

Sonopress (UK) Limited

**Directors' report and financial
statements**

Registered number 913275

Year ended 31 December 2006

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Directors' report

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

Principal activities

The principal activity of the company is the packaging, import and distribution of CDs, DVDs, electronic media and printed materials

Results and dividends

The profit for the year before taxation was £2,006,000 (2005 £1,854,000)

A dividend of £Nil (2005 £Nil) was paid during the year

Business review

Sonopress (UK) Limited has sustained its strong relationships of trust with customers by continually supplying products that feature high quality and high effectiveness in ways tailored to meet customers' needs and by providing customer service that is highly valued by customers and helps further to enhance the company's brand image

The company has continued to focus on consistently reducing its overheads whilst maintaining its high quality of service level. This factor combined with achieving revenue sustainability in a declining disc manufacturing market resulted in a 3.1% EBIT improvement.

An improvement in operating profit from £1,837,000 to £1,894,000 arose from reduced cost of purchases and overheads compared with the previous year. Management have also been able to restrain the increase in distribution costs. The net interest receivable for the year was £112,000 (2005 £17,000) due to improved treasury management.

It is expected that sales will decrease in the following year due to general market decline in the Audio Publishing business but Sonopress (UK) Limited will still manage to increase its EBIT due to cost optimisation measures set up, monitoring and completion from Management.

Environment

As a society we have become more aware of our environment and the impact that we all have upon it.

Sonopress have recognised this as being of key importance to the future of the business and as such are aiming to demonstrate our commitment to the environment and act as a good corporate citizen through sensible management of resources and continual improvement programmes relating to quality and the environment.

Both disciplines go hand in hand to provide a sustainable organisation that can continue to flourish through the application of a number of key activities.

Consumption and waste reduction

Sonopress continually review use of raw materials, energy usage and quality "right first time" principles, in an effort to reduce consumption and create less waste to thus minimizing our impact on the environment.

Furthermore, Sonopress continue to examine and attempt to source recycled and environmentally friendly products to support the increasing demand for greener products within the market place.

Recycling

Sonopress aim to reduce the need for recycling by sourcing only the materials required to supply the products and services required by our customers.

Where waste is produced we aim to recycle anything that can be recycled, thus reducing land fill waste.

Banned and Controlled Chemical Substances

Sonopress aim to source materials that conform to international and industry standards, such as the European toy safety standard EN71-3 and RoHS standards.

Directors' report *(continued)*

Employment

Sonopress UK Limited believes that a stable workforce is required to provide a service that will be highly valued by customers, as the company is keen to promote from within and encourage employees to stay within the Bertelsmann group of companies. Sonopress UK Limited adheres to the international company ethos (The Bertelsmann Essentials) which encourages staff to maximise their own potential within the group with the help and guidance of their Line Managers

At the 1 January 2006, there were 144 permanent employees of these 37 left during the year, 32 new employees (including 11 short term assignments) were recruited to the workforce making 139 employees at the 31 December 2006, close

Risk factors

The following is a summary of some of the significant risks that could affect Sonopress (UK) Limited

Market risk

The demand for discs, Sonopress (UK) Limited's main products, is affected to a large extent by the levels of legal downloads and piracy activities. Generally speaking, these levels depend largely on consumer habits and on the speed of new technologies development. As a result, if consumer habits radically change this may have an adverse impact on Sonopress (UK)'s operations. The company mitigates this risk by continuing to develop and broaden its product range in line with customer requirements in the entertainment markets

Currency exchange risk

A proportion of the products Sonopress (UK) Limited sells are produced in the group's worldwide factories where the costs are denominated in currencies of the U S dollar and the Euro. Consequently, the cost of these products is dependent upon the value of pound sterling compared with these currencies. An adverse fluctuation will have an impact on the Company's operating results. In an effort to reduce the impact of short-term exchange rate fluctuations Sonopress (UK) Limited engages in certain hedging transactions. As a matter of policy no hedges of a speculative nature are entered into. While Sonopress (UK) Limited believes that such measures may help reduce the impact of some exchange rate fluctuations, it cannot assure that it will be able to successfully hedge its exchange rate risks

Credit risk

Sonopress (UK) Limited is dependent upon the quality of its customers, including their financial strength. If customers become insolvent a bad debt may be generated and sales may decline. To mitigate this risk the Company has consistently selected customers with high financial standing. This is followed up by continuous monitoring and credit insurance

Directors

The directors who held office during the year were as follows

Dr H Heemeyer
M Bah
J Shervey
A Kane
D Gleisberg
S Deutschmann

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

Directors' report *(continued)*

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

By order of the board

A handwritten signature in black ink, appearing to be 'M Bah', written over a horizontal line.

