Egmont UK Limited

Directors' report and financial statements

31 December 2006

Registered number 449706

Directors' report and financial statements

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Directors' report

The directors present their report and the audited financial statements for the year ended 31st December 2006

Business Review

Egmont UK Ltd is a media company within the Egmont Group The Group has activities in 21 countries across the world, and the ultimate owner of the Group is a charitable trust based in Denmark
In the UK, Egmont is a leading publisher of children's books and magazines in a mature and fiercely competitive market
In the magazine business the most important titles are licensed character magazines such as *Disney Princess*, *Barbie*, and *Thomas the Tank Engine*, in addition the company publishes own brand magazines such as *GO Girl*, *Toxic* and *Daisy* which all contributed to a growth in Egmont UK's turnover in 2006 and the maintenance of our No 2 position in the children's magazine market

Our book activities are divided into two divisions Egmont Publishing is the UK's leading character publisher with classic properties such as *Winnie the Pooh, Thomas the Tank Engine, Mr Men* and *Tintin* Our position in this segment has been further strengthened this year with the acquisition of the publishing rights to *Bob the Builder, Rupert* and *Lazy Town*

Egmont Press is our award winning Fiction and Picture Book imprint This year saw the culmination of the hit children's book series by Lemony Snicket *A Series of Unfortunate Events,* with the publication of the final title - *The End* The series has now sold in excess of five million copies in the UK Egmont Press also captured the prestigious 2006 Nestle Children's Book Award with the debut novel from Julie Golding *The Diamond of Drury Lane*

2006 achievements

In 2006 the UK division again delivered a strong turnover and profit performance Overall UK turnover grew 6 7% from £38,853K in 2005 to £41,459K in 2006 The profit before taxation amounted to £2,980k (2005 £4 1m including £1 4m in released provisions) which – although it was lower than the result in the previous year – was ahead of expectations and showed a repetition of strong trading over the last two years

The directors have paid a final ordinary dividend of £74 3924 per share totalling £5,877k

Dividends paid during the year include a final dividend of £52 8734 per share in respect of the previous year ended 31 December 2005 totalling £4,177k

While 2006 was the year to continue process improvements and show our ability to deliver sustainable profitable performance within a tough trading environment, it was also the year where we saw the first growth initiatives sprout after an intensive review process aimed at identifying the most profitable initiatives

Egmont continued to develop their Ethical Publishing program, a project whose watchwords are product safety, ethical trading and responsible forestry

The future route

In 2007 we will continue along this route and we will push ahead with a growth strategy in *Magazines*, launching a number of new titles, whereas *Press* will continue to fill the gap after Snicket and at the same time develop the new series fiction list, *2 Heads Publishing* (Books) will continue to grow the business through further exploitation of the increasing number of licensed properties

Future risks and uncertainties

The company acknowledges that the competition in both the UK book market and the magazine market is fierce The demographics in the UK show that our natural target group has been declining and so far all prophesies show that this will continue to be the case and consequently this will even sharpen the competition in the coming years

For the first time in the history of our magazine business we have witnessed a decline in the market in both volume and value and we believe this is likely to continue

Thankfully, children's books is less threatened by competing digital media, they have a more secure position and still offer a unique solution for telling stories They are viewed as a 'good thing' and have the support of parents, the education system and society as a whole We believe the children's book market will continue to grow albeit at a reduced rate in the coming years, our challenge is to secure a growing share of this market, both in the UK and overseas

The digitalisation of media for children is not just a threat, it is also an opportunity and Egmont UK are active in investigating and pursuing business prospects in this area

Governance

The UK management board frequently monitors the company's performance, the market development and the technological development as well as the competitors initiatives Furthermore we do monitor the development in the areas related to licensors etc

Directors

The following persons have served as directors during the year and since the year end

D Cordy
K A Culff
S Kragh
R McMenemy
C Moller
D Pocock
C Poplak
D I Riley

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Directors' interests

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year

Political and charitable contributions

The company made no political contributions during the year

Donations made to charity amounted to £9,400 (*2005 £6,995)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

Registered Office
239 Kensington High Street
London
W8 6SA

Date 1 February 2007

By order of the board

C Moller, Secretary

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

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law

KPMG LLP
PO Box 695
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of Egmont UK Limited

We have audited the financial statements of Egmont UK Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet 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' responsiblities 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 5

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements

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 December 2006 and of its result 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 Director' Report is consistent with the financial statements

