Accident Exchange Group Plc

Interim Report 2007

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Accident Exchange Group Plc

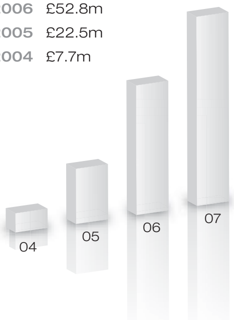
provides accident management and other solutions to the automotive and insurance related sectors

Contents

Financial Highlights*

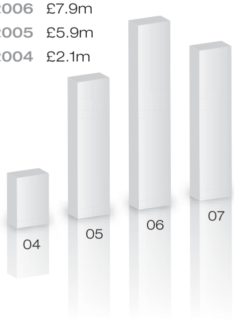
Revenue

2007 £77.4m
2006 £52.8m
2005 £22.5m
2004 £7.7m



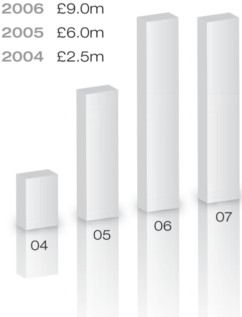
Profit before tax

2007 £6.5m
2006 £7.9m
2005 £5.9m
2004 £2.1m



Adjusted profit before tax†

2007 £8.6m
2006 £9.0m
2005 £6.0m
2004 £2.5m



* Results presented are for the comparative six month periods ended 31 October. Results for 2004 are presented under UK GAAP. Results for 2005, 2006 and 2007 are presented under IFRS.

† Stated before exceptional items, profit on disposal of property, amortisation of acquired intangible assets and costs of share based payments. Adjusted profit before tax for the six months ended 31 October 2004 is stated before the amortisation of goodwill.

Operational Highlights

- Legal "Enforceability Challenge" defeated emphatically
- The distractions of the Enforceability Challenge considered to have adversely affected trading levels, profitability and particularly cash flows in the period
- Number of rental days up 77% to 514,000 from 290,000 in the comparable period last year
- Rental fleet increased to 4,999 vehicles (2006: 2,925)
- Fleet utilisation across vehicle segments ranged from 56% to 75% for the half year
- First credit hire referral agreement with motor insurer commenced

Chairman's Statement

We believe we can draw a firm line under what has been a very challenging twelve month period and get back to 'business as usual. Without the recent distractions and uncertainties, we look forward with renewed enthusiasm, energy and determination to deliver to the potential of the Group and to restore shareholder value.

The Board is delighted to be able to announce today not only the Interim Results for the six months ended 31 October 2007 but also, in a separate announcement, the terms of a proposed issue of £50.0 million (gross) of unsecured convertible notes ("Convertible Notes").

The Board believes that the Company's share price has for some considerable time reflected market concerns as to whether it would defeat the Enforceability Challenge (referred to below) and whether the Group was appropriately funded given its recent and consequent working capital needs. Assuming successful completion of the Convertible Note issue, the Board believes the Group will have the necessary financial resources in place to robustly pursue its aim of developing further a proven and profitable business model in a high growth market place.

Upon successful pricing of the Convertible Note issue, it is the Board's intention to enter into an underwriting agreement with the book runner and lead manager of the Convertible Notes. Satisfying the conversion rights attaching to the Convertible Notes by delivery of shares (as opposed to payment of cash settlement amounts) will be subject to the approval of shareholders in an Extraordinary General Meeting ("EGM"), notice of which is intended to be posted shortly.

The Board believes that it is now able to draw a clear line under what was a very challenging twelve month period and get back to 'business as usual'. With the legal certainty, infrastructure and financial resources expected to be in place, it can resume its aim of developing an expanding, profitable business with an objective of rebuilding shareholder value in a market where demand is growing.

The Enforceability Challenge and related cash flows

Senior management has worked relentlessly during the last twelve months to defeat the erroneous and misplaced legal challenge brought in respect of the enforceability of certain of the Group's terms and conditions of hire ("Enforceability Challenge"). During the six months ended 31 October 2007 these events have, in the Board's view, also affected trading levels. It is nevertheless pleasing to be able to report continued growth in revenue and market penetration, despite the difficult trading environment and absorption of management time dealing with the Enforceability Challenge and the related impact on cash flows.

The Enforceability Challenge represented a specific threat to the recoverability of certain of the Group's trade receivables "per se" and also cast a shadow over the standing and reputation of the Group with insurers. The Board believes that the consequent recoverability of a large portion of the Group's debtor book has been delayed for a considerable period of time to the detriment of cash flow (see later) but that the debtor book is fully recoverable.

The Board's expectation that the Enforceability Challenge would be defeated has now been realised by two recent and separate but definitive court judgments handed down in August and September. The dates by which appeals in these two cases could have been made passed shortly before the period end on 19 October 2007, without any such appeals having been made.

It is normal course of business within the credit hire industry that a process of litigation is used to collect those claims not paid in accordance with the General Terms of Agreement ("GTA"). The Board considers the ongoing threat of litigation and litigation itself, often on a claim–by-claim basis, to be an important component of the Group's ongoing strategy for claim settlement and cash collection.

Whilst facing the Enforceability Challenge the Board were advised and decided to delay the escalation of ordinary course litigation that had been planned to start in November 2006 until unequivocal legal clarification was gained on the issue of enforceability. Having defeated the Enforceability Challenge, we announced on 23 October 2007 that the Group's panel solicitors had been instructed to resume use of the litigation process fully as part of our ordinary day-to-day collection process.

Following the two successful judgments in respect of the Enforceability Challenge, a number of initiatives and strategic activities have been implemented with our panel lawyers with the aim of accelerating settlement on all cases where payment has not been received under the GTA (including £17.2 million of receivables now outstanding on claims which were previously referred to as "X" and "A" rental agreements which were the subject of the Enforceability Challenge). As at 31 October 2007 8,806 claims were threatened with or in the process of formal litigation (30 June 2007: 6,891 claims) with an aggregate claim value of £48.2 million. Of these claims, 2,874 related to "X" and "A" agreements. Using solicitors to threaten litigation or to actively litigate claims is at the heart of the expected improvement in cash flows that has been hindered over the last twelve months.

