

**Direct Group Holdings Limited**

**Directors' report and financial  
statements**

**Registered number 4513083**

**31 January 2007**



## Contents

Directors' report	1
Statement of directors' responsibilities in respect of the directors' report and the financial statements	3
Independent auditors' report to the members of Direct Group Holdings Limited	4
Profit and loss account	1
Balance sheet	1
Reconciliation of movements in shareholders' funds	1
Notes	1-15

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 January 2007

### Principal activities

Direct Group Holdings Limited is a holding company

### Business review

The company generated an operating loss of £5,000 (2006 £69,000) and a loss for the financial year of £801,000 (2006 profit £382,000)

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 (2006 £ nil) making, with the interim of £nil (2006 £nil) a total of £nil (2006 £nil) for the year

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

On 31 January 2007 the company's articles of association were changed to redesignate the 3% cumulative non-redeemable preference shares as ordinary shares, thus removing the dividend rights of the shares, the preference shares are reclassified as ordinary shares as a result. Consequently there is no final non-redeemable preference dividend due (2006 £ nil) making, with the interim of £nil (2006 £ nil) and accrued non-redeemable preference dividends of £nil (2006 £58,779) a total of £nil (2006 £58,779) for the year

Unpaid preference dividends of £254,813 were waived in the previous 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 (2006 nil days) purchases in trade creditors

### Directors

The directors who held office during the year and up to the date of this report were as follows

ND Clack

GC Woodhead

SW Hough

PB Cartwright (resigned 31 March 2006)

### Political and charitable contributions

The company made no political donations (2006 £nil) or charitable contributions (2006 £nil) during the year

## Directors' report *(continued)*

### 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

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



SW Hough  
Director

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

31 July 2007

## **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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## 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 2007 which comprise the profit and loss account, the balance sheet, the reconciliation 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 3.

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

31 July 2007

1 The Embankment  
Neville Street  
Leeds  
LS1 4DW  
United Kingdom

**Profit and loss account**  
*for the year ended 31 January 2007*

	<i>Notes</i>	<b>2007</b> <b>£000</b>	<b>2006</b> <b>£000</b>
<b>Turnover and gross profit</b>	<i>1</i>	-	311
Administrative expenses		(5)	(380)
<b>Operating loss</b>		<u>(5)</u>	<u>(69)</u>
Other interest receivable and similar income	<i>5</i>	-	1,250
Interest payable and similar charges	<i>6</i>	(796)	(799)
<b>(Loss)/profit on ordinary activities before taxation</b>	<i>2</i>	<u>(801)</u>	<u>382</u>
Tax on profit on ordinary activities	<i>7</i>	-	-
<b>(Loss)/profit for the financial year</b>		<u><u>(801)</u></u>	<u><u>382</u></u>

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

The notes on pages 8 to 15 form an integral part of these financial statements

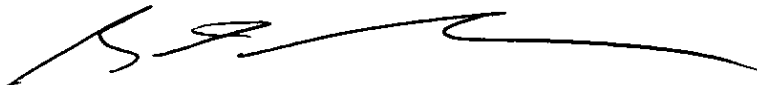
There are no differences between the loss for the financial year reported above and the total recognised gains and losses relating to the financial year

**Balance sheet**  
*at 31 January 2007*

	<i>Notes</i>	<b>2007 £000</b>	<b>2007 £000</b>	<b>2006 £000</b>	<b>2006 £000</b>
<b>Fixed assets</b>					
Investments	9		23,500		23,500
<b>Current assets</b>					
Cash at bank and in hand		-		5	
		<u>-</u>		<u>5</u>	
<b>Creditors</b> amounts falling due within one year	10	(18,169)		(17,373)	
<b>Net current liabilities</b>			<u>(18,169)</u>		<u>(17,368)</u>
<b>Total assets less current liabilities</b>			<u>5,331</u>		<u>6,132</u>
Preference share capital classified as liabilities	11		-		(5,698)
<b>Net assets</b>			<u>5,331</u>		<u>434</u>
<b>Capital and reserves</b>					
Called up share capital	11		5,885		187
Share premium account	12		13		13
Profit and loss account	12		(567)		234
<b>Total shareholders' funds</b>			<u>5,331</u>		<u>434</u>

