

Company Number: 3088325

**DIRECT LINE UNIT TRUSTS LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2004**



A06 \*R8BF56K3\* 0680  
COMPANIES HOUSE 30/06/05

## CONTENTS

---

	Page
Officers and Professional Advisers	2
Directors' Report	3 - 4
Independent Auditors' Report	5
Profit and Loss Account	6
Balance Sheet	7
Notes to the Accounts	8 - 13

## OFFICERS AND PROFESSIONAL ADVISERS

---

**DIRECTORS:**

I H Chippendale  
A E Court  
R D Houghton  
D A MacKechnie  
G A F Ross

**SECRETARY:**

P J Atkinson

**REGISTERED OFFICE:**

3 Edridge Road  
Croydon  
Surrey  
CR9 1AG

**COUNTRY OF REGISTRATION:**

England and Wales

**REGISTERED AUDITORS:**

Deloitte & Touche LLP  
Chartered Accountants  
Glasgow

## DIRECTORS' REPORT

---

The directors present their report and the audited financial statements for the year ended 31 December 2004.

### ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is to act as manager for the Direct Line Investment Funds Investment Company with Variable Capital (ICVC), which has two sub-funds: the FT-SE® 100 Tracker Fund and the FT-SE® 4GOOD Tracker Fund.

The retained loss for the period was £1,000 (2003: retained loss £24,000) and this was transferred to reserves.

The directors do not anticipate any material change in either the type or level of activities of the Company.

### DIRECTORS AND SECRETARY

The names of the present Directors and Secretary are listed on page 2.

From 1 January 2004 to date the following changes have taken place:

Appointed	Resigned
C Lyons	24 September 2004
S V Castle	31 December 2004
R D Houghton	10 February 2005

### DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors confirm that these financial statements comply with the aforementioned requirements.

### DIRECTORS' INTERESTS

No directors had an interest in the shares of the Company.

The interests of Mr I H Chippendale and Miss A E Court in the share capital of The Royal Bank of Scotland Group plc are disclosed in the financial statements of RBS Insurance Group Limited.

The interests of Mr D A MacKechie and Mr G A F Ross in the share capital of The Royal Bank of Scotland Group plc are disclosed in the financial statements of Direct Line Life Holdings Limited.

## DIRECTORS' REPORT

---

### DIRECTORS' INTERESTS *(continued)*

No director had an interest in any of the preference shares of The Royal Bank of Scotland Group plc during the year to 31 December 2004.

Other than as disclosed, none of the directors in office at 31 December 2004 held any interest in the share or loan capital of the company or any other group company.

### POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc, as outlined below.

In the year ending 31 December 2005, the Royal Bank of Scotland Group will adhere to the following payment policy in respect of all suppliers. It is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is the Group's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

Payments to creditors are made through a fellow group company.

### AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.



D A MacKechnie  
Managing Director  
30 March 2005

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIRECT LINE UNIT TRUSTS LIMITED

---

We have audited the financial statements of Direct Line Unit Trusts Limited for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet and related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As described in the directors' report, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Glasgow  
30 March 2005

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Turnover	2	3,554	4,500
Cost of units sold		(2,504)	(3,560)
<b>Gross profit</b>		<u>1,050</u>	<u>940</u>
Administrative expenses		(1,086)	(1,005)
<b>Operating loss</b>		<u>(36)</u>	<u>(65)</u>
Interest receivable on deposits		35	31
<b>Loss on ordinary activities before taxation</b>	4	<u>(1)</u>	<u>(34)</u>
Taxation on loss on ordinary activities	5	-	10
<b>Loss on ordinary activities after taxation</b>	10	<u>(1)</u>	<u>(24)</u>

The Company has no recognised gains or losses other than those included in the loss above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference in either period between the loss on ordinary activities before taxation and the loss stated above, and their historical cost equivalents.


All activities are continuing.