The Board has improving empirical evidence that the litigation process is now starting to deliver the returns we had anticipated twelve months ago; of 4,600 claims that have been forwarded to solicitors and settled to date, we can report that approximately 48% of those claims settled before proceedings were actually issued and a further 33% of the 4,600 claims which settled did so after the formal issue of proceedings but before a case went to trial.

Dialogue with some insurers in respect of the settlement of older cases has been encouraging and normal collection activity since 19 October has been improving but because we have solicitors dealing with claims on a claim by claim basis we expect the rate of ongoing collection improvement to be steady rather than rapid. As a result, having considered a number of potential financing options, we are today announcing the proposed issue of the Convertible Notes.

In response to the cash flow impact of the Enforceability Challenge in June 2007 we announced the refinancing and expansion of the working capital facilities available to the Group with a £45.0 million facility from Morgan Stanley Bank International Limited ("Morgan Stanley Facility") which was fully drawn down as at the period end. These facilities were used, *inter alia*, to repay an aggregate of £24.4 million in relation to a revolving credit facility and a six year term loan from the Group's previous bankers and provide additional working capital facilities. Cash at bank at the period end was £8.7 million.

Chairman's Statement

Our imperatives for this financial year as announced in July 2007 were:

- to defeat the Enforceability Challenge and implement a robust day-to-day litigation process to drive improved cash flows; and
- to consolidate the Group's position in the vertical market of automotive sector referrals, improve the volume and profitability of existing accounts, the ratio of sales and profitability per employee and deliver reduced fleet ownership costs.

We believe the first of these priorities to be well progressed and we look forward to the challenge of improving profitability ratios in the automotive sector where we have a market leading position.

Market developments

The Group's position as the dominant supplier in the automotive referral sector remains. However, over the last twelve months the marketplace in which we operate has been influenced, and the total market opportunity expanded, by many insurers modifying their own business model to embrace credit hire in order to profit from the commission and relationship management opportunity available to them by referring their own non fault customers to credit hire companies.

The Board believes that the Enforceability Challenge has had a negative effect on our ability to win more of these tenders although we have recently secured a commercial agreement which is generating credit hire referral leads from one motor insurer.

To achieve more success in these market segments, the Group needs to:

- continue to deliver innovative and creative solutions;
- demonstrate an appropriately funded business to its referral partners, both now and in the future;
- access additional working capital facilities to finance the process of collecting claims not settled within the GTA; and
- be sufficiently funded to finance further growth.

The Board believes that the proposed issue of the Convertible Notes announced today will aid these objectives.

Financial Performance

Revenue

Revenue for the six months ended 31 October 2007 rose 47% to £77.4 million (2006: £52.7 million). Accident management and related services, primarily credit hire revenue ("Credit Hire Revenue") contributed £57.5 million (2006: £40.0 million) and our lower margin credit repair revenue totalled £19.9 million, up 57% on the comparable period (2006: £12.7 million).

Whilst significant investment in headcount made during the second half of last year affected revenue per employee during that period, the Group is beginning to reap the benefits of this investment with Credit Hire Revenue improving to £95,000 per head for the period (2006: £90,000). Credit Hire Revenue growth of 44% reflects 514,000 rental days compared to 290,000 for the comparative period. Prestige rental days increased to 285,000 (2006: 199,000) and mainstream rental days increased to 229,000 days (2006: 91,000). The growth in lower margin mainstream rental days reflects certain large dealer account wins in the second half of last year as a result of which 45% of rental days were generated by mainstream vehicles in the current period compared to 31% in the comparative period.

Margins

Gross margin has reduced to 34.6% (2006: 39.8%) reflecting several factors:

- the evolution of the revenue mix and the relative growth of credit repair revenue compared to higher margin credit hire revenue;
- higher fleet depreciation charges as a result of the increase last year in the depreciation rate to 22.5% (2006: 20.0%);

- an increased adjustment to settlement estimation reflecting the uncertainties arising from the Enforceability Challenge;
- the evolution of the fleet mix and the relative higher proportion of mainstream rental days compared to prestige rental days which have higher margins; and
- the operational effects of changes in fleet utilisation and mix.

Credit repair revenue (which is a necessary driver of Credit Hire Revenue) accounted for 26% of revenue, up from 24% in 2006. Credit repair margin of 5.2% was consistent with the prior period. Whilst the Group has achieved significant growth in both Credit Hire Revenue and credit repair revenue during the period, the Board remains focused on re-establishing a higher proportion of prestige credit hire rental days to improve overall margins.

The impact of the changed depreciation rate is evidenced in that during the period 1,565 cars were sold at an average loss per unit of £210, compared to 721 vehicles at an average loss of £900 per unit in the comparative period. The loss on disposals reported for the period of £0.3 million represents little more than 1% of the disposal value and just 3.0% of the £10.0 million of depreciation charged on motor vehicles in the period (2006: loss of £0.6 million representing 9.9% of the £6.5 million depreciation charged).

Fleet utilisation

Expansion of the rental fleet from 4,033 vehicles at 30 April 2007 to 4,999 at the period end (2006: 2,925) reflects rental day growth and capacity increase ahead of the seasonally busier second half of the year. Fleet utilisation rates ranged across vehicle bands from 56% to 75% during the period and were slightly lower than the range of 58% to 79% for the whole of the year ended 30 April 2007. This was in part a consequence of cash mitigating actions taken by the Board which affected revenue and therefore utilisation.

Management attention continues to be focused upon driving required improvement in utilisation through closer alignment of fleet volume and mix to the anticipated mix of referrals from our referral partners although this remains a medium term opportunity based on the continued growth in revenue activity.

Profit before tax

Profit before tax was £6.5 million (2006: £7.9 million). Had the changes in the depreciation rate and settlement estimation which were put into effect at 30 April 2007 been applied at the time of the preparation of the results for the comparative period profit before tax for the comparative period last year would have been £6.6 million.

