



# Domestic & General Insurance PLC

Annual Report 2006



DOMESTIC & GENERAL

## Contents

- 1 Directors and Advisers
- 2 Report of the Directors
- 4 Statement of Directors' Responsibilities
- 5 Profit and Loss Account
- 7 Balance Sheet
- 9 Reconciliation of Movement in Shareholders' Funds
- 10 Accounting Policies
- 12 Notes forming part of the Financial Statements
- 20 Auditors' Report

# Directors and Advisers

## Directors

**John Jeremy Pearmund** MA, ACA  
Chairman

**Kenneth Spark Wilson** ACII  
Managing Director

**Peter Charles Griffiths** ACA, ACII, BA  
Finance Director

**Derek Stephen Anthony Hollingdale**

**John Scott Ritchie** FCA

## Secretary and Registered Office

**A. Philip White** LLP

Swan Court  
2A Mansel Road  
Wimbledon  
London  
SW19 4AA

### Auditors

KPMG Audit Plc  
8 Salisbury Square  
London  
EC4Y 8BB

### Principal Bankers

National Westminster Bank PLC  
1 Princes Street  
London  
EC2R 8PH

### Registered Number

485850

# Report of the Directors

## Business review and principal activities

The Company is a wholly owned subsidiary of Domestic & General Group PLC and operates as part of the Group's Warranty and Pet divisions.

The principal activities of the Company are the provision of domestic appliance breakdown insurance and pet insurance. The Company is an authorised United Kingdom insurance company, regulated by the Financial Services Authority, and has branches in France, Germany and Spain.

As shown in the Company's profit and loss account on page 5, turnover in the year was £131.3 million (2005: £125.0 million) whilst earned income in the year was £127.4 million (2005: £121.2 million). The profit after tax for the year increased by 7% to £14.7 million (2005: £13.8 million).

Ordinary interim dividends of £3.8 million and £8.0 million were paid on 31 January 2006 and 30 March 2006, respectively. The directors do not propose a final dividend. The total dividends paid during the year ended 31 March 2006 amounted to £19.2 million which includes a £7.4 million final dividend payment relating to the previous year, but which is accounted for in the current year following the adoption of FRS 21 Events after the Balance Sheet Date (year to 31 March 2005: total dividends paid of £7.2 million).

The balance sheet on page 7 of the financial statements shows that the company's financial position at the year end is strong with Shareholders funds of £73.4 million.

There have been no significant events since the balance sheet date.

Domestic and General Group PLC considers key performance indicators (KPIs) on a business segmental basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Warranty and Pet divisions of Domestic & General Group PLC, which includes the company, is discussed in the Group's Annual Report which is available on the website at [www.domgen.com](http://www.domgen.com) but which does not form part of this Report.

## Risk management

A summary of the principal risks and uncertainties facing the company is shown below.

Market risk is the potential adverse financial impact of changes to interest rates and equity prices.

Insurance contracts risk is the potential adverse financial impact that combined claims and repair, acquisition and administration costs, exceed the estimated costs built into the pricing models applied.

Credit risk is the potential adverse financial impact of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

Liquidity risk is the possibility that we do not have sufficient available assets to meet our obligations as they fall due.

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. This definition is intended to include all other risks to which the company is exposed, including for example, information technology, information security, human resources, project management, outsourcing, tax, legal, fraud and compliance risks.

These risks are discussed further in the Group's Annual Report which does not form part of this Report.

## Environment

The company operates in accordance with the Group's policies on the environment that can be found in the Group's Annual Report. The policies recognise the importance of the Group's environmental responsibilities, monitor the impact on the environment and aim to reduce any damage that might be caused.

## Employees

Details of the number of employees and related costs can be found in note 6 to the financial statements on page 14.

The Company gives full and fair consideration to the employment of applicants who are disabled persons and to the continuance of employment of employees who become disabled persons. The Company's equal opportunities policy is applied to ensure fair and equal treatment of all its employees and is extended to apply to all its contractors, customers and suppliers.

The Company participates in the Group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings and newsletters. This includes published codes, policies and procedures being made available to all employees on matters such as discrimination, harassment, ethics, whistleblowing, behavioural standards and other key topics on commencing employment and form part of the induction process.

