**Direct Group Holdings Limited**

# Directors' report and financial statements

Registered number 4513083

31 January 2006

# Contents

# Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 January 2006.

### Principal activities

Direct Group Holdings Limited is a holding company.

### Business review

The company generated an operating loss of £69,000 (2005:£124,000) and a profit for the financial year of £382,000 (2005:£609,000).

On 5 July 2005 the entire share capital of the company was acquired by Direct Group Investment Limited. The consolidated results of the enlarged group are reported in Direct Group Investment Limited.

### Dividends

The directors recommend payment of a final ordinary dividend of £nil (2005:£8,000) making, with the interim of £nil (2005:£nil) a total of £nil (2005:£8,000) for the year.

Unpaid ordinary dividends of £18,005 were subsequently waived in the year following the purchase of the company's entire share capital by Direct Group Investment Limited.

The directors recommend payment of a final non-redeemable preference dividend of £nil (2005:£44,000) making, with the interim of £nil (2005:£43,000) and accrued non-redeemable preference dividends of £58,779 (2005:£88,000) a total of £58,779 (2005:£175,000) for the year.

Unpaid preference dividends of £254,813 were subsequently waived in the year following the purchase of the company's entire share capital by Direct Group Investment Limited.

### Policy and practice on payment of creditors

The company'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 nil days (2005: nil days) purchases in trade creditors.

# Directors' report *(continued)*

### 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)(resigned 5 July 2005)

RM Watson (Non-executive chairman) (resigned 5 July 2005)

PB Cartwright (resigned 31 March 2006)

The directors who held office at the end of the financial year had the following interests in the share capital of the company, according to the register of directors' interests:

| Director | Class of shares | Interest at end of year | Interest at beginning of year |
|---|---|---|---|
| ND Clack | £1 A ordinary | - | 49,000 |
| | £1 non-redeemable preference | - | 2,849,000 |
| GC Woodhead | £1 A ordinary | - | 49,000 |
| | £1 non-redeemable preference | - | 2,849,000 |
| SW Hough | 1p B ordinary | - | 4,000 |
| | 1p D ordinary | - | 800 |
| RJ Bowe | 1p B ordinary | - | 1,000 |
| | 1p D ordinary | - | 300 |
| PB Cartwright | - | - | - |

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

| Director | Class of shares | Interest at end of year | Interest at beginning of year |
|---|---|---|---|
| ND Clack | £1 A ordinary | 207,500 | - |
| GC Woodhead | £1 A ordinary | 207,500 | - |
| SW Hough | £1 B ordinary | 75,000 | - |
| RM Watson | £1 B ordinary | 20,000 | - |
| PB Cartwright | £1 B ordinary | 75,000 | - |

## Directors' report *(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.

On 29 September 2004, the company introduced the Enterprise Management Incentive Scheme, which offers share purchase options to directors. On this date PB Cartwright was awarded 3,000 share options 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. These options were therefore exercised upon the sale of the company to Direct Group Investment Limited on 5 July 2005.

**Political and charitable contributions**

The company made no political donations (2005:£nil) or charitable contributions (2005:£nil) during the year.

**Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Auditors**

The company's auditor KPMG LLP was replaced by KPMG Audit Plc in the year. In their Statement of Circumstances dated 16 January 2006, KPMG LLP have confirmed that 'in accordance with section 394 of the Companies Act 1985, that there are no circumstances connected with our ceasing to hold office that we consider should be brought to the attention of the company's members or creditors.'

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 Audit Plc as auditors of the company.

By order of the board

**ND Clack**
*Director*

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

5 October 2006

## Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a directors' report that complies with that law.