The notes on pages 8 to 15 form an integral part of these financial statements

These financial statements were approved by the board of directors on 31 July 2007 and were signed on its behalf by



**SW Hough**  
*Director*



**Reconciliation of movements in shareholders' funds**  
*for the year ended 31 January 2007*

	2007 £000	2006 £000
<b>(Loss)/profit for the financial year</b>	<b>(801)</b>	<b>382</b>
New share capital subscribed	-	13
Redemption of shares	-	(13)
Reclassification of shares ( <i>see note 1</i> )	5,698	-
<b>Net addition to shareholders' funds</b>	<b>4,897</b>	<b>382</b>
Opening shareholders' funds	434	52
<b>Closing shareholders' funds</b>	<b>5,331</b>	<b>434</b>

## 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

#### *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 the address in note 15.

#### *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.

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

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.

## Notes (continued)

### 1 Accounting policies (continued)

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

In the previous year £58,779 of unpaid preference dividends accrued and £254,813 of unpaid preference dividends waived are disclosed as a charge and a credit respectively within interest payable and similar charges

On 31 January 2007 the company's articles of association were changed to redesignate the 3% cumulative non-redeemable preference shares as ordinary shares, thus removing the dividend rights of the shares, the preference shares are reclassified as ordinary shares as a result. This has resulted in the reclassification of £5,698,000 of share capital from liabilities to shareholders' funds. The resulting increase in net assets is dealt with as a positive movement in the reconciliation of movements in shareholders' funds

#### *Dividends*

Dividends payable or receivable are accounted for in the period in which the company is liable to pay or receive them

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

### 2 Loss/profit on ordinary activities before taxation

	2007 £000	2006 £000
<i>Loss/profit on ordinary activities before taxation is stated after charging</i>		

Auditors' remuneration

Audit of these financial statements	1	1
-------------------------------------	---	---

Amounts receivable by the company's auditor in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's ultimate parent, Direct Group Investment Limited

### 3 Remuneration of directors

	2007 £000	2006 £000
Directors' emoluments	-	348

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £nil (2006 £110,510) and company pension contributions of £nil (2006 £nil) were made on his behalf

## Notes (continued)

### 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

	2007 Nº	2006 Nº
Sales and marketing	-	-
Administration	3	4
	<u>3</u>	<u>4</u>

The aggregate payroll costs of these persons were as follows

	2007 £000	2006 £000
Wages and salaries	-	321
Social security costs	-	37
	<u>-</u>	<u>358</u>

Staff costs in the current year are borne by another group company on the company's behalf

### 5 Other interest receivable and similar income

	2007 £000	2006 £000
Dividend income	-	1,250
	<u>-</u>	<u>1,250</u>

### 6 Interest payable and similar charges

	2007 £000	2006 £000
Finance charges on shares classified as liabilities	-	59
Finance charges waived on shares classified as liabilities	-	(255)
On bank loans and overdrafts	-	210
On all other loans	796	785
	<u>796</u>	<u>799</u>

### 7 Taxation

	2007 £000	2006 £000
<i>UK corporation tax @ 30%</i>		
Current tax on income for the year	-	-
Adjustments in respect of prior years	-	-
	<u>-</u>	<u>-</u>
Deferred tax	-	-
	<u>-</u>	<u>-</u>

## Notes (continued)

### 7 Taxation (continued)

The current tax charge for the year is lower (2006 lower) than the standard rate of corporation tax in the UK (30%)  
The differences are explained below

	2007 £000	2006 £000
(Loss)/profit on ordinary activities before tax	<u>(801)</u>	<u>382</u>
Current tax at 30%	(240)	115
<i>Effects of</i>		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	-	(59)
Income not taxable	-	(375)
Utilisation of group tax losses	240	319
<b>Total current tax charge (see above)</b>	<u>-</u>	<u>-</u>

Any future tax charges may be impacted by the announced change in the rate of corporation tax from 30% to 28%, effective from 1 April 2008. The impact of this has not been quantified in the financial statements, as the directors do not consider it practicable to do so.