## Policy and practice on payment of creditors

The Company's policy is to pay all of its creditors promptly. The internally developed code of practice, which is communicated to suppliers when appropriate, is to pay on agreed terms, with the period set by the supplier's invoice or within 30 days from the date of invoice, whichever is applicable.

The amount owed to trade creditors at 31 March 2006

represented 30 days of average daily purchases from suppliers during the year ended on that date.

### Directors and directors' interests

The directors at 31 March 2006 were:

J. J. Pearmund (Chairman)  
K. S. Wilson (Managing Director)

P. C. Griffiths  
D. S. A. Hollingdale  
J. S. Ritchie

S. S. Vara resigned as a director on 20 February 2006.

The directors' interests in the share capital of the Company or any Group company requiring disclosure in these accounts are as follows:

### Domestic & General Group PLC

	Domestic & General Group PLC Fully Paid Ordinary Shares of 10p each		Domestic & General Group PLC Shares under Performance Share Plan		Domestic & General Group PLC Deferred Shares under Annual Bonus Incentive Plan	
	31.3.06	31.3.05	31.3.06	31.3.05	31.3.06	31.3.05
P. C. Griffiths	725	725	5,184	2,888	451	—
D. S. A. Hollingdale	—	—	11,082	5,956	620	—

	Domestic & General Group PLC Options over Ordinary Shares under Executive Share Option Scheme		Domestic & General Group PLC Options under Ordinary Shares under Savings Related Share Option Scheme	
	31.3.06	31.3.05	31.3.06	31.3.05
P. C. Griffiths	4,455	9,998	2,782	2,782
D. S. A. Hollingdale	—	10,000	2,782	2,782

The number of directors with shares receivable under the Domestic & General Group PLC performance share plan and the deferred share annual bonus plan was 5. The number of directors who exercised share options during the year was 3.

The number of directors with shares receivable under the Domestic & General Group PLC performance share plan was 5.

### Directors' and officers' insurance and directors' indemnities

The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of the Company and its directors. The directors are also entitled, under the Articles of Association, to be indemnified by the Company against costs, charges, losses, expenses and liability incurred in the discharge of their duties, unless prohibited by statute.

The interests of J. J. Pearmund, J. S. Ritchie, and K. S. Wilson are disclosed in the holding company accounts.

### Disclosure of information to auditors

The directors who held office at the date of approval of the 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/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditors

A resolution is to be proposed at the Annual General meeting for the reappointment of KPMG Audit Plc as auditor of the Company.

By order of the Board



**A. P. White**  
Secretary  
26 May 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 they 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 year.

In preparing the accounts, the directors are required to select suitable appropriate accounting policies and then apply them consistently, make judgments and estimates that are reasonable and prudent and state whether UK accounting standards have been followed subject to any material departures disclosed and explained in the financial statements. The directors are also required to use a going concern basis in preparing the accounts unless this is inappropriate.

The directors have responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## Profit and Loss Account Technical Account — General Business

	Notes	Year ended 31 March 2006		Year ended 31 March 2005	
		£'000	£'000	£'000	£'000
Gross premiums written	1		<b>131,324</b>		125,046
Outward reinsurance premiums			<b>(130)</b>		(6)
Net premiums written			<b>131,194</b>		125,040
Change in the gross provision for unearned premiums	18	<b>(3,911)</b>		(3,662)	
Change in the provision for unearned premiums, reinsurers' share	18	<b>104</b>		(157)	
Net change in the provision for unearned premiums			<b>(3,807)</b>		(3,819)
Earned premiums, net of reinsurance			<b>127,387</b>		121,221
Gross claims paid		<b>(62,628)</b>		(59,371)	
Reinsurers' share		<b>(17)</b>		74	
Net claims paid		<b>(62,645)</b>		(59,297)	
Change in the gross provision for claims	18	<b>365</b>		(1,221)	
Reinsurers' share	18	<b>(2)</b>		(21)	
Net change in the provision for claims		<b>363</b>		(1,242)	
Claims incurred net of reinsurance			<b>(62,282)</b>		(60,539)
Net operating expenses	2		<b>(55,604)</b>		(51,255)
Balance on the technical account for general business			<b>9,501</b>		9,427