# Independent auditors' report to the members of Direct Group Holdings Limited

We have audited the financial statements of Direct Group Holdings Limited for the year ended 31 January 2006 which comprise the profit and loss account, the balance sheet, the statement of movements in shareholders' funds and the related notes. 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 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**

As described in the statement of directors' responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

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

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

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 January 2006 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

**KPMG Audit Plc**
*Chartered Accountants*
*Registered Auditor*

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

5 October 2006

# Profit and loss account
*for the year ended 31 January 2006*

| | Note | 2006 £000 | 2005 As restated £000 |
|---|---|---|---|
| **Turnover and gross profit** | *1* | **311** | 618 |
| Administrative expenses | | **(380)** | (742) |
| **Operating loss** | | **(69)** | (124) |
| Other interest receivable and similar income | *5* | **1,250** | 2,000 |
| Interest payable and similar charges | *6* | **(799)** | (1,267) |
| **Profit on ordinary activities before taxation** | *2* | **382** | 609 |
| Tax on profit on ordinary activities | *7* | **-** | - |
| **Profit for the financial year** | | **382** | 609 |

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

The notes on pages 9 to 18 form an integral part of these financial statements.

As more fully explained in note 1, classifications of dividends and finance charges on shares are determined on different bases in 2006 and 2005 due to the transitional provisions of FRS 25. The introduction of FRS 21in respect of the recognition of dividends has resulted in the restatement of the 2005 numbers.

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.

# Balance sheet
***at 31 January 2006***

| | *Note* | **2006** | **2006** | 2005 As restated | 2005 As restated |
|---|---|---|---|---|---|
| | | **£000** | **£000** | £000 | £000 |
| **Fixed assets** | | | | | |
| Investments | *9* | | **23,500** | | 23,500 |
| **Current assets** | | | | | |
| Debtors | *10* | **-** | | 11 | |
| Cash at bank and in hand | | **5** | | 10 | |
| | | **5** | | 21 | |
| **Creditors:** amounts falling due within one year | *11* | **(17,373)** | | (6,147) | |
| **Net current liabilities** | | | **(17,368)** | | (6,126) |
| **Total assets less current liabilities** | | | **6,132** | | 17,374 |
| **Creditors:** amounts falling due after more than one year | *11* | **-** | | (11,428) | |
| Preference share capital classified as liabilities | *12* | **(5,698)** | | - | |
| | | | **(5,698)** | | (11,428) |
| **Net assets** | | | **434** | | 5,946 |
| **Capital and reserves** | | | | | |
| Called up share capital | *12* | | **187** | | 5,890 |
| Share premium account | *13* | | **13** | | 8 |
| Profit and loss account | *13* | | **234** | | (148) |
| Other reserves | *13* | | **-** | | 196 |
| **Total shareholders' funds** | | | **434** | | 5,946 |
| **Attributable to equity shareholders** | | | **434** | | 52 |
| **Attributable to non-equity shareholders** | | | **-** | | 5,894 |
| **Total shareholders' funds** | | | **434** | | 5,946 |

The notes on pages 9 to 18 form an integral part of these financial statements.

As more fully explained in note 1, classifications of financial liabilities or as shareholders' funds are determined on different bases in 2006 and 2005 due to the transitional provisions of FRS 25. The introduction of FRS 21in respect of the recognition of dividends has resulted in the restatement of the 2005 numbers.

These financial statements were approved by the board of directors on 5 October 2006 and were signed on its behalf by:

**SW Hough**
*Director*

# Reconciliation of movements in shareholders' funds
***for the year ended 31 January 2006***

| | 2006 | 2005 |
|---|---|---|
| | | As restated |
| | £000 | £000 |
| **Profit for the financial year** | **382** | 609 |
| Dividends on shares classified in shareholders' funds (2005: on FRS 4 shares) *(see note 8)* | **-** | (175) |
| Unpaid preference dividends accrued | **-** | 88 |
| | **382** | 522 |
| New share capital subscribed | **13** | - |
| Redemption of shares | **(13)** | - |
| **Net addition to shareholders' funds** | **382** | 522 |
| Opening shareholders' funds – as previously reported | **6,178** | 6,414 |
| Prior year adjustment *(see note 1)* | **(232)** | (990) |
| Opening shareholders' funds – as restated | **5,946** | 5,424 |
| Effect of adoption of FRS 25 on 1 February 2005: | | |
| Reclassification of non-redeemable preference shares | **(5,698)** | - |
| Reclassification of unpaid dividends on non-redeemable preference shares | **(196)** | - |
| Opening shareholders' funds – as restated for FRS 25 | **52** | 5,424 |
| **Closing shareholders' funds** | **434** | 5,946 |

# Notes
*(forming part of the financial statements)*

## 1 Accounting policies

The principal accounting policies are set out below and have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: disclosure and presentation'; and
- FRS 28 'Corresponding amounts'.