KPMG LLP

KPMG LLP 7 February 2007
Chartered Accountants
Registered Auditor

Profit and loss account

for the year ended 31 December 2006

	Note	**2006** £000	**2006** £000	2005 £000	2005 £000
Turnover	*2*		**41,459**		38,853
Cost of sales			**(17,998)**		(18,169)
Gross profit			**23,461**		20,684
Distribution costs		**(8,928)**		(7,171)	
Administrative costs		**(12,244)**		(10,239)	
Other operating income		**600**		665	
			(20,572)		(16,745)
Operating profit			**2,889**		3,939
Interest receivable			**133**		93
Interest payable and similar charges	*6*		**(42)**		(11)
Profit on ordinary activities before taxation	*3*		**2,980**		4,021
Tax on profit on ordinary activities	*7*		**(683)**		(760)
Profit on ordinary activities after taxation			**2,297**		3,261
Dividends paid			**(5,877)**		(3,175)
Retained profit/(loss) for the year	*14*		**(3,580)**		86

There were no acquisitions or discontinued operations in either 2006 or 2005

The company had no recognised gains or losses this year or during the previous year other than those reflected in the above profit and loss account

A reconciliation of movements in equity shareholders' funds is given in note 15

Balance sheet

at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets					
Tangible assets	9		**40**		124
Current assets					
Stocks	10	**2,267**		3,934	
Debtors	11	**19,616**		18,533	
Cash at bank and in hand		**12,756**		9,466	
		34,639		31,933	
Creditors: amounts falling due within one year	12	**(32,166)**		(25,964)	
Net current assets :					
Analysed as					
Due within one year		**1,781**		5,769	
Due after more than one year	11	**692**		200	
			2,473		5,969
Net assets			**2,513**		6,093
Capital and reserves					
Share capital	13		**79**		79
Share premium	14		**1,837**		1,837
Profit and loss account	14		**597**		4,177
Shareholders' funds equity interests	15		**2,513**		6,093

These financial statements were approved by the Board of Directors on 1 February 2007 and signed on its behalf by

C Moller ....

Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

Basis of preparation

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

Cash Flow Statement

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirements to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary and the consolidated financial statements of the ultimate parent company are available to the public at the address given in Note 19

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

FRS 8 Related Party Transactions

The company has taken advantage of the exemption not to disclose details regarding transactions with other group undertakings as permitted by Financial Reporting Standard No 8, as the company is a wholly owned subsidiary The results of the company have been consolidated in the financial statements of the ultimate holding company, which are publicly available from the address given in Note 19

Turnover

Turnover represents the invoiced value of goods supplied excluding VAT

Translation of overseas currencies into sterling

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or if hedged forward at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Tangible fixed assets

Depreciation is provided on cost at the following annual rates on a straight-line basis intended to write off the assets over their estimated useful lives

Office equipment	20%
Furniture and fittings	20%

Stocks

Stocks and work in progress are stated at the lower of cost, including attributable overheads, and estimated net realisable value

Notes (contd)

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

Pension costs

The company operates a group personal pension scheme The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period

Leases

Rentals payable under operating lease arrangements are charged to the profit and loss account on a straight-line basis over the life of the lease

2 Turnover

	2006	2005
	£000	£000
Sales were made to the following markets		
United Kingdom	**36,147**	33,825
North America & Rest of World	**1,085**	1,034
Europe	**1,586**	1,565
Australasia	**2,641**	2,429
	41,459	38,853

3 Profit on ordinary activities before taxation

	2006	2005
	£000	£000
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration		
Audit	**74**	39
Other	**3**	92
Depreciation	**84**	104
Rentals payable under operating leases	**747**	746

Notes (contd)

4 Directors' emoluments

	2006	2005
	£000	£000
Directors' emoluments	**542**	368
Company contributions to group personal pension schemes	**33**	23

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £148,227 *(2005 £144,529)*, and company pension contributions of £8,755 *(2005 £8,500)* were made to a group personal scheme on their behalf

	Number of directors	
	2006	2005
Retirement benefits are accruing to the following number of directors under		
Group personal pension schemes	**5**	5

5 Staff numbers and costs

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

	2006	2005
	No of employees	
Management and administration	**10**	8
Production, distribution and sales	**168**	165
	178	173

The aggregate payroll costs of these persons were as follows

	2006	2005
	£000	£000
Wages and salaries	**5,467**	4,958
Social security costs	**561**	529
Other pension costs	**302**	312
Severance costs	**14**	309
	6,344	6,108

Notes (contd)

6 Interest payable and similar charges

	2006 £000	2005 £000
Differences on exchange and discounts	**42**	5
Bank interest payable	-	6
	42	11