# Profit and Loss Account

## Non-Technical Account

	Notes	Year ended		Year ended	
		31 March 2006		31 March 2005	
		£'000	£'000	£'000	£'000
Balance on the general business technical account			<b>9,501</b>		9,427
Investment income	3	<b>7,123</b>		6,659	
Gains and losses on investments	4	<b>4,145</b>		3,383	
Investment return			<b>11,268</b>		10,042
Profit on ordinary activities before tax	5		<b>20,769</b>		19,469
Tax on profit on ordinary activities	7		<b>(6,114)</b>		(5,710)
Profit on ordinary activities after tax			<b>14,655</b>		13,759

All income and expenditure relates to continuing operations.

There are no recognised gains or losses other than those recognised in the profit and loss account.

In accordance with the amendment to FRS 3 published in June 1999, no note of historical cost profits and losses has been prepared, as the Company's only material gains and losses on revalued assets relate to the holding and disposal of investments.

The notes on pages 10 to 19 form an integral part of these financial statements.

# Balance Sheet

## Assets

	Notes	31 March 2006		31 March 2005	
		£'000	£'000	£'000	£'000
Investments:					
Freehold land and buildings	9		<b>6,000</b>		6,550
Investments in Group undertakings	10		<b>2,105</b>		2,105
Other financial investments	11		<b>147,852</b>		143,376
			<b>155,957</b>		152,031
Reinsurers' share of technical provisions:					
Provision for unearned premiums	18	<b>116</b>		12	
Claims outstanding	18	—		2	
			<b>116</b>		14
Debtors:					
Debtors arising out of direct insurance operations					
	12	<b>39,726</b>		39,009	
Other debtors	12	<b>13,949</b>		13,183	
			<b>53,675</b>		52,192
Other assets:					
Tangible fixed assets	13	<b>386</b>		929	
Cash at bank and in hand		<b>596</b>		490	
			<b>982</b>		1,419
Deferred taxation	19		<b>54</b>		137
Prepayments and accrued income:					
Accrued interest and rent		<b>1,639</b>		1,793	
Deferred acquisition costs	14	<b>27,524</b>		27,684	
Other prepayments and accrued income		<b>140</b>		29	
			<b>29,303</b>		29,506
<b>Total Assets</b>			<b>240,087</b>		235,299

The notes on pages 10 to 19 form an integral part of these financial statements.

# Balance Sheet

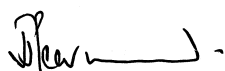
## Liabilities

	Notes	31 March 2006		31 March 2005	
		£'000	£'000	£'000	£'000
Capital and reserves:					
Called up share capital	16	<b>4,700</b>		4,700	
Profit and loss account	17	<b>68,703</b>		73,248	
Shareholders' funds attributable to equity interests			<b>73,403</b>		77,948
Technical provisions:					
Provision for unearned premiums	18	<b>136,565</b>		132,554	
Claims outstanding	18	<b>7,117</b>		7,478	
			<b>143,682</b>		140,032
Creditors:					
Creditors arising out of direct insurance operations					
	20	<b>13,650</b>		10,978	
Creditors arising out of reinsurance operations					
	20	<b>22</b>		10	
Amounts owed to credit institutions					
	20	<b>—</b>		749	
Other creditors including taxation and social security					
	20	<b>8,622</b>		4,800	
			<b>22,294</b>		16,537
Accruals and deferred income			<b>708</b>		782
Total Liabilities			<b>240,087</b>		235,299

The notes on pages 10 to 19 form an integral part of these financial statements.

These financial statements were approved by the Board of directors on 26 May 2006 and were signed on its behalf by:

**J. J. Pearmund**



Directors

**J. S. Ritchie**



## Reconciliation of Movement in Shareholders' Funds

	<b>Year ended 31 March 2006 £'000</b>	Year ended 31 March 2005 £'000
Total recognised gains	<b>14,655</b>	13,759
Dividends	<b>(19,200)</b>	(7,200)
Net movement in reserves	<b>(4,545)</b>	6,559
Shareholders' funds at beginning of year as previously reported	<b>77,948</b>	67,189
Prior year adjustment re dividends (note 8)	—	4,200
Shareholders' funds at beginning of year restated	<b>77,948</b>	71,389
Shareholders' funds at end of year	<b>73,403</b>	77,948

# Accounting Policies

---

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. FRS 21, Events after the Balance Sheet date has been adopted during the year, resulting in a change in the recognition of the dividend charge. Dividends now take effect in the period in which they are approved.

