



26 March 2009

Full Year Results for the year ended 31 December 2008

Abbey Protection plc (“Abbey Protection” or the “Group”), the specialist supplier of legal and professional fees insurance products and services to UK small-to-medium sized enterprises, today announces full year results for the year ended 31 December 2008.

Highlights

- 13% growth in pre-tax profits to £8.3m
- Revenue up 11% to £30.3m
- 13% increase in EBITDA¹ to £8.7m
- Improving claims ratio of 63.9% (2007: 69.7%)
- Cash and financial investment balances of £33.6m
- Shareholders’ funds up 32% to £19.4m
- Final dividend of 2.0p, making total dividend for the year of 3.5p per share
- First acquisition - Accountax in October 2008
- Outlook stable, with exciting development opportunities

Colin Davison, Chief Executive Officer, commented:

“Against a backdrop of challenging financial market conditions and volatility, Abbey Protection has had another solid year, emphasising the strength and non-cyclical nature of our business model. Growth across all areas of the Group, combined with the signing of a new long term contract with the Federation of Small Businesses (FSB) through to 2014, has seen us consolidate our position as the UK’s leading supplier of legal and professional fees insurance protection to SME businesses.”

Tony Shearer, Chairman, commented:

“Abbey Protection has again delivered strong growth in revenue and earnings, achieving impressive returns for shareholders. Of particular note this year was the acquisition of Accountax, the first the Group has made. The Board has recommended a final dividend of 2p, making a total distribution for 2008 of 3.5p.”

Financial Highlights

	Year ended 31 December 2008	Year ended 31 December 2007	Growth
Revenue	£30.3m	£27.3m	+10.9%
EBITDA	£8.7m	£7.7m	+13.0%
Profit before tax	£8.3m	£7.3m	+13.6%
Profit after tax	£6.0m	£5.3m	+13.2%
Claims ratio	63.9%	69.7%	-
Basic earnings per share	6.09p	5.86p	+3.9%

¹ Earnings before interest payable, taxation, depreciation and amortisation charges.

Chairman's Statement

Our accounts show a profit before tax of £8.3 million (2007: £7.3 million) and post tax profits of £6.0 million (2007: £5.3 million). These results are very satisfactory, particularly since 2008 has been such a volatile year for financial markets.

Our core operating divisions turned in strong performances and the excellent results of our insurance risk vehicle, Ibex, demonstrated again the non-cyclical nature of our insurance business. Our conservative investment philosophy bore fruit, not only in terms of capital preservation, but also better than expected investment income returns (although such levels of return are not expected in 2009).

As a result of the poor economic situation, many of our clients (and potential clients) have had a torrid time. We do not expect that 2009 will be any easier for them, and once the present 'crisis' and recession have ended (as they surely will at some point) we see difficult trading conditions continuing as inflation takes over.

Although not immune to the current pressures, we believe that our business is well placed, with demand for our services increasing as small and medium sized businesses appreciate the benefits of insuring their risks in areas such as tax investigations and legal disputes. As they come under increasing pressure to cut overheads, they will also see the value of the consulting services and specialist advice we offer in law, taxation and human resources. We do not see our business so much as countercyclical as non-cyclical.

We consider that our strong balance sheet means that we are also in a good position to take advantage of acquisitions as they become available. In October 2008, we purchased Accountax, a business that we had known and admired for some time. Although the impact of the acquisition on earnings in 2008 has been limited, we expect a positive and meaningful contribution to revenue and earnings for 2009. As the business becomes fully integrated into our Group, we anticipate a number of revenue synergies appearing.

I would also like to thank John Acornley, who left the Board in November last year, having joined us just before the successful float on AIM in November 2007, for all his efforts and support.

Colin Davison, Chris Ward and their management team are very knowledgeable about the sectors in which we operate. With our strong balance sheet, we are ready to take advantage of opportunities as they appear in 2009.

The Board looks to the coming year with enthusiasm.

Tony Shearer
Chairman
25 March 2009

Chief Executive's Statement

Introduction

In our first full year as a listed company, I am delighted to report that we have consolidated our position as the UK's leading supplier of legal and professional fees insurance protection to SME businesses.

Our revenue has increased 11% to £30.3m and we have produced record pre-tax profits of £8.3m – testimony yet again to the professionalism and dedication of our staff which has enabled us to consistently deliver a high quality service.

Of particular note this year was the acquisition of Accountax in October, the first acquisition the Group has made in over fifteen years of trading. I have been especially pleased with how smoothly they have been integrated into the Group and over the coming years we can look forward to some significant revenue opportunities through organic growth and through cross selling with our existing divisions.

Review of 2008

A highly encouraging year in which our core trading divisions Abbey Legal and Abbey Tax (ALP/ALS and ATP) consolidated their market leading positions – and our reinsurance vehicle, Ibex, posted excellent results.

With an eye to the future, I was also pleased with the growth of Abbey HR (AHR) and the development of new products in our After The Event (ATE) division.

2008 was an excellent year for Abbey Tax which saw revenue increase by 14% to £5.5m and profit contribution increase by over 16%. This growth is as a direct result of the investment that the division made in 2007 in strengthening its sales and consultancy teams. Indeed, consultancy income grew by 24% and the renewal premium from our accountancy insurance schemes was slightly over 100%; in addition, new insurance schemes business was strong and in line with our budget.

After strong growth in 2007, Abbey Legal had a year of consolidation, with revenue growing nearly 8% to over £8.6m despite the loss of some accounts through aggressive pricing competition; profit contribution held steady. Importantly, the division was able to secure the long term future of a number of its key accounts on long term (three to five years) arrangements and new business sales were at their highest levels for a number of years. The non-insurance related services again showed above average levels of growth.

Our reinsurance company, Ibex had a very good year with profits of £4.5m (2007: £3.7m) including record investment income returns of £1.4m (2007: £1.2m). The claims ratio of 63.9% (2007: 69.7%) reflected the non-cyclical nature of our business and our integrated approach to risk management and control.

In the After The Event division, revenue reduced in line with expectations as income from the run-off services contracted. The division, however, still produced a valuable contribution to Group profits. The re-launch of the Accident Line insurance product showed signs of reversing recent trends of declining sales and the launch of a new commercial ATE service has drawn an encouraging level of enquiries and early policy sales.

In its second full year of trading Abbey HR doubled its client bank despite facing aggressive pricing in the competitive business to business compliance consultancy market. The division has proven, however, that the direct business model works for its products and it has taken steps to increase lead generation in order to drive through the critical mass to make a profit contribution to the Group in 2009.

Finally, I was delighted that we were able to conclude the acquisition of Accountax in October 2008. Accountax's expertise in tax litigation strengthens the Group's tax consultancy platform and enhances the products and services we are able to provide to and through our large accountancy client base. In addition, Accountax's team of tele-marketers provides us with the basis for selling other Group services to intermediaries and directly to businesses.

Dividend

Subject to shareholder approval, a final dividend of 2.0p per share is proposed, which results in a full year dividend of 3.5p per share. This is our first full year of trading as a listed company and the proposed dividend is in line with the indications we gave when we went to market at IPO in November 2007.

The Board's approach is to maintain a sustainable and progressive dividend policy.

Current Trading and Outlook

2009 will be a challenging trading environment for all businesses and we will certainly not be immune.

All pointers show that the numbers of businesses will contract during 2009 and this must have an influence on our underlying revenues – as will lower interest rates, which will impact on our investment earnings.

Counter balancing this will be, arguably, an increased demand from existing and new clients for our products and services, notably in the fields of employment, HR, compliance and protection from the demands of the Revenue. In addition, the benefits of extending our reinsurance contract with Brit Insurance will start to flow through in a meaningful way for the first time in 2009.

In 2008 we conducted a strategic review of our business and we concluded that our historically strong organic growth and prudent approach has given us an ideal platform for development in these uncertain times. Our strong balance sheet, with no borrowings, and our annuity model gives us considerable financial security to enable us to move quickly if there are opportunities for further acquisitions.

