Direct Group Holdings Limited

Directors' report and consolidated financial statements

Registered number 4513083

31 January 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 January 2005.

Principal activities

Direct Group Holdings Limited is a holding company.

The group, which is headed by Direct Group Holdings Limited, provides insurance solutions to the finance and insurance markets in the UK.

Business review

The company was incorporated on 16 August 2002 and on 28 October 2002 Direct Group Holdings Limited acquired the entire share capital of Direct Group Limited. The 2004 comparatives in the financial statements are therefore for the 76 weeks ended 31 January 2004.

The directors are pleased with the group's performance with it generating an operating profit of £3,914,000 (2004:£3,305,000), giving a profit for the financial year of £1,567,000 (2004:£658,000). The group generated a net cash inflow from ordinary activities of £4,923,000 (2004:£5,526,000) and a decrease in cash in the year of £754,000 (2004:£2,391,000 increase).

The group strategy is to invest in quality staff, management and systems in order to meet its sales growth and provide a high quality added value service to its clients. The group continues to benefit from the substantial historical investment in infrastructure, which has established a scalable and resilient business model. Sales continue to grow through both new and existing clients combined with new product initiatives.

Direct Group Limited, a wholly owned subsidiary, is now FSA authorised in respect of general insurance. The directors believe that the group is well placed to meet the regulatory requirements of the FSA and the changes in the market that may arise.

Proposed dividend

The directors recommend payment of a final ordinary dividend of £8,000 (2004:£10,000) making, with the interim of £nil (2004:£nil) a total of £8,000 (2004:£10,000) for the year. The directors recommend payment of a final non-redeemable preference dividend of £44,000 (2004:£44,000) making, with the interim of £43,000 (2004:£65,000) and accrued dividends of £88,000 (2004:£108,000) a total of £175,000 (2004:£217,000) for the year.

Directors' report *(continued)*

Policy and practice on payment of creditors

The group's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

At the year-end, there were 27 days (2004: 24 days) purchases in trade creditors.

Directors and directors' interests

The directors who held office during the year were as follows:
ND Clack
GC Woodhead
SW Hough
JL Walker (Non-executive director)
RM Watson (Non-executive chairman)
PB Cartwright (appointed 30 April 2004)

The directors who held office at the end of the financial year had the following interests in Direct Group Holdings Limited, according to the register of directors' interests:

Director	Class of shares	Interest at end of year	Interest at beginning of year or date of appointment if later
ND Clack	£1 'A' ordinary	49,000	49,000
	1p 'B' ordinary	250	-
	£1 non-redeemable preference	2,849,000	2,849,000
GC Woodhead	£1 'A' ordinary	49,000	49,000
	1p 'B' ordinary	250	-
	£1 non-redeemable preference	2,849,000	2,849,000
SW Hough	1p 'B' ordinary	4,000	4,000
	£1 'D' ordinary	8	8
JL Walker	-	-	-
RM Watson	1p 'C' ordinary	2,000	2,000
PB Cartwright	-	-	-

Directors' report *(continued)*

Directors and directors' interests *(continued)*

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below.

In 2004, the company introduced the Enterprise Management Incentive Scheme, which offers share purchase options to directors. PB Cartwright was awarded 3,000 share options during the year at an exercise price of £0.01. The options are exercisable at the earliest of a change in control of the company, a listing date or otherwise at the discretion of the board. None of these options were exercised throughout the year.

Political and charitable contributions

The group made no political donations (2004:£nil) or charitable contributions (2004:£nil) during the year.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of KPMG LLP as auditors of the company.

By order of the board

ND Clack
Director

Direct House
4 Sidings Court
White Rose Way
Doncaster
DN4 5NU

27 May 2005

Statement of directors' responsibilities

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 and group and of the profit or loss for that year. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of Direct Group Holdings Limited

We have audited the financial statements on pages 6 to 23.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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 group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with 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 group'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 affairs of the company and the group as at 31 January 2005 and of the profit of the group for the year ended 31 January 2005 and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

27 May 2005

Consolidated profit and loss account
for the year ended 31 January 2005

	Note	**Year ended 31 January 2005 £000**	76 weeks ended 31 January 2004 £000
Turnover and gross profit	*1*	**8,909**	8,742
Administrative expenses		**(4,995)**	(5,437)
Group operating profit		**3,914**	3,305
Other interest receivable and similar income	*5*	**91**	57
Interest payable and similar charges	*6*	**(1,280)**	(1,782)
Profit on ordinary activities before taxation	*2*	**2,725**	1,580
Tax on profit on ordinary activities	*7*	**(1,158)**	(922)
Profit for the financial year		**1,567**	658
Dividends paid and proposed (including dividends on non-equity shares)	*8*	**(183)**	(227)
Retained profit for the year	*16*	**1,384**	431

The profit and loss account has been prepared on the basis that all operations are continuing operations.

