

**Company number 1534758**

**IDEAL SHOPPING DIRECT PLC**

**Annual report and accounts for the 12 months ended 31 December 2005**



## Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 December 2005.

### PRINCIPAL ACTIVITY

The principal activity of the Group is that of distance selling to consumers through television home shopping channels and the internet.

### RESULTS AND DIVIDENDS

The consolidated profit for the year after taxation was £5.2m (2004: £2.8m). A final dividend of £0.6m (2004: £0.3m) is proposed in respect of the year ended 31 December 2005 to add to an interim dividend of £0.3m (2004: nil), leaving a profit of £4.6m (2004: £2.5m) to be transferred to reserves. The results are discussed in greater detail in the Annual Review.

### DIRECTORS

The Directors serving at the year-end and their interests in the shares of the Company were:

	At 31 December 2005 3p ordinary shares	At 31 December 2004 3p ordinary shares
P C Wright	3,900,000	9,900,000
V Kaye	2,200,000	5,200,000
T W Donovan	10,000	10,000
J Hodgkinson	125,000	125,000
A Fryatt	19,520	–
M J Camp	–	–

There were no changes in the Directors' shareholdings between the year-end and 19 February 2006.

The share capital of the Company has increased during the year due to the exercising of share options.

Details of share options held by Directors at the year-end are given in the Remuneration Report.

### SUBSTANTIAL SHAREHOLDERS

At 19 February 2006 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's ordinary shares.

	3p ordinary shares	%
P C Wright	3,900,000	13.26%
V Kaye	2,200,000	7.48%
Artemis	3,335,598	11.34%
Forum	2,268,300	7.71%
Lansdowne	1,136,000	3.86%

### EMPLOYEE INVOLVEMENT

The Group recognises its responsibilities towards keeping employees informed of matters affecting them as employees and the economic factors affecting the performance of the Group. To this end consultations take place at appropriate times with employees.

### DISABLED EMPLOYEES

The Group recognises its obligations towards disabled people and endeavours to provide employment where possible having regard to the physical demands of the Group's operations and the abilities of the disabled persons. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Group may continue. It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

### PAYMENT POLICY AND AVERAGE PAYMENT PERIOD

Whilst it does not follow any published code or standard, the Group's and Company's policy concerning the payment of suppliers is to agree terms of payment at the start of business with each supplier or to ensure the supplier is made aware of the standard payment terms. The Company's normal policy is to pay suppliers at the end of the seventh week following the week in which the goods are received. The number of

days' purchases outstanding for payment at 31 December 2005 was 50 days (2004: 64 days).

### **DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (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 these 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;
- 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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom

governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The London Stock Exchange has announced that AIM companies will be required to prepare consolidated financial statements in accordance with International Accounting Standards from 2007. The Company is currently undertaking a detailed review of the conversion from UK GAAP to International Financial Reporting Standards (IFRSs). The first financial results prepared in accordance with IFRSs will be for the six months ended 30 June 2007.

### **TREASURY AND RISK MANAGEMENT**

The Group's treasury and financial risk management objectives are detailed in the 2005 Annual Review. Details in respect of the Group's exposure to interest rate risk, liquidity risk and currency risk are detailed in note 16 to the Financial Statements.

### **ANNUAL GENERAL MEETING**

The Annual General Meeting will be held on Thursday 4 May 2006 at 12.00 pm. at the offices of Teather & Greenwood, Beaufort House, 15 St Botolph Street, London EC3A 7QR. Notice is sent to shareholders separately with this report together with an explanation of special business to be considered at the meeting which is detailed on pages 40 to 42.

### **AUDITORS**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

**M J Camp**  
Secretary



6 March 2006

## Corporate Governance

Ideal Shopping Direct plc is quoted on AIM and the Company is thus not required to comply with the provisions of the Combined Code. However, the Directors support the highest standards of corporate governance and intend that the Company observe the underlying principles of the Combined Code relevant to its size and stage of development.

### THE BOARD

The Board comprises 2 Executive Directors and 4 Non-executive Directors. The Company recognises the benefit of Non-executive Directors who bring independent judgement on issues of strategy, resources, performance and standards of conduct. The Board meets regularly and has adopted a schedule of matters specifically reserved for its approval or review, including strategic operating plans, annual operating budgets, major capital expenditure and financial performance.

Management reports are produced monthly and distributed in advance of the monthly Board meetings and include strategy papers and summaries of the key features of the Company's financial position and operating performance.

### REMUNERATION COMMITTEE

The remuneration committee comprises Mr J Hodgkinson and Mr T W Donovan and the Chief Executive by invitation. It meets and approves the remuneration and terms and conditions of employment for the Executive Directors. Share option scheme plans are reviewed and approved by the committee.

