


De Agostini UK Limited

Report and Financial Statements

31 December 2002

 **ERNST & YOUNG**



De Agostini UK Limited

Registered No: 00966900

Directors

M Drago (Chairman)
S Rayner
R Drago
P Boroli
A O'Connell
F Mooty
P Swanston

Secretary

S Rayner

Auditors

Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

Registered office

Griffin House
161 Hammersmith Road
London
W6 8SD

Directors' report

The directors present their report and financial statements for the year ended 31 December 2002.

Results and dividends

The profit for the year, after taxation, amounted to £1,138,185. The directors do not recommend the payment of any dividends. Preference dividends were not paid nor are proposed.

Principal activities and review of the business

The principal activity of the company continues to be that of multi-media publishing. The directors expect the general level of the activity to be maintained in the coming year. The company continues to invest in testing new publications. This ensues a steady flow of new publications, which are the mainstay of the business.

Directors

The directors who served the company during the year were as follows:

M Drago	
S Rayner	
R Drago	
P Boroli	
A O'Connell	
F Mooty	
P Swanston	(Appointed 16 September 2002)
G Williams	(Resigned 3 September 2002)

There are no directors' interests requiring disclosure under the Companies Act 1985.

Auditors

The directors appointed Ernst & Young LLP as auditors during the year, to replace Arthur Andersen.

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

S Rayner
Secretary

19 SEP 2003 2003

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of De Agostini UK Limited

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 20. These financial statements have been prepared on the basis of 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 auditors' 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 the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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, if 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 transactions with the company 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 United Kingdom Auditing Standards 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.

Independent auditors' report
to the members of De Agostini UK Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

29 September 2003

Profit and loss account

for the year ended 31 December 2002

	Notes	2002 £	2001 £
Turnover	2	28,745,830	37,997,159
Cost of sales		11,818,838	16,651,217
Gross profit		16,926,992	21,345,942
Distribution costs		11,566,359	14,100,807
Administrative expenses		5,988,455	5,367,494
Other operating income		(2,127,500)	(1,963,900)
		15,427,314	17,504,401
Operating profit	3	1,499,678	3,841,541
Bank interest receivable	6	107,143	111,089
Interest payable	7	(54,627)	(38,073)
		52,516	73,016
Profit on ordinary activities before taxation		1,552,194	3,914,557
Tax on profit on ordinary activities	8	414,009	369,129
Profit retained for the financial year		1,138,185	3,545,428

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £1,138,185 attributable to the shareholders for the year ended 31 December 2002 (2001 - profit of £3,545,428).

Balance sheet

at 31 December 2002

	Notes	2002 £	2001 £
Fixed assets			
Tangible assets	9	304,495	125,370
Investments	10	15,831	15,831
		<u>320,326</u>	<u>141,201</u>
Current assets			
Stocks	11	3,873,256	2,159,805
Debtors	12	10,904,609	9,879,018
Cash at bank		4,473,999	2,824,972
		<u>19,251,864</u>	<u>14,863,795</u>
Creditors: amounts falling due within one year	13	10,919,375	7,490,366
Net current assets		<u>8,332,489</u>	<u>7,373,429</u>
Total assets less current liabilities		<u>8,652,815</u>	<u>7,514,630</u>
Capital and reserves			
Called up share capital	17	18,060,000	18,060,000
Profit and loss account	18	(9,407,185)	(10,545,370)
Shareholders' funds:	18		
Equity		(9,287,185)	(10,425,370)
Non-equity		17,940,000	17,940,000
		<u>8,652,815</u>	<u>7,514,630</u>

f. Mooty

F Mooty
Director

19 SEP 2003 2003

Notes to the financial statements

at 31 December 2002

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Fixtures and fittings	- 4 years
Computers	- 2 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Investments

Fixed asset investments are shown at cost less any provision for impairment.

The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are stated at the lower of cost and net realisable value. Work in progress represents recoverable editorial and production costs on future partwork issues.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

at 31 December 2002

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Operating lease agreements

Rentals payable under operating leases are charged in the Profit and Loss Account on a straight line basis over the lease term.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged in the Profit and Loss Account as they become payable in accordance with the rules of the scheme.

Deferred advertising

Advertising costs incurred in promotion of partworks are deferred until the launch of the related partwork, at which point they are expensed in full. A provision is made to reflect any uncertainty surrounding the recoverability of such expenditure.

2. Turnover

Turnover comprises amounts receivable (net of VAT and trade discounts) of goods and services supplied in the normal course of business, and the royalties received and receivable arising from partwork sales.

