

966900

De Agostini UK Limited

Report and Financial Statements

31 December 2005



De Agostini UK Limited

Registered No: 00966900

Directors

P Boroli
A O'Connell
P Swanston
M Guiseppe
S Di Bella
V M R Mongino
J Caplin

Secretary

J North

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

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 2005.

Results and dividends

The loss for the year amounted to £3,502,279. The directors do not recommend the payment of any dividends.

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 ensures a steady flow of new publications, which are the mainstay of the business. The results for the year are in line with expectations. The company operates one branch outside the UK, in Russia.

Directors

The directors who served the company during the year and were appointed subsequently, were as follows:

P Boroli	
A O'Connell	
F Mooty	(resigned 17 April 2006)
P Swanston	
M Guiseppe	
S Di Bella	
V M R Mongino	
J Caplin	(appointed 10 May 2006)

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

Auditors

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

On behalf of the board



Director

30 OCT 2006

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 period. 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 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 18. *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

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice), as set out in the Statement of Directors' Responsibilities.

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, 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 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.

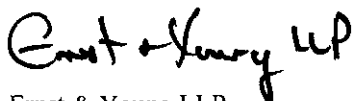
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

31 October 2006

Profit and loss account

for the year ended 31 December 2005

	Notes	2005 £	2004 £
Turnover	2	62,126,713	95,287,311
Cost of sales		33,584,774	50,979,046
Gross profit		28,541,939	44,308,265
Distribution costs		27,045,640	33,123,021
Administrative expenses		7,191,349	6,856,374
Other operating income		(1,921,883)	(2,105,619)
		32,315,106	37,873,776
Operating (loss)/profit	3	(3,773,167)	6,434,489
Bank interest receivable		404,893	215,099
Bank interest payable		(6,288)	(42,505)
		398,605	172,594
(Loss)/profit on ordinary activities before taxation		(3,374,562)	6,607,083
Tax on (loss)/profit on ordinary activities	6	127,717	(161,675)
(Loss)/profit for the financial year		(3,502,279)	6,768,758

Statement of total recognised gains and losses

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

Balance sheet

at 31 December 2005

	Notes	2005 £	Restated 2004 £
Fixed assets			
Tangible assets	7	451,101	482,915
Investments	8	43,945	15,831
		<u>495,046</u>	<u>498,746</u>
Current assets			
Stocks	9	2,518,710	6,031,303
Debtors	10	15,272,660	14,218,783
Cash at bank		8,138,504	7,985,061
		<u>25,929,874</u>	<u>28,235,147</u>
Creditors: amounts falling due within one year	11	16,731,461	15,538,155
Net current assets		<u>9,198,413</u>	<u>12,696,992</u>
Total assets less current liabilities		<u>9,693,459</u>	<u>13,195,738</u>
Preference share capital: redeemable after more than one year	15	7,940,000	7,940,000
		<u>1,753,459</u>	<u>5,255,738</u>
Capital and reserves			
Ordinary share capital	15	120,000	120,000
Other equity	15	10,000,000	10,000,000
Profit and loss account	16	(8,366,541)	(4,864,262)
Shareholders' funds	16	<u>1,753,459</u>	<u>5,255,738</u>



Director

30 OCT 2006

Notes to the financial statements

at 31 December 2005

1. Accounting policies

Basis of preparation

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

The company has taken advantage of the exemption for preparing consolidated financial statements afforded by section 228 of the Companies Act 1985 because it is a wholly-owned subsidiary of De Agostini S.p.A. incorporated in the EU, in which its results are consolidated and whose financial statements are publicly available (note 18). These financial statements therefore reflect the company as an individual entity and not the group as a whole.

Change in accounting policy

In preparing the financial statements for the current year and following the introduction of FRS25 'Financial Instruments: Disclosure and Presentation', the company has reviewed the treatment of its redeemable preference shares. As disclosed in note 15, the shares are currently redeemable at any time before 31 December 2011 at the option of the shareholder. The shares are wholly owned by the company's parent undertaking. The company has received confirmation from its parent undertaking that it will not seek to redeem 10,000,000 of these shares and hence the company has treated this portion of the shares as equity. The remaining preference shares have been reclassified as debt. This has had the effect of increasing creditors due after more than one year by £7,940,000 (2004 restated £7,940,000) and reducing shareholders funds by the same amount.

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 consolidated financial statements.

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.