The notes on pages 11 to 23 form an integral part of these financial statements.

There are no differences between the profit for the financial year reported above and the total recognised gains and losses relating to the financial year.

Consolidated balance sheet
at 31 January 2005

	Note	2005 £000	2005 £000	2004 £000	2004 £000
Fixed assets					
Intangible assets	*11*	20,076		21,208	
Tangible assets	*9*	697		717	
			20,773		21,925
Current assets					
Debtors	*12*	6,676		4,957	
Cash at bank and in hand		1,637		2,391	
		8,313		7,348	
Creditors: amounts falling due within one year	*13*	(9,351)		(7,816)	
Net current liabilities			(1,038)		(468)
Total assets less current liabilities			19,735		21,457
Creditors: amounts falling due after more than one year	*13*		(11,784)		(14,983)
Provisions for liabilities and charges	*14*		(42)		(37)
Net assets			7,909		6,437
Capital and reserves					
Called up share capital	*15*		5,890		5,890
Share premium account	*16*		8		8
Profit and loss account	*16*		1,815		431
Other reserves	*16*		196		108
Total shareholders' funds			7,909		6,437
Attributable to equity shareholders			2,015		631
Attributable to non-equity shareholders			5,894		5,806
Total shareholders' funds			7,909		6,437

The notes on pages 11 to 23 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 27 May 2005 and were signed on its behalf by:

SW Hough
Director

Company balance sheet
at 31 January 2005

	Note	**2005 £000**	**2005 £000**	2004 £000	2004 £000
Fixed assets					
Investments	*10*		**23,500**		23,500
Current assets					
Debtors	*12*	**11**		25	
Cash at bank and in hand		**10**		30	
		21		55	
Creditors: amounts falling due within one year	*13*	**(5,915)**		(2,398)	
Net current liabilities			**(5,894)**		(2,343)
Total assets less current liabilities			**17,606**		21,157
Creditors: amounts falling due after more than one year	*13*		**(11,428)**		(14,743)
Net assets			**6,178**		6,414
Capital and reserves					
Called up share capital	*15*		**5,890**		5,890
Share premium account	*16*		**8**		8
Profit and loss account	*16*		**84**		408
Other reserves	*16*		**196**		108
Total shareholders' funds			**6,178**		6,414
Attributable to equity shareholders			**284**		608
Attributable to non-equity shareholders			**5,894**		5,806
Total shareholders' funds			**6,178**		6,414

The notes on pages 11 to 23 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 27 May 2005 and were signed on its behalf by:

SW Hough
Director

Consolidated cash flow statement

for the year ended 31 January 2005

	Note	2005 £000	2004 £000
Cash flow from operating activities	*18*	**4,923**	5,526
Returns on investments and servicing of finance	*19*	**(762)**	(1,595)
Taxation		**(908)**	(751)
Capital expenditure	*19*	**(217)**	(168)
Acquisitions and disposals	*19*	**-**	(16,483)
Cash inflow/(outflow) before financing		**3,036**	(13,471)
Financing	*19*	**(3,790)**	15,862
(Decrease)/increase in cash in the year		**(754)**	2,391

Reconciliation of net cash flow to movement in net debt

	Note	2005	2004
(Decrease)/increase in cash in the year		**(754)**	2,391
Cash outflow/(inflow) from decrease/increase in debt and lease financing		**3,790**	(15,764)
Change in net debt resulting from cash flows		**3,036**	(13,373)
Other non-cash movements		**(375)**	(451)
Debt of businesses acquired		**-**	(200)
Movement in net debt in the year		**2,661**	(14,024)
Net debt at beginning of year		**(14,024)**	-
Net debt at end of year	*20*	**(11,363)**	(14,024)

The notes on pages 11 to 23 form an integral part of these financial statements.