We believe that any acquisition should be complementary to one or all of our existing divisions. Our strategic review has also revealed significant opportunities for cross selling within the Group and we have taken action to identify these. Indeed, it is pleasing to note that we have already driven cross selling opportunities out of the Accountax acquisition. We have found that, where clients are pleased with the existing services provided by the Group, they are very open to additional products being offered.

In addition to these goals we shall, of course, continue with the development of new services and products; for example, tax planning and commercial After The Event insurance, together with a capital allowances service have all proved successful in the last couple of years. In particular, over the next few years we will devote resources to focus on the significant opportunities offered by the Legal Services Act 2007.

I make no apologies for repeating our key strengths from last year's report – it is upon these sound principles which we have built our business and are the reasons why we can look forward to a challenging year with confidence.

Directors

My thanks are due to all my fellow Board directors for their input and guidance throughout the year, with a special acknowledgment to my colleagues on our trading Company Board.

Staff and shareholders

Finally, a special thank you to all our staff, whose hard work and loyalty have enabled us to achieve our goals over the past years; I am sure that these talented people will also help us achieve our strategic goals over the coming months in spite of what appears to be a time of general economic downturn. Thank you, also, to our investors for their support during the year.

Colin Davison
Chief Executive

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About Abbey Protection PLC

Abbey Protection plc is an integrated specialist insurance and consultancy group, and the UK's leading supplier of legal and professional fees insurance products and services to small-to-medium sized enterprises. The Group's principal products provide protection against costs incurred as a result of legal actions and HM Revenue & Customs investigations.

Founded in 1992, the Group operates from offices in London, Rugby, Croydon and Milton Keynes and had 220 employees as at 31st December 2008. Abbey Protection distributes its products and services through the following divisions: Abbey Legal Protection, Abbey Legal Services, Abbey Tax Protection, Abbey HR, Accountax and After The Event Services.

Visit the Abbey Protection website at www.abbeyprotectionplc.com for more information.

Analyst Presentation

There will be an analyst presentation to discuss the results at 9.30am today at Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB.

Those analysts wishing to attend are asked to contact Nick Henderson or Ed Berry at Financial Dynamics on +44 20 7269 7114 or at nick.henderson@fd.com / +44 020 7269 7297 or at edward.berry@fd.com.

Financial Review

As presented in note 5 to the financial statements, 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 relative to the prior year by £2.6m (2007: £2.2m) to £28.3m (2007: £25.7m) representing growth of 10.1% (2007: 9.3%).

Investment income at £1.9m (2007: £1.6m) was up 19% driven by increased cash and investment balances together with higher yields. The majority of the year was a depositor's market caused by the general financial turmoil now referred to as the "credit crunch" which manifested itself during the latter part of 2007 and which has continued through 2008.

However, this environment was partly offset by the rapid reduction in Bank of England base rates from 5% at the end of quarter three to 2% at the end of the year.

Expenses & Claims

Operating and administration expenses increased by 12.5% (2007: 12%) to £13.2m (2007: £11.7m). However, as noted in the Chief Executive's report, the Company was admitted to trading on AIM on 27 November 2007. Accordingly, 2008 reflects a full year of expenditure associated with this status (estimated at circa £390,000) whereas 2007 only included one month of comparable expenditure. Similarly, share scheme incentives charged in the year were £155,000 (2007: £8,000). Allowing for these items, the underlying increase in expenditure equated to circa 8.3% reflecting the increase in average headcount to 206 (2007: 196). Staff costs including associated expenses represent circa 74% (2007: 73%) 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 63.9% (2007: 69.74%) of net earned premiums. The underwriting business has seen rapid growth since the formation of Ibex Reinsurance 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

Whilst reported profits before taxation from insurance intermediation and consultancy were only marginally ahead of 2007 at £3.7m, allowing for the additional costs explained above, this was a satisfactory result. Reported profits from underwriting activities were again strongly ahead at £4.6m (2007: £3.7m). Across the Group, profit after taxation increased by 13% to £6.0m (2007: £5.3m).

Taxation

The effective rate of corporation tax was broadly consistent with prior year at 26.9% (2007: 27.4%). The profits arising in Ibex Reinsurance 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.

Cash flow

Net cash from operating activities was again strong at £7.1m (2007: £7.8m). After the payment of dividends and the acquisition of Accountax (see note 20 to the financial statements), cash and financial investment balances remained broadly level at £33.6m (2007: £33.9m).

Balance sheet

During the year, the Company has remained debt free (redeeming a loan held by Accountax on acquisition). Whilst debt funding remains an option, the Company has sufficient cash resources for its immediate needs.

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.

Regulatory solvency requirements

Details of the regulatory solvency requirements associated with the Group's activities are disclosed in note 39 to the financial statements. As at 31 December 2008 the Group had around six times the minimum required eligible assets available.

Treasury policy

The Company 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. During the year, the average duration of the investment portfolio was shortened in response to the perceived risks presented by the money markets.

A successful growth story

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

	2005	2006	2007	2008
Revenue	£21.787m	£24.568m	£27.349m	£30.251m
Profit before taxation	£6.530m	£6.716m	£7.339m	£8.267m
Profit after taxation	£4.556m	£4.887m	£5.327m	£6.040m
Incurred claims ratio	68.30%	67.90%	69.70%	63.92%
Cash & investments	£22.383m	£28.977m	£33.901m	£33.631m
Shareholders' funds	£7.165m	£12.001m	£14.661m	£19.368m

Despite the economic backdrop, the business remains 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

Consolidated income statement

For the year ended 31 December 2008

	Note	2008	2007
		£000	£000
Revenue			
Intermediary, advisory and other income	7	16,294	14,803
Gross premiums written	6	12,365	11,945
Outward reinsurance premiums	6	-	(321)
Net change in provision for unearned premiums	6	<u>(326)</u>	<u>(703)</u>
Net premiums earned	6	12,039	10,921
Net investment return	8	1,918	1,625
Total revenue		<u>30,251</u>	<u>27,349</u>
Expenses			
Claims and change in insurance liabilities	9	(7,695)	(7,617)
Acquisition costs	10	(1,111)	(683)
Other operating and administrative expenses	11	(13,178)	(11,710)
Total operating expenses		<u>(21,984)</u>	<u>(20,010)</u>
Profit before tax		<u>8,267</u>	<u>7,339</u>
Tax expense	14	(2,227)	(2,012)
Profit attributable to equity shareholders of the parent		<u>6,040</u>	<u>5,327</u>
Earnings per share			
From continuing operations		Pence per share	Pence per share
Basic	16	<u>6.09</u>	<u>5.86</u>
Diluted	16	<u>6.03</u>	<u>5.81</u>

There were no discontinued operations.