The implementation of FRS 28 has had no significant effect on the company's existing disclosures.

FRS 25 permits the corresponding amounts not to be restated and the company has adopted this approach. The financial instruments policy set out below provides further details of the 2006 and 2005 bases and of the change reflected on 1 February 2005.

The impact of FRS 21 is described in the dividends policy note below.

***Basis of preparation***

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

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As all of the company's voting rights are controlled within the group headed by Direct Group Investment Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Direct Group Investment Limited, within which this company is included, can be obtained from Companies House.

***Fixed asset investments***

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

***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.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

***Turnover***

Turnover represents the company's management fees charged to a wholly owned subsidiary, Direct Group Limited, for services provided by the company's directors.

## *Notes (continued)*

### 1 Accounting policies *(continued)*

***Classification of financial instruments issued by the company***

Following the adoption of FRS 25, financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividend policy) are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

The company has taken advantage of the transitional arrangements of FRS 25 not to restate corresponding amounts in accordance with the above policy. The adjustments necessary to implement this policy have been made as at 1 February 2005 with the net adjustment to net assets taken through the 2006 reconciliation of movements in shareholders' funds. Corresponding amounts for 2005 are presented and disclosed in accordance with the requirement of FRS 4 (as applicable in 2005).

The effect of the new policy is the reclassification of the £5,698,000 3% cumulative non-redeemable preference shares from shareholders' funds to liabilities and £58,779 of unpaid preference dividends accrued are disclosed within interest payable and similar charges. If we had adopted this policy in 2005, the effect would be to reclassify £5,698,000 3% cumulative non-redeemable preference shares and £196,034 of unpaid preference dividends accrued to 31 January 2005 from shareholders' funds to liabilities.

In the current year £254,813 of unpaid preference dividends waived are disclosed as a credit within interest payable and similar charges.

***Dividends***

Following the adoption of FRS 21, dividends payable or receivable are accounted for in the period in which the company is liable to pay or receive them, rather than in the period in respect of which they are declared.

Dividends payable are treated as a charge on reserves and accounted for through the reconciliation of movements in shareholders' funds rather than in the profit and loss account as previously. Dividends receivable are treated as a credit to the profit and loss account within the heading 'interest receivable and other income'.

The comparative figures for the year ended 31 January 2005 have been restated to reflect this change in accounting policy.

The effect of the above changes on the reported net assets of the company is as follows:

| | **2006** | 2005 | 2004 |
|---|---|---|---|
| | **£000** | £000 | £000 |
| As reported under previous UK GAAP | **434** | 6,178 | 6,414 |
| Less: dividends receivable not accounted for until received | - | (250) | (1,000) |
| Add: dividends payable not accounted for until declared and paid | - | 18 | 10 |
| As reported under revised UK GAAP | **434** | 5,946 | 5,424 |

# Notes *(continued)*

## 2 Profit on ordinary activities before taxation

| | 2006 | 2005 |
|---|---|---|
| | **£000** | £000 |
| *Profit on ordinary activities before taxation is stated after charging:* | | |
| Auditors' remuneration: | | |
| - audit services | **1** | 2 |
| - other services: fees receivable by the auditors and their associates | **10** | 4 |

## 3 Remuneration of directors

| | 2006 | 2005 |
|---|---|---|
| | **£00** | £000 |
| Directors' emoluments | **348** | 608 |

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £110,510 (2005:£257,500) and company pension contributions of £nil (2005:£nil) were made on his behalf.

