

Direct Group Investment Limited

**Directors' report and financial
statements**

Registered number 5433486

31 January 2008

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 January 2008

Principal activities

Direct Group Investment Limited is a holding company

Business review

The company generated an operating loss of £757,000 (2007 £115,000) and a profit for the financial year of £3,141,000 (2007 loss £2,365,000)

Dividends

The directors recommend payment of a final ordinary dividend of £nil (2007 £nil) making, with the interim of £nil (2007 £nil) a total of £nil (2007 £nil) for the year

Post balance sheet events

Purchase of subsidiary undertaking

On 2 June 2008 the company's parent undertaking, Direct Newco Limited, purchased the entire share capital of Millennium Insurance Brokers Limited, an independent general insurance provider. The net assets of the acquired company as at 30 April 2007 was £632,000 and the profit before taxation for the financial year then ended was £505,000. The profit before taxation for the period 1 May 2007 to 31 January 2008 was £113,000.

The consideration for the purchase was £1,266,668. On 2 June 2008 the acquired company was hived down to Direct Group Investment Limited for the same consideration.

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 (2007 nil days) purchases in trade creditors

Directors

The directors who held office during the year were as follows

DJ Coles

SW Hough

RM Watson (Non-executive director) (resigned 4 June 2008)

ND Clack (resigned 2 August 2007)

GC Woodhead (resigned 2 August 2007)

Political and charitable contributions

The company made no political donations (2007 £nil) or charitable contributions (2007 £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



DJ Coles
Director

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

30 June 2008

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 Investment Limited

We have audited the financial statements of Direct Group Investment Limited for the year ended 31 January 2008 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 2008 and of its profit 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
Chartered Accountants
Registered Auditor

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

30 June 2008

Profit and loss account
for the year ended 31 January 2008

	<i>Notes</i>	2008 £000	2007 £000
Turnover and gross profit	<i>1</i>	373	747
Administrative expenses		(1,130)	(862)
Operating loss		(757)	(115)
Other interest receivable and similar income	<i>5</i>	7,796	796
Interest payable and similar charges	<i>6</i>	(3,312)	(3,632)
Profit/(loss) on ordinary activities before taxation	<i>2</i>	3,727	(2,951)
Tax on profit on ordinary activities	<i>7</i>	(586)	586
Profit/(loss) for the financial year		3,141	(2,365)

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 profit for the financial year reported above and the total recognised gains and losses relating to the financial year

Balance sheet
at 31 January 2008

	<i>Notes</i>	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Investments	8		37,052		36,752
Current assets					
Debtors	9	10,385		3,176	
Cash at bank and in hand		50		10	
		<u>10,435</u>		<u>3,186</u>	
Creditors amounts falling due within one year	10	<u>(47,114)</u>		<u>(7,599)</u>	
Net current liabilities			<u>(36,679)</u>		<u>(4,413)</u>
Total assets less current liabilities			<u>373</u>		<u>32,339</u>
Creditors amounts falling due after more than one year	10		-		(35,107)
Net assets/(liabilities)			<u>373</u>		<u>(2,768)</u>
Capital and reserves					
Called up share capital	12		1,230		1,230
Profit and loss account	13		(857)		(3,998)
Total shareholders' funds/(deficit)			<u>373</u>		<u>(2,768)</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 30 June 2008 and were signed on its behalf by



SW Hough
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 January 2008

	2008 £000	2007 £000
Profit/(loss) for the financial year	3,141	(2,365)
Reclassification of shares (<i>see note 1</i>)	-	1,000
Share capital issued in year	-	230
Net addition to shareholders' funds/(deficit)	3,141	(1,135)
Opening shareholders' deficit	(2,768)	(1,633)
Closing shareholders' funds/(deficit)	373	(2,768)

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 Newco 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 Newco Limited, within which this company is included, can be obtained from the address in note 16.

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.

Deferred tax assets and liabilities are calculated at the tax rate expected to be effective at the time the timing differences are expected to reverse.

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.

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the company (continued)

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.

Prior to a change in the company's articles of association on 6 July 2006, Direct Group Investment Limited's £1,000,000 ordinary share capital carried a coupon of 7%. These shares were therefore classified within liabilities in 2006. On 6 July 2006 the shareholders of Direct Group Investment Limited agreed to waive all previous dividend rights and changed its articles of association to remove this coupon. As a result these shares are treated as equity and are included within shareholders' funds in 2007. The resulting increase in net assets is dealt with as a positive movement in the reconciliation of movements in shareholders' funds in 2007.

Interest receivable and payable

Interest receivable and payable is recognised in the profit and loss account on an accruals basis. If the collection of interest is considered doubtful, it is suspended and excluded from interest income in the profit and loss account.

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 'other interest receivable and similar income'.