Adjusted profit before tax, stated before amortisation of acquired intangible assets, costs of share based payments and exceptional items was £8.6 million. Adjusted profit before tax for the comparative period was £9.4 million. This would have been £8.1 million had the revised depreciation and settlement estimation bases been applied to the comparative period last year.

Legal expenses of approximately £0.5 million have been incurred and expensed in the period in relation to the Enforceability Challenge. These costs are expected to be recovered in the second half of the year.

An effective tax rate of 30.8% (2006: 32.9%) has been estimated for the current financial year and applied to the profit before tax for the half year. The comparative effective rate of 32.9% reflects a greater proportion of non-tax deductible costs incurred in the comparative period, including exceptional administrative expenses incurred in connection with admission to the Official List.

Basic earnings per share was 6.3 pence per share (2006: 8.0 pence per share) and adjusted earnings per share (before amortisation of acquired intangible assets, costs of share based payments and exceptional items) was 8.4 pence per share (2006: 9.4 pence per share).

Net debt and cash flows
As at 31 October 2007 the Morgan Stanley Facility was fully drawn down and cash at bank was £8.7 million, increasing to £10.1 million shortly after the period end following the receipt of a net £1.4 million being gross sale proceeds of £2.5 million due on cars sold in the last week of the period and on which £1.1 million of related finance lease obligation was also settled after the period end. With this receipt our headroom against available facilities as at 31 October 2007 was £10.1 million and our net debt (excluding finance lease obligations and after the offset of £1.6 million of unamortised debt issue costs) was £35.8 million (2006: £1.3 million). Total net debt (including finance lease obligations of £88.1 million (2006: £72.0 million)) was £123.9 million with the above receipt (2006: £73.3 million) reflecting the expansion of the fleet as referred to earlier.

Net cash inflow from operating activities for the six months ended 31 October 2007 is down materially at £3.6 million compared to the cash inflow of £10.1 million for the comparative period.

The comparative period to 31 October 2006 was, in the Board's opinion, the last period that was unaffected by the Enforceability Challenge and the Board considers that the reduced inflow for the current period reflects the substantial impact of the Enforceability Challenge on claim settlement and the consequent absorption of working capital into trade receivables. Note 11 discloses the increase in trade and other receivables to be £14.3 million (2006: £9.1 million) though this is after the netting off of £8.1 million (2006: £6.0 million) in VAT (see below) recovered on fleet additions. Excluding these VAT cash receipts the absorption of cash into trade receivables was £22.4 million (2006: £15.1 million).

The Board also measures internally an "adjusted" operating cash flow as it considers that all fleet related cash flows (including the VAT effect mentioned above) are "operating" in nature. The adjusted operating cash flows for each of the last three six month periods ended 31 October 2007 are summarised in the table below:

Adjusted cash generated from operations	**6 Months ended 31 October 2007 (Unaudited) £'m**	6 Months ended 30 April 2007 (Unaudited) £'m	6 Months ended 31 October 2006 (Unaudited) £'m
Profit for the period	**4.5**	3.6	5.3
Depreciation and other non-cash items			
Depreciation	**10.7**	10.8	6.9
Amortisation of intangible assets	**0.3**	0.3	0.3
Loss/(profit) on disposal of vehicles, plant and equipment	**0.3**	–	0.6
Profit on disposal of property	**–**	–	–
Share based payments	**0.2**	0.2	0.1
Changes in working capital:			
Increase in trade and other receivables			
excluding VAT recovered on fleet additions	**(22.4)**	(21.2)	(15.1)
Decrease/(increase) in claims in progress	**2.1**	(4.3)	0.4
Increase in payables	**(2.2)**	7.0	3.6
Finance income per profit and loss account	**(0.2)**	(0.1)	–
Finance costs per profit and loss account	**5.1**	3.7	2.5
Tax	**2.0**	2.1	2.6
Fleet related cash flows	**(13.7)**	(12.9)	(8.1)
Adjusted cash generated from operations – after fleet related cash flows	**(13.3)**	(10.8)	(0.9)

The adjusted operating cash flows are the stated operating cash flows of the Group adjusted for all cash flows associated with fleet ownership (a majority of the fleet is acquired via the use of finance leases and therefore the cash flows of fleet ownership include the payment of finance lease interest, the repayment of finance lease borrowings, the receipt of proceeds of fleet disposal and the receipt of VAT recoverable on each fleet addition). All of the fleet related cash flows (except the VAT recovered on fleet expansion which is disclosed separately in the table below) can be identified from the statutory cash flow statements presented later.

This shows the significant absorption of cash into trade and other receivables which is also reflected in an increase of overall debtor days from 149 as at 31 October 2006 to 203 as at 31 October 2007 (176 as at 30 April 2007).

The vigorous efforts now being placed on claim settlement is expected to improve this ratio going forward. For completeness the fleet related cash flows comprise the following:

Analysis of fleet related cash flows	**6 Months ended 31 October 2007 (Unaudited) £'m**	6 Months ended 30 April 2007 (Unaudited) £'m	6 Months ended 31 October 2006 (Unaudited) £'m
Proceeds of vehicle disposals	**21.7**	16.8	11.1
VAT recovered on fleet acquisition	**8.1**	5.4	6.0
Capital element of finance lease payments			
Deposits	**(5.2)**	(3.8)	(4.1)
Monthly repayments	**(10.0)**	(9.6)	(7.1)
Balloon repayment at disposal	**(25.2)**	(18.8)	(11.9)
Interest element of finance lease payments	**(3.1)**	(2.9)	(2.1)
Fleet related cash flows	**(13.7)**	(12.9)	(8.1)

Other cash flows contained within the Consolidated Cash Flow Statement reflect the receipt of borrowings from the Morgan Stanley Facility of £45.0 million. These facilities were used in part to repay an aggregate of £24.4 million in relation to a revolving credit facility and a six year term loan from the Group's previous bankers. Other capital expenditure of £1.2 million was incurred primarily on IT investment in relation to headcount expansion and infrastructure improvement at the Group's Alpha 1 main distribution and administration centre. The final dividend for the year ended 30 April 2007 absorbed £1.1 million (2006: £1.3 million) and corporation tax payments were £1.0 million (2006: £0.6 million). Net interest of £0.8 million (2006: £0.4 million) was paid on the Group's bank indebtedness.