M Bah
Director

Black Country New Road
Wednesbury One
Wednesbury
WS10 7NY

24 October 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities



KPMG LLP

2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Sonopress (UK) Limited

We have audited the financial statements of Sonopress (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' 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 4.

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.

Independent auditors' report to the members of Sonopress (UK) Limited *(continued)*

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 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 LLP
Chartered Accountants
Registered Auditor

24 October 2007

Profit and loss account
for the year ended 31 December 2006

	<i>Note</i>	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Turnover from continuing operations	2	26,487	26,042
Cost of sales		(18,533)	(18,115)
		<hr/>	<hr/>
Gross profit from continuing operations		7,954	7,927
Distribution costs		(1,077)	(998)
Administrative expenses		(4,983)	(5,092)
		<hr/>	<hr/>
Operating profit from continuing operations		1,894	1,837
Other interest receivable and similar income	6	112	19
Interest payable and similar charges	7	-	(2)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3	2,006	1,854
Tax on profit on ordinary activities	8	(658)	(593)
		<hr/>	<hr/>
Profit for the financial year	15	1,348	1,261
Profit brought forward		5,987	4,726
		<hr/>	<hr/>
Profit carried forward		7,335	5,987
		<hr/> <hr/>	<hr/> <hr/>

The company has made no gains or losses other than those included above

There is no material difference between the company results as reported and on an unmodified historical cost basis
Accordingly no note of historical cost profits and losses has been included

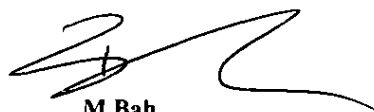
The notes on pages 9 to 16 form part of these financial statements

Balance sheet
at 31 December 2006

	<i>Note</i>	2006 £000	£000	2005 £000	£000
Fixed assets					
Tangible assets	9		648		899
Current assets					
Stocks	10	444		610	
Debtors	11	8,513		11,840	
Cash at bank and in hand		2,066		437	
		11,023		12,887	
Creditors amounts falling due within one year	12	(4,326)		(7,789)	
Net current assets			6,697		5,098
Net assets			7,345		5,997
Capital and reserves					
Called up share capital	14		10		10
Profit and loss account			7,335		5,987
Equity shareholders' funds	15		7,345		5,997

The notes on pages 9 to 16 form part of these financial statements

These financial statements were approved by the board of directors on 24 October 2007 and signed on its behalf by


M Bah
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 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

Under Financial Reporting Standard 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 the company is a more than 90% owned subsidiary of Bertelsmann UK 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 Bertelsmann AG, within which this company is included, can be obtained from the address given in note 19

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Leasehold improvements	-	3 years
Plant and machinery	-	5 years
Factory and office equipment	-	5 years
Motor vehicles	-	4 years
Computer equipment	-	2 years

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or 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

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Post-retirement benefits

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Stocks

Stocks are stated at the lower of cost and net realisable value In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding VAT) derived from the provision of goods and services to customers during the year. Turnover is derived from the sale and distribution of CDs, DVDs, electronic media, printed materials and packaging.

Revenue is recognised when billed, on delivery of goods.

2 Analysis of turnover

	2006 £000	2005 £000
<i>By geographical market</i>		
UK	19,472	21,212
Rest of Europe	5,008	1,826
America	1,878	2,996
Africa	1	8
Asia	128	-
	<u>26,487</u>	<u>26,042</u>

All turnover arises solely from the principal activity of the company.

3 Profit on ordinary activities before taxation

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration		
Audit of the company	21	29
Depreciation	459	614
Hire of other assets - operating leases	20	80
Exchange losses	-	110
<i>after crediting</i>		
Exchange gains	<u>(14)</u>	<u>-</u>

Notes (continued)

4 Remuneration of directors

	2006 £000	2005 £000
Directors' emoluments	327	324
Pension contributions to money purchase scheme	15	10
	<u>342</u>	<u>334</u>

Some of the directors are paid by other group companies

There were three directors (31 December 2005 three) accruing retirement benefits under a money purchase pension scheme at the year end

The aggregate of emoluments of the highest paid director was £120,872 (2005 £120,006), and company pension contributions of £8,800 (2005 £3,100) were made to a money purchase scheme on their behalf

5 Staff numbers and costs

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

	Number of employees 2006	2005
Selling and distribution	11	13
Administration	58	81
Production	62	47
	<u>131</u>	<u>141</u>

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	3,363	3,182
Social security costs	333	319
Other pension costs	37	40
	<u>3,733</u>	<u>3,541</u>