Notes to the financial statements

at 31 December 2005

1. Accounting policies (continued)

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 deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- 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.

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.

Test costs

The company expenses media test costs as incurred.

Notes to the financial statements

at 31 December 2005

2. Turnover

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

An analysis of turnover by geographical market is given below:

	2005 £	2004 £
United Kingdom	46,103,446	74,176,413
Rest of Europe	7,832,267	6,458,927
Australia and New Zealand	6,277,000	10,620,822
Asia	195,000	1,091,951
North America	358,000	664,000
South Africa	958,000	1,010,758
Rest of World	403,000	1,264,440
	<u>62,126,713</u>	<u>95,287,311</u>

3. Operating (loss)/profit

This is stated after charging/(crediting):

	2005 £	2004 £
Auditors' remuneration - audit services	44,028	39,967
- non-audit services	<u>18,500</u>	<u>46,245</u>
Depreciation of owned fixed assets	<u>218,544</u>	<u>199,680</u>
Operating lease rentals - land and buildings	<u>338,224</u>	<u>330,000</u>
Forgiveness of amounts due to former parent undertaking	<u>-</u>	<u>(276,039)</u>

4. Staff costs

	2005 £	2004 £
Wages and salaries	3,493,522	3,341,296
Social security costs	437,363	373,040
Other pension costs	<u>198,597</u>	<u>182,279</u>
	<u>4,129,482</u>	<u>3,896,615</u>

Notes to the financial statements

at 31 December 2005

4. Staff costs (continued)

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

	2005 No.	2004 No.
Production	8	6
Marketing and distribution	22	25
Editorial	13	7
Administration	30	29
	<u>73</u>	<u>67</u>

5. Directors' emoluments

	2005 £	2004 £
Emoluments	<u>953,965</u>	<u>537,448</u>
Value of company pension contributions to money purchase schemes	<u>40,088</u>	<u>15,000</u>

	2005 No.	2004 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:

	2005 £	2004 £
Emoluments	<u>409,660</u>	<u>230,833</u>
Value of company pension contributions to money purchase schemes	<u>15,000</u>	<u>15,000</u>

6. Taxation

(a) Tax on (loss)/profit on ordinary activities

The tax charge/(credit) is made up as follows:

	2005 £	2004 £
<i>Current tax:</i>		
UK corporation tax	–	120,922
Adjustments in respect of previous years	(72,592)	(406,938)
	<u>(72,592)</u>	<u>(286,016)</u>
Double taxation relief	–	(56,392)
	<u>(72,592)</u>	<u>(342,408)</u>
Overseas tax	200,309	180,733
Total current tax (note 6(b))	<u>127,717</u>	<u>(161,675)</u>

Notes to the financial statements

at 31 December 2005

6. Taxation (continued)

(b) Factors affecting current tax charge/(credit)

The tax assessed on the (loss)/profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 30% (2004 - 30%).

	2005 £	2004 £
(Loss)/profit on ordinary activities before taxation	<u>(3,374,562)</u>	<u>6,607,083</u>
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 30% (2004 - 30%)	(1,012,369)	1,982,125
Non taxable income and disallowed expenditure	(24,376)	(377,969)
Depreciation in excess/(arrear) of capital allowances	65,482	(216,985)
Other timing differences	(15,095)	(96,976)
Adjustments in respect of previous periods	(72,592)	(406,938)
Higher taxes on overseas earnings	200,309	—
Tax losses carried forward/(utilised)	986,358	(1,169,274)
Tax credit	—	124,342
Total current tax (note 6(a))	<u>127,717</u>	<u>(161,675)</u>

(c) Deferred tax

The deferred taxation asset not recognised in the financial statements is as follows:

	2005 £	2004 £
Depreciation in advance of capital allowances	897,612	687,937
Short term timing differences	10,235	85,329
Tax losses available	2,916,759	1,930,401
Tax credit	—	124,342
	<u>3,824,606</u>	<u>2,828,009</u>

Based on expected results and current uncertain market conditions, the directors consider there is insufficient certainty to enable the company to recognise a deferred tax asset this year.