Balance Sheet

The main element of capital expenditure of £44.4 million related to growth in the vehicle fleet with 2,116 vehicles added at a capital (VAT exclusive) cost of £43.5 million, funded through VAT inclusive finance leases. During the period 1,565 vehicles were sold for net proceeds of £23.8 million of which £2.1 million (£2.5 million including VAT) was received shortly after the period end. Other capital expenditure included completion of the fit–out of our Alpha 1 headquarters, IT equipment and office fixtures and fittings. Claims in progress of £14.3 million (2006: £12.0 million) reflects both the growth in the business and a shortening of the time taken to "invoice" closed claims such that the number of days' sales represented by claims in progress has reduced from 53 days as at 31 October 2006 to 44 days.

Dividends

The Board is deferring its recommendation in respect of an interim dividend until the conclusion of the EGM. The Company's dividend policy continues to target paying an annual dividend of approximately 1/6th of adjusted EPS.

Board

On 23 October 2007 the Board announced that Daksh Gupta, Chief Operating Officer, had tendered his resignation and that it had been accepted with immediate effect. The role of Chief Operating Officer is not currently intended to be replaced as the Group's senior management team has been strengthened and expanded considerably over the last twelve months. The department heads of the key business units will now report directly to the Chief Executive, Steve Evans, who is now able, with the Enforceability Challenge defeated, to devote considerably more of his time to operational aspects of the business.

Principal business risks

A number of risks faced by the Group that could affect its performance in the remainder of the financial year are set out in this Interim Report and in particular in Note 1 *"Basis of preparation"* to the financial information included herein. Other risks faced by the business include dependence on key personnel, operational risks and systems, financing risks, risks associated with referring partners, environmental risks, competition, legal risks, insurance industry protocols, the nature of receivables, regulatory risks, difficulty assessing the business of the Group, seasonality, fleet costs and efficiency (including suppliers, the price of new vehicles and utilisation of the fleet), the residual value of rental vehicles and interest rates.

The Convertible Notes

The Board is also announcing today that it intends to make an offering of £50.0 million principal amount of Convertible Notes to international institutional investors (the "Offering"). The Company intends to use the proceeds of the Offering to repay £5.0 million of the Company's existing secured facility and to provide additional working capital facilities to the Company and its subsidiaries.

The Board expects to enter into an underwriting agreement with the lead manager of the convertible offering upon successful pricing of the Offering, at which time the Board also expects to issue further details in respect of the pricing at which such Offering will take place. The Company expects to issue a circular to shareholders later this week which will also give notice of an Extraordinary General Meeting at which, *inter alia*, certain resolutions necessary to enable the Company to deliver shares (rather than pay cash sums) to Noteholders upon exercise by them of conversion rights will be proposed ("Circular"). It is intended that undertakings to vote in favour of these resolutions will be given by the Board in respect of 46.21% of the Company's issued share capital.

The Company will be making a statement in the Circular that in its opinion, taking into account the net proceeds of the issue of the Convertible Notes, it will have sufficient working capital for its present requirements, that is for at least the next twelve months from the date of that document.

If the Company is unable to proceed with the proposed issue of the Convertible Notes it would however need to put in place immediate alternative measures to manage the business, so far as possible, within the working capital facilities available to it. These measures would principally include, from a non operational perspective, that of seeking alternative funding and, from an operational perspective, *inter alia,* the agreement of block settlements and compromised litigated claims at higher discount rates than otherwise may need to be the case.

Whilst the Board is confident that these operational measures would be effective from a working capital perspective there can be no certainty that they would be adequate to remain within the working capital facilities currently available to the Group. Furthermore it is likely that any combination of these operational measures would have a material adverse impact on the profitability of the Group and its future growth plans.

Outlook

The Enforceability Challenge absorbed a significant amount of management time over the last twelve months and, in the Board's view, caused a material and adverse effect on both trading levels and cash flows. Having emphatically defeated this challenge towards the very end of the half year period, the Group is continuing a robust litigation process to drive an expected improvement in cash flows in the second half and beyond.

Despite the difficult trading environment, credit hire and credit repair activity has shown continued growth and efforts are ongoing to improve the volume and relative proportion of prestige referrals and rental days and thereby to achieve an improved fleet mix and utilisation, the benefits of which are expected to be seen during the normally seasonally strong second half of the financial year.

Now that the distractions and significant uncertainties of the past twelve months are behind us, we look forward with renewed enthusiasm, energy and determination to deliver to the potential of the Group and to restore shareholder value.

David Galloway
Non Executive Chairman

Consolidated Income Statement
for the six months ended 31 October 2007

	Note	6 Months ended 31 October 2007 (Unaudited) £'m	6 Months ended 31 October 2006 (Unaudited) £'m
Revenue	2	**77.4**	52.7
Cost of sales		**(50.6)**	(31.7)
Gross profit		**26.8**	21.0
Administrative expenses		**(15.4)**	(10.6)
Operating profit		**11.4**	10.4
Finance income		**0.2**	–
Finance costs		**(5.1)**	(2.5)
Profit before tax analysed between:			
Profit before tax before amortisation of acquired intangible assets, cost of share based payments and exceptional costs		**8.6**	9.4
Amortisation of acquired intangible assets		**(0.2)**	(0.2)
Share based payments		**(0.2)**	(0.1)
Exceptional costs	3	**(1.7)**	(1.2)
Profit before tax		**6.5**	7.9
Taxation	4	**(2.0)**	(2.6)
Profit for the period		**4.5**	5.3
Earnings per share			
Basic and diluted	5	**6.3p**	8.0p

A final dividend of 1.5 pence per share for the year ended 30 April 2007 (2006: 2.0 pence per share) was paid on 2 October 2007. The Board is deferring its recommendation in respect of an interim dividend until the conclusion of the EGM. An interim dividend of 1.5 pence per share was declared for the six months ended 31 October 2006.

