


De Agostini UK Limited

Report and Financial Statements

31 December 2003

 **ERNST & YOUNG**



De Agostini UK Limited

Registered No: 00966900

Directors

S Rayner
R Drago
P Boroli
A O'Connell
F Mooty
P Swanston

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 2003.

Results and dividends

The loss for the year, after taxation, amounted to £1,229,235. 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 ensures 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 (resigned 4 May 2004)
S Rayner
R Drago
P Boroli
A O'Connell
F Mooty
P Swanston

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


A O'Connell
Director

20/10 2004

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 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 2003 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 2003 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

28 October 2004

Profit and loss account

for the year ended 31 December 2003

	Notes	2003 £	2002 £
Turnover	2	60,443,001	28,745,830
Cost of sales		31,569,059	11,818,838
Gross profit		28,873,942	16,926,992
Distribution costs		26,183,356	11,566,359
Administrative expenses		6,052,320	5,988,455
Other operating income		(2,053,082)	(2,127,500)
		30,182,594	15,427,314
Operating (loss)/profit	3	(1,308,652)	1,499,678
Bank interest receivable	6	113,372	107,143
Interest payable and similar charges	7	(32,960)	(54,627)
		80,412	52,516
(Loss)/profit on ordinary activities before taxation		(1,228,240)	1,552,194
Tax on (loss)/profit on ordinary activities	8	(995)	(414,009)
(Loss)/profit retained for the financial year		(1,229,235)	1,138,185

Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £1,229,235 attributable to the shareholders for the year ended 31 December 2003 (2002 - profit of £1,138,185).

Balance sheet

at 31 December 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	9	465,934	304,495
Investments	10	15,831	15,831
		<u>481,765</u>	<u>320,326</u>
Current assets			
Stocks	11	5,295,179	3,873,256
Debtors	12	18,494,657	10,904,609
Cash at bank		4,037,733	4,473,999
		<u>27,827,569</u>	<u>19,251,864</u>
Creditors: amounts falling due within one year	13	20,885,754	10,919,375
Net current assets		<u>6,941,815</u>	<u>8,332,489</u>
Total assets less current liabilities		<u>7,423,580</u>	<u>8,652,815</u>
Capital and reserves			
Called up share capital	17	18,060,000	18,060,000
Profit and loss account	18	(10,636,420)	(9,407,185)
		<u>7,423,580</u>	<u>8,652,815</u>
Shareholders' funds:	18		
Equity		(10,516,420)	(9,287,185)
Non-equity		17,940,000	17,940,000
		<u>7,423,580</u>	<u>8,652,815</u>

ERNST & YOUNG


A O'Connell
Director

20/10 2004

Notes to the financial statements

at 31 December 2003

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 20). 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.

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 tax that would arise on remittance of the retained earnings of overseas 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.

Notes to the financial statements

at 31 December 2003

1. Accounting policies (continued)

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.

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:

	2003 £	2002 £
United Kingdom	44,747,568	17,495,992
Rest of Europe	5,249,404	3,004,427
Australia and New Zealand	6,228,630	3,379,793
Asia	1,977,343	2,605,506
North America	908,245	1,044,408
South Africa	1,239,159	1,163,738
Rest of World	92,652	51,966
	<u>60,443,001</u>	<u>28,745,830</u>

Notes to the financial statements

at 31 December 2003

3. Operating (loss)/profit

This is stated after charging:

	2003 £	2002 £
Auditors' remuneration - audit services	36,774	33,000
- non-audit services	11,600	11,600
Depreciation of owned fixed assets	154,161	122,749
Operating lease rentals - land and buildings	330,404	317,642

4. Staff costs

	2003 £	2002 £
Wages and salaries	3,179,995	3,427,584
Social security costs	359,929	347,108
Other pension costs	174,779	193,979
	3,714,703	3,968,671

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

	2003 No.	2002 No.
Production	5	5
Marketing and distribution	23	25
Editorial	7	7
Administration	29	29
	64	66

5. Directors' emoluments

	2003 £	2002 £
Emoluments	539,430	438,547
Value of company pension contributions to money purchase schemes	38,943	34,352
Compensation for loss of directorship	—	32,870
	2003 No.	2002 No.
Members of money purchase pension schemes	3	3

Notes to the financial statements

at 31 December 2003

5. Directors' emoluments (continued)

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

	2003 £	2002 £
Emoluments	<u>228,647</u>	<u>190,951</u>

6. Interest receivable

	2003 £	2002 £
Bank interest receivable	<u>113,372</u>	<u>107,143</u>

7. Interest payable and similar charges

	2003 £	2002 £
Bank interest payable	<u>32,960</u>	<u>54,627</u>

8. Taxation on ordinary activities

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

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

	2003 £	2002 £
<i>Current tax:</i>		
UK corporation tax	(32,143)	92,000
Tax (over)/under provided in previous years	<u>(130,857)</u>	<u>2,726</u>
	(163,000)	94,726
Overseas tax	<u>163,995</u>	<u>319,283</u>
Total current tax (note 8(b))	<u>995</u>	<u>414,009</u>

Notes to the financial statements

at 31 December 2003

8. Taxation on ordinary activities (continued)

(b) Factors affecting current tax charge

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% (2002 - 30%).

