relationship with its key management personnel who are also shareholders of the Group.

Notes to the financial statements

35 Related party transactions (continued)

Remuneration of Directors

The remuneration of the Directors, who are key management personnel of the Group is set out in note 13 of these financial statements and disclosed in the remuneration report on pages 22 to 24.

Share and loan transactions with members of key management

On 30 April 2007, the Group made equity shares available to Adrian Green, Group Finance Director, on a deferred payment basis via the ESOP trust. An amount of £500,178 was deferred under the purchase agreement. At the balance sheet date an amount of £440,839 remains outstanding and is disclosed within other assets in the accounts of the ESOP trust and the consolidated accounts. The deferred purchase loan is due for repayment ten years from the date the loan was granted.

Transactions with post-employment benefit plans

The Group leases a property owned by the pension funds of two of the Group's Directors, Colin Davison and Liz Grace. The lease has been entered into on arm's length commercial terms. The annual lease and service charge fees paid by the Group for the property are £75,700 and £2,278 respectively.

Other related parties

Until 15 November 2007 when the agreement was terminated, an annual management fee of £29,375 inclusive of VAT was paid to Numis Securities Limited for the services of the Group Chairman, Oliver A Hemsley, who is a Director of Numis Corporation plc which in turn held 20,698 Ordinary shares in Abbey Protection Group Limited. Numis Corporation plc were also paid £150,000 in respect of their broking services during the year.

36 Finance lease obligations

	2007	2006
	£000	£000
Minimum lease obligations payable:		
Within 1 year	120	70
Within 2 to 5 years	119	171
	239	241
Less future finance charges	(21)	(27)
Present value of finance lease obligations	218	214
The present value of minimum lease obligations payable:		
Within 1 year	107	55
Within 2 to 5 years	111	159
	218	214

It is the Group's policy to lease certain of its motor vehicles under finance lease arrangements. The leases have a typical term of three years and are on a fixed repayment basis with a final lump sum component at the end of each agreement should the Group decide to acquire ownership of the vehicle. Interest rates are fixed at the contract commencement date. Finance lease obligations are effectively secured as the rights to the leased assets revert to the lessor in the event of default. The carrying value of finance obligations equates to fair value.

37 Capital commitments

The Group had no capital expenditure contracted for at the balance sheet date.

Notes to the financial statements

38 Contingent liabilities

Barclays Bank Plc has issued an irrevocable standby letter of credit in respect of Brit Insurance Limited for £1,000,000 in connection with the insurance activities of Ibex Reinsurance Company Limited. This is secured on its bank balances and has been in force throughout all reporting periods.

39 Transition to International Financial Reporting Standards

Abbey Protection Group Limited's consolidated financial information for the period 1 April 2004 to 31 December 2006 was restated to comply with IFRS requirements in the Group's Placing and Admission to AIM document. The transitional disclosures required by IFRS are reproduced below:

Profit After Taxation	9 months ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006
	£000	£000	£000
UK GAAP as originally stated	1,867	4,452	4,782
Effect of adjustment relating to reversal of amortisation of goodwill	78	105	105
IFRS as restated	1,945	4,557	4,887

Net Assets	9 months ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006
	£000	£000	£000
UK GAAP as originally stated	2,979	6,982	11,713
Effect of adjustment relating to reversal of amortisation of goodwill	78	183	288
IFRS as restated	3,057	7,165	12,001

Cash and Cash Equivalents	9 months ended 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006
	£000	£000	£000
UK GAAP as originally stated	15,541	22,378	11,435
Effect of adjustment relating to reclassification of investments with less than three months to maturity from date of acquisition	-	-	2,456
IFRS as restated	15,541	22,378	13,891

Profit After Taxation

Under UK GAAP, goodwill in the balance sheet is amortised over its estimated economic life. International Financial Reporting Standards do not require the amortisation of goodwill. Instead, an impairment review of goodwill is required at the end of each reporting period. The Group's impairment review does not show any impairment in the value of the goodwill carried in the Group's balance sheet. The Group has chosen not to reinstate goodwill amortised prior to the date of transition to IFRS.