7 Taxation

Analysis of charge in period

	2006 £000	£000	2005 £000	£000
UK corporation tax				
Current tax on income for the period	**816**		828	
Adjustments in respect of prior periods	**367**		(68)	
		1,183		760
Deferred taxation				
Recognition of previously unprovided tax asset		**(500)**		-
Tax on profit on ordinary activities		**683**		760

Factors affecting the tax charge for the current period

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

	2006 £000	2005 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**2,980**	4,021
Current tax at 30% (*2005 30%*)	**894**	1,206
Effects of		
Expenses not deductible for tax purposes	**26**	19
Depreciation for the year in excess of capital allowances	**(57)**	7
Utilisation of tax losses	**(147)**	-
Origination/reversal of timing differences	**(14)**	(404)
Adjustments in respect of prior period	**367**	(68)
Transfer pricing adjustment	**114**	
Total current tax charge (see above)	**1,183**	760

Notes (contd)

7 Taxation

Factors that may affect future tax charges
The company expects its effective tax rate in future years to be less than the standard rate of corporation tax in the UK due principally to the availability of tax losses A further deferred tax asset of £1,648,942 (2005 £2,074,000) has not been recognised as the directors do not feel certain that the timing differences will reverse in the near future

8 Dividends

	2006	2005
	£000	£000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**4,177**	3,175
Dividend paid in respect of current year	**1,700**	-
Total Dividend	**5,877**	3,175

9 Tangible assets

	Furniture & Equipment 2006
	£000
Cost	
Balance at 1 January 2006	1,267
Additions	-
Balance at 31 December 2006	**1,267**
Depreciation	
Balance at 1 January 2006	1,143
Charge for the period	84
Balance at 31 December 2006	**1,227**
Net book value	
At 1 January 2006	124
At 31 December 2006	**40**

10 Stocks

	2006	2005
	£000	£000
Work in progress	**147**	601
Finished goods	**2,120**	3,333
	2,267	3,934

Notes (contd)

11 Debtors

	2006 £000	2005 £000
Due within one year		
Trade debtors	**12,967**	11,818
Amounts due from parent and fellow subsidiary undertakings	**5,186**	5,485
Other debtors	**370**	622
Deferred tax	**108**	100
Prepayments and accrued income	**293**	308
	18,924	18,333
Due after more than one year		
Deferred taxation	**692**	200
Total debtors	**19,616**	18,533

12 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	**7,147**	6,785
Amount due to parent and fellow subsidiary undertakings	**19,619**	13,051
Taxation	**781**	392
Social Security costs	**195**	153
Accruals and deferred income	**2,309**	3,705
Provision for returns	**2,115**	1,878
	32,166	25,964

13 Share Capital

	Authorised		Issued and fully paid	
	Shares	£000's	Shares	£000's
Ordinary shares of £1 each				
At 31 December 2005	208,000	208	79,480	79
At 31 December 2006	**208,000**	**208**	**79,480**	**79**

Notes (contd)

14 Reserves

	Share Premium £000	Profit and loss account £000
Balance at 1 January 2006	**1,837**	**4,177**
Movement in year	-	(3,580)
Balance at 31 December 2006	**1,837**	**597**

15 Reconciliation of movements in equity shareholders' funds

	2006 £000	2005 £000
Retained profit/(loss) for the financial year	**(3,580)**	86
Opening equity shareholders' funds	**6,093**	6,007
Closing equity shareholders' funds	**2,513**	6,093

16 Pension scheme

The company operates a group personal pension scheme The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £301,605 (2005 £311,940)

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year

17 Contingent liabilities and capital commitments

There are composite guarantees in place between Egmont UK Limited and the following group companies -
Egmont International Holdings A/S
Egmont Holding Limited
Egmont Magazines Limited
Nordisk Film Post Production Sales (UK) Limited

Notes (contd)

18 Operating lease commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	2006		2005	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Operating leases which expire				
Within one year	178	48	3	-
In the second to fifth years inclusive	-	17	178	59
Over five years	501	-	501	-

19 Ultimate parent undertaking and parent undertaking

The company is a subsidiary undertaking of Egmont Book Publishing Limited, registered in England and Wales The ultimate holding company is the Egmont Foundation, registered in Denmark

A copy of the group accounts can be obtained from the Egmont Foundation, 11 Vognmagergade, DK-1148, Copenhagen K, Denmark

20 Related party disclosures

The company is controlled by Egmont Holding Limited In the opinion of the directors, the company's ultimate controlling party as at 31 December 2006 was Egmont International Holding A/S, incorporated in Denmark

As the company is a wholly owned subsidiary of Egmont Holding 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 headed by Egmont Holding Limited