	2003 £	2002 £
(Loss)/profit on ordinary activities before taxation	<u>(1,228,240)</u>	<u>1,552,194</u>
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 30% (2002 - 30%)	(368,472)	465,658
Non taxable income and disallowed expenditure	(25,177)	7,905
Depreciation in excess of capital allowances	46,249	35,975
Other timing differences	(60,469)	—
Adjustments in respect of previous periods	(130,857)	2,726
Tax losses carried forward/(utilised)	375,726	(387,801)
Expense relief for overseas tax	—	(29,737)
Irrecoverable tax on overseas earnings	163,995	319,283
Total current tax (note 8(a))	<u>995</u>	<u>414,009</u>

(c) Deferred tax

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

	2003 £	Restated 2002 £
Depreciation in advance of capital allowances	902,498	856,249
Tax losses available	4,199,600	3,823,874
Other timing differences	175,015	235,484
	<u>5,277,113</u>	<u>4,915,607</u>

The company has deferred tax assets as detailed above which have not been recognised due to uncertainties relating to future profitability. The prior year balance has been restated to reflect final amounts per the 2002 tax computations.

Notes to the financial statements

at 31 December 2003

9. Tangible fixed assets

	<i>Fixtures and fittings £</i>	<i>Computers £</i>	<i>Total £</i>
Cost:			
At 1 January 2003	372,031	480,814	852,845
Additions	136,754	178,846	315,600
At 31 December 2003	<u>508,785</u>	<u>659,660</u>	<u>1,168,445</u>
Depreciation:			
At 1 January 2003	202,385	345,965	548,350
Provided during the year	39,832	114,329	154,161
At 31 December 2003	<u>242,217</u>	<u>460,294</u>	<u>702,511</u>
Net book value:			
At 31 December 2003	<u>266,568</u>	<u>199,366</u>	<u>465,934</u>
At 1 January 2003	<u>169,646</u>	<u>134,849</u>	<u>304,495</u>

10. Investments

	<i>Subsidiary Undertakings £</i>
Cost:	
At 1 January 2003 and 31 December 2003	<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>2003 £</i>	<i>2002 £</i>
Work in progress	<u>5,295,179</u>	<u>3,873,256</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 2003

12. Debtors

	2003 £	2002 £
Trade debtors	9,503,634	2,858,389
Amounts owed by group undertakings	3,517,199	6,081,044
Other debtors	1,273,727	997,404
Prepayments and accrued income	4,200,097	967,772
	<u>18,494,657</u>	<u>10,904,609</u>

13. Creditors: amounts falling due within one year

	2003 £	2002 £
Bank overdraft	27,097	—
Trade creditors	9,192,326	6,586,983
Amounts owed to group undertakings	2,797,093	921,437
Corporation tax	354,700	543,000
Other taxation and social security	135,209	142,220
Other creditors	1,917,033	677,129
Accruals and deferred income	6,462,296	2,048,606
	<u>20,885,754</u>	<u>10,919,375</u>

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

14. Pension arrangements

The pension cost charge for the year under the defined contribution scheme was £174,779 (2002 - £193,979). There were no prepaid contributions outstanding at the balance sheet date (2002 - £nil).

15. Commitments under operating leases

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	
	2003 £	2002 £
Operating leases which expire:		
In over five years	<u>330,000</u>	<u>330,000</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 bank 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 bank guarantee with De Agostini Rights Limited and De Agostini UK Holding Limited.

At the year end the company had guarantees amounting to £2,000 (2002 - £2,000) to HM Customs & Excise for VAT deferment.

Notes to the financial statements

at 31 December 2003

17. Share capital

		<i>Authorised</i>	
		<i>2003</i>	<i>2002</i>
		<i>£</i>	<i>£</i>
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>
		<i>Allotted, called up and fully paid</i>	
		<i>2003</i>	<i>2002</i>
	<i>No.</i>	<i>£</i>	<i>No.</i>
		<i>£</i>	<i>£</i>
Ordinary shares of £1 each	120,000	120,000	120,000
Preference shares of £1 each	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.

18. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	Profit and loss account £	Total share- holders' funds £
At 1 January 2002	18,060,000	(10,545,370)	7,514,630
Profit for the year	—	1,138,185	1,138,185
At 31 December 2002	18,060,000	(9,407,185)	8,652,815
Loss for the year	—	(1,229,235)	(1,229,235)
At 31 December 2003	<u>18,060,000</u>	<u>(10,636,420)</u>	<u>7,423,580</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 2003

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.