Notes to the financial statements

at 31 December 2005

7. Tangible fixed assets

	<i>Fixtures and fittings £</i>	<i>Computers £</i>	<i>Total £</i>
Cost:			
At 1 January 2005	485,452	676,118	1,161,570
Additions	12,694	174,036	186,730
Disposals	(30,385)	(132,184)	(162,569)
At 31 December 2005	<u>467,761</u>	<u>717,970</u>	<u>1,185,731</u>
Depreciation:			
At 1 January 2005	232,703	445,952	678,655
Provided during the year	53,138	165,406	218,544
Disposals	(30,385)	(132,184)	(162,569)
At 31 December 2005	<u>255,456</u>	<u>479,174</u>	<u>734,630</u>
Net book value:			
At 31 December 2005	<u>212,305</u>	<u>238,796</u>	<u>451,101</u>
At 1 January 2005	<u>252,749</u>	<u>230,166</u>	<u>482,915</u>

8. Investments

	<i>Subsidiary undertakings £</i>
Cost:	
At 1 January 2005	15,831
Additions in the year	28,114
At 31 December 2005	<u>43,945</u>

During the year, the company increased its investment in Oriole Publishing Limited following an increase in the share capital of that company. 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

Notes to the financial statements

at 31 December 2005

9. Stocks

	2005 £	2004 £
Work in progress	<u>2,518,710</u>	<u>6,031,303</u>

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

10. Debtors

	2005 £	2004 £
Trade debtors	10,147,968	10,226,048
Amounts owed by group undertakings	2,724,493	2,475,179
Corporation tax repayable	—	69,953
Other debtors	18,261	14,283
VAT	1,904,653	684,323
Prepayments and accrued income	477,285	748,997
	<u>15,272,660</u>	<u>14,218,783</u>

11. Creditors: amounts falling due within one year

	2005 £	2004 £
Trade creditors	8,025,368	6,633,270
Amounts owed to group undertakings	2,733,256	2,796,265
Corporation tax	11,602	—
Other taxation and social security	155,506	152,603
Other creditors	3,135,039	3,313,712
Accruals and deferred income	2,670,690	2,642,305
	<u>16,731,461</u>	<u>15,538,155</u>

A bank overdraft facility is available and secured by a debenture over the company and by letters of comfort from De Agostini S.p.A.

12. Pension arrangements

The pension cost charge for the year under the defined contribution scheme was £198,597 (2004 - £182,279). There were no contributions outstanding at the balance sheet date (2004 - £nil).

13. Commitments under operating leases

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	
	2005 £	2004 £
Operating leases which expire:		
In over five years	<u>338,224</u>	<u>330,000</u>

Notes to the financial statements

at 31 December 2005

14. 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 an unlimited bank guarantee in favour of Oriole Publishing Limited, a subsidiary undertaking.

At the year end the company had guarantees amounting to £2,000 (2004 - £2,000) to HM Revenue & Customs for VAT deferment.

15. Share capital

		2005	Authorised 2004
		£	£
Ordinary shares of £1 each		270,000	270,000
Redeemable preference shares of £1 each		20,000,000	20,000,000
		<u>20,270,000</u>	<u>20,270,000</u>

	No.	Allotted, called up and fully paid 2005	No.	2004
		£		£
Ordinary shares of £1 each	120,000	120,000	120,000	120,000
Redeemable 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 par 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.

The company has received assurance from its parent undertaking that it will not redeem £10,000,000 of the preference share capital in the foreseeable future and hence is continuing to include this portion of the preference shares in equity. The remainder has been reclassified as debt.

Accordingly, preference share capital is shown in the balance sheet as follows:

	2005	2004
	£	£
Preference share capital: redeemable after more than one year	<u>7,940,000</u>	<u>7,940,000</u>
Other equity	<u>10,000,000</u>	<u>10,000,000</u>

Notes to the financial statements

at 31 December 2005

16. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i> £	<i>Other equity</i> £	<i>Profit and loss account</i> £	<i>Total</i> £
At 1 January 2004, as originally stated	18,060,000	–	(11,633,020)	6,426,980
Restatement (note 1)	(17,940,000)	10,000,000	–	(7,940,000)
At 1 January 2004, as restated	120,000	10,000,000	(11,633,020)	(1,513,020)
Profit for the year	–	–	6,768,758	6,768,758
At 31 December 2004	120,000	10,000,000	(4,864,262)	5,255,738
Loss for the year	–	–	(3,502,279)	(3,502,279)
At 31 December 2005	120,000	10,000,000	(8,366,541)	1,753,459

17. 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, as financial statements in which the company is included are publicly available.

18. Ultimate parent undertaking

The company's immediate parent undertaking is De Agostini Partworks Holding B.V., incorporated in the Netherlands. 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.