Consolidated Balance Sheet
at 31 October 2007

	Note	31 October 2007 (Unaudited) £'m	31 October 2006 (Unaudited) £'m	30 April 2007 (Audited) £'m
Assets				
Non-current assets				
Property, plant and equipment	7	**80.8**	68.1	73.9
Goodwill		**21.5**	21.7	21.5
Other intangible assets		**3.2**	3.5	3.4
		105.5	93.3	98.8
Current assets				
Claims in progress		**14.3**	12.0	16.4
Trade and other receivables	8	**93.2**	46.0	66.9
Cash and cash equivalents	12	**8.7**	8.6	6.9
		116.2	66.6	90.2
Non-current assets held for sale		**4.2**	1.1	1.4
		120.4	67.7	91.6
Total assets		**225.9**	161.0	190.4
Liabilities				
Current liabilities				
Financial liabilities – borrowings		**(49.3)**	(25.8)	(60.5)
Trade and other payables	9	**(15.9)**	(9.4)	(15.5)
Current tax liabilities		**(3.2)**	(3.8)	(2.1)
Deferred consideration – acquisition		**–**	(3.0)	–
		(68.4)	(42.0)	(78.1)
Net current assets		**52.0**	25.7	13.5
Non-current liabilities				
Financial liabilities – borrowings		**(84.7)**	(56.1)	(43.0)
Deferred tax liabilities		**(4.5)**	(4.0)	(4.6)
		(89.2)	(60.1)	(47.6)
Total liabilities		**(157.6)**	(102.1)	(125.7)
Net assets		**68.3**	58.9	64.7
Shareholders' equity				
Share capital	10	**3.6**	3.5	3.6
Share premium		**26.2**	23.2	26.2
Other reserves		**11.5**	11.5	11.5
Retained earnings		**27.0**	20.7	23.4
Total shareholders' equity		**68.3**	58.9	64.7

Consolidated Cash Flow Statement
for the six months ended 31 October 2007

	Note	**6 Months ended 31 October 2007 (Unaudited) £'m**	6 Months ended 31 October 2006 (Unaudited) £'m
Cash flows from operating activities			
Cash generated from operations	**11**	**8.5**	13.2
Finance income received		**0.1**	–
Finance costs on bank loans and overdrafts		**(0.9)**	(0.4)
Finance cost element of finance lease payments		**(3.1)**	(2.1)
Taxation paid		**(1.0)**	(0.6)
Net cash inflow from operating activities		**3.6**	10.1
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1.2)**	(1.1)
Proceeds from sale of property		**–**	1.9
Proceeds from sale of vehicles, plant and equipment		**21.7**	11.1
Acquisition of subsidiary, net of cash acquired		**–**	(4.9)
Net cash inflow from investing activities		**20.5**	7.0
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**–**	13.0
Share issue costs		**–**	(0.5)
Proceeds from borrowings		**45.8**	10.0
Issue costs of borrowings		**(1.8)**	–
Repayment of borrowings		**(24.8)**	(0.1)
Capital element of finance lease payments		**(40.4)**	(23.1)
Dividends paid		**(1.1)**	(1.3)
Net cash used in financing activities		**(22.3)**	(2.0)
Net increase in cash	**12**	**1.8**	15.1
Cash/(overdraft) brought forward		**6.9**	(6.5)
Cash carried forward	**12**	**8.7**	8.6

Consolidated Statement of Changes in Equity
for the six months ended 31 October 2007

	Share capital £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total £'m
At 30 April 2006	3.9	8.0	10.9	16.6	39.4
Total recognised income and expense	–	–	–	5.3	5.3
Equity settled share based payments	–	–	–	0.1	0.1
Issue of shares (note 10)	0.2	15.2	–	–	15.4
Purchase of own shares (note 10)	(0.6)	–	0.6	–	–
Dividends paid (note 6)	–	–	–	(1.3)	(1.3)
At 31 October 2006	3.5	23.2	11.5	20.7	58.9

	Share capital £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total £'m
At 30 April 2007	3.6	26.2	11.5	23.4	64.7
Total recognised income and expense	–	–	–	4.5	4.5
Equity settled share based payments	–	–	–	0.2	0.2
Dividends paid (note 6)	–	–	–	(1.1)	(1.1)
At 31 October 2007	**3.6**	**26.2**	**11.5**	**27.0**	**68.3**

Notes to the Financial Information
for the six months ended 31 October 2007

1. Basis of preparation

The consolidated condensed financial information set out in this Interim Report has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority and IAS 34 *"Interim Financial Reporting"* as adopted by the European Union ("EU"). The accounting policies applied are consistent with those set out in the Group's Annual Report and Accounts 2007 ("Annual Report") which is available from the Group's website, www.accidentexchange.com. The Directors expect to apply these accounting policies in the Group's consolidated financial statements for the year ending 30 April 2008.

International Financial Reporting Standards ("IFRS") currently in issue are subject to ongoing amendment by the International Accounting Standards Board and subsequent review and endorsement by the EU and are therefore subject to possible change. IFRS 7 *"Financial Instruments Disclosures"* is applicable for the year ending 30 April 2008. As this Interim Report contains only condensed financial statements, full IFRS 7 disclosures are not required at this stage but will be given in the Annual Report and Accounts 2008. Further standards or interpretations may also be issued that could become applicable for the full year consolidated financial information. These potential changes could result in the need to change the basis of accounting for certain financial information from that presented in this Interim Report. In addition, as IFRS is a relatively new reporting basis for UK companies, accounting practice and interpretations of accounting standards will continue to develop as companies gain more experience of the new framework. Accordingly there may be changes in the approaches currently adopted.

This Interim Report is not audited but has been reviewed by the Group's auditors and their review report is given below. The reviewed consolidated condensed financial information for the six months ended 31 October 2007 does not constitute statutory financial statements as defined in section 240 of the Companies Act 1985. Comparative annual figures for the year ended 30 April 2007 set out within this Interim Report have been extracted from the Group's consolidated financial statements, on which the auditors gave an unqualified opinion and did not include a statement under section 237(2) or (3) of the Companies Act 1985, and which have been delivered to the Registrar of Companies.