2 Notes to the profit and loss account

	2008 £000	2007 £000
<i>Profit/loss on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration		
Audit of these financial statements	3	3
Audit of the prior year financial statements	-	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 Newco Limited.

3 Remuneration of directors

	2008 £000	2007 £000
Directors' emoluments	986	-

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £663,000 (2007 £265,000) and company pension contributions of £nil (2007 £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

	2008 N°	2007 N°
Sales and marketing	-	-
Administration	3	4
	<u>3</u>	<u>4</u>

The aggregate payroll costs of these persons were as follows

	2008 £000	2007 £000
Wages and salaries	983	725
Social security costs	127	90
	<u>1,110</u>	<u>815</u>

With effect from 3 August 2007 staff costs are borne by another group company on the company's behalf

5 Other interest receivable and similar income

	2008 £000	2007 £000
Other interest	796	796
Dividend income from subsidiary undertakings	7,000	-
	<u>7,796</u>	<u>796</u>

6 Interest payable and similar charges

	2008 £000	2007 £000
On bank loans and overdrafts	685	1,192
Bank charges	6	42
On all other loans	2,621	2,398
	<u>3,312</u>	<u>3,632</u>

Notes (continued)

7 Taxation

	2008 £000	2007 £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 (see note 11)	586	(586)
	<u>586</u>	<u>(586)</u>

The current tax charge for the year is lower (2007 lower) than the standard rate of corporation tax in the UK (30%)
The differences are explained below

	2008 £000	2007 £000
Profit/(loss) on ordinary activities before tax	<u>3,727</u>	<u>(2,951)</u>
Current tax at 30%	1,118	(885)
<i>Effects of</i>		
Income not taxable for tax purposes	(2,100)	-
Other short term timing differences	(208)	-
Expenses not deductible for tax purposes	-	508
Utilisation of group tax losses	1,190	377
Total current tax charge (see above)	<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 material.

8 Fixed asset investments

	Shares in group undertakings £000
<i>Cost and net book value</i>	
At beginning of year	36,752
Additions	300
At end of year	<u>37,052</u>

Notes (continued)

8 Fixed asset investments (continued)

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 Holdings Limited	Intermediate holding company	100% Direct
Direct Group Limited	Trading – Managing General Agent	100% Indirect
Direct Group Property Services Limited	Trading – Household Managing General Agent	100% Direct
Direct Creditor Administration Limited	Dormant	100% Indirect
Direct Warranty Administration Limited	Dormant	100% Indirect
Direct Finance & Insurance Services Limited	Dormant	100% Indirect

9 Debtors

	2008 £000	2007 £000
Amounts due from group undertakings	10,385	2,588
Deferred tax asset	-	586
Prepayments and accrued income	-	2
	<u>10,385</u>	<u>3,176</u>

10 Creditors

	2008 £000	2007 £000
<i>Amounts falling due within one year</i>		
Bank loans and overdrafts	-	2,231
Amounts owed to group undertakings	47,111	5,348
Accruals and deferred income	3	20
Total creditors	<u>47,114</u>	<u>7,599</u>
<i>Amounts falling due after more than one year</i>		
Bank loans and overdrafts	-	9,059
Other loans	-	26,048
Accruals and deferred income	-	-
	<u>-</u>	<u>35,107</u>
Total creditors	<u>47,114</u>	<u>42,706</u>

Notes (continued)

10 Creditors (continued)

	Bank loans 2008 £000	Other 2008 £000	Total 2008 £000	Total 2007 £000
<i>Debt can be analysed as falling due</i>				
In one year or less, or on demand	-	-	-	2,450
Between one and two years	-	-	-	2,550
Between two and five years	-	-	-	5,250
In five or more years	-	-	-	27,398
	-	-	-	37,648
Less unamortised arrangement fees	-	-	-	(310)
	-	-	-	37,338

Bank overdraft

On 5 July 2005, the company agreed an overdraft facility of £2,000,000, of which £709,000 was utilised as at 31 January 2007. The overdraft facility was used to fund the working capital requirements of the previous group. The interest on the bank overdraft was based on a margin of 2.25% over LIBOR, this being reduced provided certain criteria are met. This overdraft facility ceased following the purchase of the company by Direct Newco Limited.

Bank loan interest

On 5 July 2005, the company received a £15,000,000 bank loan. This bank loan was used to repay the existing bank loan held by Direct Group Holdings Limited and to acquire a proportion of the loan notes and 3% cumulative non-redeemable preference share capital of Direct Group Holdings Limited. The interest on the bank loan was based on a 2.25% margin over LIBOR, this being reduced provided certain criteria were met. The bank loan was repaid in full on 3 August 2007 following the purchase of the company by Direct Newco Limited.