An analysis of turnover by geographical market is given below:

	2002 £	2001 £
United Kingdom	17,495,992	25,601,465
Rest of Europe	3,004,427	2,880,891
Australia and New Zealand	3,379,793	3,657,868
Asia	2,605,506	3,263,302
North America	1,044,408	1,189,828
South Africa	1,163,738	1,357,855
Rest of World	51,966	45,950
	<u>28,745,830</u>	<u>37,997,159</u>

3. Operating profit

This is stated after charging:

	2002 £	2001 £
Auditors' remuneration - audit services	33,000	54,028
- non-audit services	11,600	-
	<u>44,600</u>	<u>54,028</u>
Depreciation of owned fixed assets	<u>122,749</u>	<u>127,948</u>
Operating lease rentals - land and buildings	<u>317,642</u>	<u>328,500</u>

Notes to the financial statements

at 31 December 2002

4. Staff costs

	2002 £	2001 £
Wages and salaries	3,427,584	2,978,515
Social security costs	347,108	304,329
Other pension costs (note 14)	193,979	175,411
	<u>3,968,671</u>	<u>3,458,255</u>

The monthly average number of employees during the year was as follows:

	2002 No.	2001 No.
Production	5	5
Marketing and distribution	25	25
Editorial	7	8
Administration	29	29
	<u>66</u>	<u>67</u>

5. Directors' emoluments

	2002 £	2001 £
Emoluments	<u>438,547</u>	<u>429,001</u>
Value of company pension contributions to money purchase schemes	<u>34,352</u>	<u>33,667</u>
Compensation for loss of directorship	<u>32,870</u>	<u>—</u>
	2002 No.	2001 No.
Members of money purchase pension schemes	<u>3</u>	<u>3</u>

The amounts in respect of the highest paid director are as follows:

	2002 £	2001 £
Emoluments	<u>190,951</u>	<u>165,617</u>
Company contributions paid to money purchase pension scheme	<u>13,285</u>	<u>—</u>

6. Interest receivable

	2002 £	2001 £
Bank interest receivable	<u>107,143</u>	<u>111,089</u>

Notes to the financial statements

at 31 December 2002

7. Interest payable

	2002 £	2001 £
Bank interest payable	<u>54,627</u>	<u>38,073</u>

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2002 £	2001 £
<i>Current tax:</i>		
UK corporation tax	92,000	—
Tax under provided in previous years	<u>2,726</u>	<u>—</u>
	94,726	—
Foreign tax	<u>319,283</u>	<u>369,129</u>
Total current tax (note 8(b))	<u>414,009</u>	<u>369,129</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2001 - 30%).

	2002 £	2001 £
Profit on ordinary activities before taxation	<u>1,552,194</u>	<u>3,914,557</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2001 - 30%)	465,658	1,174,367
Utilisation of tax losses	(373,658)	(1,174,367)
Irrecoverable tax on overseas earnings	319,283	369,129
Adjustment in respect of previous period	<u>2,726</u>	<u>—</u>
Total current tax (note 8(a))	<u>414,009</u>	<u>369,129</u>

(c) Deferred tax

The company has a deferred tax asset of approximately £6,616,000 that has not been recognised since the benefit of the tax losses will only accrue when suitable future taxable trading profits are generated. The deferred tax asset is made up of brought forward trading losses of £5,274,000, capital allowances and timing differences on provisions of £1,162,000 and capital losses of £180,000.

Notes to the financial statements

at 31 December 2002

9. Tangible fixed assets

	<i>Fixtures and fittings</i> £	<i>Computers</i> £	<i>Total</i> £
Cost:			
At 1 January 2002	206,876	399,606	606,482
Additions	165,155	137,015	302,170
Disposals	—	(55,807)	(55,807)
At 31 December 2002	<u>372,031</u>	<u>480,814</u>	<u>852,845</u>
Depreciation:			
At 1 January 2002	172,000	309,112	481,112
Provided during the year	30,385	92,364	122,749
Disposals	—	(55,511)	(55,511)
At 31 December 2002	<u>202,385</u>	<u>345,965</u>	<u>548,350</u>
Net book value:			
At 31 December 2002	<u>169,646</u>	<u>134,849</u>	<u>304,495</u>
At 1 January 2002	<u>34,876</u>	<u>90,494</u>	<u>125,370</u>

10. Investments

	<i>Subsidiary Undertakings</i> £
Cost:	
At 1 January 2002 and 31 December 2002	<u>15,831</u>

The company has investments in the following subsidiary undertakings:

	<i>Description of shares held</i>	<i>Country of incorporation or registration</i>	<i>Proportion of nominal value of ordinary shares held</i>	<i>Nature of business</i>
Oriole Publishing Limited	Ordinary	England	100%	Publishing
De Agostini Deutschland GmbH	Ordinary	Germany	100%	Publishing

11. Stocks

	<i>2002</i> £	<i>2001</i> £
Work in progress	<u>3,873,256</u>	<u>2,159,805</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

Notes to the financial statements

at 31 December 2002

12. Debtors

	2002 £	2001 £
Trade debtors	2,858,389	2,752,291
Amounts owed by group undertakings	6,081,044	5,218,583
Other debtors	997,404	1,201,070
Prepayments and accrued income	967,772	707,074
	<u>10,904,609</u>	<u>9,879,018</u>

13. Creditors: amounts falling due within one year

	2002 £	2001 £
Current instalment due on bank loan	—	78,997
Trade creditors	6,586,983	3,740,424
Amounts owed to group undertakings	921,437	906,334
Corporation tax	543,000	—
Other taxation and social security	142,220	91,504
Other creditors	677,129	1,408,547
Accruals and deferred income	2,048,606	1,264,560
	<u>10,919,375</u>	<u>7,490,366</u>

14. Pension arrangements

The pension cost charge for the year under the defined contribution scheme was £193,979 (2001: £175,411). There were no contributions prepaid or outstanding at the balance sheet date. (2001: £nil).

15. Commitments under operating leases

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as set out below.

	<i>Land and buildings</i>	
	2002 £	2001 £
Operating leases which expire:		
In over five years	<u>330,000</u>	<u>328,500</u>

16. Contingent liabilities

The company is registered for VAT purposes in a group of companies which share a common registration number. As a result it has jointly guaranteed the VAT liability of the group, and non-payment by other members of the group would give rise to additional liability for this company. The directors are of the opinion that no liability is likely to arise from the failure of other companies.

The company has unlimited guarantees in favour of Oriole Publishing Limited, a subsidiary undertaking, and De Agostini Limited, a fellow group undertaking of De Agostini UK Holding Limited (formerly De Agostini (UK) Limited), and is party to a composite cross guarantee with De Agostini Rights Limited and De Agostini UK Holding Limited.

At the year end the company had guarantees amounting to £2,000 (2001: £2,000). This relates entirely to a guarantee to HM Customs & Excise for VAT deferment.

Notes to the financial statements

at 31 December 2002

17. Share capital

	2002		Authorised 2001	
	£		£	
Ordinary shares of £1 each	270,000		270,000	
Preference shares of £1 each	20,000,000		20,000,000	
	<u>20,270,000</u>		<u>20,270,000</u>	

	Allotted, called up and fully paid 2002		2001	
	No.	£	No.	£
Ordinary shares of £1 each	120,000	120,000	120,000	120,000
Preference shares of £1 each	17,940,000	17,940,000	17,940,000	17,940,000
		<u>18,060,000</u>		<u>18,060,000</u>

The redeemable preference shares carry no entitlement to dividend.

The holders of the redeemable preference shares may, at their option, call for whole or partial redemption at any time before 31 December 2011, upon giving the company no less than twelve months notice.

Holders of the redeemable preference shares have equal voting rights to those of the ordinary shareholders.

On a winding-up, holders of the redeemable preference shares rank before the ordinary shareholders for repayment of the subscription price of their shares, any remaining balance of assets being distributed on an equal ranking, in proportion to the amounts paid upon each class of share.

18. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	Profit and loss account £	Total share- holders' funds £
At 1 January 2001	18,060,000	(14,090,798)	3,969,202
Profit for the year	—	3,545,428	3,545,428
At 31 December 2001	18,060,000	(10,545,370)	7,514,630
Profit for the year	—	1,138,185	1,138,185
At 31 December 2002	<u>18,060,000</u>	<u>(9,407,185)</u>	<u>8,652,815</u>

19. Related party transactions

As a subsidiary of De Agostini S.p.A, the company has taken advantage of the exemption in FRS8 "Related party Transactions" not to disclose transactions with other members of the group headed by De Agostini S.p.A.

Notes to the financial statements

at 31 December 2002

20. Ultimate parent undertaking

The company's immediate parent undertaking is De Agostini UK Holding Limited. De Agostini S.p.A, incorporated in Italy is the parent undertaking of the largest and smallest group of which the company is a member and for which group financial statements are drawn up. Copies of the financial statements are available from Griffin House, 161 Hammersmith Road, London W6 8SD.