Net Assets

Under UK GAAP, goodwill in the balance sheet is amortised over its estimated economic life. International Financial Reporting Standards do not require the amortisation of goodwill. Instead, an impairment review of goodwill is required at the end of each reporting period. The Group's impairment review does not show any impairment in the value of the goodwill carried in the Group's balance sheet.

Notes to the financial statements

39 Transition to International Financial Reporting Standards (continued)

Cash and Cash Equivalents

Under UK GAAP, cash and cash equivalents comprise cash in hand and deposits repayable on demand (with a maturity period of less than 1 day). International Financial Reporting Standards adopt a broader approach regarding the classification of items as cash and cash equivalents. IAS 39 requires that short-term (with a maturity period of less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value be classified as cash and cash equivalents.

40 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern whilst having regard to the implications of potential changes to the legislative arena and economic conditions generally.

The capital structure of the Group consists of ordinary shares, share premium account, merger reserve and profit and loss reserves.

The Board reviews the capital structure on an annual basis. As part of this review the Board considers the cost of capital and the risks associated with each class of capital. Based on decisions made by the Board, the Group will balance its overall capital structure through the payment of dividends. The Group's overall strategy remains unchanged.

Abbey Protection Group Limited

In January 2005 the Financial Services Authority assumed responsibility for the regulation of the insurance intermediation industry. The Financial Services Authority requires Abbey Protection Group Limited to maintain a minimum level of capital and reserves to enable Abbey Protection Group Limited to carry out its insurance intermediation activities. The amount of capital and reserves held by Abbey Protection Group Limited in respect of the Financial Services Authority requirement is set out below:

	2007	2006
	£000	£000
Minimum capital and reserve requirement	174	170
Available assets held by the company	4,798	4,200
Available assets held by the company in excess of the minimum capital and reserves requirement	4,624	4,030

Ibex Reinsurance Company Limited

Ibex Reinsurance Company Limited ("Ibex"), the Group's Guernsey based reinsurance subsidiary manages its capital to ensure that it will be able to continue as a going concern whilst having regard to the implications of potential changes to the legislative arena and economic conditions generally.

The capital structure of Ibex consists of ordinary shares, share premium account and profit and loss reserves.

The Ibex Board reviews the capital structure on an annual basis. As part of this review the Ibex Board considers the cost of capital and the risks associated with its class of capital. It also takes into account the requirements for controlled foreign companies to remit profits to the United Kingdom under an approved distribution policy. Based on the recommendations of the Ibex Board, Ibex will seek to balance its overall capital structure through the payment of dividends. The Ibex overall strategy remains unchanged.

Ibex Reinsurance Company Limited is required to maintain a minimum level of capital and reserves by the Guernsey Financial Services Commission ("GFSC"). The amount of capital and reserves held by Ibex in respect of the GFSC requirements is set out below:

	2007	200
	£000	£000
Minimum capital and reserves requirement	1,738	1,589
Available assets held by the company	11,233	8,511
Available assets held by the company in excess of the minimum capital and reserves requirement	9,495	6,922

Parent company balance sheet

At 31 December 2007

	Notes	2007 £000
Assets		
Investment in subsidiaries	42	909
Trade and other receivables	43	871
Cash and cash equivalents	44	3,328
Total assets		5,108
Liabilities		
Accruals and deferred income	45	11
Total liabilities		11
Equity		
Share capital	30	1,000
Share premium	31	3,539
Retained earnings	46	500
Capital redemption reserve	46	50
Equity settled share incentive reserve	46	8
Total shareholders' equity		5,097

The financial statements on pages 27 to 68 were approved by the board of Directors and authorised for issue on 20 May 2008. They were signed on its behalf by:

Chris Ward
Group Managing Director

Adrian Green
Group Finance Director

Parent company cash flow statement

For the year ended 31 December 2007

	Notes	2007 £
Net cash inflow from operating activities	48	(345)
Returns on investments and servicing of finance		
Interest received		35
Capital expenditure and financial investment		
Purchases of financial investments		(909)
Financing		
Issue of share capital	30&31	4,589
Redemption of share capital	30	(50)
Equity settled share incentive reserve	46	8
Net cash from financing		4,547
Increase in cash during the year		3,328
Net funds at the beginning of the year		-
Net funds at the end of the year		3,328

Notes to the financial statements

41 Significant accounting policies

Basis of preparation

The separate financial statements for the Parent Company have been prepared in accordance with UK Generally Accepted Accounting Principles. In accordance with the extension permitted under S230 of the Companies Act 1985, the profit and loss account of the Parent Company is not presented as part of these accounts. Advantage has been taken of the merger relief provisions within S131 of the Companies Act 1985 in respect of the acquisition of Abbey Protection Group Limited. Accordingly, the initial investment in Abbey Protection Group Limited has been recorded at the nominal value of the shares issued to acquire the subsidiary. The profit after taxation for the year of the parent company was £550,000.

The financial statements have been prepared under the historical cost basis.

The accounting policies that are used in preparation of these financial statements are consistent with the accounting policies used in the preparation of the consolidated financial statements of the Group as set out in those financial statements. The additional accounting policies which are specific to the separate financial statements of the Company are set out below:

Investment in subsidiaries

Investments in subsidiary undertakings are stated at cost and in respect of Abbey Protection Group Limited, the nominal value of the shares issued to acquire the subsidiary. Investments in subsidiary undertakings are reviewed for impairment when events, or changes in circumstances, indicate the carrying value may be impaired.

Dividend income

Dividend income from investments in subsidiaries is recognised when the right to receive payment is established.

42 Investment in subsidiaries

The principal undertakings of Abbey Protection plc at 31 December 2007 which are consolidated in these financial statements are:

Company	Country of incorporation	Activity	Portion of ownership interests	Basis of consolidation
Abbey Protection Group Ltd	Great Britain	Insurance intermediary	100%	100% Consolidation
Ibex Reinsurance Company Limited	Guernsey	Reinsurance company	100%	100% Consolidation
Abbey Legal Holdings Limited	Great Britain	Dormant	100%	100% Consolidation
Abbey Legal Protection Limited	Great Britain	Dormant	100%	100% Consolidation
Abbey Tax Protection Limited	Great Britain	Dormant	100%	100% Consolidation

The Group has not suffered any impairment in the value of its investments in its subsidiaries. Following a restructuring exercise in 2004, Abbey Legal Holdings Limited, Abbey Legal Protection Limited and Abbey Tax Protection Limited have remained dormant.

43 Trade and other receivables

	2007 £000
Prepayments and accrued income	8
Amounts due from related parties	863
	871

44 Cash and cash equivalents

	2007 £000
Cash at bank and in hand	3,328
Cash and cash equivalents	3,328

The effective interest rate on short term bank deposits was: 5.37%

Notes to the financial statements

45 Accruals and deferred income

	2007
	£000
Accruals	11
	11

46 Retained earnings and other reserves

	Equity settled share incentive reserve	Capital redemption Reserve	Retained earnings	Total
	£000	£000	£000	£000
Balance at 1 January 2007	-	-	-	-
Equity settled share incentive reserve	8	-	-	8
Reserve transfers	-	50	(50)	-
Profit for the year	-	-	550	550
Balance at 31 December 2007	8	50	500	558

47 Reconciliation of movement in shareholders' equity

	2007
	£000
Profit for the financial year	550
Issue of new shares	1,050
Redemption of shares	(50)
Share premium	3,539
Equity settled share incentive reserve	8
Net addition to shareholders' funds	5,097
Opening shareholders' equity	-
Closing shareholders' equity	5,097

48 Reconciliation of operating profit to net cash flow from operating activities

	2007
	£000
Operating profit before taxation	550
Interest receivable	(41)
Increase in debtors	(865)
Increase in creditors	11
Net cash inflow from operating activities	(345)

49 Related party transactions

Details of related party transactions are provided in note 35 to the consolidated financial statements.