Consolidated statement of changes in equity

For the year ended 31 December 2008

	Note	2008 £000	2007 £000
Opening shareholders' equity		14,661	12,001
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	155	8
Preference dividend paid	32	-	15
Ordinary dividend paid	32	(1,488)	(6,250)
Purchase of own shares	32	-	(68)
Profit for the year		<u>6,040</u>	<u>5,327</u>
Closing shareholders' equity		<u>19,368</u>	<u>14,661</u>

Consolidated balance sheet

At 31 December 2008

	Notes	2008 £000	2007 £000
Assets			
Goodwill	17	5,138	1,028
Other intangible assets	18	2,076	190
Property, plant and equipment	19	1,699	574
Financial investments	22	8,212	17,961
Trade and other receivables	25	18,676	17,940
Cash and cash equivalents	26	25,419	15,940
Total assets		61,220	53,633
Liabilities			
Insurance contract provisions	23	16,960	16,334
Financial liabilities	27	1,100	-
Finance lease obligations	36	193	218
Deferred tax liabilities	24	2,466	1,710
Current tax liabilities		1,108	859
Accruals and deferred income	28	8,109	7,508
Trade and other payables	29	11,916	12,343
Total liabilities		41,852	38,972
Equity			
Share capital	30	1,000	1,000
Share premium	31	3,539	3,539
Own shares	30	(298)	(298)
Retained earnings	32	13,937	9,385
Merger reserves	32	282	282
Reverse takeover reserve	32	188	188
Capital redemption reserve	32	557	557
Equity settled share incentive reserve	32	163	8
Total shareholders' equity		19,368	14,661

The financial statements on pages 29 to 73 were approved by the Board of directors and authorised for issue on 25 March 2009. They were signed on its behalf by:

Colin Davison
Group Chief Executive

Chris Ward
Group Managing Director

Consolidated cash flow statement

For the year ended 31 December 2008

	Note	2008 £000	2007 £000
Profit before tax		8,267	7,339
Adjusted for:			
Interest receivable		(1,852)	(1,594)
Profit on sale of assets		(21)	(8)
Amortisation of intangible assets	18	137	80
Depreciation of property, plant and equipment	19	272	235
Equity settled share based payments		155	8
(Increase)/decrease in work in progress		(42)	97
Increase in receivables		(324)	(3,206)
Increase in payables		496	4,640
Cash generated by operations		<u>7,088</u>	<u>7,591</u>
Interest received		1,932	1,435
Tax paid		<u>(1,890)</u>	<u>(1,206)</u>
Net cash from operating activities		<u>7,130</u>	<u>7,820</u>
Investing activities			
Sales/(purchases) of financial investments		9,749	(2,875)
Purchases of intangible assets	18	(40)	(75)
Purchases of property, plant and equipment	19	(201)	(146)
Acquisition of subsidiary	20	<u>(4,521)</u>	<u>-</u>
Net cash from/(used in) investing activities		<u>4,987</u>	<u>(3,096)</u>
Financing activities			
Preference dividend paid		-	15
Equity dividend paid	15	(1,488)	(6,250)
Bank Loan repayment		(1,150)	-
Redemption of share capital	30	-	(52)
Issue of share capital	30&31	-	3,680
Purchase of own shares	30	-	(1,068)
Sale of own shares	30	-	1,000
Net cash used in financing activities		<u>(2,638)</u>	<u>(2,675)</u>
Net increase in cash and cash equivalents		9,479	2,049
Cash and cash equivalents at beginning of the period		<u>15,940</u>	<u>13,891</u>
Cash and cash equivalents at the end of the period		<u>25,419</u>	<u>15,940</u>

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 admitted to trading on AIM.

In order to appropriately reflect the substance of the transaction outlined above, the new holding company was accounted for using the reverse acquisition principles outlined in IFRS3 business combinations. Consequently, Abbey Protection Group Limited was deemed to be the acquirer for accounting purposes and the legal parent, Abbey Protection plc was treated as the subsidiary 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 represented 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 consolidated balance sheet at 31 December 2007 reflected the issued share capital and reserves of Abbey Protection plc. 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). The Group's consolidated financial information for the period 1 April 2004 to 30 June 2007 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.

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.

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). Other accounting developments are discussed in accounting policies note t.

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

(i) Basis of consolidation

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 consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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 effective date of acquisition or up to the date of

Notes to the financial statements

2 Significant accounting policies (continued)

(b) Basis of preparation (continued)

disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All inter-Group transactions, balances, income and expenses are eliminated on consolidation.

(ii) Parent Company

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 for the acquisition of Abbey Protection Group Limited by Abbey Protection plc. Accordingly, the initial investment in subsidiary undertakings has been recorded at the nominal value of the shares issued to acquire the subsidiary.

(iii) Use of estimates

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.

(iv) Going concern

The financial statements are prepared on the going concern basis as explained with the Directors' Report on page 18.

(v) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit and loss.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

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

Notes to the financial statements

2 Significant accounting policies (continued)

(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 scheme which are recognised over the subscription year;
- fees and commissions for the provision of tele-marketing services which are recognised when earned; and
- 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.

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.

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

Notes to the financial statements

2 Significant accounting policies (continued)

(c) Recognition and measurement of revenue (continued)

Intermediary, advisory and other income (continued)

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 2007 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 I). 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)

(c) 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 substantially 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.

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
Brands	Over 15 years
Customer relationships	Over 5 to 7 years

There are no internally generated intangible assets.

Notes to the financial statements

2 Significant accounting policies (continued)

(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.

(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:

Freehold property	Over 50 years
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 income. The residual value, if not insignificant, is reassessed annually.

(l) Deferred acquisition costs

Acquisition costs comprise the reinsurance commission arising from entering into reinsurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the unearned premiums provision and are disclosed within trade and other receivables. Acquisition costs are not deferred to the extent that available future margins are not expected to cover such deferred costs.

(m) Financial investments

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.

Notes to the financial statements

2 Significant accounting policies (continued)

(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 bank overdrafts and other payables including deferred purchase consideration. Financial liabilities are recognised on the balance sheet when the AP Group becomes a party to the contractual provisions of the financial instrument.

Management has determined that the carrying amounts of financial liabilities reasonably approximate their fair values because these liabilities are 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.

(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 declared.

(t) Accounting developments

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

Reclassification of Financial Assets (Amendments to IAS 39 and IFRS 7), issued in October 2008
IAS 27 (Amended) Cost of an Investment in a Subsidiary, Jointly Controlled Entity, or associate
IFRS 2 (Amended) Share based payment - Vesting conditions and Cancellations
IFRS 3 (Revised 2008) Business Combinations
IFRS 8 Operating Segments
IAS 1 (Revised 2007) Presentation of Financial Statements
IAS 23 (Revised 2007) Borrowing Costs
IAS 27 (Revised 2008) Consolidated and Separate Financial Statements
IAS 32/IAS 1 (Amended) Puttable Financial Instruments and obligations arising on Liquidation
IFRIC 12 Service Concession Arrangements
IFRIC 13 Customer Loyalty Program
IFRIC 15 Agreements for Construction of Real Estate
IFRIC 16 Hedges of a Net Investment in a Foreign Operation Improvements to IFRS (May 2008)
Improvements to International Financial Reporting Standards (May 2008)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS 8 comes into

Notes to the financial statements

2 Significant accounting policies (continued)

(t) Accounting developments (continued)

effect for periods commencing on or after 1 January 2009.

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.

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 (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

Notes to the financial statements

4 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

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, 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 AP 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 2007 and decided to commute the policy on 31 December 2007.

(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.

Notes to the financial statements

4 Risk management (continued)

Objectives and policies for mitigating business risk (continued)

(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 AP 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 and capital is 4 preserved. 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 AP Group is also exposed to the risk of changes in future cash flows from cash and 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:

	2008	2007
Financial investments	5.40%	6.12%
Cash and cash equivalents	3.40%	5.86%

If interest rates were to change by 1%, the expected change in investment income would be £336,000 (2007: £339,000)

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 AP Group, which comprise cash and cash equivalents and other receivables, the AP 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 AP 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 operating expenses and 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 financial liabilities and finance lease obligations are set out in notes 27 and 36 respectively.

