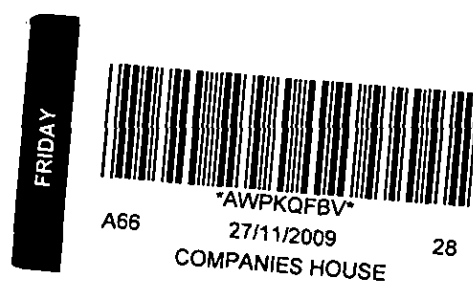


Direct Group Investment Limited

**Directors' report and financial
statements**

Registered number 5433486
For the year ended 31 January 2009



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 January 2009.

Principal activities

Direct Group Investment Limited is a holding company.

Business review

The company generated an operating loss of £4,000 (2008:£757,000) and a profit for the financial year of £6,636,000 (2008: £3,141,000).

Dividends

The directors recommend payment of a final ordinary dividend of £nil (2008:£nil) making, with the interim of £5,000,000 (2008:£nil) a total of £5,000,000 (2008:£nil) for the year.

Purchase of subsidiary undertaking

On 2 June 2008 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 2 June 2008 was £120,000.

The consideration for the purchase paid at acquisition was £1,266,668, which together with fees and costs of integration brought the total cost of investment to £2,100,000 (see note 9). On 2 June 2008 the acquired company was hived down to Direct Group Investment Limited for consideration of £1,266,668.

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 (2008: nil days) purchases in trade creditors.

Directors

The directors who held office during the year were as follows:

DJ Coles

SW Hough

CA Mason (appointed 31 July 2008)

Political and charitable contributions

The company made no political donations (2008:£nil) or charitable contributions (2008:£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

25 November 2009

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 2009 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 2009 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

25 November 2009

Profit and loss account
for the year ended 31 January 2009

	<i>Notes</i>	2009 £000	2008 £000
Turnover and gross profit	<i>1</i>	-	373
Administrative expenses		(4)	(1,130)
Operating loss		<u>(4)</u>	<u>(757)</u>
Other interest receivable and similar income	<i>5</i>	9,296	7,796
Interest payable and similar charges	<i>6</i>	(2,656)	(3,312)
Profit on ordinary activities before taxation	<i>2</i>	<u>6,636</u>	<u>3,727</u>
Tax on profit on ordinary activities	<i>7</i>	-	(586)
Profit for the financial year		<u><u>6,636</u></u>	<u><u>3,141</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 profit for the financial year reported above and the total recognised gains and losses relating to the financial year.

Balance sheet
at 31 January 2009

	<i>Notes</i>	2009 £000	2009 £000	2008 £000	2008 £000
Fixed assets					
Investments	9		39,232		37,052
Current assets					
Debtors	10	5,372		10,385	
Cash at bank and in hand		12		50	
		<u>5,384</u>		<u>10,435</u>	
Creditors: amounts falling due within one year	11	<u>(42,607)</u>		<u>(47,114)</u>	
Net current liabilities			(37,223)		(36,679)
Net assets			<u>2,009</u>		<u>373</u>
Capital and reserves					
Called up share capital	13		1,230		1,230
Profit and loss account	14		779		(857)
Total shareholders' funds			<u>2,009</u>		<u>373</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 25 November 2009 and were signed on its behalf by:



C A Mason
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 January 2009

	2009 £000	2008 £000
Profit for the financial year	6,636	3,141
Dividends paid	(5,000)	-
	<hr/> 1,636	<hr/> 3,141
Opening shareholders' funds/(deficit)	373	(2,768)
Closing shareholders' funds	<hr/> 2,009	<hr/> 373

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.