Reconciliation of movements in shareholders' funds
for the year ended 31 January 2005

	Group 2005 £000	Group 2004 £000	**Company 2005 £000**	Company 2004 £000
Profit for the financial year	**1,567**	658	**(141)**	635
Dividends	**(183)**	(227)	**(183)**	(227)
Unpaid dividends accrued	**88**	108	**88**	108
	1,472	539	**(236)**	516
New share capital subscribed	**-**	5,898	**-**	5,898
Net addition to shareholders' funds	**1,472**	6,437	**(236)**	6,414
Opening shareholders' funds	**6,437**	-	**6,414**	-
Closing shareholders' funds	**7,909**	6,437	**6,178**	6,414

Notes
(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 January 2005. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill

Goodwill arising on the acquisition of businesses, being the excess of the fair value of the consideration payable over the fair value of the net assets acquired, is capitalised and amortised to the profit and loss account over its useful economic life. Goodwill capitalised on acquisition of businesses is written off on a straight line basis over a period of 20 years. Provision is made for any impairment.

Fixed asset investments

In the company's financial statements, investments in subsidiary undertakings are stated at cost less any amounts written off.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets on a straight line basis over their estimated useful economic lives as follows:

Computer software and hardware	-	10-33%
Fixtures and fittings	-	15%
Leased assets	-	life of lease

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover

Turnover represents the group's commission income earned on the brokering and administration of insurance policies, training income and the profit share and fund income on certain schemes and is credited to the profit and loss account over the life of the policy based on the cost profile of the work performed in respect of the policy.

Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

2 Profit on ordinary activities before taxation

	2005	2004
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
- audit services	**24**	30
- other services	**29**	27
Amortisation of goodwill	**1,132**	1,414
Depreciation and other amounts written off tangible fixed assets:		
Owned	**197**	232
Leased	**40**	124
Hire of other assets - operating leases	**-**	15

The auditors' remuneration included in the above relating to the company amounted to £6,000 (2004:£7,000).

3 Remuneration of directors

	2005	2004
	£000	£000
Directors' emoluments	**608**	726

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £257,500 (2004:£313,000) and company pension contributions of £nil (2004:£nil) were made on his behalf.

Notes *(continued)*

4 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2005	2004
Sales and marketing	**12**	11
Administration	**68**	59
	80	70

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	**2,204**	2,344
Social security costs	**209**	240
	2,413	2,584

5 Other interest receivable and similar income

	2005 £000	2004 £000
Bank interest	**86**	57
Other interest	**5**	-
	91	57

6 Interest payable and similar charges

	2005 £000	2004 £000
On bank loans and overdrafts	**917**	1,104
Bank charges	**9**	-
On all other loans	**351**	659
Finance charges payable in respect of finance leases and hire purchase contracts	**3**	18
On corporation tax payments	**-**	1
	1,280	1,782

Notes *(continued)*

7 Taxation

	2005 £000	2004 £000
UK corporation tax @ 30%		
Current tax on income for the year	**1,155**	887
Adjustments in respect of prior years	**(2)**	17
	1,153	904
Deferred tax *(see note 14)*	**5**	18
	1,158	922

The current tax charge for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £000	2004 £000
Profit on ordinary activities before tax	**2,725**	1,580
Current tax at 30%	**817**	474
Effects of:		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	**343**	431
Fixed asset timing differences	**2**	(18)
Other short-term timing differences	**(7)**	-
Adjustments to tax charge in respect of prior years	**(2)**	17
Total current tax charge (see above)	**1,153**	904

8 Dividends

	2005 £000	2004 £000
Equity shares:		
Final dividend payable	**8**	10
Other dividends on non-equity shares:		
Interim dividend paid	**43**	65
Final dividend payable	**44**	44
Unpaid dividend accrued	**88**	108
	175	217
	183	227

Half the 3% cumulative non-redeemable preference dividend is payable in two equal instalments on 31 January and 31 July in each year and the balance is accrued.