50 Share based payments

Details of share based payment plans are provided in note 33 to the consolidated financial statements.

Additional information

Shareholder information and advisers

The ordinary shares of Abbey Protection plc (Company No 06352358) are traded on the Alternative Investment Market of the London Stock Exchange (AIM) and information on the share price and the Company can be accessed via the Company's website, abbeyprotectionplc.com or at www.londonstockexchange.com – code: ABB. The ISIN number is GB00B293ZK84 and the SEDOL code is B293ZK8.

Company Secretary and registered office
Adrian Green, Abbey Protection plc, Minories House, 2-5 Minories, London, EC3N 1BJ.

Registrar
Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

Computershare looks after the Shareholder database and is responsible for maintaining shareholder records and the mailing out of related information. Computershare Investor Centre gives access to view your holdings online via their website www.computershare.com. To register click on Investor Centre on the Computershare home page www.computershare.com and follow the instructions. You will be able to:

View all your holding details for companies registered with Computershare
Update your contact address and personal details online
Access current and historical market prices

You may contact Computershare Investor Services PLC via the dedicated Shareholder helpline, 0870 707 1682.

Key dates
The annual general meeting will be held on 26 June 2008 at the company's offices, 1 Mitchell Court, Castle Mound Way, Rugby, CV23 OUY.

September 2008 - results for half year to 30 June 2008 announced
17 September 2008 - ex-dividend date for interim dividend
19 September 2008 - record date for interim dividend
29 October 2008 - interim dividend payment

Auditors
Deloitte & Touche LLP, Hill House, 1 Little New Street, London EC4A 3TR.

Nominated adviser
PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH.

Broker
Numis Securities, 10 Paternoster Square, London EC4M 7LT.

Solicitors
Eversheds LLP, 115 Colmore Row, Birmingham. B3 3AL.

Bankers
Coutts & Co, 440 Strand, London. WC2R 0QS.

Public Relations
Financial Dynamics Limited, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB.

Charity share donations
Sharegift, an independent charity share-donation scheme, accepts donations of small parcels of shares where their value makes them uneconomic to sell. If you wish to donate your shares in this way, see www.sharegift.org (tel: 020 7337 0501) or contact the Company's Registrars.

Notice of annual general meeting

Notice is hereby given that the first annual general meeting of Abbey Protection plc will be held at the offices of Abbey Protection plc, 1 Mitchell Court, Castle Mound Way, Rugby, CV23 OUY at 11am on 26 June 2008.

Resolutions

To consider and, if thought fit, to pass resolutions numbered 1 to 10 as ordinary resolutions and resolutions 11 to 13 as special resolutions.

The Directors consider that all the resolutions of the annual general meeting are in the best interests of the Company and recommend that shareholders vote in favour of them.

Ordinary business

1 To receive the financial statements for the year ended 31 December 2007, together with the reports of the Directors and Auditors thereon.

The Directors are required to present the Directors' report and the accounts of the Company for adoption by the shareholders at the annual general meeting of the Company. Accordingly, resolution 1 presents the accounts for the year ended 31 December 2007 and proposes the accounts for adoption.

2 To elect Tony Shearer as a Director of the Company.
3 To elect John Acornley as a Director of the Company.
4 To re-appoint Paul Wilson as a Director of the Company.
5 To elect Colin Davison as a Director of the Company.
6 To elect Chris Ward as a Director of the Company.
7 To elect Adrian Green as a Director of the Company.

As this is the Company's first annual general meeting, under Article 110 of the Company's articles of association each of the Directors other than Paul Wilson is required to retire by rotation. Each of those Directors offers himself for re-election. Having been appointed by the Directors on 11 March 2008, Paul Wilson is required to retire under article 116 of the Company's articles of association. Paul offers himself for re-appointment. Profiles for each of the Directors standing for election are set out on page 14.

8 To re-appoint Deloitte & Touche LLP as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
9 To authorise the Directors to set the remuneration of the Auditors of the Company.