**BALANCE SHEET**  
**as at 31 December 2004**

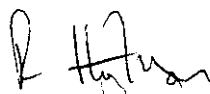
	Note	As at 31/12/04 £'000	As at 31/12/03 £'000
<b>Current assets</b>			
Stock	6	19	23
Debtors	7	227	193
Cash at bank and in hand		673	739
		<u>919</u>	<u>955</u>
<b>Creditors: amounts falling due within one year</b>	8	(294)	(329)
<b>Net current assets</b>		<u>625</u>	<u>626</u>
<b>Net assets</b>		<u>625</u>	<u>626</u>
<b>Capital and reserves</b>			
Called-up share capital	9	9,000	9,000
Profit and loss account	10	(8,375)	(8,374)
<b>Equity shareholders' funds</b>	11	<u>625</u>	<u>626</u>

The notes on pages 8 to 13 form an integral part of the financial statements.

The financial statements were approved by the board of directors on 30 March 2005 and signed on its behalf.



D A MacKechnie  
Managing Director



R D Houghton  
Director

**NOTES TO THE ACCOUNTS**  
**for the year ended 31 December 2004**

---

**1. Accounting policies**

The following accounting policies have been applied in dealing with items which are considered material in relation to the Company's financial statements:

**1.1 Basis of accounting**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

**1.2 Turnover**

Turnover comprises sales of new and repurchased units and management fee income.

**1.3 Stocks of new and repurchased units**

The stocks of new and repurchased units are valued at the lower of cost and mid market value at the close of business on the balance sheet date.

**1.4 Investment income**

Interest receivable on deposits is recognised on an accruals basis.

**1.5 Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profit and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

**1.6 Pensions**

The pension scheme is operated by RBS Insurance Services Limited, a fellow subsidiary company of RBS Insurance Group Limited.

The Company has adopted the provisions of Financial Reporting Standard (FRS) 17 'Retirement Benefits' with effect from 1 January 2003. Further details are given in the accounting policies below and there is no effect as explained in note 12 to the accounts.

RBS Insurance Services Limited operates a defined contribution pension scheme and the pension scheme charges payable by the Company in respect of the year are charged to the profit and loss account.

RBS Insurance Services Limited also has a combined defined contribution and defined benefit scheme (see note 12) which is closed to regular contributions. The costs of providing defined pension contributions under this scheme have been assessed and charged to the profit and loss account in accordance with the advice of an independent professionally qualified actuary.

**NOTES TO THE ACCOUNTS**  
for the year ended 31 December 2004

**1.6 Pensions (continued)**

RBS Insurance Services Limited also provides other post-retirement benefits to certain directors and senior employees. The costs of these are charged to the profit and loss account of the Company.

**1.7 Cash flow statement**

Under the provisions of FRS 1 the Company has not provided a cash flow statement because its ultimate parent company, The Royal Bank of Scotland Group plc, will prepare consolidated financial statements covering the year which will contain a consolidated cash flow.

**2. Turnover**

The turnover arises from managing the Direct Line FT-SE<sup>®</sup> 100 and FT-SE<sup>®</sup> 4GOOD Tracker Funds which are sub-funds of the Direct Line Investment Funds Investment Company with Variable Capital (ICVC). Turnover comprises of £2,506,000 (2003: £3,563,000) from sales of new and repurchased units and £1,048,000 (2003: £937,000) management fee.

**3. Directors and employees**

During the financial year the directors and employees of the Company were employed by a subsidiary of Direct Line Group Limited.

All employee costs of the Company are borne by Direct Line Life Insurance Company Limited and recharged back to the Company.

	<b>2004 Number</b>	<b>2003 Number</b>
Average number of full time equivalent employees	<b>3</b>	<b>3</b>

The average number of full time equivalent employees is based on a proportion of time spent in respect of services to the Company.

