966100

De Agostini UK Limited

Report and Financial Statements

31 December 2006

Registered No: 00966900

Directors
P Boroli
A O'Connell
P Swanston
G Maurizio
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 2006.

Results and dividends

The profit for the year amounted to £2,400,058. 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 operated one branch outside the UK, in Russia. It sold the branch to a fellow subsidiary undertaking as at 31 December 2006.

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.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and

- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board

Director

31 OCT 2007

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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;
- 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 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 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 19. 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 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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, are properly prepared in accordance with the Companies Act 1985, and whether 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 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.

Ernst & Young

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 company's state of 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.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

31 OCT 2007

Profit and loss account
for the year ended 31 December 2006

	Notes	2006 £	2005 £
Turnover	2	44,311,418	62,126,713
Cost of sales		22,843,109	33,584,774
Gross profit		21,468,309	28,541,939
Distribution costs		13,234,678	27,045,640
Administrative expenses		7,908,231	7,191,349
Other operating income		(2,230,654)	(1,921,883)
		18,912,255	32,315,106
Operating profit/(loss)	3	2,556,054	(3,773,167)
Bank interest receivable		450,935	404,893
Bank interest payable		(9,289)	(6,288)
Gain on sale of overseas branch		79,613	–
		521,259	398,605
Profit/(loss) on ordinary activities before taxation		3,077,313	(3,374,562)
Tax on profit/(loss) on ordinary activities	6	677,255	127,717
Profit/(loss) for the financial year		2,400,058	(3,502,279)

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 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible assets	7	428,531	451,101
Investments	8	43,945	43,945
		472,476	495,046
Current assets			
Stocks	9	1,764,623	2,518,710
Debtors	10	8,168,235	15,272,660
Cash at bank		9,840,009	8,138,504
		19,772,867	25,929,874
Creditors: amounts falling due within one year	11	8,003,826	16,731,461
Net current assets		11,769,041	9,198,413
Total assets less current liabilities		12,241,517	9,693,459
Provisions for liability	14	148,000	–
Preference share capital: redeemable after more than one year	16	7,940,000	7,940,000
		4,153,517	1,753,459
Capital and reserves			
Ordinary share capital	16	120,000	120,000
Other equity	17	10,000,000	10,000,000
Profit and loss account	17	(5,966,483)	(8,366,541)
Shareholders' funds	17	4,153,517	1,753,459

Director

3 1 OCT 2007

Notes to the financial statements

at 31 December 2006

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 19). These financial statements therefore reflect the company as an individual entity and not the group as a whole.

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 2006

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 2006

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:

	2006	*2005*
	£	*£*
United Kingdom	34,639,418	46,103,446
Rest of Europe	3,335,000	7,832,267
Australia and New Zealand	4,630,000	6,277,000
Asia	594,000	195,000
North America	257,000	358,000
South Africa	853,000	958,000
Rest of World	3,000	403,000
	44,311,418	62,126,713

3. Operating profit/(loss)
This is stated after charging/(crediting):

		2006	*2005*
		£	*£*
Auditors' remuneration	- audit services	89,506	44,028
	- non-audit services	53,212	18,500
Depreciation of owned fixed assets		226,421	218,544
Operating lease rentals	- land and buildings	394,857	338,224

4. Staff costs

	2006	*2005*
	£	*£*
Wages and salaries	3,727,059	3,493,522
Social security costs	443,030	437,363
Other pension costs	190,965	198,597
	4,361,054	4,129,482

Notes to the financial statements
at 31 December 2006

4. Staff costs (continued)

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

	2006 *No.*	*2005* *No.*
Production	7	8
Marketing and distribution	16	22
Editorial	10	13
Administration	28	30
	61	73

5. Directors' emoluments

	2006 *£*	*2005* *£*
Emoluments	632,611	953,965
Value of company pension contributions to money purchase schemes	37,709	40,088

	2006 *No.*	*2005* *No.*
Members of money purchase pension schemes	3	3

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

	2006 *£*	*2005* *£*
Emoluments	252,969	409,660
Value of company pension contributions to money purchase schemes	15,900	15,000

6. Taxation

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

The tax charge is made up as follows:

	2006 *£*	*2005* *£*
Current tax:		
UK corporation tax	135,281	–
Adjustments in respect of previous years	125,123	(72,592)
	260,404	(72,592)
Overseas tax	452,625	200,309
Adjustments in respect to previous periods	(35,774)	–
Total current tax (note 6(b))	677,255	127,717