## 1. Basis of Preparation

---

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers issued in December 2005.

## 2. Group Accounts

---

No Group accounts have been prepared as the Company is a wholly owned subsidiary of Domestic & General Group PLC incorporated in England which produces group accounts. Consequently, the financial statements present information about the Company and not its Group.

## 3. Premiums

---

All premiums are accounted for on an annual basis and comprise the premiums due on contracts entered into during a financial year. All premiums are shown gross of commission payable to intermediaries but exclude insurance premium taxes. Insurance premium taxes payable at the balance sheet date are included as a liability.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance.

## 4. Unearned Premiums

---

The provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract. The provision is calculated on the 24ths basis for contracts up to one year. For contracts in excess of one year, the time apportionment basis is suitably modified so that the earning pattern matches the risk profile.

## 5. Acquisition Costs

---

Acquisition costs comprise the commission and other expenses of acquiring insurance policies. Acquisition costs which relate to a subsequent financial year are deferred and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which correspond to the proportion of gross premiums written which are unearned at the balance sheet date.

## 6. Claims Outstanding

---

Outstanding claims comprise provisions for the estimated costs of settling all claims incurred up to but not paid at the balance sheet date, whether reported or not, together with related claims handling expenses. Estimation techniques and assumptions are periodically reviewed with any changes in estimates reflected in the respective technical accounts as they occur.

## 7. Unexpired Risks

---

An unexpired risk provision is made, where necessary, when the expected value of claims and administrative expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the provision for unearned premiums in relation to such policies after deduction of deferred acquisition costs. The provision for unexpired risks is calculated separately for each category of business but offsetting surpluses and deficits between categories that are managed together.

## 8. Premium Levies

---

Provision is made for a potential liability payable to the Financial Services Compensation Schemes in respect of premiums recognised in these accounts to the extent it is probable that a liability will crystallise. The charge is included within administrative expenses.

## 9. Investment Income

---

Investment income is accounted for on a receivable basis. Dividends are recognised on the date on which the related investment goes 'ex dividend'. Interest is accrued up to the balance sheet date. Realised gains or losses represent the difference between net sales proceeds and purchase price or, if previously valued, the valuation at the last balance sheet date. Unrealised gains or losses are credited or charged to the profit and loss account.

---

## 10. Investments

All investments are stated at their current value.

Land and buildings are valued at open market valuation by independent professionally qualified valuers every three years; in the intervening years, these valuations are reviewed by the directors on the basis of independent professional advice. In respect of owner-occupied property, depreciation is provided on buildings at a rate of 2% per annum. Revaluation gains are credited to investment income as recommended in FRS 15.

## 11. Fixed Assets

Depreciation is provided on all fixed assets at rates estimated to write off their costs, after taking residual values into consideration, over their expected useful lives on the straight-line method. The principal rates are as follows:

Computer equipment	25% per annum
Motor vehicles	25% per annum
Fixtures, fittings and equipment	15%–25% per annum

## 12. Foreign Currencies

Transactions in foreign currencies are translated into sterling using the rate of exchange ruling at the date of the transaction. Transaction of overseas branches are translated at the rate of exchange ruling at the balance sheet date.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the non-technical account as appropriate.

## 13. Deferred Taxation

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.

## 14. Pension Costs

The Company participates in the defined contribution pension scheme operated by Domestic & General Group PLC in whose accounts full disclosure of the pension arrangements is made.

The costs of providing pensions for employees are charged in the profit and loss account in the year to which they relate.

## 15. Cash Flow Statement

The Company has taken advantage of the exemption within FRS 1 (Revised) not to provide a cash flow statement because it is a wholly owned subsidiary undertaking of Domestic & General Group PLC.