The Company's Auditors must offer themselves for re-appointment at each annual general meeting at which accounts are presented. Accordingly, the board proposes the appointment of Deloitte & Touche LLP as the Company's Auditors. Resolution 9 authorises the Directors to agree the remuneration of Deloitte & Touche LLP for their services as Auditors.

Special business

To consider, and, if thought fit, to pass the following resolutions of which number 10 will be proposed as an ordinary resolution and numbers 11 to 13 will be proposed as special resolutions:

Ordinary resolution

10 That the Directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 and in accordance with Article 16 of the Company's articles of association, to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the said Act) up to an aggregate nominal amount of £327,464 (being 33% of the issued share capital (excluding treasury shares) of the Company as at 20 May 2008, the latest practicable date before publication of this notice) this authority to expire at the conclusion of the annual general meeting for 2009, save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any offer or agreement as if the authority conferred hereby had not expired This authority shall be in substitution for and shall replace any existing authority pursuant to the said section 80, to the extent not utilised at the date this resolution is passed.

Under the Companies Act 1985, the Directors may not allot unissued shares in the Company without the authority of shareholders in general meeting, except for the issue of shares under the Company's share or share option plans. The authority contained in resolution 10 would permit the Directors to issue securities up to an aggregate nominal amount of £327,464.

Special resolutions

11 That in accordance with Article 17 of the Company's articles of association, the Directors be and are hereby empowered pursuant to section 95(1) of the Companies 1985 (the "Act"):

(a) subject to the passing of resolution 10 above, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 10 above as if section 89(1) of the Act did not apply to any such allotment; and

Notice of annual general meeting

(b) to sell relevant shares (as defined in section 94(5) of the said Act) in the Company if, immediately before the sale such shares are held by the Company as treasury shares (as defined in section 162A(3) of the said Act) for cash (as defined in section 162D(2) of the said Act), as if section 89(1) of the said Act did not apply to any such sale,

provided that this power shall be limited to the allotment of equity securities and the sale of treasury shares:

(i) in connection with a rights issue or any other pre-emptive offer in favour of ordinary shareholders where or pursuant to the equity securities are proportionate (as nearly as practicable) to the respective number of ordinary shares held by such holders but subject to such exclusions or other arrangements as the Directors may deem necessary or desirable in relation to fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory, or the requirements of any regulatory body or stock exchange in any territory; and
(ii) otherwise than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £49,615,

and this power shall expire at the conclusion of the annual general meeting for 2009, save that the Company may before such expiry make an offer or enter into any agreement which would or might require equity securities to be allotted or treasury shares to be sold, after such expiry and the Directors may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred hereby had not expired. This authority shall be in substitution for and shall replace any existing power pursuant to section 95(1) of the Act to the extent not utilised at the date this resolution is passed.

Resolution 11 empowers the Directors to allot ordinary shares, otherwise than on a pro-rata basis to existing shareholders in connection with any future rights issue or grant rights over shares or sell treasury shares for cash, up to an aggregate nominal amount of £49,615 (being approximately 5% in value of the existing issued share capital at 20 May 2008, the latest practicable date before publication of this notice). It is not intended that the Company will allot in this way more than 7.5% of the unissued share capital in any rolling three-year period.

The authorities in resolutions 10 and 11 will last for a period of one year each, in accordance with institutional guidelines. The Directors have no present intention of exercising these authorities. It is normal for boards of listed companies to have these authorities in order to take advantage of market opportunities as they arise.

12 That the Company be and is hereby generally authorised pursuant to and in accordance with Article 9 of the Company's articles of association and section 166 of the Companies Act 1985 to make market purchases (within the meaning of section 163(3) of such Act) of any of its own ordinary shares on such terms and in such manner as the Directors may from time to time determine subject to the following:

(a) the maximum number of shares in the Company hereby authorised to be acquired is 9,923,137;
(b) the minimum price, exclusive of expenses, which may be paid for each such ordinary share is an amount equal to the nominal value of each share;
(c) the maximum price, exclusive of expenses, which may be paid for any share is an amount equal to 105% of the average of the middle market quotations for the shares in the Company taken from the AIM supplement of the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary share is contracted to be purchased,

Provided that the authority hereby conferred shall expire at the conclusion of the annual general meeting for 2009 but the Company may enter into a contract for the purchase of shares before the expiry of this authority which would or might be completed wholly or partly after its expiry.