Notes *(continued)*

9 Tangible fixed assets

	Computer hardware and software £000	Fixtures, fittings, tools and equipment £000	Total £000
Group			
Cost			
At beginning of year	1,490	249	1,739
Additions	213	4	217
At end of year	1,703	253	1,956
Depreciation			
At beginning of year	844	178	1,022
Charge for year	202	35	237
At end of year	1,046	213	1,259
Net book value			
At 31 January 2005	**657**	**40**	**697**
At 31 January 2004	646	71	717

Included in the total net book value of tangible fixed assets of the group is £6,000 (2004:£46,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £40,000 (2004:£124,000).

The company held no tangible fixed assets in the year.

10 Fixed asset investments

	Shares in group undertakings £000
Company	
Cost and net book value	
At beginning and end of year	**23,500**

The company holds 100% of the ordinary share capital of the following group undertakings:

	Status and principal activity	*Holding*
Direct Group Limited	Trading - Insurance Solutions Provider	Direct
Direct Creditor Administration Limited	Dormant	Indirect
Direct Warranty Administration Limited	Dormant	Indirect
Direct Finance & Insurance Services Limited	Dormant	Indirect

Notes *(continued)*

11 Intangible Fixed Assets

Group

	Goodwill £000
Costs	
At beginning and end of year	22,622
Amortisation	
At beginning of year	1,414
Charge for the year	1,132
At end of year	2,546
Net book value	
At 31 January 2005	**20,076**
At 31 January 2004	21,208

12 Debtors

	Group 2005 £000	Group 2004 £000	**Company 2005 £000**	Company 2004 £000
Trade debtors	**6,491**	4,766	**-**	-
Prepayments and accrued income	**185**	191	**11**	25
	6,676	4,957	**11**	25

Notes *(continued)*

13 Creditors

	Group 2005 £000	Group 2004 £000	**Company 2005 £000**	Company 2004 £000
Amounts falling due within one year:				
Bank loans and overdrafts	**1,440**	1,354	**1,440**	1,354
Obligations under finance leases and hire purchase contracts	**10**	26	**-**	-
Trade creditors	**5,926**	4,840	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**4,193**	794
Corporation tax	**695**	450	**-**	-
Other taxation and social security	**74**	77	**-**	-
Other loans	**12**	15	**-**	-
Accruals and deferred income	**1,132**	1,000	**220**	196
Dividend proposed	**62**	54	**62**	54
	9,351	7,816	**5,915**	2,398
Amounts falling due after more than one year:				
Bank loans and overdrafts	**1,800**	5,490	1,800	5,490
Obligations under finance leases and hire purchase contracts	**-**	9	-	-
Other loans	**9,628**	9,265	9,628	9,253
Accruals and deferred income	**356**	219	-	-
	11,784	14,983	**11,428**	14,743
Total creditors	**21,135**	22,799	**17,343**	17,141

Analysis of loans:

	Group				**Company**			
	Bank loans 2005 £000	**Other 2005 £000**	**Total 2005 £000**	Total 2004 £000	**Bank loans 2005 £000**	**Other 2005 £000**	**Total 2005 £000**	Total 2004 £000
Loans can be analysed as falling due:								
In one year or less, or on demand	**1,550**	**12**	**1,562**	1,515	**1,550**	**-**	**1,550**	1,500
Between one and two years	**1,800**	**-**	**1,800**	1,562	**1,800**	**-**	**1,800**	1,550
Between two and five years	**-**	**9,628**	**9,628**	8,676	**-**	**9,628**	**9,628**	8,676
In five or more years	**-**	**-**	**-**	4,627	**-**	**-**	**-**	4,627
	3,350	**9,640**	**12,990**	16,380	**3,350**	**9,628**	**12,978**	16,353
Less: unamortised arrangement fees	**(110)**	**-**	**(110)**	(256)	**(110)**	**-**	**(110)**	(256)
	3,240	**9,640**	**12,880**	16,124	**3,240**	**9,628**	**12,868**	16,097

Notes *(continued)*

13 Creditors *(continued)*

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	Group 2005 £000	Group 2004 £000	**Company 2005 £000**	Company 2004 £000
Within one year	**10**	28	-	-
In the second to fifth years	-	10	-	-
	10	38	-	-
Less future finance charges	-	(3)	-	-
	10	35	-	-

Bank loan interest

On 28 October 2002, the company received a £9,100,000 bank loan. The balance on this loan as at 31 January 2005 was £3,350,000 (2004:£7,100,000). The interest on the bank loan is based on a fixed 1.75% margin over LIBOR.