### AUDIT COMMITTEE

The audit committee comprises Mr J Hodgkinson and Mr T W Donovan. It meets at least twice a year to review the draft interim and full year accounts. It discusses the scope and planning of the audit with the auditors before the audit and agrees their remuneration.

Specific responsibilities also include reviewing the effectiveness of internal controls; reviewing

the scope and results of the external audit; ensuring the independence of the auditors; and the review of key management judgements and risk assessments.

### NOMINATIONS COMMITTEE

The nominations committee comprises the Non-executive Directors and the Chief Executive. It is responsible for monitoring the composition and balance of the Board and making recommendations to the Board on new Board appointments.

### DIRECTORS' REMUNERATION

Details of the Directors' remuneration policy and related disclosures are contained in the Remuneration Report.

### INTERNAL CONTROL

The Directors are responsible for the system of internal control and reviewing its effectiveness. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The key elements of the Group's system of internal control are as follows:

- The Board has adopted a risk-based approach to establishing the system of internal control. This risk management approach is used to focus available resources on the Group's most significant areas of risk and to determine key control objectives. In particular the processes for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed have been reviewed.
- The Executive Directors are closely involved in the management of the business at a detailed level. This is supported by reviews of daily, weekly and monthly detailed analyses of the performance of the business and key performance indicators associated with the trading risks facing the Group.

- Detailed annual budgets are prepared, reviewed in detail and agreed by the Board and actual performance is reported against these budgets on a regular basis. Major commercial, technological and financial risks are assessed as part of this process.
- The Group has established controls and procedures over the security of the data held on its computer systems and also has in place disaster recovery plans
- The Group has in place an organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements.

#### AUDITOR INDEPENDENCE

It is the responsibility of the Audit Committee to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements, and to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

The audit committee reviews the nature and extent of non-audit services supplied by the external auditors to the Group, seeking to

balance objectivity and value for money. In determining policy, the Audit Committee has taken into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and does not agree to the auditor providing a service if, having regard to the ethical guidance, the result is that:

- the external auditor audits its own firm's work;
- the external auditor makes management decisions for the Company;
- a mutuality of interest is created; or
- the external auditor is put in the role of advocate for the Company.

#### DIALOGUE WITH INSTITUTIONAL SHAREHOLDERS

The Directors, together with advisers, hold regular meetings and discussions with key institutional shareholders.

#### GOING CONCERN

The Directors have made appropriate enquiries and formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

## Remuneration Report

### PROCEDURES FOR DEVELOPING POLICY AND FIXING REMUNERATION

Remuneration policy is set by the Remuneration Committee of the Board.

### POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

The Group's policy is to attract, motivate and retain high calibre individuals and to reward them for enhancing shareholder value.

The implementation of this policy is achieved by:

- An annual review of the salaries for the Executive Directors.
- Periodic review of other benefits such as the provision of company cars and medical insurance.
- Where considered appropriate, the participation in an annual bonus scheme based on the achievement of profit and individual performance targets.
- Where considered appropriate, the provision of share options.
- A contribution of 10% - 15% of basic salary to the Company pension scheme or a personal pension scheme held by the relevant Executive Director.

### SERVICE CONTRACTS

Each of the Executive Directors has a full-time service contract with the Company. The service agreements with Andrew Fryatt and Mike Camp are terminable by either party on not less than six months notice in writing, and that with Paul Wright on not less than twelve months.

In addition to their salaries, each of the Executive Directors are entitled to a number of other benefits including private medical cover, motor vehicle allowance and pension contributions as outlined above.

The Non-executive Director's contract for provision of services is terminable based on six months notice by either party. Their level of remuneration is determined by the Board based on the level of fees paid to Non-executive Directors of similar companies.

### AUDITED INFORMATION:

#### DIRECTORS' REMUNERATION

	Salary £'000	Benefits £'000	Bonus £'000	2005 Total (exc. pension) £'000	2004 Total (exc. pension) £'000	2005 Pensions £'000	2004 Pensions £'000
P C Wright	194	18	40	252	241	29	26
V Kaye	144	14	29	187	191	22	21
M J Creedon	158	8	-	166	110	6	8
T W Donovan	25	-	-	25	20	-	-
J Hodgkinson	69	-	-	69	38	-	-
A Fryatt	158	12	34	204	30	16	2
M J Camp	35	4	7	46	-	4	-
	<b>783</b>	<b>56</b>	<b>110</b>	<b>949</b>	<b>630</b>	<b>77</b>	<b>57</b>

2005 remuneration in respect of M J Creedon includes £97,000 relating to compensation for loss of office, and that in respect of V Kaye includes £111,000 relating to compensation for loss of executive office.