## 4 Staff numbers and costs

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

| | Number of employees | |
|---|---|---|
| | **2006** | 2005 |
| Sales and marketing | **-** | - |
| Administration | **4** | 4 |
| | **4** | 4 |

The aggregate payroll costs of these persons were as follows:

| | 2006 | 2005 |
|---|---|---|
| | **£000** | £000 |
| Wages and salaries | **321** | 608 |
| Social security costs | **37** | 74 |
| | **358** | 682 |

## 5 Other interest receivable and similar income

| | 2006 | 2005 |
|---|---|---|
| | | As restated |
| | **£000** | £000 |
| Dividend income | **1,250** | 2,000 |

# Notes *(continued)*

## 6 Interest payable and similar charges

| | **2006** | 2005 |
|---|---|---|
| | **£000** | £000 |
| Finance charges on shares classified as liabilities | **59** | - |
| Finance charges waived on shares classified as liabilities | **(255)** | - |
| On bank loans and overdrafts | **210** | 517 |
| On all other loans | **785** | 750 |
| | **799** | 1,267 |

Of the above amount, £464,000 (2005: £nil) was payable to group undertakings.

As more fully explained in note 1, classifications of payments/charges as interest payable and similar charges are determined on different bases in 2006 and 2005 due to the transitional provisions of FRS 25.

## 7 Taxation

| | **2006** | 2005 |
|---|---|---|
| | **£000** | £000 |
| *UK corporation tax @ 30%* | | |
| Current tax on income for the year | - | - |
| Adjustments in respect of prior years | - | - |
| | - | - |
| Deferred tax | - | |
| | - | - |

The current tax charge for the year is lower (2005: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

| | **2006** | 2005 |
|---|---|---|
| | | As restated |
| | **£000** | £000 |
| Profit on ordinary activities before tax | **382** | 609 |
| Current tax at 30% | **115** | 183 |
| *Effects of:* | | |
| Expenses not deductible for tax purposes | **(59)** | 9 |
| Income not taxable | **(375)** | (600) |
| Utilisation of group tax losses | **319** | 408 |
| **Total current tax charge (see above)** | - | - |

# Notes *(continued)*

## 8 Dividends

| | 2006 | 2005 As restated |
|---|---|---|
| | **£000** | £000 |
| *Recognised as financial distributions in the year* | | |
| *Equity shares:* | | |
| Final dividends in respect of prior years but not recognised as a liability at the year end | **18** | - |
| Prior year dividends waived in the year | **(18)** | - |
| | - | - |
| *Non-equity shares:* | | |
| Interim dividend paid | - | 43 |
| Final dividend payable | - | 44 |
| Unpaid dividends accrued | - | 88 |
| | - | 175 |
| | - | 175 |
| *Paid and proposed in respect of the year* | | |
| *Equity shares* | | |
| Interim dividend paid | - | - |
| Final dividend proposed | - | 8 |
| | - | 8 |
| *Non-equity shares:* | | |
| Interim dividend paid | - | 43 |
| Final dividend payable | - | 44 |
| Unpaid dividends accrued | - | 88 |
| | - | 175 |
| | - | 183 |

As more fully explained in note 1, classifications of dividends and finance charges on shares are determined on different bases in 2006 and 2005 due to the transitional provisions of FRS 25.

Prior to the preference shares being purchased by Direct Group Investment Limited on 5 July 2005, half the 3% cumulative non-redeemable preference dividend was payable in two equal instalments on 31 January and 31 July in each year and the balance was accrued. After 5 July 2005 no further interest was accrued.