On 28 October 2002, the company entered into a £8,802,000 Unsecured Series A Loan Note Instrument 2010. The interest on the loan notes is a fixed rate of 8% of which 4% is paid and 4% is capitalised on to the loan note balance. Consequently the loan note obligation had increased to £9,628,000 (2004:£9,253,000) as at 31 January 2005.

Interest rate hedging

At 31 January 2005, the group held a conventional interest rate cap covering bank loans of £4,575,000 (2004:£5,700,000) at a cap of 5.5%.

14 Provisions for liabilities and charges

	Group 2005 £000	Group 2004 £000	**Company 2005 £000**	Company 2004 £000
Deferred tax:				
At beginning of year	**37**	19	-	-
Charge to the profit and loss for the year	**5**	18	-	-
At end of year	**42**	37	-	-

The amounts provided for deferred taxation and the amounts not provided are set out below:

Group

	2005 Provided £000	**2005 Unprovided £000**	2004 Provided £000	2004 Unprovided £000
Deferred tax:				
Difference between accumulated depreciation and amortisation and capital allowances	**60**	-	62	-
Other timing differences	**(18)**	-	(25)	-
	42	-	37	-

The company had no provided or unprovided deferred tax.

Notes *(continued)*

15 Called up share capital

	2005	2004
	£	£
Authorised		
Equity		
94,000 Preferred ordinary shares of £1 each	**94,000**	94,000
108,000 A ordinary shares of £1 each	**108,000**	108,000
6,000 B ordinary shares of £0.01 each	**60**	60
5,000 C ordinary shares of £0.01 each	**50**	20
24 D ordinary shares of £1 each	**24**	24
	202,134	202,104
Non-equity		
5,698,000 3% cumulative non-redeemable preference shares of £1 each	**5,698,000**	5,698,000
Allotted, called up and fully paid		
Equity		
94,000 Preferred ordinary shares of £1 each	**94,000**	94,000
98,000 A ordinary shares of £1 each	**98,000**	98,000
6,000 B ordinary shares of £0.01 each	**60**	60
2,000 C ordinary shares of £0.01 each	**20**	20
24 D ordinary shares of £1 each	**24**	24
	192,104	192,104
Non-equity		
5,698,000 3% cumulative non-redeemable preference shares of £1 each	**5,698,000**	5,698,000

Notes *(continued)*

15 Called up share capital *(continued)*

Preferred ordinary shares of £1 each

The preferred ordinary shareholders are entitled to a fixed cumulative preference dividend ('Fixed Dividend') at a rate of 4% per annum per share payable half yearly in equal amounts on 31 January and 31 July. For financial years beginning on or after 1 February 2007 the shareholders are entitled to a cumulative preferential net cash dividend which is equal to 10% of profit on ordinary activities before taxation for the relevant financial year increasing by 3% each subsequent financial year up to a maximum of 19%, subject to the prior payment of the Preferred Dividend, Fixed Dividend and Fixed Ordinary Dividend.

On a return of capital on a winding up, or otherwise, the preferred ordinary shares participate pari passu with the A, B and C ordinary shares.

The redeemable preferred ordinary shares carry one vote per share.

A ordinary shares of £1 each

The A ordinary shareholders are entitled to a fixed cumulative preference dividend ('Fixed Ordinary Dividend') at a rate of 4% per annum per share payable half yearly in equal amounts on 31 January and 31 July.

On a return of capital on winding up, or otherwise, the A ordinary shares participate pari passu with the preferred ordinary shares and the B and C ordinary shares.

The A ordinary shares carry one vote per share.

B and C ordinary shares of £0.01 each

The B and C ordinary shareholders are entitled to a fixed cumulative preference dividend ('Fixed Ordinary Dividend') at a rate of 4% per annum per share payable half yearly in equal amounts on 31 January and 31 July.

On a return of capital on winding up, or otherwise, the B and C ordinary shares participate pari passu with the preferred ordinary shares and the A ordinary shares.

The B and C ordinary shares carry no voting rights.

D ordinary shares of £1 each

The D ordinary shares have no dividend rights.