Average number of total employees (including directors): -

	<b>2004 Number</b>	<b>2003 Number</b>
Clerical	<b>1</b>	<b>1</b>
Other	<b>2</b>	<b>2</b>
	<b>3</b>	<b>3</b>

The aggregate staff costs (including directors) were:

	<b>2004 £'000</b>	<b>2003 £'000</b>
Salaries and wages	<b>150</b>	<b>138</b>
Social security	<b>19</b>	<b>16</b>
Pension costs (see note 12)	<b>20</b>	<b>15</b>
Total	<b>189</b>	<b>169</b>

**NOTES TO THE ACCOUNTS**  
for the year ended 31 December 2004

**3. Directors and employees (continued)**

The above amounts include remuneration paid to directors of £37,000 (2003 Restated: £34,000), based on the proportion of time spent by the directors on the affairs of the Company. All directors are included in the pension scheme as described in note 12.

Restatement of the prior year balance (£58,000) was due to incorrect apportionment. This does not affect the profit in the period.

A management fee of £5,000 (2003: £14,000) has been charged by fellow group companies in respect of services provided by employees of these companies to Direct Line Unit Trusts Limited.

**4. Loss on ordinary activities before taxation**

	2004 £'000	2003 £'000
Loss on ordinary activities before taxation is arrived at after charging:		
Auditors' remuneration - audit fees	31	30

All operational expenses are borne by Direct Line Life Insurance Company Limited and recharged back to the Company.

**5. Taxation on loss on ordinary activities**

	2004 £'000	2003 £'000
Taxation on loss on ordinary activities		
UK corporation tax at 30%		
Current	-	10
Taxation credit	-	10

There is no deferred taxation.

**Reconciliation of tax credit**

	2004 £'000	2003 £'000
Loss on ordinary activities before tax	(1)	(34)
Tax on loss on ordinary activities at 30%	-	10
Current tax credit for the year	-	10

**6. Stock**

	As at 31/12/04 £'000	As at 31/12/03 £'000
Units held in manager's box	19	23

**NOTES TO THE ACCOUNTS**  
for the year ended 31 December 2004

**7. Debtors**

	As at 31/12/04 £'000	As at 31/12/03 £'000
Due from related parties	-	10
Other	227	183
	<u>227</u>	<u>193</u>

**8. Creditors**

	As at 31/12/04 £'000	As at 31/12/03 £'000
<b>Amounts falling due within one year</b>		
Due to related parties	37	127
Other	257	202
	<u>294</u>	<u>329</u>

**9. Called up share capital**

	As at 31/12/04 £'000	As at 31/12/03 £'000
Authorised, allotted, called up and fully paid 9 million (2003: 9 million) ordinary shares of £1 each	9,000	9,000

**10. Movements in reserves**

	As at 31/12/04 £'000	As at 31/12/03 £'000
Opening profit and loss account	(8,374)	(8,350)
Loss for the financial year	(1)	(24)
Closing profit and loss account	<u>(8,375)</u>	<u>(8,374)</u>

**11. Reconciliation of movements in shareholders' funds**

	As at 31/12/04 £'000	As at 31/12/03 £'000
Opening shareholders' funds	626	650
Loss for the financial year	(1)	(24)
Closing shareholders' funds	<u>625</u>	<u>626</u>

**NOTES TO THE ACCOUNTS**  
**for the year ended 31 December 2004**

---

**12. Pension Commitments**

RBS Insurance Services Limited ("RBSIS"), a fellow subsidiary company, operates the Direct Line Group Pension Scheme (1998) (the "1998 Scheme") on behalf of its employees. The 1998 Scheme is a money purchase arrangement with defined contribution levels. The assets of the 1998 Scheme are held separately from those of RBSIS and are invested in managed funds. The 1998 Scheme was renamed as the RBS Insurance Pension Scheme as at 1 January 2005. The contributions paid by RBSIS are charged to the profit and loss account of RBSIS.

The Company adopted FRS 17 'Retirement Benefits' with effect from 1 January 2003. The Company is a member of the RBS Insurance Pension Scheme. FRS 17 requires accounting on the basis that the Company participates in a defined contribution scheme because it is not possible to identify the assets and liabilities of the scheme attributable to the Company. This is no different to the basis used previously in accordance with SSAP 24 'Pension Costs'.