Notes to the financial statements
at 31 December 2006

6. Taxation (continued)
(b) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 30% (2005 - 30%).

	2006 £	*2005* £
Profit/(loss) on ordinary activities before taxation	3,077,313	(3,374,562)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2005 - 30%)	923,194	(1,012,369)
Non taxable income and disallowed expenditure	160,269	(24,376)
Capital allowances in excess of depreciation	(205,082)	65,482
Other timing differences	25,744	(15,095)
Net adjustments in respect of previous periods	89,349	(72,592)
Higher taxes on overseas earnings	452,625	200,309
Tax losses carried forward	(768,844)	986,358
Total current tax (note 6(a))	677,255	127,717

(c) Deferred tax

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

	2006 £	*2005* £
Depreciation in advance of capital allowances	692,397	897,612
Short term timing differences	43,677	10,235
Tax losses available	2,112,955	2,916,759
	2,849,029	3,824,606

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 2006

7. Tangible fixed assets

	Fixtures and fittings £	*Computers* £	*Total* £
Cost:			
At 1 January 2006	467,761	717,970	1,185,731
Additions	32,315	171,536	203,851
At 31 December 2006	500,076	889,506	1,389,582
Depreciation:			
At 1 January 2006	255,456	479,174	734,630
Provided during the year	57,371	169,050	226,421
At 31 December 2006	312,827	648,224	961,051
Net book value:			
At 31 December 2006	187,249	241,282	428,531
At 1 January 2006	212,305	238,796	451,101

8. Investments

	Subsidiary undertakings £
Cost:	
At 1 January and 31 December 2006	43,945

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

Notes to the financial statements

at 31 December 2006

9. Stocks

	2006	*2005*
	£	*£*
Work in progress	1,764,623	2,518,710

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

10. Debtors

	2006	*2005*
	£	*£*
Trade debtors	4,735,116	10,147,968
Amounts owed by group undertakings	2,559,727	2,724,493
Other debtors	10,731	18,261
VAT	474,167	1,904,653
Prepayments and accrued income	388,494	477,285
	8,168,235	15,272,660

11. Creditors: amounts falling due within one year

	2006	*2005*
	£	*£*
Trade creditors	2,445,951	8,025,368
Amounts owed to group undertakings	1,960,677	2,733,256
Corporation tax	187,981	11,602
Other taxation and social security	158,731	155,506
Other creditors	2,031,178	3,135,039
Accruals and deferred income	1,193,190	2,670,690
Bank loans/overdraft	26,118	–
	8,003,826	16,731,461

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 £190,965 (2005 - £198,597). There were no contributions outstanding at the balance sheet date (2005 - £nil).

13. Commitments under operating leases

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

	Land and buildings	
	2006	*2005*
	£	*£*
Operating leases which expire:		
In over five years (see note 3)	394,857	338,224

Notes to the financial statements
at 31 December 2006

14. Provisions for liability

	Dilapidation provision £
At 1 January 2006	–
Arising during the year	148,000
At 31 December 2006	148,000

A dilapidation provision has been recognised representing the present value of amounts expected to be paid to the landlords of the Hammersmith site upon the expiry of the lease in 2011. The present value has been calculated using an estimate of the company's cost of capital.

15. 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. At the year end the company had guarantees amounting to £2,000 (2005 - £2,000) to HM Revenue & Customs for VAT deferment.

The company has an unlimited bank guarantee in favour of Oriole Publishing Limited, a subsidiary undertaking.

The company has issued a letter of support to its German subsidiary undertaking, De Agostini Deutschland GmbH, which had net liabilities of €3.9m at 31 December 2006.

16. Share capital

		Authorised
	2006 £	*2005* £
Ordinary shares of £1 each	270,000	270,000
Redeemable preference shares of £1 each	20,000,000	20,000,000
	20,270,000	20,270,000

			Allotted, called up and fully paid	
		2006		*2005*
	No.	£	*No.*	£
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
		18,060,000		18,060,000

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.

Notes to the financial statements

at 31 December 2006

16. Share capital *(continued)*

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:

	2006 £	*2005* £
Preference share capital: redeemable after more than one year	7,940,000	7,940,000
Other equity	10,000,000	10,000,000

17. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	*Other equity* £	*Profit and loss account* £	*Total* £
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
Profit for the year	–	–	2,400,058	2,400,058
At 31 December 2006	120,000	10,000,000	(5,966,483)	4,153,517

18. 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.

19. 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.