Loan note interest

On 5 July 2005, the company entered into a £2,944,198 Unsecured Series A Loan Note Instrument 2012. The interest on the loan notes was a fixed rate of 9.5% and was payable providing certain criteria were met, prior to the loan notes being settled by Direct Group Investment Limited upon the purchase of the company by Direct Newco Limited on 3 August 2007.

On 5 July 2005, the company entered into a £19,634,801 Unsecured Series B Loan Note Instrument 2016. The interest on the loan notes was a fixed rate of 10% and was capitalised until certain criteria were met, prior to the loan notes being settled by Direct Group Investment Limited upon the purchase of the company by Direct Newco Limited on 3 August 2007.

Other loan interest

On 3 August 2007 the company received a £37,749,000 loan from Direct Newco Limited. Of this, £36,859,000 was used to repay in full the company's bank loan and a proportion of its loan note obligations. The balance of £890,000 was utilised to roll up the remaining loan note obligations into Direct Newco Limited. The interest on the loan was a fixed rate of 7%, with none being paid, resulting in a loan obligation of £39,070,000 to Direct Newco Limited as at 31 January 2008.

Interest rate hedging

At 31 January 2008, the company held an interest rate structured collar at a cap of 5.25% and a floor of 4.07%. This is held for cash management purposes and is not fair valued in these accounts.

Notes (continued)

11 Provisions for liabilities

	2008 £000	2007 £000
<i>Deferred tax</i>		
At beginning of year	(586)	-
Charge/(credit) to the profit and loss for the year	586	(586)
At end of year	-	(586)

	2008 Provided £000	2008 Unprovided £000	2007 Provided £000	2007 Unprovided £000
<i>Deferred tax</i>				
Other timing differences	-	-	(586)	-
	<u>-</u>	<u>-</u>	<u>(586)</u>	<u>-</u>
Deferred tax asset	-	-	(586)	-
	<u>-</u>	<u>-</u>	<u>(586)</u>	<u>-</u>

12 Called up share capital

	2008 £000	2007 £000
<i>Authorised</i>		
395,000 Preferred ordinary shares of £1 each	395	395
415,000 A ordinary shares of £1 each	415	415
190,000 B ordinary shares of £1 each	190	190
229,948 Deferred shares of £1 each	230	230
	<u>1,230</u>	<u>1,230</u>
<i>Allotted, called up and fully paid</i>		
395,000 Preferred ordinary shares of £1 each	395	395
415,000 A ordinary shares of £1 each	415	415
190,000 B ordinary shares of £1 each	190	190
229,948 Deferred shares of £1 each	230	230
	<u>1,230</u>	<u>1,230</u>

Preferred, A and B ordinary shares of £1 each

Prior to 6 July 2006, the preferred, A and B ordinary shareholders were entitled to a fixed cumulative dividend ('Fixed Ordinary Dividend') at a rate of 7% per annum per share, payable half-yearly on 31 July and 31 January. Consequently these shares were classified as liabilities in 2006 following the adoption of FRS25. On the 6 July 2006 the company's articles of association were changed to remove the entitlement to a fixed cumulative dividend. Consequently they were recategorised as shareholders funds in 2007.

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

The preferred, A and B ordinary shares carry one vote per share.

Notes (continued)

12 Called up share capital (continued)

Deferred shares of £1 each

On 6 July 2006 the share capital of the company was increased to £1,229,948 by the creation of £229,948 deferred shares of £1 each. These deferred shares were used to discharge £229,948 of the £19,634,801 Unsecured Series B Loan Note Instrument 2016. These deferred shares were acquired by ND Clack on 6 July 2006.

On a return of capital on winding up, or otherwise, these shares realise their nominal value once £500 million has already been distributed to the Preferred, A and B ordinary shares.

The deferred shares carry no voting rights.

13 Reserves

	Profit & loss account £000
At beginning of year	(3,998)
Retained profit for the year	3,141
At end of year	<u>(857)</u>

14 Commitments

The company did not have any capital or financial commitments as at 31 January 2008.

15 Post balance sheet events

On 2 June 2008 the company's parent undertaking, Direct Newco Limited, purchased the entire share capital of Millennium Insurance Brokers Limited, an independent general insurance provider. The net assets of the acquired company as at 30 April 2007 was £632,000 and the profit before taxation for the financial year then ended was £505,000. The profit before taxation for the period 1 May 2007 to 31 January 2008 was £113,000.

The consideration for the purchase was £1,266,668. On 2 June 2008 the acquired company was hived down to Direct Group Investment Limited for the same consideration.

16 Ultimate parent company

The entire share capital of the company was acquired by Direct Newco Limited on 3 August 2007. Consequently the company is a subsidiary undertaking of Direct Newco Limited, incorporated in England and Wales.

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