Settlement estimation and going concern

Background

As was explained in detail in the Annual Report there are a variety of methods that the Group and the industry use to conclude claims against the insurer of the at fault party to a motor accident. These methods include either negotiated bulk settlements or individual negotiation on a claim by claim basis and, where the claim fails to settle inside a 90 day period under the terms of the GTA, formal litigation. It is "ordinary course of business" that this involves the Group's client (the non fault party to the accident) issuing formal proceedings against the at fault driver to recover the hire charges which are ultimately paid by his/her insurance company. A proportion of these claims settle on the threat of litigation but, where they do not, formal proceedings will be issued and these claims may then be defended by the third party insurer, their solicitors instructed and, in what has historically been a minority of the claims handled by the Group, the claims ultimately determined in court.

In line with the growth in the business and as anticipated by the Group as part of its developing collection strategies during the year ended 30 April 2007, an increased number of claims were processed by the Group's panel of approved solicitors.

1. **Basis of preparation** continued

As announced on 10 April 2007, at the end of 2006 one firm of defendant solicitors advanced a technical argument in a number of defences that sought to challenge the issue of the enforceability of the underlying terms and conditions used by the Group in its older rental agreements. The Board believed and was advised that this issue had been previously decided in the appellate courts. The Enforceability Challenge focused on older transactions which, in the main, dated from 2004 and 2005 on terms and conditions referred to internally as "X" and "A" agreements. The defence used by this firm of solicitors was subsequently mirrored by a number of other defendant solicitors. Certain insurers, to varying degrees thereafter departed from their previously established payment profiles to the Group in relation to these older cases whilst individual court cases were determined.

The Enforceability Challenge focused on two test cases which were eventually heard to conclusion during the Summer/Autumn of 2007 and were decided emphatically in the Group's favour. The written legal judgments were eventually obtained from court after the judgments were handed down and the dates whereby appeals were to have been made expired, without any such appeal having been made, on 19 October 2007. These decisions and appeal dates, having passed so close to the end of the six month period ended 31 October 2007, have not allowed sufficient time for insurer responses to the court decisions to allow the cash generated from operations to show material improvement.

Settlement estimation

The Group's work in progress and trade receivables require an estimation of the expected adjustments that will arise, *inter alia,* on the settlement of claims and the adjustments that arise as a result of this process impact on the level of revenue disclosed by the Group. The estimation process is determined primarily on the basis of prior experience of settlements, but it is, by its very nature, judgemental. Furthermore the uncertainty surrounding this estimation process has continued through the current period due to the increased ageing of trade receivables which is considered to be primarily as a result of the time taken to defeat the Enforceability Challenge highlighted above.

Whilst the Directors believe that they have a reasonable basis for deriving the settlement estimation as reflected in these condensed financial statements and notwithstanding the successful outcome to the Enforceability Challenge as described above, the ultimate settlements agreed through negotiation with or through the routine process of litigation against the insurers in relation to the outstanding work in progress and trade receivables may be different to that which has been estimated in the preparation of these condensed financial statements, particularly if the Convertible Notes are not completed successfully.

Going concern basis

The consolidated condensed financial information has been prepared on a going concern basis, which assumes that the Group and Company will continue in operational existence for the foreseeable future.

The Directors believe that, following the closing of the Convertible Notes, the Group will have financing arrangements in place that will provide sufficient working capital to allow the Group the flexibility to pursue its strategy of robust litigation against insurers to drive solicitor–led cash inflow improvement following the successful outcome to the Enforceability Challenge and to fund the projected growth and overall working capital requirements of the business.

1. Basis of preparation continued

If the Company is unable to proceed with the proposed issue of the Convertible Notes it would need to put in place immediate alternative measures to manage the business, so far as possible, within the working capital facilities available to it. These measures would principally include, from a non operational perspective, that of seeking alternative funding and, from an operational perspective, *inter alia*, the agreement of block settlements and compromised litigated claims at higher discount rates than otherwise may need to be the case.

Whilst the Board is confident that certain of these operational measures would be effective from a working capital perspective there can be no certainty that they would be adequate to remain within the working capital facilities currently available to the Group. Furthermore it is likely that any combination of these operational measures would have a material adverse impact on the profitability of the Group and its future growth plans.

The consolidated condensed financial statements have been prepared on the assumption that either the Convertible Notes will close or that the alternative measures will prove effective, such that the Group's existing financing arrangements will prove to be sufficient. On this basis the consolidated condensed financial statements do not include any adjustment that would result should the Group be unable to continue as a going concern.

2. Revenue

An analysis of the Group's revenue is as follows:

	6 Months ended 31 October 2007 (Unaudited) £'m	6 Months ended 31 October 2006 (Unaudited) £'m
Delivery of accident management and related services, primarily credit hire of vehicles	**57.5**	40.0
Credit repair	**19.9**	12.7
	77.4	52.7

The Group operates in one business segment, being the delivery of accident management and other solutions to the automotive and insurance sectors. The business operates wholly within the UK, which the Directors consider to be a single geographical segment. Accordingly, no information for business segment or geographical segment is required.

3. Exceptional costs

Exceptional items are transactions which, by virtue of their size or nature, have been disclosed separately within this report in order to improve a reader's understanding of these condensed consolidated financial statements.

	6 Months ended 31 October 2007 (Unaudited) £'m	6 Months ended 31 October 2006 (Unaudited) £'m
Accident Management Scheme launch costs	**0.8**	0.4
Refinancing costs	**0.9**	–
Costs relating to admission to the Official List	**–**	0.8
	1.7	1.2

During the period the Group incurred administrative expenses of £0.8 million (2006: £0.4 million) launching Accident Management Schemes for and on behalf of newly acquired referring dealer and manufacturer partners. Due to the significant magnitude of this investment both in the current and prior periods, which is expected to drive revenues in future periods, the costs have been disclosed as exceptional items.