6 Other interest receivable and similar income

	2006 £000	2005 £000
Other	112	19

Notes (continued)

7 Interest payable and similar charges

	2006 £000	2005 £000
Payable to group undertakings	-	2

8 Taxation

Analysis of charge in period

	2006 £000	£000	2005 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	610		579	
Adjustments in respect of prior periods	-		195	
	<hr/>		<hr/>	
Total current tax		610		774
<i>Deferred tax (see note 13)</i>				
Origination/reversal of timing differences	8		(12)	
Adjustments in respect of prior periods	40		(169)	
	<hr/>		<hr/>	
		48		(181)
		<hr/>		<hr/>
Tax on profit on ordinary activities		658		593

Factors affecting the tax charge for the current period

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

	2006 £000	2005 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,006	1,854
	<hr/>	<hr/>
Current tax at 30% (2005 30%)	602	556
<i>Effects of</i>		
Income not taxable/ expenses not deductible for tax purposes	16	11
Depreciation for period in excess of capital allowances	(8)	12
Adjustments to tax charge in respect of previous periods	-	195
	<hr/>	<hr/>
Total current tax charge (see above)	610	774

Factors affecting future tax charge

It has been announced that the corporation tax rate applicable to the company is expected to change from 30% to 28% from 1 April 2008. The unprovided deferred tax asset has been calculated at 30% in accordance with FRS 19. Any timing differences which reverse before 1 April 2008 will be relieved at 30%, any timing differences which exist at 1 April 2008 will reverse at 28% and, because of the uncertainty of when the deferred tax asset will reverse, it is not possible to calculate the full financial impact of this change.

Notes (continued)

9 Tangible fixed assets

	Leasehold improvements	Plant and machinery	Factory and office equipment	Motor vehicles	Computer equipment	Total
	£000	£000	£000	£000	£000	£000
Cost						
At beginning of year	876	2,812	435	209	812	5,144
Additions	-	174	15	-	19	208
At end of year	876	2,986	450	209	831	5,352
Depreciation						
At beginning of year	848	2,071	376	169	781	4,245
Charge for year	16	342	49	18	34	459
At end of year	864	2,413	425	187	815	4,704
Net book value						
At 31 December 2006	12	573	25	22	16	648
At 31 December 2005	28	741	59	40	31	899

10 Stocks

	2006 £000	2005 £000
Raw materials and consumables	400	586
Finished goods and goods for resale	44	24
	444	610

11 Debtors

	2006 £000	2005 £000
Trade debtors	7,008	9,557
Amounts owed by group undertakings	1,005	1,781
Other debtors	35	32
Deferred tax asset (note 13)	294	342
Prepayments and accrued income	171	128
	8,513	11,840

All debtors are due within one year

Notes (continued)

12 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	2,087	2,502
Amounts owed to group undertakings	753	3,679
Taxation and social security	538	633
Corporation tax	610	581
Accruals and deferred income	338	394
	<u>4,326</u>	<u>7,789</u>

13 Deferred taxation

The movements in deferred tax assets are as follows

	2006 £000
At 1 January 2006	342
Debit to the profit and loss account for the year	(48)
	<u>294</u>
At 31 December 2006	<u>294</u>

The elements of deferred taxation are as follows

	2006 £000	2005 £000
Difference between accumulated depreciation and amortisation and capital allowances	294	342
Deferred tax asset	<u>294</u>	<u>342</u>

14 Called up share capital

	2006 £000	2005 £000
<i>Authorised, allotted, called up and fully paid</i>		
Equity ordinary shares of £1 each	<u>10</u>	<u>10</u>

Notes (continued)

15 Reconciliation of movement in equity shareholders' funds

	2006 £000	2005 £000
Profit for the financial year	1,348	1,261
Net increase in shareholders' funds	1,348	1,261
Opening shareholders' funds	5,997	4,736
Closing shareholders' funds	7,345	5,997

16 Commitments

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings 2006 £000	2005 £000
Operating leases which expire Over five years	244	244

17 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the fund and amounted to £37,021 (2005 £40,004). No amounts were outstanding at the year end. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

18 Related party disclosures

The company is controlled by its parent undertaking Bertelsmann UK Limited. The ultimate controlling party is Bertelsmann AG.

19 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Bertelsmann AG incorporated in Germany.

The parent undertaking of the largest and smallest group of undertakings for which publicly available group accounts are drawn up and of which the company is a member, is as follows:

Bertelsmann AG
Carl Bertelsmann - Strasse 270
4830 Gutersloh 1
Germany