# Notes *(continued)*

## 9 Fixed asset investments

| | **Shares in group undertakings £000** |
|---|---|
| ***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, all of which were incorporated in England and Wales:

| | *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 |

## 10 Debtors

| | **2006 £000** | 2005 £000 |
|---|---|---|
| Prepayments and accrued income | **-** | 11 |

## 11 Creditors

| | **2006** <br> **£000** | 2005 As restated £000 |
|---|---|---|
| *Amounts falling due within one year:* | | |
| Bank loans and overdrafts | **-** | 1,440 |
| Amounts owed to group undertakings | **17,367** | 4,443 |
| Corporation tax | **-** | - |
| Accruals and deferred income | **6** | 220 |
| Dividends payable | **-** | 44 |
| | **17,373** | 6,147 |

# Notes *(continued)*

## 11 Creditors *(continued)*

| | **2006** | 2005 |
|---|---|---|
| | **£000** | £000 |
| *Amounts falling due after more than one year:* | | |
| Bank loans and overdrafts | - | 1,800 |
| Other loans | - | 9,628 |
| | - | 11,428 |
| **Total creditors** | **17,373** | 17,575 |

As more fully explained in note 1, classifications of financial liabilities are determined on different bases in 2006 and 2005 due to the transitional provisions of FRS 25.

**Analysis of debt:**

| | **Bank loans** | **Other** | **Total** | Bank loans | Other | Total |
|---|---|---|---|---|---|---|
| | **2006** | **2006** | **2006** | 2005 | 2005 | 2005 |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| *Debt can be analysed as falling due:* | | | | | | |
| In one year or less, or on demand | - | - | - | 1,550 | - | 1,550 |
| Between one and two years | - | - | - | 1,800 | - | 1,800 |
| Between two and five years | | - | - | - | 9,628 | 9,628 |
| | - | - | - | 3,350 | 9,628 | 12,978 |
| Less: unamortised arrangement fees | - | - | - | (110) | - | (110) |
| | - | - | - | 3,240 | 9,628 | 12,868 |

**Bank loan interest**

On 28 October 2002 the company received a £9,100,000 bank loan. The interest on the bank loan is based on a fixed 1.75% margin over LIBOR. The bank loan was repaid in full on 5 July 2005 following the purchase of the company by Direct Group Investment Limited.

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 was a fixed rate of 8% of which 4% was paid and 4% was capitalised on to the loan note balance, prior to the loan notes being acquired by Direct Group Investment Limited on 5 July 2005. After this date interest on the loan note balance at a fixed rate of 8% continued to accrue with none being paid, resulting in a loan note obligation of £9,949,000 (2005:£9,628,000) to Direct Group Investment Limited as at 31 January 2006.

# Notes *(continued)*

## 12 Called up share capital

| | 2006 £ | 2005 £ |
|---|---|---|
| ***Authorised*** | | |
| *Equity* | | |
| Preferred ordinary shares of £1 each | **94,000** | 94,000 |
| A ordinary shares of £1 each | **108,000** | 108,000 |
| B ordinary shares of £0.01 each | **60** | 60 |
| C ordinary shares of £0.01 each | **50** | 50 |
| D ordinary shares of £0.01 each | **24** | 24 |
| | **202,134** | 202,134 |
| *Non-equity* | | |
| 3% cumulative non-redeemable preference shares of £1 each | **5,698,000** | 5,698,000 |
| ***Allotted, called up and fully paid*** | | |
| *Equity* | | |
| Preferred ordinary shares of £1 each | **82,181** | 94,000 |
| A ordinary shares of £1 each | **104,289** | 98,000 |
| B ordinary shares of £0.01 each | **60** | 60 |
| C ordinary shares of £0.01 each | **50** | 20 |
| D ordinary shares of £0.01 each | **24** | 24 |
| | **186,604** | 192,104 |
| *Non-equity shares classified as liabilities in 2006* | | |
| 3% cumulative non-redeemable preference shares of £1 each | **5,698,000** | 5,698,000 |

As more fully explained in note 1, classifications within shareholders' funds are determined on different bases in 2006 and 2005 due to the transitional provisions of FRS 25.

### Preferred ordinary shares of £1 each

Prior to a change in the company's articles of association on 5 July 2005, the preferred ordinary shareholders were 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 were 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.