On 15 June 2007 the Group announced that it had entered into a £45.0 million senior secured credit agreement with Morgan Stanley and as a result, the Group's existing borrowings were redeemed. A charge in aggregate of £0.9 million has been made in respect of both certain professional adviser fees incurred in relation to this refinancing (£0.8 million) and termination costs associated with the redemption of the existing borrowings (£0.1 million).

The Group incurred £0.8m of exceptional administrative expenses during the prior period in connection with its application and subsequent transfer from AIM to the Official List of the London Stock Exchange.

4. Taxation

The tax charge for the period is based on the estimated effective tax rate of 30.8% for the year ending 30 April 2008 applied to the taxable profits for the period. The comparative effective rate of 32.9% reflects a greater proportion of non–tax deductible costs incurred in the comparative period, including exceptional administrative expenses incurred in connection with admission to the Official List.

5. Earnings per share

(a) Basic and diluted earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period.

Whilst options were in issue over 3,371,781 of the Company's ordinary shares as at 31 October 2007 including a warrant over 718,571 shares, the dilutive effect of the potential ordinary shares is not considered to be material and consequently there is no material difference between basic earnings per share and diluted earnings per share.

Details of the earnings and weighted average number of shares used in the calculations are set out below:

	6 Months ended 31 October 2007 (Unaudited)	6 Months ended 31 October 2006 (Unaudited)
Earnings attributable to ordinary shareholders (£'m)	**4.5**	5.3
Weighted average number of shares – basic and diluted (m)	**71.1**	66.1
Basic and diluted earnings per share (pence)	**6.3**	8.0

(b) Adjusted basic and diluted earnings per share

To understand the underlying trading performance, the Directors consider it appropriate to disclose earnings per share before and after amortisation of acquired intangible assets, costs of share based payments and exceptional costs. The calculation of adjusted earnings per share is set out below:

Adjusted earnings per share	**6 Months ended 31 October 2007 (Unaudited)**	6 Months ended 31 October 2006 (Unaudited)
Earnings attributable to ordinary shareholders (£'m)	**4.5**	5.3
Post–tax amortisation of acquired intangible assets (£'m)	**0.2**	0.1
Post–tax cost of exceptional items (£'m)	**1.2**	0.7
Post–tax cost of share based payments (£'m)	**0.1**	0.1
Adjusted profit on ordinary activities after taxation (£'m)	**6.0**	6.2
Weighted average number of shares – basic and diluted (m)	**71.1**	66.1
Basic and diluted earnings per share (pence)	**6.3**	8.0
Amortisation of acquired intangible fixed assets (pence)	**0.3**	0.2
Cost of exceptional items (pence)	**1.7**	1.0
Cost of share based payments (pence)	**0.1**	0.2
Adjusted basic and diluted earnings per share (pence)	**8.4**	9.4

6. Equity dividends

	6 Months ended 31 October 2007 (Unaudited) £'m	6 Months ended 31 October 2006 (Unaudited) £'m
Ordinary shares		
Final dividend 2006 (2.0 pence per share)	**–**	1.3
Final dividend 2007 (1.5 pence per share)	**1.1**	–
	1.1	1.3

The Board is deferring its recommendation in respect of an interim dividend until the conclusion of the EGM. An interim dividend of 1.5 pence per share was declared for the six months ended 31 October 2006.

7. Property, plant and equipment

	Property, plant and equipment (Unaudited) £'m
Opening net book amount – 1 May 2007	73.9
Additions	44.4
Transfer to assets held for sale	(4.2)
Disposals	(22.6)
Depreciation	(10.7)
Closing net book amount – 31 October 2007	**80.8**

The net book amount of property, plant and equipment primarily relates to motor vehicles.

8. Trade and other receivables

	31 October 2007 (Unaudited) £'m	31 October 2006 (Unaudited) £'m	30 April 2007 (Audited) £'m
Trade debtors	**86.0**	42.1	63.8
VAT	**1.6**	1.5	0.3
Vehicle sales	**2.5**	0.2	0.2
Other debtors	**0.6**	0.3	0.1
Prepayments and accrued income	**2.5**	1.9	2.5
	93.2	46.0	66.9

9. Trade and other payables

	31 October 2007 (Unaudited) £'m	31 October 2006 (Unaudited) £'m	30 April 2007 (Audited) £'m
Trade payables	**10.5**	5.2	10.6
Social security and other taxes	**1.5**	1.2	2.3
Other payables	**1.1**	1.5	1.1
Accrued expenses	**2.8**	1.5	1.5
	15.9	9.4	15.5

10. Share capital

	31 October 2007 (Unaudited) £'m	31 October 2006 (Unaudited) £'m	30 April 2007 (Audited) £'m
Authorised			
87,485,500 ordinary shares of 5p	**4.4**	4.4	4.4
Nil (31 October 2006 and 30 April 2007: 12,514,500) deferred shares of 5p	**–**	0.6	0.6
	4.4	5.0	5.0
Allotted, issued and fully paid			
71,138,544 (31 October 2006: 69,948,067; 30 April 2007: 71,138,544) ordinary shares of 5p	**3.6**	3.5	3.6
Nil deferred shares of 5p	**–**	–	–
	3.6	3.5	3.6

Allotments during the prior periods

On 5 May 2006 the Group issued 721,587 new ordinary 5p shares to the vendors of DCML Limited at 415.8p per share as part consideration for the acquisition of that company.

On 4 October 2006 the Group issued 4,000,000 new ordinary 5p shares at 325.0p per share, raising £13.0 million before expenses (£12.5 million net).

On 14 March 2007 the Group issued 1,190,477 new ordinary 5p shares to the vendors of DCML Limited at 252.0p per share for the full and final settlement of deferred consideration for the acquisition of that company.

Purchase and cancellation of deferred shares

In order to simplify its share structure, the Group acquired 12,514,500 of its own unlisted deferred shares of 5p each on 20 July 2006 for an aggregate consideration of £1. This resulted in a £0.6 million reduction to share capital and a corresponding increase in the capital redemption reserve.

10. Share capital continued

On 21 August 2007 the Group cancelled 12,154,500 authorised but unissued deferred shares of 5 pence each pursuant to section 121 of the Companies Act.