### 8 Dividends

	2007 £000	2006 £000
<i>Recognised as financial distributions in the year</i>		
<i>Equity shares</i>		
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)
	<u>-</u>	<u>-</u>

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.

### 9 Fixed asset investments

	Shares in group undertakings £000
<i>Cost and net book value</i>	
At beginning and end of year	<u>23,500</u>

The company holds 100% of the ordinary share capital of the following group undertakings, all of which were incorporated in England and Wales

	<i>Status and principal activity</i>	<i>Holding</i>
Direct Group Limited	Trading – Managing General Agent	Direct
Direct Creditor Administration Limited	Dormant	Indirect
Direct Warranty Administration Limited	Dormant	Indirect
Direct Finance & Insurance Services Limited	Dormant	Indirect

## Notes (continued)

### 10 Creditors

	2007 £000	2006 £000
<i>Amounts falling due within one year</i>		
Amounts owed to group undertakings	18,164	17,367
Accruals and deferred income	5	6
<b>Total creditors</b>	<b>18,169</b>	<b>17,373</b>

### 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 £10,745,000 (2006 £9,949,000) to Direct Group Investment Limited as at 31 January 2007.

### 11 Called up share capital

	2007 £	2006 £
<i>Authorised</i>		
<i>Equity</i>		
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
Ordinary shares of £1 each	5,698,000	-
	<b>5,900,134</b>	<b>202,134</b>
<i>Non-equity</i>		
3% cumulative non-redeemable preference shares of £1 each	-	5,698,000
<i>Allotted, called up and fully paid</i>		
<i>Equity</i>		
Preferred ordinary shares of £1 each	82,181	82,181
A ordinary shares of £1 each	104,289	104,289
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
Ordinary shares of £1 each	5,698,000	-
	<b>5,884,604</b>	<b>186,604</b>
<i>Non-equity shares classified as liabilities in 2006</i>		
3% cumulative non-redeemable preference shares of £1 each	-	5,698,000

## Notes (continued)

### 11 Called up share capital (continued)

#### 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 winding up, or otherwise, the preferred ordinary shares participate *pari passu* with the ordinary, A, B, C and D ordinary shares.

The redeemable preferred ordinary shares carry one vote per share.

#### 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 ordinary, 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 ordinary, preferred, A and D ordinary shares.

The B and C ordinary shares carry no voting rights.

## Notes (continued)

### 11 Called up share capital (continued)

#### 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* with the ordinary, preferred, A, B and C ordinary shares.

The D ordinary shares have no voting rights.

#### Ordinary shares of £1 each

On 31 January 2007 the company's articles of association were changed to redesignate the 3% cumulative non-redeemable preference shares as ordinary shares of £1 and to ensure that on a return of capital on winding up, or otherwise, the ordinary shares participate *pari passu* with the preferred, A, B, C and D ordinary shares.

The ordinary shares have no voting rights.

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

Prior to a change in the company's articles of association on 31 January 2007, the cumulative non-redeemable preference shareholders were entitled to a fixed cumulative preference dividend ('Preferred Dividend') at a value of 3% per annum per share half payable in equal amounts on 31 January and 31 July and half accrued. On 31 January 2007 the company's articles of association were changed to redesignate each of the unissued and issued preference shares as ordinary shares of £1 thus removing this entitlement.

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.

### 12 Share premium and reserves

	Profit and loss account £000	Share premium account £000	Total £000
At beginning of year	234	13	247
Retained loss for the year	(801)	-	(801)
At end of year	<u>(567)</u>	<u>13</u>	<u>(554)</u>



## **Notes** *(continued)*

### **13 Commitments**

The company did not have any capital or financial commitments as at 31 January 2007 and 31 January 2006

### **14 Post balance sheet events**

In June 2007 an interim dividend of £7,000,000 was approved and paid to Direct Group Investment Limited and an interim dividend of £8,000,000 was approved and received from Direct Group Limited

### **15 Ultimate parent company**

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