Following the acquisition of the company's entire share capital by Direct Group Investment Limited on 5 July 2005, any dividends accrued and not paid were waived and the company's articles of association were changed to remove the dividend rights of these shares and to ensure that on a return of capital on a winding up, or otherwise, the preferred ordinary shares participate pari passu with the A, B, C and D ordinary shares.

The redeemable preferred ordinary shares carry one vote per share.

## Notes *(continued)*

### 12 Called up share capital *(continued)*

**A ordinary shares of £1 each**

Prior to a change in the company's articles of association on 5 July 2005, the A ordinary shareholders were 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.

Following the acquisition of the company's entire share capital by Direct Group Investment Limited on 5 July 2005, any dividends accrued and not paid were waived and the company's articles of association were changed to remove the dividend rights of these shares and to ensure that on a return of capital on winding up, or otherwise, the A ordinary shares participate pari passu with the preferred, B, C and D ordinary shares.

The A ordinary shares carry one vote per share.

**B and C ordinary shares of £0.01 each**

Prior to a change in the company's articles of association on 5 July 2005, the B and C ordinary shareholders were 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.

Following the acquisition of the company's entire share capital by Direct Group Investment Limited on 5 July 2005, any dividends accrued and not paid were waived and the company's articles of association were changed to remove the dividend rights of these shares and to ensure that on a return of capital on winding up, or otherwise, the B and C ordinary shares participate pari passu with the preferred, A and D ordinary shares.

The B and C ordinary shares carry no voting rights.

**D ordinary shares of £0.01 each**

Prior to a change in the company's articles of association on 5 July 2005, on a sale of the company the consideration was to be initially distributed to the preferred, A, B and C 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 were then entitled to 4% of the consideration thereafter, pari passu with the entitlements of the preferred, A, B and C ordinary shareholders.

Following the acquisition of the company's entire share capital by Direct Group Investment Limited on 5 July 2005, any dividends accrued and not paid were waived and the company's articles of association were changed to remove the capital rights on sale to exchange so that they rank pari passu to the preferred, A, B and C ordinary shares.

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.

Following the acquisition of the company's entire share capital by Direct Group Investment Limited on 5 July 2006, any dividends accrued and not paid were waived.

Following the adoption of FRS 25, the cumulative non-redeemable preference shares have been reclassified from shareholders' funds to liabilities in 2006. The company has taken advantage of the transitional arrangements of FRS 25 not to restate corresponding amounts in accordance with the accounting policy described in note 1.

## Notes *(continued)*

### 13 Share premium and reserves

| | Profit and loss account | Share premium account | Other reserves | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| At beginning of year – as previously reported | 84 | 8 | 196 | 288 |
| Prior year adjustment *(see note 1)* | (232) | - | - | (232) |
| At beginning of year – as restated | (148) | 8 | 196 | 56 |
| Effect of adoption of FRS 25 on 1 February 2005 | - | - | (196) | (196) |
| Share premium upon issue of shares | - | 6 | - | 6 |
| Share premium upon redemption of shares | - | (1) | - | (1) |
| Retained profit for the year | 382 | - | - | 382 |
| **At end of year** | **234** | **13** | - | **247** |

As more fully explained in note 1, classifications within shareholders' funds are determined on different bases in 2006 and 2005 due to the transitional provisions of FRS 25. The adjustments to reserves to reflect this new policy, and its consequential effects on the profit and loss account, are dealt with as a movement, above, in 2006.

### 14 Commitments

The company did not have any capital or financial commitments as at 31 January 2006 and 31 January 2005.

### 15 Ultimate parent company

The entire share capital of the company was acquired by Direct Group Investment Limited on 5 July 2005. Consequently the company is a subsidiary undertaking of Direct Group Investment Limited, incorporated in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Direct Group Investment Limited, incorporated in England and Wales. The consolidated accounts of this group are available to the public and may be obtained from Direct House, 4 Sidings Court, Doncaster, DN4 5NU.