## 16. Related Party Transactions

The Company has taken advantage of the exemption within FRS 8 not to disclose transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties) because it is a wholly owned subsidiary undertaking of Domestic & General Group PLC.

## 17. Operating Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

# Notes forming part of the Financial Statements

## 1. Segmental information

### (i) Analysis of business by class

	Gross premiums written 2006 £'000	Gross premiums earned 2006 £'000	Gross claims incurred 2006 £'000	Gross operating expenses 2006 £'000	Reinsurance balance 2006 £'000
Direct:					
Miscellaneous financial loss	125,099	125,939	61,087	55,332	7
Property	6,212	1,404	1,162	272	38
Reinsurance	13	70	14	—	—
	<b>131,324</b>	<b>127,413</b>	<b>62,263</b>	<b>55,604</b>	<b>45</b>

	2005 £'000	2005 £'000	2005 £'000	2005 £'000	2005 £'000
Direct:					
Miscellaneous financial loss	125,011	121,229	60,425	51,255	110
Property	—	96	74	—	—
Reinsurance	35	59	93	—	—
	125,046	121,384	60,592	51,255	110

### (ii) Geographical analysis

	Gross premiums written 2006 £'000	Profit before tax 2006 £'000	Net assets 2006 £'000
The United Kingdom and Ireland	124,785	20,315	71,004
Other EU member states	6,539	454	2,399
	<b>131,324</b>	<b>20,769</b>	<b>73,403</b>

	2005 £'000	2005 £'000	2005 £'000
The United Kingdom and Ireland	121,020	19,436	76,814
Other EU member states	4,026	33	1,134
	125,046	19,469	77,948

## 2. Net operating expenses

	2006 £'000	2005 £'000
Acquisition costs	32,921	29,092
Change in deferred acquisition costs	160	22
Incurred acquisition costs	33,081	29,114
Administrative expenses	22,523	22,141
Net operating expenses	<b>55,604</b>	51,255

Incurred acquisition costs include commission payable on direct business of £3,567,381 (2005: £1,930,776).

### 3. Investment income

	<b>Non-technical account</b>	Non-technical account
	<b>2006</b>	2005
	<b>£'000</b>	£'000
Income from Group undertakings	<b>649</b>	670
Listed investments	<b>461</b>	422
Other investments	<b>6,013</b>	5,567
	<b>7,123</b>	6,659

### 4. Gains and losses on investments

	<b>Non-technical account</b>	Non-technical account
	<b>2006</b>	2005
	<b>£'000</b>	£'000
Land and buildings	<b>(439)</b>	983
Unrealised gain on listed investments	<b>4,584</b>	2,400
	<b>4,145</b>	3,383

### 5. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging the following items:

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Depreciation on owned assets excluding buildings	<b>630</b>	1,166
Depreciation on buildings	<b>111</b>	105
Charges on operating leases	<b>500</b>	500
Auditors' remuneration — fees	<b>60</b>	68
— non-audit services	<b>18</b>	17

# Notes forming part of the Financial Statements

## 6. Staff numbers and costs

The UK administration is outsourced to another Group company, in the accounts of which, staff numbers and payroll costs are disclosed.

The average monthly number of employees during the year, including executive directors, was:

	2006	2005
Executive directors	6	6
Sales and marketing	13	10
Underwriting and claims	4	5
Customer services	4	4
Administration	11	10
	<b>38</b>	<b>35</b>

The payroll costs in respect of these persons were:

	2006	2005
	£'000	£'000
Wages and salaries	931	485
Social security costs	224	148
Other pension costs — defined contribution schemes	85	35
	<b>1,240</b>	<b>668</b>

## 7. Taxation

	2006	2005
	£'000	£'000
(a) Analysis of charge for year		
UK corporation tax:		
Current tax on income for the year	6,035	5,578
Adjustments in respect of prior periods	(4)	(27)
Total current tax	6,031	5,551
Deferred tax (see note 19)	83	159
Tax on profit on ordinary activities	<b>6,114</b>	<b>5,710</b>