(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 should become 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 AP 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						Total £000
	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	
At end of underwriting year	2,956	3,236	3,101	3,539	3,650	4,155	20,637
- one year later	4,689	4,922	5,969	6,784	7,045	-	29,409
- two years later	259	815	948	871	-	-	2,893
- three years later	(7)	3	3	-	-	-	(1)
- four years later	-	(35)	-	-	-	-	(35)
- five years later	-	-	-	-	-	-	-
	<u>7,897</u>	<u>8,941</u>	<u>10,021</u>	<u>11,194</u>	<u>10,695</u>	<u>4,155</u>	<u>52,903</u>

Estimate of cumulative claims

	Underwriting year						Total £000
	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	
At end of underwriting year	2,582	2,823	2,636	3,014	3,103	3,535	17,693
- one year later	3,534	3,418	3,947	4,485	4,651	-	20,035
- two years later	(860)	(94)	302	187	-	-	(465)
- three years later	(123)	(44)	(557)	-	-	-	(724)
- four years later	(229)	(113)	-	-	-	-	(342)
- five years later	(8)	-	-	-	-	-	(8)
Estimate of cumulative claims	4,896	5,990	6,328	7,686	7,754	3,535	36,189
Cumulative payments to date	<u>(4,777)</u>	<u>(5,624)</u>	<u>(5,346)</u>	<u>(5,521)</u>	<u>(4,272)</u>	<u>(546)</u>	<u>(26,086)</u>
Gross & net outstanding claims liabilities	<u>119</u>	<u>366</u>	<u>982</u>	<u>2,165</u>	<u>3,482</u>	<u>2,989</u>	<u>10,103</u>

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

Gross earned premiums less claims costs

	Underwriting year						Total £000
	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	
At end of underwriting year	374	413	465	525	547	620	2,944
- one year later	1,155	1,504	2,022	2,299	2,394	-	9,374
- two years later	1,119	909	646	684	-	-	3,358
- three years later	116	47	560	-	-	-	723
- four years later	229	78	-	-	-	-	307
- five years later	8	-	-	-	-	-	8
	<u>2,991</u>	<u>3,951</u>	<u>3,693</u>	<u>3,508</u>	<u>3,341</u>	<u>620</u>	<u>14,714</u>

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 2008	Insurance Underwriting £000	Intermediary, Advisory and Other £000	Total £000
Revenue			
Intermediary, advisory and other income	-	16,294	16,294
Gross premiums written	12,365	-	12,365
Outward reinsurance premiums	-	-	-
Net change in provisions for unearned premiums	(326)	-	(326)
Net earned premiums	12,039	-	12,039
Net investment return	1,434	484	1,918
Total revenue	<u>13,473</u>	<u>16,778</u>	<u>30,251</u>
Expenses			
Claims and change in insurance liabilities	(7,695)	-	(7,695)
Acquisition costs	(1,111)	-	(1,111)
Other operating and administrative expenses	(108)	(13,070)	(13,178)
Total operating expenses	<u>(8,914)</u>	<u>(13,070)</u>	<u>(21,984)</u>
Profit before tax	<u>4,559</u>	<u>3,708</u>	<u>8,267</u>
Tax expense	(1,149)	(1,078)	(2,227)
Profit attributable to equity holders of the parent	<u>3,410</u>	<u>2,630</u>	<u>6,040</u>
Segments assets			
Goodwill	-	5,138	5,138
Other intangible assets	-	2,076	2,076
Property, plant and equipment	-	1,699	1,699
Financial investments	8,212	-	8,212
Trade and other receivables	4,931	13,745	18,676
Cash and cash equivalents	17,057	8,362	25,419
Total assets	<u>30,200</u>	<u>31,020</u>	<u>61,220</u>

Notes to the financial statements

5 Segment information (continued)

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

Year ended 31 December 2008	Insurance Underwriting £000	Intermediary, Advisory and Other £000	Total £000
Segments liabilities			
Insurance contract provisions	16,960	-	16,960
Financial liabilities	-	1,100	1,100
Financial lease obligations	-	193	193
Deferred tax liabilities	2,060	406	2,466
Current tax liabilities	-	1,108	1,108
Accruals and deferred income	12	8,097	8,109
Other liabilities	351	11,565	11,916
Total liabilities	19,383	22,469	41,852

Fixed asset additions, depreciation and amortisation charges relate to Intermediary, Advisory and Other operations and are disclosed in notes 18 and 19.

Notes to the financial statements

5 Segment information (continued)

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

Year ended 31 December 2007	Insurance Underwriting £000	Intermediary, Advisory and Other £000	Total £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	<u>12,104</u>	<u>15,245</u>	<u>27,349</u>
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	<u>(8,402)</u>	<u>(11,608)</u>	<u>(20,010)</u>
Profit before tax	<u>3,702</u>	<u>3,637</u>	<u>7,339</u>
Tax expense	(1,000)	(1,012)	(2,012)
Profit attributable to equity holders of the parent	<u>2,702</u>	<u>2,625</u>	<u>5,327</u>
Segments assets			
Goodwill	-	1,028	1,028
Other intangible assets	-	190	190
Property, plant and equipment	-	574	574
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	<u>28,082</u>	<u>25,551</u>	<u>53,633</u>

Notes to the financial statements

5 Segment information (continued)

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

Year ended 31 December 2007	Insurance Underwriting £000	Intermediary, Advisory and Other £000	Total £000
Segments liabilities			
Insurance contract provisions	16,334	-	16,334
Financial liabilities	-	-	0
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

Fixed asset additions, depreciation and amortisation charges relate to Intermediary, Advisory and Other operations and are disclosed in notes 18 and 19.

(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

	2008 £000	2007 £000
Gross premiums written	12,365	11,945
Outward reinsurance premiums	-	(321)
Net premiums written	12,365	11,624
Change in the gross provision for unearned premiums	(326)	(560)
Change in the provision for unearned premiums, reinsurers' share	-	(143)
Change in the net provision for unearned premiums	(326)	(703)
Earned premiums, net of reinsurance	12,039	10,921

7 Intermediary, Advisory and Other income

	2008 £000	2007 £000
Income from intermediation	7,706	7,158
Advisory fees	3,968	3,820
Other income	4,620	3,825
Total intermediary, advisory and other income	16,294	14,803

Other income comprises consultancy, claims handling and management services.

8 Net investment return

	2008 £000	2007 £000
Investment at fair value through Income statement:		
- certificates of deposit	1,310	1,092
Other investments:		
-cash and cash equivalents income	542	502
Investment income	1,852	1,594
Net gains on investments at fair value through the income statement	66	31
Net investment return	1,918	1,625

9 Claims and change in insurance liabilities

	2008 £000	2007 £000
Gross claims paid	(7,395)	(5,795)
Gross change in the provision for claims	(300)	(1,822)
Claims and change in insurance liabilities	(7,695)	(7,617)

A whole account stop loss reinsurance policy was in force until 31 December 2007 when it was commuted. No claims have been made under the policy.

Notes to the financial statements

10 Acquisition costs

	2008 £000	2007 £000
Commission payable	(1,131)	(717)
Changes in deferred acquisition costs	<u>20</u>	<u>34</u>
Total acquisition costs	<u>(1,111)</u>	<u>(683)</u>

11 Profit before tax

	2008 £000	2007 £000
Other operating and administrative expenses and operating profit have been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	272	235
Amortisation of intangible assets	137	80
Personnel expenses		
- wages and salaries	7,564	6,939
- social security costs	865	749
- pension costs	285	256
Operating lease rentals	477	464
Auditors' remuneration:		
- fees for statutory audit services	20	17
- fees for auditing accounts of subsidiaries pursuant to legislation	80	80
- other services pursuant to legislation	-	25
- tax services	-	5
Share based payment charges	155	8
Profit on sale of property, plant and equipment	(21)	(8)

Deloitte LLP (formerly 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 £nil (2007: £365,000 exclusive of VAT) 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:

	2008	2007
	No.	No.
Central	16	16
Tax protection & consultancy	56	48
Abbey HR	7	6
Abbey legal protection	26	26
ATE services	18	21
Legal services centre	83	79
	<u>206</u>	<u>196</u>

	2008	2007
	£000	£000
Their aggregate remuneration comprised:		
Wages and salaries	7,564	6,939
Social security costs	865	749
Pension costs - defined contribution plans	285	256
	<u>8,714</u>	<u>7,944</u>

13 Directors' remuneration

	2008	2007
	£000	£000
Directors' emoluments	657	101
Post-employment benefits - defined contribution plans	27	4
Compensation for loss of office	9	-
	<u>693</u>	<u>105</u>

Three Directors (2007: three Directors) are members of defined contribution plans.