Resolution 12 empowers the Company to purchase its own ordinary shares by market purchases not exceeding approximately 10% of the Company's issued share capital as at 20 May 2008. The maximum and minimum prices are stated in the resolution. The Directors believe that it is advantageous for the Company to have this flexibility to make market purchases of its own shares. In the event that shares are purchased, they would either be cancelled (and the number of shares in issue would be reduced accordingly) or retained as treasury shares with a view to possible re-sale at a future date. The Company would consider holding repurchased shares pursuant to the authority conferred by this resolution as treasury shares. This would give the Company the ability to re-issue treasury shares quickly and cost effectively and would provide the Company with additional flexibility in the management of its capital base. The authority given in the resolution will expire at the conclusion of the annual general meeting to be held in 2009.

13 That, with effect from the end of this annual general meeting, the articles of association set out in the document produced to the meeting (and signed by the Chairman of the meeting for the purpose of identification) be and are hereby approved and adopted as the articles of association of the Company in substitution for and to the exclusion of all existing articles of association of the Company.

The Company proposes to adopt new articles of association ("New Articles") to reflect certain provisions of the Companies Act 2006 which have come into force since November 2007. The main differences between the Company's current articles of association ("Old Articles") and the New Articles are set out below. A copy of the New Articles and a comparison between the Old Articles and the New Articles are available for inspection at the Company's registered office and will be available for inspection 15 minutes before the commencement of the annual general meeting.

Notice of annual general meeting

Under the Companies Act 2006, from 1 October 2008, a Director must avoid a situation where he has, or can have, a direct or indirect interest which conflicts or may conflict with the Company's interests. The Companies Act 2006 allows Directors of public companies to authorise conflicts and potential conflicts where the articles of association so permit. The New Articles contain provisions permitting the Directors to authorise conflicts and potential conflicts of interests. There are safeguards which would apply where the Directors authorise a conflict, such as, only Directors who have no interest in the matter being considered will be able to take the relevant decision and the Directors will be able to impose limits or conditions when giving the authorisation if they think this is appropriate.

The New Articles also contain provisions in line with ICSA's guidance in relation to the use of proxies at general meetings and in relation to the attendance at general meetings by corporate representatives.

By order of the board
Adrian Green
Group Company Secretary
20 May 2008

Registered office
Minories House, 2-5 Minories
London
EC3N 1BJ

Notice of annual general meeting

Notes

1 Transfer

If you have sold or transferred all of your shares, you should pass this documentation and the form of proxy to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

2 Appointment of proxies

A member entitled to attend and vote may appoint a proxy or proxies who need not be a member of the Company to attend and to vote instead of him or her. Forms of proxy must be returned so as to be received by the Company's registrars Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 7NH, not later than 11.00am on Tuesday, 24 June 2008 (being 48 hours before the time of the meeting). Appointing a proxy will not preclude a member attending and voting in person at the meeting.

3 Right to attend and vote

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast) a person must be entered on the register of holders of the ordinary shares of the Company by not later than 6pm on 24 June 2008 (being not more than two business days before the time fixed for the meeting). Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting and the number of shares on which they can vote.

4 Documents on display

Copies of the service agreements under which Directors of the Company are employed and copies of the letters of appointment of Non-Executive Directors, are available for inspection at all times at the Company's registered office during normal business hours from the date of this notice until the date of the annual general meeting, and will be available for inspection at the place of the annual general meeting for at least 15 minutes prior to and during the meeting.

5 Corporate Representatives

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives - www.icsa.org.uk - for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above. A letter in this form would be acceptable to the Company and its registrars.