(b) Factors affecting the tax charge for the current year

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

	2006	2005
	£'000	£'000
Profit on ordinary activities before tax	20,769	19,469
Current tax at 30% (2005: 30%)	6,231	5,841
<i>Effects of:</i>		
Depreciation for the year in excess of capital allowances	9	90
Franked investment income	(132)	(114)
General provisions	(205)	61
Land and buildings revaluation	132	(300)
Adjustments to tax charge in respect of previous periods	(4)	(27)
Current tax charge for year	<b>6,031</b>	<b>5,551</b>

## 8. Dividends

	<b>2006</b>	2005
	<b>£'000</b>	£'000

The aggregate amount of dividends comprises:

Final dividends paid in respect of prior year but not recognised as liabilities in that year	<b>7,400</b>	4,200
Interim dividends paid in January 2006 in respect of the current year	<b>3,800</b>	3,000
Interim dividends paid in March 2006 in respect of the current year	<b>8,000</b>	—
Aggregate amount of dividends paid in the financial year	<b>19,200</b>	7,200

FRS 21, Events after the Balance Sheet date, has been adopted during the year, resulting in a change in the recognition of the dividend charge. Dividends now take effect in the period in which they are approved.

## 9. Freehold land and buildings

	<b>Market</b>	
	<b>value</b>	<b>Cost</b>
	<b>£'000</b>	<b>£'000</b>
At 1 April 2005	6,550	4,571
Depreciation	(111)	—
Revaluation	(439)	—
At 31 March 2006	6,000	4,571

The freehold land and buildings, all of which are owner-occupied, were valued at 31 March 2005 by external valuers, Colliers CRE, Chartered Surveyors, at their Existing Use Value (EUV) in accordance with the RICS Appraisal and Valuation Manual. At 31 March 2006 the Company entered into a contract to dispose of the owner-occupied property in Wimbledon. Accordingly, the property has been valued to reflect its sales value on completion which is scheduled for late 2006.

## 10. Subsidiary companies

	<b>2006</b>	2005
	<b>£'000</b>	£'000
Investment at cost	<b>2,105</b>	2,105

The directors consider that the investments in subsidiaries are worth more than the amounts at which they are stated in the accounts. The subsidiaries, which are all wholly owned and incorporated and registered in England, are:

Cop Nominees Limited	— Dormant
Copleys Investments Limited	— Dormant
Copleys Limited	— Instalment credit
Copleys Bank Limited	— Dormant
Copleys Trust Limited	— Dormant
Telesurance Holdings Limited	— Dormant
United Counties Finance Limited	— Dormant

# Notes forming part of the Financial Statements

## 11. Other financial investments

	Market value 2006 £'000	Market value 2005 £'000	Cost 2006 £'000	Cost 2005 £'000
Deposits with credit institutions	99,570	102,219	99,570	102,219
Shares and unit trusts	22,736	17,691	13,380	13,380
Cash liquidity funds	25,537	23,457	22,602	21,555
Other investments	9	9	9	9
	<b>147,852</b>	143,376	<b>135,561</b>	137,163

## 12. Debtors

	2006 £'000	2005 £'000
Debtors arising out of direct insurance operations:		
Amounts owed by policyholders	38,343	38,773
Amounts owed by intermediaries	1,383	236
	<b>39,726</b>	39,009
Other debtors:		
Loan to subsidiary	9,983	12,796
Due from Group companies	3,888	80
Other debtors	78	307
	<b>13,949</b>	13,183

## 13. Tangible fixed assets

	Computer equipment £'000	Motor vehicles £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 1 April 2005	6,624	421	4,812	11,857
Additions during the year	32	43	14	89
Disposals during the year	—	(182)	—	(182)
At 31 March 2006	<b>6,656</b>	<b>282</b>	<b>4,826</b>	<b>11,764</b>
Depreciation:				
At 1 April 2005	6,296	329	4,303	10,928
Charge for the year	319	34	277	630
Disposals during the year	—	(180)	—	(180)
At 31 March 2006	<b>6,615</b>	<b>183</b>	<b>4,580</b>	<b>11,378</b>
Net book amount:				
At 31 March 2006	<b>41</b>	<b>99</b>	<b>246</b>	<b>386</b>
At 31 March 2005	328	92	509	929