Highest paid director		
-emoluments	198	30
-post employment benefit - defined contribution plans	9	2
	<u>207</u>	<u>32</u>

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. Directors' emoluments for the comparative period represent emoluments for the period 1 November 2007 to 31 December 2007.

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

Notes to the financial statements

14 Tax expense

Recognised in the income statement

	2008 £000	2007 £000
Current tax expense		
Current year – operations	2,098	1,740
Adjustments for prior years	<u>(61)</u>	<u>(5)</u>
	<u>2,037</u>	<u>1,735</u>
Deferred tax expense		
Origination and reversal of temporary differences	<u>190</u>	<u>277</u>
Total tax expense	<u>2,227</u>	<u>2,012</u>

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:

	2008 £000	2007 £000
Profit before tax	<u>8,267</u>	<u>7,339</u>
Income tax calculated at the UK standard rate of tax of 28.5% (2007: 30%)	2,356	2,202
Factors affecting charge for the year:		
Non deductible expenses and provisions	65	48
Income taxable on remittance to the UK	(130)	(111)
Adjustments to tax in respect of prior periods	(61)	(5)
Changes in the rate of corporation tax	<u>(3)</u>	<u>(122)</u>
Total tax expense	<u>2,227</u>	<u>2,012</u>

Reconciliation of deferred tax balances

	2008 £000	2007 £000
Balance brought forward	(1,710)	(1,433)
Transferred on acquisition	(11)	-
Deferred tax on purchase of other tangible assets	(555)	-
Transfer to profit & loss account	<u>(190)</u>	<u>(277)</u>
Balance carried forward	<u>(2,466)</u>	<u>(1,710)</u>

Notes to the financial statements

15 Dividends

	2008 £000	2007 £000
Amounts recognised as distributions to equity holders in the period:		
Dividends on ordinary shares	1,488	6,250
Fixed cumulative 6% irredeemable preference share dividend	-	(15)
Net appropriation for the year	<u>1,488</u>	<u>6,235</u>

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.

On 29 October 2008 a dividend of £1,488,000 (net of £12,000 receivable by a group ESOP trust) was paid representing 1.5 pence per Abbey Protection plc share.

A final dividend for the year ended 31 December 2008 of £2,000,000 representing 2.0 pence per share is proposed. This proposed dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

16 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:

	2008 £000	2007 £000
Profit attributable to equity holders of the parent	6,040	5,327
Effect of dilutive potential ordinary shares	-	-
Earnings for the purposes of diluted earnings per share	<u>6,040</u>	<u>5,327</u>
	2008 No. of shares	2007 No. of shares
Weighted average number of ordinary shares in issue	99,231,375	90,937,477
Effect of dilutive potential ordinary shares (share options)	894,278	674,317
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>100,125,653</u>	<u>91,611,794</u>

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.

Notes to the financial statements

17 Goodwill

	2008 £000	2007 £000
Cost		
At beginning of the year	1,028	1,028
Acquisitions	<u>4,110</u>	<u>-</u>
At the end of the year	<u>5,138</u>	<u>1,028</u>

The AP 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.

18 Other intangible assets

	Computer software	Brands	Customer relationships	Total
	2008 £000	2008 £000	2008 £000	2008 £000
Cost				
At 1 January 2008	498	-	-	498
Transfer on acquisition of subsidiary	-	384	1,599	1,983
Acquisitions	40	-	-	40
Disposals	-	-	-	-
At 31 December 2008	<u>538</u>	<u>384</u>	<u>1,599</u>	<u>2,521</u>
Amortisation				
At 1 January 2008	308	-	-	308
Charge for the year	87	4	46	137
Disposals	-	-	-	-
At 31 December 2008	<u>395</u>	<u>4</u>	<u>46</u>	<u>445</u>
Net book value at 31 December 2008	<u>143</u>	<u>380</u>	<u>1,553</u>	<u>2,076</u>
	2007 £000	2007 £000	2007 £000	2007 £000
Cost				
At 1 January 2007	454	-	-	454
Acquisitions	75	-	-	75
Disposals	<u>(31)</u>	<u>-</u>	<u>-</u>	<u>(31)</u>
At 31 December 2007	<u>498</u>	<u>-</u>	<u>-</u>	<u>498</u>
Amortisation				
At 1 January 2007	259	-	-	259
Charge for the year	80	-	-	80
Disposals	<u>(31)</u>	<u>-</u>	<u>-</u>	<u>(31)</u>
At 31 December 2007	<u>308</u>	<u>-</u>	<u>-</u>	<u>308</u>
Net book value at 31 December 2007	<u>190</u>	<u>-</u>	<u>-</u>	<u>190</u>

Notes to the financial statements

19 Property, plant and equipment

	Freehold Land £000	Freehold property £000	Leasehold property £000	Equipment and motor vehicles £000	IT equipment £000	Total £000
Cost						
At 1 January 2008	-	-	99	827	326	1,252
Transfer on acquisition of subsidiary	335	750	15	63	55	1,218
Acquisitions	-	-	-	75	126	201
Disposals	-	-	-	(86)	(4)	(90)
At 31 December 2008	<u>335</u>	<u>750</u>	<u>114</u>	<u>879</u>	<u>503</u>	<u>2,581</u>
Depreciation						
At 1 January 2008	-	-	44	418	216	678
Charge for the year	-	4	1	179	88	272
Disposals	-	-	-	(65)	(3)	(68)
At 31 December 2008	<u>-</u>	<u>4</u>	<u>45</u>	<u>532</u>	<u>301</u>	<u>882</u>
Net book value at 31 December 2008	<u>335</u>	<u>746</u>	<u>69</u>	<u>347</u>	<u>202</u>	<u>1,699</u>
	Freehold Land £000	Freehold property £000	Leasehold property £000	Equipment and motor vehicles £000	IT equipment £000	Total £000
Cost						
At 1 January 2007	-	-	90	896	290	1,276
Acquisitions	-	-	9	77	60	146
Disposals	-	-	-	(146)	(24)	(170)
At 31 December 2007	<u>-</u>	<u>-</u>	<u>99</u>	<u>827</u>	<u>326</u>	<u>1,252</u>
Depreciation						
At 1 January 2007	-	-	31	394	180	605
Charge for the year	-	-	13	162	60	235
Disposals	-	-	-	(138)	(24)	(162)
At 31 December 2007	<u>-</u>	<u>-</u>	<u>44</u>	<u>418</u>	<u>216</u>	<u>678</u>
Net book value at 31 December 2007	<u>-</u>	<u>-</u>	<u>55</u>	<u>409</u>	<u>110</u>	<u>574</u>

Included within net book value of motor vehicles is £173,000 (2007: £188,000) in respect of assets held under finance leases.

Notes to the financial statements

20 Acquisition of subsidiary

On 21 October 2008, the group acquired 100 percent of the issued share capital of Accountax Consulting Limited and Accountax Law limited for cash consideration of £5.9 million. Accountax Consulting Limited is the parent company of a group of companies involved in the provision of taxation consultancy services and tele-marketing. The transaction has been accounted for by the purchase method of accounting.

	Book Value £000	Fair Value £000
Net assets acquired		
Other Intangible assets	-	1,983
Property, plant and equipment	1,218	1,218
Work in progress	153	153
Trade and other receivables	296	296
Cash and cash equivalents	283	283
Trade and other payables	(321)	(321)
Current tax liabilities	(101)	(101)
Bank loans & overdrafts	(1,150)	(1,150)
Deferred tax	(12)	(567)
	<hr/>	
	366	
	<hr/>	
Goodwill		4,110
		<hr/>
Total consideration		5,904
		<hr/>
Satisfied by:		
Cash		4,723
Directly attributable costs		81
		<hr/>
		4,804
Deferred consideration		1,100
		<hr/>
		5,904
		<hr/>
Net cash outflow arising on acquisition		
Cash consideration		4,804
Cash and cash equivalents acquired		(283)
		<hr/>
		4,521
		<hr/>

The goodwill arising on the acquisition of Accountax Consulting Limited is attributable to the anticipated profitability of the group's products in the new markets and the anticipated future operating synergies from the combination.