The pension charge in respect of the 1998 Scheme for the year was £20,000 (2003: £15,000).

On 1 April 1998 the 1998 Scheme replaced the Direct Line Group Staff Pension and Life Assurance Scheme (the "Staff Scheme"), a non-contributory defined benefit scheme. On 1 April 2003 the assets and liabilities of the Staff Scheme were transferred into the Green Flag Group Pension Plan (the "Green Flag Plan"). On the same date the Green Flag Plan was renamed as the Direct Line Group Closed Pension Scheme (the "Closed Scheme"). The Staff Scheme was a closed scheme, which continued to provide benefits based on final pensionable salary to pensioners and deferred members. The Staff Scheme was wound up on 10 December 2003. The Closed Scheme has no active members. The Closed Scheme continues to provide benefits for individuals that were pensioners at the time the scheme closed, defined benefit members based on their final pensionable salary at the time the member left the scheme and defined contribution benefits for other members. The liabilities of the Closed Scheme relate to payment of pensions and deferred pensions.

The assets of the Closed Scheme are held separately from those of RBSIS and are invested in managed funds. The most recent formal triennial valuation of the Staff Scheme, as at 1 October 2001 used the defined accrued benefit method. The most recent formal triennial valuation of the Green Flag Plan, as at 31 March 2003 used the defined accrued benefit method. A formal triennial valuation of the Closed Scheme is planned to be carried out as at 30 September 2005.

The most recent formal triennial actuarial valuation of the Staff Scheme showed that the market value of the assets of the managed funds was £15.1m (1998 valuation: £20.5m) and that the actuarial value of those assets represented 81% (1998 valuation: 85%) of the benefits that had accrued to members after allowing for expected future increases in salary. The 31 March 2003 valuation of the Green Flag Plan showed the market valuation of the assets of the managed funds for the defined benefit section was £4.7m (2000: £6.5m) and this represented 79% (2000: 103%) of the market value of the liabilities in respect of past service, allowing for projected future salary increases. No regular contributions were made to the Closed Scheme during the year. The overall RBSIS pension charge for the year includes £400,000 paid by RBSIS to the Green Flag Plan in order to align its funding on the Minimum Funding Requirement ("MFR") basis with that of the Staff Scheme. At the time of their merger, both the Staff Scheme and the Green Flag Plan were 113% funded on the MFR basis. Subsequent to the merger, £350,000 was paid by RBSIS as part of the overall group pension charge to the Closed Scheme. In 2004, £750,000 was paid to the Staff Scheme to enable its deficit to be eliminated over a period of time. Regular payments will continue to be made to allow the deficit to be eliminated.

**NOTES TO THE ACCOUNTS**  
**for the year ended 31 December 2004**

---

**12. Pension Commitments (*continued*)**

In accordance with FRS 17, a valuation of the Closed Scheme was prepared as at 31 December 2003 using actuarial bases and assumptions consistent with the requirements of that standard, and showed assets representing 63.2% of scheme liabilities. Details of the valuation as at 31 December 2004, including information on the existence of a surplus or deficit in the scheme at that date, are not yet available but will be given in the financial statements of RBS Insurance Services Ltd.

**13. Related party transactions**

The Company is exempt from the requirement of Financial Reporting Standard 8 'Related Party Disclosures' to disclose transactions and balances with other subsidiaries or investees of The Royal Bank of Scotland Group plc as the Company's results are included in the consolidated financial statements of The Royal Bank of Scotland Group plc.

There were no other related party transactions during the year or any amounts due to or from related parties outstanding at the balance sheet date.

**14. Immediate and ultimate parent company**

The Company's immediate parent company is Direct Line Life Holdings Limited.

The Company's ultimate holding company, ultimate controlling party, and the parent of the largest and smallest group into which the Company is consolidated is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh, EH2 2YE.