Share options over ordinary shares

At 31 October 2007 options to subscribe for 2,653,210 ordinary shares at prices between £nil and £4.08 were outstanding under the Company's three equity settled share option schemes. Options outstanding under these schemes are exercisable at various times up to 13 August 2017. No further options have been granted since the period end.

As part of the arrangement fee for the Morgan Stanley Facility, the Company has granted warrants in favour of Morgan Stanley over 718,571 ordinary shares in the capital of the Company (representing 1% of the Company's share capital after exercise of the warrants) at an exercise price of 105p per share.

Other reserves

Other reserves relate to the difference of £10.9 million between the market value and the nominal value of shares issued as consideration for the acquisition of Accident Exchange Limited in April 2004, where the Group has taken advantage of Section 131 of the Companies Act 1985, and an amount of £0.6 million transferred from share capital upon acquisition of the deferred shares.

11. Cash generated from operations

Reconciliation of net profit to cash generated from operations:

	6 Months ended 31 October 2007 (Unaudited) £'m	6 Months ended 31 October 2006 (Unaudited) £'m
Net profit	**4.5**	5.3
Depreciation and other non–cash items:		
Depreciation	**10.7**	6.9
Amortisation of intangible assets	**0.3**	0.3
Loss on disposal of vehicles, plant and equipment	**0.3**	0.6
Share based payments	**0.2**	0.1
Changes in working capital:		
Increase in trade and other receivables	**(14.3)**	(9.1)
Decrease in claims in progress	**2.1**	0.4
(Decrease)/increase in trade and other payables	**(2.2)**	3.6
Finance income	**(0.2)**	–
Finance costs	**5.1**	2.5
Tax	**2.0**	2.6
Cash generated from operations	**8.5**	13.2

12. Analysis of movements in net borrowings

(a) Reconciliation of cash and cash equivalents to net borrowings:

	6 Months ended 31 October 2007 (Unaudited) £'m	6 Months ended 31 October 2006 (Unaudited) £'m
Increase in cash in the period	**1.8**	15.1
Capital element of finance lease payments	**40.4**	23.1
Proceeds from borrowings	**(44.0)**	(10.0)
Repayment of borrowings	**24.8**	0.1
Decrease in net debt resulting from cash flows	**23.0**	28.3
Inception of finance leases	**(51.5)**	(40.7)
Debt acquired with subsidiary	**–**	(0.2)
Amortisation of debt issue costs	**(0.2)**	–
Increase in net debt during the period	**(28.7)**	(12.6)
Net debt brought forward	**(96.6)**	(60.7)
Net debt carried forward	**(125.3)**	(73.3)

(b) Analysis of movement in net borrowings:

	As at 30 April 2007 (Audited) £'m	Cash flows (Unaudited) £'m	Non-cash items (Unaudited) £'m	**As at 31 October 2007 (Unaudited) £'m**
Cash	6.9	1.8	–	**8.7**
Revolving credit facility	(20.0)	10.5	–	**(9.5)**
Bank loans	(6.5)	(29.7)	(0.2)	**(36.4)**
Finance leases	(77.0)	40.4	(51.5)	**(88.1)**
Net debt	(96.6)	23.0	(51.7)	**(125.3)**

13. Seasonality

The Group's revenues and operating profits can be weighted towards the darker, colder and wetter months of the year, particularly the months from October to March.

14. Related party transactions

There were no related party transactions during the six months ended 31 October 2007 that require disclosure.

15. Post balance sheet events

The Board also announced today that it intends to make an offering of £50.0 million principal amount of Convertible Notes to international institutional investors (the "Offering"). The Company intends to use the proceeds of the Offering to repay £5.0 million of the Company's existing secured facility and to provide additional working capital facilities to the Company and its subsidiaries.

The Company expects to issue a circular to shareholders later this week which will give further details of the terms and conditions of the Convertible Notes and also give notice of an Extraordinary General Meeting at which, *inter alia,* the resolutions necessary to effect the Offering will be proposed.

Statement of Directors' Responsibilities
for the six months ended 31 October 2007

The Directors confirm that this set of condensed consolidated financial statements has been prepared in accordance with IAS 34 as adopted by the EU, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the Disclosure and Transparency Rules.

Details of the Board of Directors that served during the six months ended 31 October 2007 can be found on pages 14 and 15 of the Annual Report. Daksh Gupta resigned from the Board on 22 October 2007.

By order of the Board

S Evans

M Andrews

3 December 2007

Independent Review Report
To Accident Exchange Group Plc

Introduction
We have been engaged by the Company to review the condensed set of consolidated financial statements in the interim financial report for the six months ended 31 October 2007 which comprises the income statement, balance sheet, cash flow statement, statement of changes in equity and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

Directors' responsibilities
The interim report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the interim report for the six months ended 31 October 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Independent Review Report
To Accident Exchange Group Plc

Emphasis of matter – settlement estimation and going concern
In arriving at our review conclusion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 concerning the settlement estimation and the preparation of the condensed set of consolidated financial statements on a going concern basis.

As is set out in note 1, the Directors believe that they have a reasonable basis for deriving the settlement estimation that is reflected in the preparation of these condensed set of consolidated financial statements. However, the circumstances that are described in the Background section to note 1 may mean that actual settlement levels may ultimately be materially different to those estimated in the preparation of these condensed set of consolidated financial statements.

Additionally, and for the reasons also set out in note 1, the ability of the Company to continue as a going concern is dependent on either the closing of the Convertible Notes or the effectiveness of the alternative measures being such that the Group's existing financing arrangements remain sufficient. These circumstances indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The Directors believe that they have a reasonable basis for preparing the consolidated condensed financial statements on a going concern basis, and hence the consolidated condensed financial statements do not include any adjustment that would result should the Group be unable to continue as a going concern.

In view of the significance of the matters referred to above and as set in note 1 to the condensed set of consolidated financial statements, we consider that they should be drawn to your attention, but our opinion is not qualified in either respect.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham

3 December 2007

Notes:

a) The maintenance and integrity of the Accident Exchange Group Plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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