Given the proximity of the transaction to the group's year end and the seasonal nature of the acquiree's revenues, the contribution to group profits between the date of acquisition and the balance sheet date was not material.

If the acquisition of Accountax Consulting Limited had been completed on the first day of the financial year, group revenues would have been £32.3m and pre-tax group profit attributable to equity holders of the parent would have been £8.3m.

Notes to the financial statements

21 Group companies

The consolidated financial statements present the financial records of the AP Group for the years ended 31 December 2008 and 31 December 2007. A list of all investments in AP 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
Accountax Consulting Limited	Great Britain	Tax consultancy	100%	100% Consolidation
Accountax UK Limited	Great Britain	Tele-marketing	100%	100% Consolidation
Accountax Law Limited	Great Britain	Dormant	100%	100% Consolidation

On 21 October 2008, AP plc subscribed for 300,000,000 ordinary 1 pence shares in Abbey Protection Group Limited at par.

The AP Group has not suffered any impairment in the value of its investments in its subsidiaries. Following a group restructuring exercise in 2004, Abbey Legal Holdings Limited, Abbey Legal Protection Limited and Abbey Tax Protection Limited have remained dormant. Accountax Law Limited and Accountax Consulting Limited together with its subsidiary, Accountax UK Limited were acquired by Abbey Protection Group limited on 21 October 2008. The business and assets of Accountax Consulting Limited and Accountax UK Limited were hived up to Abbey Protection Group Limited on acquisition.

22 Financial investments

Financial investments at fair value through profit and loss

	2008 £000	2007 £000
Certificates of deposit	<u>8,212</u>	<u>17,961</u>

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

Notes to the financial statements

23 Insurance contract provisions and reinsurance assets

(i) Insurance contract provisions

	2008			2007		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Unearned premiums	6,857	-	6,857	6,531	-	6,531
Claims reported by policyholders	5,776	-	5,776	6,395	-	6,395
Claims incurred but not reported	<u>4,327</u>	<u>-</u>	<u>4,327</u>	<u>3,408</u>	<u>-</u>	<u>3,408</u>
Total insurance contract provisions	<u>16,960</u>	<u>-</u>	<u>16,960</u>	<u>16,334</u>	<u>-</u>	<u>16,334</u>
Expected to be settled within 12 months of the balance sheet date	12,709	-	12,709	13,131	-	13,131
Expected to be settled more than 12 months after the balance sheet date	<u>4,251</u>	<u>-</u>	<u>4,251</u>	<u>3,203</u>	<u>-</u>	<u>3,203</u>
	<u>16,960</u>	<u>-</u>	<u>16,960</u>	<u>16,334</u>	<u>-</u>	<u>16,334</u>

(ii) Analysis of movements in insurance provisions

	2008			2007		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance at the beginning of the period	16,334	-	16,334	13,952	(143)	13,809
Claims paid	(7,395)	-	(7,395)	(5,795)	-	(5,795)
Movement in claims incurred but not reported	919	-	919	878	-	878
Claims reported in the period	6,776	-	6,776	6,739	-	6,739
Change in provision for unearned premiums	<u>326</u>	<u>-</u>	<u>326</u>	<u>560</u>	<u>143</u>	<u>703</u>
Balance at the end of the period	<u>16,960</u>	<u>-</u>	<u>16,960</u>	<u>16,334</u>	<u>-</u>	<u>16,334</u>

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

	2008 £000	2007 £000
Balance at the beginning of the period	6,531	5,971
Premiums written during the period	12,365	11,945
Less: premiums earned during the year	<u>(12,039)</u>	<u>(11,385)</u>
Balance at the end of the period	<u>6,857</u>	<u>6,531</u>

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

	2008 £000	2007 £000
Balance at the beginning of the period	9,803	7,981
Cash paid for claims settled in the year	(7,395)	(5,795)
Change in liabilities:		
- arising from current year claims	2,989	2,680
- arising from prior year claims	<u>4,706</u>	<u>4,937</u>
Balance at the end of the period	<u>10,103</u>	<u>9,803</u>

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 claim 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; and
- 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.

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 ratios assumed for the underwriting years 2006 and 2007 are 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.

Notes to the financial statements

23 Insurance contract provisions and reinsurance assets (continued)

(v) Assumptions and sensitivities (continued)

The impact of a 1% change in the loss ratio across all underwriting years (2003 to 2008) would equate to a £529,000 pre-tax change in the reported income.

24 Deferred tax

Recognised deferred tax

Deferred tax balances are attributable to the following:

	2008 £000	2007 £000
Other intangible assets	(541)	-
Property, plant and equipment	38	12
Income taxable on remittance to the UK	(2,060)	(1,727)
Transfers to equity settled share incentive reserve	46	
Other timing differences	51	5
Total deferred tax	(2,466)	(1,710)

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

	2008 £000	2007 £000
Deferred tax liabilities	(2,601)	(1,727)
Deferred tax assets	135	17
	(2,466)	(1,710)

There are no unrecognised deferred tax assets or liabilities.

25 Trade and other receivables

	2008 £000	2007 £000
Receivables arising from insurance and reinsurance contracts:		
- premiums due from insurers	4,226	3,997
- trade debtors	11,731	10,342
Other receivables:		
- other prepayments and accrued income	997	1,041
- amounts due from related parties	924	985
- other debtors	798	1,575
Total insurance and other receivables	18,676	17,940
Due within one year	18,676	17,940

Notes to the financial statements

26 Cash and cash equivalents

	2008 £000	2007 £000
Cash at bank and in hand	<u>25,419</u>	<u>15,940</u>
Cash and cash equivalents	<u>25,419</u>	<u>15,940</u>
The effective interest rate on short term bank deposits was:	5.76%	5.29%

Included in cash and cash equivalents held by the AP Group as at each period end are balances totalling £2.1m not available for use by the AP Group. Of this amount, £1m is held in trust to guarantee claims liabilities and £1.1m is held in escrow to guarantee deferred acquisition consideration.

27 Financial liabilities

	2008 £000	2007 £000
Expected to be settled more than 12 months after the balance sheet date		
Deferred purchase consideration	<u>1,100</u>	<u>-</u>
Total financial liabilities	<u>1,100</u>	<u>-</u>

Deferred purchase consideration is expected to be settled by 31March 2010

28 Accruals and deferred income

	2008 £000	2007 £000
Accruals	1,507	1,138
Deferred income	<u>6,602</u>	<u>6,370</u>
Total accruals and deferred income	<u>8,109</u>	<u>7,508</u>

29 Trade and other payables

	2008 £000	2007 £000
Other trade payables	11,123	11,751
Other taxes and social security	564	419
Other payables	<u>229</u>	<u>173</u>
Total trade and other payables	<u>11,916</u>	<u>12,343</u>

Trade and other payables 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

	2008		2007	
	Number of shares	Nominal value £000	Number of shares	Nominal value £000
Ordinary shares of 1p each	150,000,000	1,500	150,000,000	1,500
	<u>150,000,000</u>	<u>1,500</u>	<u>150,000,000</u>	<u>1,500</u>

b) Issued share capital

Allotted, called up and fully paid

	2008		2007	
	Number of shares	Nominal value £000	Number of shares	Nominal value £000
Ordinary shares of 1p each	99,994,773	1,000	99,994,773	1,000
	<u>99,994,773</u>	<u>1,000</u>	<u>99,994,773</u>	<u>1,000</u>

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:

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.

d) Treasury shares

On 10 April 2007, the Group purchased 3,005 ordinary "A" shares in Abbey Protection Group Limited via an 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 in Abbey Protection Group Limited held by the group via the ESOP trust were converted into 413 ordinary "C" shares of £610 each.