## 14. Deferred acquisition costs

	<b>Commission</b>	<b>Other</b>	<b>Total</b>
	<b>2006</b>	<b>expenses</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April 2005	3,166	24,518	27,684
Arising in year	3,567	29,354	32,921
Incurred acquisition costs	(3,588)	(29,493)	(33,081)
At 31 March 2006	3,145	24,379	27,524
	2005	2005	2005
	£'000	£'000	£'000
At 1 April 2004	3,906	23,800	27,706
Arising in period	1,930	27,162	29,092
Incurred acquisition costs	(2,670)	(26,444)	(29,114)
At 31 March 2005	3,166	24,518	27,684

## 15. Pension scheme

The Company participates in the defined contribution pension scheme operated by Domestic & General Group PLC in whose accounts full disclosure of the pension arrangements are made.

The costs of providing pensions for employees are charged in the profit and loss account in the year to which they relate.

## 16. Called up share capital

	<b>Number of</b>	<b>2006</b>	2005
	<b>shares</b>	<b>£'000</b>	£'000
Authorised			
Ordinary shares of £1 each	10,000,000	10,000	10,000
Allotted, called up and fully paid			
Ordinary shares of £1 each:			
In issue at 1 April 2005 and 31 March 2006	4,700,200	4,700	4,700

## 17. Reserves

	<b>Profit and</b>
	<b>loss</b>
	<b>£'000</b>
At 1 April 2005	73,248
Profit after taxation	14,655
Dividends	(19,200)
At 31 March 2006	68,703

# Notes forming part of the Financial Statements

## 18. Technical provisions

	<b>Provision for unearned premium £'000</b>	<b>Claims outstanding £'000</b>	<b>Total £'000</b>
Gross amount:			
At 1 April 2005	132,554	7,478	140,032
Exchange rate movements	100	4	104
Movement in the provision	3,911	(365)	3,546
At 31 March 2006	<b>136,565</b>	<b>7,117</b>	<b>143,682</b>
Reinsurance amount:			
At 1 April 2005	12	2	14
Movement in the provision	104	(2)	102
At 31 March 2006	<b>116</b>	<b>—</b>	<b>116</b>

## 19. Deferred taxation

Under FRS 19, deferred tax is provided for in full on timing differences.

	<b>Deferred Taxation £'000</b>	
At 1 April 2005	(137)	
Released in the year	83	
At 31 March 2006	<b>(54)</b>	
Deferred taxation has arisen as follows:		
	<b>2006 £'000</b>	2005 £'000
On revaluation of land and buildings	<b>(522)</b>	(678)
On capital allowances	<b>489</b>	520
On timing differences	<b>87</b>	295
Deferred tax asset	<b>54</b>	137

## 20. Creditors

	2006	2005
	£'000	£'000
Creditors arising out of direct insurance operations:		
Third parties	13,650	10,978
Creditors arising out of reinsurance operations:		
Third parties	22	10
Amounts owed to credit institutions:		
Bank overdrafts	—	749
Other creditors including taxation and social security:		
Corporation tax payable	2,968	3,132
Other taxation and social security	96	65
Third parties	189	251
Group companies	5,369	1,352
	8,622	4,800

## 21. Commitments

### (i) Capital commitments

There was no capital expenditure contracted for but not provided in the accounts.

### (ii) Operating leases

The commitment during the following year in respect of non-cancellable leases on properties is:

	2006	2005
	£'000	£'000
Leases which expire:		
Within one year	143	—
Within 2–5 years	—	21
After 5 years	222	561
	365	582

## 22. Directors' emoluments

The directors' emoluments were borne by another Group company.

## 23. Ultimate holding company

The ultimate holding company is Domestic & General Group PLC which is incorporated and registered in England. Domestic & General Group PLC prepares group accounts which include the company. The Group accounts can be obtained from Swan Court, Mansel Road, London, SW19 4AA or from the Company's website [www.domgen.com](http://www.domgen.com).

# Auditors' Report

## **Independent auditors' report to the members of Domestic & General Insurance PLC**

We have audited the financial statements of Domestic & General Insurance PLC for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movement 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also 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 judgements 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 March 2006 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  
London  
26 May 2006





DOMESTIC & GENERAL