On a sale of the company, the consideration is initially distributed to the A, B, C and preferred ordinary shareholders, the fraction of which is based on certain specific investment criteria, with the D ordinary shareholders being the sole recipients of the next £1,000,000 of value. The D shareholders are then entitled to 4% of the consideration thereafter, pari passu with the entitlements of the A, B, C and preferred ordinary shareholders.

The D ordinary shares have no voting rights.

3% cumulative non-redeemable preference shares of £1 each

The cumulative non-redeemable preference shareholders are entitled to a fixed cumulative preference dividend ('Preferred Dividend') at a value of 3% per annum per share half payable in equal amount on 31 January and 31 July and half accrued.

On a return of capital on winding up, or otherwise, the 3% cumulative non-redeemable preference shareholders are entitled to a return of the nominal value plus any accrued dividend in advance of any return to the equity shareholders.

The cumulative non-redeemable preference shares have no voting rights.

Notes *(continued)*

16 Reserves

	Profit and loss account £000	Share premium account £000	Other reserves £000	Total £000
Group				
At beginning of year	431	8	108	547
Unpaid dividends accrued	-	-	88	88
Retained profit for the year	1,384	-	-	1,384
	1,815	**8**	**196**	**2,019**
Company				
At beginning of year	408	8	108	524
Unpaid dividend accrued	-	-	88	88
Retained profit for the year	(324)	-	-	(324)
	84	**8**	**196**	**288**

17 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2005 Land and buildings £000	**2005 Other £000**	2004 Land and buildings £000	2004 Other £000
Group				
Operating leases which expire:				
Within one year	-	-	3	-
In the second to fifth years inclusive	-	-	-	-
Over five years	**149**	-	129	-
	149	-	132	-

The company has no annual commitments under non-cancellable operating leases.

18 Reconciliation of operating profit to operating cash flows

	2005 £000	2004 £000
Group operating profit	**3,914**	3,305
Depreciation and amortisation	**1,369**	1,770
Increase in debtors	**(1,712)**	(1,431)
Increase in creditors	**1,352**	1,882
Net cash inflow from operating activities	**4,923**	5,526

Notes *(continued)*

19 Analysis of cash flows

	2005 £000	2004 £000
Returns on investment and servicing of finance		
Interest received	**84**	57
Interest paid	**(756)**	(1,569)
Interest element of finance lease rental payments	**(3)**	(18)
Non-equity dividends	**(87)**	(65)
	(762)	(1,595)
Capital expenditure		
Purchase of tangible fixed assets	**(217)**	(182)
Disposal of tangible fixed assets	-	14
	(217)	(168)
Acquisitions and disposals		
Purchase of subsidiary undertaking	-	(17,700)
Cash acquired with subsidiary	-	1,217
	-	(16,483)
Financing		
New bank loans	-	9,100
New loan notes	-	8,802
Repayment of bank loans	**(3,750)**	(2,000)
Reduction in short-term borrowing	**(15)**	(24)
Capital element of finance lease rental payments	**(25)**	(114)
	(3,790)	15,764
Issue of ordinary share capital	-	98
	(3,790)	15,862

Notes *(continued)*

20 Analysis of net funds

	At beginning of year £000	Cash flow £000	Other non cash changes £000	**At end of year £000**
Cash at bank and in hand	2,391	(754)	-	**1,637**
Debt due within one year	(1,515)	1,515	(1,562)	**(1,562)**
Debt due after one year	(14,865)	2,250	1,187	**(11,428)**
Finance leases	(35)	25	-	**(10)**
	(16,415)	3,790	(375)	**(13,000)**
Total	(14,024)	3,036	(375)	**(11,363)**

21 Post balance sheet events

On 5 May 2005 a re-structuring of the company's share capital was completed to re-allocate the shareholding of RD Collins, a director of Direct Group Limited, a wholly owned subsidiary, following his resignation in the year.

The company's 24 £1 'D' ordinary shares were sub-divided into 2,400 1p shares and re-allocated, with directors ND Clack and GC Woodhead receiving 125 shares each.

There was no effect upon the monetary value of authorised or allotted share capital.

22 Related party transactions

There are no related party transactions requiring disclosure under Financial Reporting Standard 8, Related Party Disclosures.