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

Notes to the financial statements

31 Share premium

	Group	
	2008	2007
	£000	£000
At the beginning of the period	3,539	224
Premium on shares issued	-	3,539
Transfer to reverse takeover reserve	-	(224)
At the end of the period	<u>3,539</u>	<u>3,539</u>

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 2007	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	-	-	-	-	(1,068)	-	(1,068)
Sale of own shares	-	-	-	-	1,000	-	1,000
Profit for the year	-	-	-	-	-	5,327	5,327
Balance at 31 December 2007	<u>282</u>	<u>8</u>	<u>557</u>	<u>188</u>	<u>(298)</u>	<u>9,385</u>	<u>10,122</u>
Equity settled share incentive reserve	-	155	-	-	-	-	155
Ordinary dividend paid	-	-	-	-	-	(1,488)	(1,488)
Profit for the year	-	-	-	-	-	6,040	6,040
Balance at 31 December 2008	<u>282</u>	<u>163</u>	<u>557</u>	<u>188</u>	<u>(298)</u>	<u>13,937</u>	<u>14,829</u>

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.

Notes to the financial statements

33 Share option schemes (continued)

b) The Abbey Protection plc 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 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.

Performance conditions vary and where appropriate include individualised targets. Generally, 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 per cent for 100% of options to vest with a pro-rata scale operated between 3 per cent out performance and 6 per cent 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

Options granted

During the year ended 31 December 2008, the following options were granted or were outstanding at the balance sheet date:

	SAYE	SAYE	CSOP	CSOP	LTIP	LTIP
Date of grant	20/12/2007	24/07/2008	29/11/2007	27/06/2008	29/11/2007	27/06/2008
Number of options granted	980,039	76,454	381,815	30,000	363,636	150,000
Exercise price	£0.44	£0.536	£0.55	£0.67	£0.00	£0.00
Share price at date of grant	£0.61	£0.67	£0.55	£0.67	£0.55	£0.67
Contractual life (years)	3.5	3.5	10	10	10	10
Vesting conditions:	Three Years service	Three Years service	Three Years service	Three Years service	Three Years service	Three Years service
	Savings requirement	Savings requirement	-	-	Growth in earnings per share	Growth in earnings per share and performance conditions
Vesting Date	01/01/2011	01/09/2011	30/11/2010	30/06/2011	01/01/2011	30/06/2011
Settlement	Shares	Shares	Shares	Shares	Shares	Shares
Expected volatility	35%	35%	35%	35%	35%	35%
Expected option life at date of grant	Three Years	Three Years	Three Years	Three Years	Three Years	Three Years
Risk free interest rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Expected dividend yield	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Expected annual departures	5.00%	5.00%	5.00%	0.00%	0.00%	0.00%
Probability of meeting performance criteria at date of grant	100%	100%	100%	100%	100%	75%
Fair value per option at date of grant	£0.20	£0.197	£0.20	£0.20	£0.52	£0.58
Valuation model	Binomial	Binomial	Binomial	Binomial	Binomial	Binomial
Total fair value	£168,052	£12,887	£65,799	£6,120	£190,182	£64,913

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:

	2008	2007
	£000	£000
Less than one year	462	461
Between one and five years	1,371	1,732
More than five years	89	89
Total	<u>1,922</u>	<u>2,282</u>

The AP 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.

Notes to the financial statements

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 AP Group has a related party relationship with its key management personnel who are also shareholders of the AP Group.

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 23 to 25.

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 £420,779 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 charges fees paid by the Group for the property are £75,700 (excluding VAT) and £3,916 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.

36 Finance lease obligations

	2008 £000	2007 £000
Minimum lease obligations payable:		
Within 1 year	119	120
Within 2 to 5 years	91	119
	<u>210</u>	<u>239</u>
Less future finance charges	(17)	(21)
Present value of finance lease obligations	<u>193</u>	<u>218</u>
The present value of minimum lease obligations payable:		
Within 1 year	109	107
Within 2 to 5 years	84	111
	<u>193</u>	<u>218</u>

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 APG 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 Capital management

The AP Group manages its capital to ensure that entities in the AP 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 AP Group consists of ordinary shares, share premium account, merger reserve and profit and loss reserves.

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

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:

	2008 £000	2007 £000
Minimum capital and reserve requirement	377	174
Available assets held by the company	<u>2,208</u>	<u>4,798</u>
Available assets held by the company in excess of the minimum capital and reserves requirement	<u>1,831</u>	<u>4,624</u>

Ibex Reinsurance Company Limited

Ibex Reinsurance Company Limited ("Ibex"), the AP 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.

39 Capital management (continued)

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

	2008	2007
	£	£000
Minimum capital and reserves requirement	1,847	1,738
Available assets held by the company	<u>12,877</u>	<u>11,233</u>
Available assets held by the company in excess of the minimum capital and reserves requirement	<u>11,030</u>	<u>9,495</u>

Notes to the financial statements

Parent company balance sheet

At 31 December 2008

	Notes	2008 £000	2007 £000
Assets			
Investment in subsidiaries	41	4,072	909
Trade and other receivables	42	3,311	871
Cash and cash equivalents	43	1,059	3,328
Total assets		<u>8,442</u>	<u>5,108</u>
Liabilities			
Trade and other creditors	44	72	11
Total liabilities		<u>72</u>	<u>11</u>
Equity			
Share capital	30	1,000	1,000
Share premium	45	3,539	3,539
Retained earnings	45	3,618	500
Capital redemption reserve	45	50	50
Equity settled share incentive reserve	45	163	8
Total shareholders' equity		<u>8,370</u>	<u>5,097</u>

The financial statements on pages 29 to 73 were approved by the Board of directors and authorised for issue on 25 March 2009. They were signed on its behalf by:

Colin Davison
Group Chief Executive

Chris Ward
Group Managing Director

Notes to the financial statements

Parent company cash flow statement

For the year ended 31 December 2008

	Notes	2008 £	2007 £
Cash generated by/(used in) operations	47	2,057	(345)
Interest received		<u>182</u>	<u>35</u>
Net cash from/(used in) operating activities		<u>2,239</u>	<u>(310)</u>
Investing activities			
Purchases of financial investments		<u>(3,000)</u>	<u>(909)</u>
Net cash used in investing activities		<u>(3,000)</u>	<u>(909)</u>
Financing activities			
Equity dividend paid		(1,500)	-
Issue of share capital	30&31	-	4,589
Redemption of share capital	30	-	(50)
Equity settled share incentive reserve	45	<u>(8)</u>	<u>8</u>
Net cash (used in)/from financing activities		<u>(1,508)</u>	<u>4,547</u>
Net (decrease)/increase in cash and cash equivalents		(2,269)	3,328
Cash and cash equivalents at beginning of the period		<u>3,328</u>	<u>-</u>
Cash and cash equivalents at the end of the period		<u>1,059</u>	<u>3,328</u>

Notes to the financial statements

40 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 income statement 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 £4,618,000 (2007: £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 plus the cost of additional shares subscribed for during the year. 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.

41 Investment in subsidiaries

The principal undertakings of Abbey Protection plc at 31 December 2008 which are 100% 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
Accountax Consulting Limited	Great Britain	Tax consultancy	100%	100% Consolidation
Accountax UK Limited	Great Britain	Tele-marketing	100%	100% Consolidation
Accountax Law Limited	Great Britain	Dormant	100%	100% Consolidation

On 21 October 2008, AP plc subscribed for 300,000,000 ordinary 1 pence shares in Abbey Protection Group Limited at par.