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

	2009 £000	2008 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		

Auditors' remuneration:

Audit of these financial statements	3	3
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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

	2009 £000	2008 £000
Directors' emoluments	-	986

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £nil (2008:£663,000) and company pension contributions of £nil (2008:£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:

	2009 N°	2008 N°
Directors	3	3
Administration	-	-
	<u>3</u>	<u>3</u>

The aggregate payroll costs of these persons were as follows:

	2009 £000	2008 £000
Wages and salaries	-	983
Social security costs	-	127
	<u>-</u>	<u>1,110</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

	2009 £000	2008 £000
Other interest	796	796
Dividend income from subsidiary undertakings	8,500	7,000
	<u>9,296</u>	<u>7,796</u>

6 Interest payable and similar charges

	2009 £000	2008 £000
On bank loans and overdrafts	(46)	685
Bank charges	-	6
On all other loans	2,702	2,621
	<u>2,656</u>	<u>3,312</u>

Notes (continued)

7 Taxation

	2009 £000	2008 £000
<i>UK corporation tax @ 28.33% (2008: 30%)</i>		
Current tax on income for the year	-	-
	<u>-</u>	<u>-</u>
Deferred tax (<i>see note 12</i>)		
Reversal of timing differences	-	586
	<u>-</u>	<u>586</u>
	<u>-</u>	<u>586</u>

The current tax charge for the year is lower (2008: lower) than the standard rate of corporation tax in the UK (28.33%; 2008: 30%). The differences are explained below:

	2009 £000	2008 £000
Profit on ordinary activities before tax	<u>6,636</u>	<u>3,727</u>
Current tax at 28.33% (2008: 30%)	1,880	1,118
<i>Effects of:</i>		
Income not taxable for tax purposes	(2,408)	(2,100)
Other short term timing differences	-	(208)
Utilisation of group tax losses	528	1,190
	<u>-</u>	<u>-</u>
Total current tax charge (see above)	<u>-</u>	<u>-</u>

8 Dividends

	2009 £000	2008 £000
<i>Recognised as financial distributions in the year</i>		
Equity shares:		
Interim dividends of £4.0650 per share paid in respect of the current year	5,000	-
	<u>5,000</u>	<u>-</u>

9 Fixed asset investments

	Shares in group undertakings £000
<i>Cost and net book value</i>	
At beginning of year	37,052
Additions	2,180
At end of year	<u>39,232</u>

Of the additions of £2,180k, £2,100k relates to the acquisition costs of Millennium Insurance Brokers Limited on 2 June 2008 and £80k relates to a subsequent increase of the share capital of the same company.

Notes (continued)

9 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
Millennium Insurance Brokers Limited	Trading - Insurance Broking and Administration	100% Direct
Direct Creditor Administration Limited	Dormant	100% Indirect
Direct Warranty Administration Limited	Dormant	100% Indirect
Direct Finance & Insurance Services Limited	Dormant	100% Indirect

10 Debtors

	2009 £000	2008 £000
Amounts due from group undertakings	<u>5,372</u>	<u>10,385</u>

11 Creditors

	2009 £000	2008 £000
<i>Amounts falling due within one year:</i>		
Bank loans and overdrafts		-
Amounts owed to group undertakings	42,365	47,111
Accruals and deferred income	242	3
Total creditors	<u>42,607</u>	<u>47,114</u>

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.

Notes (continued)

11 Creditors (continued)

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 2009.

On 2 June 2008 Direct Newco Limited paid cash consideration of £1,266,668 for the purchase of Millennium Insurance Brokers Limited before the company was hived down to Direct Group Investment Limited on the same date. The interest on this loan was a fixed rate of 7%, with none being paid, resulting in an obligation of £59,111 to Direct Newco Limited as at 31 January 2009.

Interest rate hedging

At 31 January 2009, 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.

12 Provisions for liabilities

		2009 £000	2008 £000
<i>Deferred tax:</i>			
At beginning of year		-	(586)
Charge to the profit and loss for the year		-	586
At end of year		-	-
	2009 Provided £000	2009 Unprovided £000	2008 Provided £000
			2008 Unprovided £000
Deferred tax	-	-	-

Notes (continued)

13 Called up share capital

	2009 £000	2008 £000
Authorised		
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>
Allotted, called up and fully paid		
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

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.

Deferred shares of £1 each

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.

14 Reserves

	Profit & loss account £000
At beginning of year	(857)
Retained profit for the year	1,636
At end of year	<u>779</u>

15 Commitments

The company did not have any capital or financial commitments as at 31 January 2009 and 31 January 2008.

Notes *(continued)*

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.