The AP Group has not suffered any impairment in the value of its investments in its subsidiaries. Following a group restructuring in 2004, Abbey Legal Holdings Limited, Abbey Legal Protection Limited and Abbey Tax Protection Limited have remained dormant. Accountax Law Limited and Accountax Consulting Limited together with its subsidiary, Accountax UK Limited were acquired by Abbey Protection Group limited on 21 October 2008. The business and assets of Accountax Consulting Limited and Accountax UK Limited were hived up to Abbey Protection Group Limited on acquisition.

Notes to the financial statements

42 Trade and other receivables

	2008 £000	2007 £000
Other debtors	1	-
Prepayments and accrued income	21	8
Amounts due from related parties	3,289	863
	<u>3,311</u>	<u>871</u>

43 Cash and cash equivalents

	2008 £000	2007 £000
Cash at bank and in hand	1,059	3,328
Cash and cash equivalents	<u>1,059</u>	<u>3,328</u>

The effective interest rate on short term bank deposits was: 5.81% 2008, 5.37% 2007

44 Trade and other creditors

	2008 £000	2007 £000
Corporation tax	15	-
Other taxes and social security	3	-
Accruals	54	11
	<u>72</u>	<u>11</u>

45 Share premium, retained earnings and other reserves

	Share Premium £000	Equity settled share incentive reserve £000	Capital redemption Reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2007	-	-	-	-	-
Premium on shares issued	3,539	-	-	-	3,539
Equity settled share incentive reserve	-	8	-	-	8
Reserve transfers	-	-	50	(50)	0
Profit for the year	-	-	-	550	550
Balance at 31 December 2007	<u>3,539</u>	<u>8</u>	<u>50</u>	<u>500</u>	<u>4,097</u>
Equity settled share incentive reserve	-	155	-	-	155
Ordinary dividend paid	-	-	-	(1,500)	(1,500)
Profit for the year	-	-	-	4,618	4,618
Balance at 31 December 2008	<u>3,539</u>	<u>163</u>	<u>50</u>	<u>3,618</u>	<u>7,370</u>

Notes to the financial statements

46 Reconciliation of movement in shareholders' equity

	2008 £000	2007 £000
Profit for the year	4,618	550
Issue of new shares	-	1,050
Redemption of shares	-	(50)
Share premium	-	3,539
Equity settled share incentive reserve	155	8
Ordinary dividend paid	(1,500)	-
Net addition to shareholders' funds	<u>3,273</u>	<u>5,097</u>
Opening shareholders' equity	<u>5,097</u>	<u>-</u>
Closing shareholders' equity	<u>8,370</u>	<u>5,097</u>

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

	2008 £000	2007 £000
Profit for the financial year	4,618	550
Interest receivable	(177)	(41)
Increase in debtors	(2,445)	(865)
Increase in creditors	<u>61</u>	<u>11</u>
Cash generated by operations	<u>2,057</u>	<u>(345)</u>

48 Related party transactions

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

49 Share based payments

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

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, www.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, Minorities House, 2-5 Minorities, 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 28 April 2009 at the Company's offices, 1 Mitchell Court, Castle Mound Way, Rugby, CV23 OUY.

26 March 2009 - preliminary results for the year ended 31 December 2008 announced

1 April 2009 - ex-dividend date for final dividend

3 April 2009 - record date for final dividend

30 April 2009 - final dividend payment

3 September 2009 - results for half year to 30 June 2009 announced

9 September 2009 - ex-dividend date for interim dividend

11 September 2009 - record date for interim dividend

7 October 2009 - interim dividend payment

Auditors

Deloitte LLP (formerly 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.

Shareholder information and advisers (continued)

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 second 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 28 April 2009.

Resolutions

To consider and, if thought fit, pass resolutions 1 to 7 as ordinary resolutions and resolutions 8 and 9 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 2008, 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 2008 and proposes the accounts for adoption.

- 2 To declare a final dividend of 2.0 pence per ordinary share for the year ended 31 December 2008, payable to the shareholders whose names appear on the register of members at the close of business on 3 April 2009.

Shareholder approval is required for the payment of a final dividend as recommended by the Board of directors. Subject to shareholder approval this dividend will be paid on 30 April 2009.

- 3 To re-elect Paul Wilson as a director of the Company.
- 4 To re-elect Adrian Green as a director of the Company.

Under Article 111 of the Company's articles of association each director is required to retire and offer themselves for re-election at the third annual general meeting after the annual general meeting at which he was last elected subject to at least one third of directors retiring and offering themselves for re-election. Profiles for each of the directors standing for re-election are set out on page 15.

- 5 To re-appoint Deloitte LLP (formerly 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.
- 6 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 directors propose the re-appointment of Deloitte LLP as the Company's auditors. Resolution 6 authorises the directors to agree the remuneration of Deloitte LLP for their services as auditors.

Special business

To consider, and, if thought fit, pass the following resolutions of which resolution 7 will be proposed as an ordinary resolution and resolutions 8 and 9 will be proposed as special resolutions:

Ordinary resolutions

- 7 (i) That the directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the "Act") 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 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 26 March 2009, the latest practicable date before publication of this notice) provided that such authority shall expire at the conclusion of the Company's annual general meeting to be held in 2010 or on 28 July 2010, whichever is earlier, 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 section 80 of the Act, to the extent not utilised at the date this resolution is passed.

Notice of annual general meeting (continued)

and further

That the directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 94 of the Act) in connection with a rights issue in favour of ordinary shareholders where the relevant securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them up to an aggregate nominal amount of £327,464 (being 33% of the issued share capital (excluding treasury shares) of the Company as at 26 March 2009, the latest practicable date before publication of this notice) provided that this authority shall expire on 28 April 2010, save that the Company may before such expiry make an 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 such an offer or agreement as if the authority conferred hereby had not expired.

Under the Act, 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 authorities contained in resolution 7 would permit the directors to issue securities up to an aggregate nominal amount of £327,464 on a non pre-emptive basis and issue securities up to a further aggregate nominal amount of £327,464 pursuant to a rights issue on a pre-emptive basis, in accordance with ABI guidance.

Special resolutions

8 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 Act:

(a) subject to the passing of resolution 7 above, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the general authority conferred by resolution 7 above as if section 89(1) of the Act did not apply to any such allotment; and

(b) to sell relevant shares (as defined in section 94(5) of the 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 Act) for cash (as defined in section 162D(2) of the Act), as if section 89(1) of the 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 or pursuant to an offer by way of a rights, open offer or any other pre-emptive offer in favour of ordinary shareholders who are entitled to participate therein in proportion (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 Company's annual general meeting to be held in 2010 or on 28 July 2010, whichever is earlier, 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 8 empowers the directors to allot ordinary shares, otherwise than on a pre-emptive 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% of the issued share capital of the Company as at 26 March 2009, 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 issued share capital in any rolling three-year period.

Notice of annual general meeting (continued)

The authorities in resolutions 7 and 8 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.

9 That the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with Article 9 of the Company's articles of association and section 166 of the Act to make market purchases (within the meaning of section 163(3) of the 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 ordinary 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 ordinary share;
- (c) the maximum price, exclusive of expenses, which may be paid for each such ordinary share is an amount equal to 105% of the average of the middle market quotations for the ordinary 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 Company's annual general meeting to be held in 2010 or on 28 July 2010, whichever is earlier, save that the Company may enter into a contract for the purchase of ordinary shares before the expiry of this authority which would or might be completed wholly or partly after its expiry.

Resolution 9 empowers the Company to purchase its own ordinary shares by market purchases not exceeding approximately 10% of the issued share capital of the Company as at 26 March 2009. 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 ordinary shares. In the event that ordinary shares are purchased, they would either be cancelled (and the number of ordinary 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 ordinary 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.

By order of the board
Adrian Green
Group Company Secretary
26 March 2009

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

Notice of annual general meeting (continued)

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 at the annual general meeting 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 Friday, 24 April 2009 (being 48 hours before the time of the meeting not including part of a non-working day). 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 April 2009 (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.