## SHARE OPTIONS

### 2000 Share Option Scheme

	Option price per share	Date exercisable	Number of Options
P C Wright	£0.335	6 April 2007 – 06 April 2014	50,000
J Hodkinson	£0.485	1 April 2007 – 1 April 2014	100,000
J Hodkinson	£2.415	4 March 2008 – 4 March 2015	100,000
A Fryatt	£1.565	8 November 2007 – 8 November 2014	95,847
A Fryatt	£2.415	4 March 2008 – 4 March 2015	124,224
A Fryatt	£3.65	19 September 2008 – 19 September 2015	42,329
M J Camp	£3.65	19 September 2008 – 19 September 2015	65,753

### 2005 Save As You Earn Share Option Scheme

A Fryatt	£1.94	1 August 2010 – 1 February 2011	8,518
J Hodkinson	£1.94	1 August 2010 – 1 February 2011	8,518
P C Wright	£1.94	1 August 2010 – 1 February 2011	8,518
V Kaye	£1.94	1 August 2010 – 1 February 2011	8,518

On 4 March 2005 Mr J Hodkinson was granted 100,000 share options and Mr A Fryatt was granted 124,224 share options at an option price of £2.415 per share.

On 3 June 2005 Mr J Hodkinson, Mr P C Wright, Mr A Fryatt and Miss V Kaye were granted 8,518 share options at an option price of £1.94 per share under the Company's Save As You Earn share option scheme for employees.

On 8 September 2005 Mr M J Creedon exercised 70,000 share options at an option price of £0.335 per share.

On 19 September 2005 Mr A Fryatt was granted 42,329 share options and Mr M J Camp was granted 65,753 share options at an option price of £3.65 per share.

The market price of the 3p ordinary shares was 320.0p at 31 December 2005. The market price ranged from 176.5p to 395.0p during the year.

## Report of the Independent Auditor

*To the Members of Ideal Shopping Direct Plc*

We have audited the Group and Parent Company financial statements (the "financial statements") of Ideal Shopping Direct plc for the year ended 31 December 2005 which comprise the principal accounting policies, the consolidated profit and loss account, the consolidated balance sheet, the Company balance sheet, the consolidated cash flow statement, and notes 1 to 30. 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 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 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the 2005 Annual Review, the Report of the Directors, the Corporate Governance report and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.*

### 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 Group's and 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.

## 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 Group's and the Parent Company's affairs as at 31 December 2005 and of the Group's profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

*Grant Thornton UK LLP.*

## GRANT THORNTON UK LLP

Registered Auditors

Chartered Accountants

KETTERING

6 March 2006

## Principal Accounting Policies

### BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost convention.

*The principal accounting policies of the Group are set out below. The policies have remained unchanged from the previous year with the exception of the policy relating to the treatment of dividends which has been changed in accordance with the provisions of FRS 21. Under the new standard, if the Company declares dividends to shareholders after the balance sheet date the Company does not recognise those dividends as a liability at the balance sheet date. Previously where dividends were proposed after the balance sheet date but before authorisation of the financial statements they were recorded as balance sheet liabilities. FRS 21 also requires that dividends recognised in the year are disclosed as a movement on reserves and not on the face of the consolidated profit and loss account. This change results in a restatement of the 2004 treatment of dividends declared, as explained in note 7.*

*In addition the Group has also implemented FRS 22 Earnings Per Share, the presentational aspects of FRS 25 Financial Instruments: Disclosure and Presentation, and FRS 28 Corresponding amounts. The implementation of these new standards has had no significant effect on the Group's existing disclosures.*

### BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the Company and of its subsidiary undertakings (see note 11) drawn up to 31 December 2005.

### TURNOVER

*Turnover represents the total invoice value, excluding value added tax, of goods sold and services rendered during the period. Revenue is recognised for the sale of goods when the risks and rewards of ownership transfer substantially to the buyer. Turnover is generated from the principal activities of the Group carried on in the United Kingdom.*

### INVESTMENTS

Investments are included at cost. Full provision for any permanent diminution in value is made where appropriate.

### TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost, net of depreciation. Depreciation is provided on the straight line basis at the following annual rates in order to write off each asset, other than freehold land, over its expected useful economic life.

Buildings	2%
Motor vehicles	25%
Plant and equipment	10% - 33%

## STOCKS

Stocks are stated at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items. Net realisable value is based on estimated selling price less further costs of disposal.

## DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

## FOREIGN CURRENCIES

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date except where there are forward contracts where the asset or liability is calculated at the forward rate, and no gain or loss results. All exchange differences subject to the above are dealt with through the profit and loss account for the year.

## LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their expected useful economic lives. The interest element of the rental obligations is charged to the profit and loss account at a constant rate on the outstanding balance over the period of the lease.

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the profit and loss account on a straight line basis over the lease term.

## RETIREMENT BENEFITS

The Group operates defined contribution pension schemes. Contributions payable are charged to the profit and loss account in the period to which they relate. These contributions are invested separately from the Group's assets.

## FINANCIAL INSTRUMENTS

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

## Consolidated Profit and Loss Account

For the year ended 31 December 2005

	Note	2005 £'000	2005 £'000	2004 £'000 Restated	2004 £'000 Restated
<b>Turnover</b>	1		<b>79,191</b>		60,382
Cost of sales			<b>(45,822)</b>		(34,113)
Gross profit			<b>33,369</b>		26,269
Distribution costs		<b>(2,670)</b>		(1,867)	
Administrative expenses		<b>(23,684)</b>		(20,293)	
Net operating expenses			<b>(26,354)</b>		(22,160)
Operating profit	23		<b>7,015</b>		4,109
Net interest	2		<b>389</b>		(4)
<b>Profit on ordinary activities before taxation</b>	1		<b>7,404</b>		4,105
Tax on profit on ordinary activities	5		<b>(2,250)</b>		(1,349)
<b>Retained profit transferred to reserves</b>	21		<b>5,154</b>		2,756
Basic earnings per share	9		<b>17.6p</b>		9.4p
Diluted earnings per share	9		<b>17.3p</b>		9.3p

There were no recognised gains or losses other than the profit for the financial year.

All of the above relates to continuing operations.

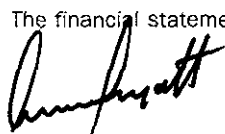
The accompanying accounting policies and notes form an integral part of these financial statements.

# Consolidated Balance Sheet

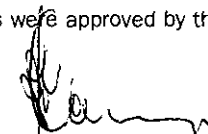
At 31 December 2005

	Note	2005 £'000	2005 £'000	2004 £'000 Restated	2004 £'000 Restated
<b>Fixed assets</b>					
Tangible assets	10		8,794		7,908
<b>Current assets</b>					
Stocks	12	5,254		3,829	
Debtors	13	2,208		1,354	
Cash		19,557		14,517	
		<u>27,019</u>		<u>19,700</u>	
<b>Creditors: amounts falling due within one year</b>	14	(17,295)		(13,649)	
<b>Net current assets</b>			9,724		6,051
<b>Total assets less current liabilities</b>			<u>18,518</u>		<u>13,959</u>
<b>Creditors: amounts falling due after more than one year</b>	15		(3,294)		(3,367)
<b>Provisions for liabilities</b>	17		(757)		(794)
			<u>14,467</u>		<u>9,798</u>
<b>Capital and reserves</b>					
Called up share capital	19		887		882
Share premium	21		180		84
Profit and loss account	21		13,400		8,832
<b>Shareholders' funds</b>	22		<u>14,467</u>		<u>9,798</u>

The financial statements were approved by the Board of Directors on 6 March 2006.



A Fryatt  
Chief Executive



M J Camp  
Finance Director

The accompanying accounting policies and notes form an integral part of these financial statements.


## Company Balance Sheet

At 31 December 2005

	Note	2005 £'000	2005 £'000	2004 £'000 Restated	2004 £'000 Restated
<b>Fixed assets</b>					
Tangible assets	10		8,794		7,908
Investments	11		—		—
Total fixed assets			8,794		7,908
<b>Current assets</b>					
Stocks	12	5,254		3,829	
Debtors	13	2,208		1,354	
Cash		19,557		14,517	
		27,019		19,700	
<b>Creditors: amounts falling due within one year</b>	14	(17,295)		(13,649)	
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**A Fryatt**  
 Chief Executive

  
**M J Camp**  
 Finance Director

The accompanying accounting policies and notes form an integral part of these financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
<b>Net cash inflow from operating activities</b>	23	<b>6,913</b>	9,225
<b>Returns on investments and servicing of finance</b>			
Interest received		506	236
Interest paid		-	(103)
Finance lease interest paid		(117)	(137)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		<b>389</b>	(4)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(897)	(231)
Sale of tangible fixed assets		5	-
<b>Net cash outflow from capital expenditure</b>		<b>(892)</b>	(231)
Dividends paid		(586)	-
<b>Financing</b>			
Issue of shares		101	21
Receipts from borrowings		-	212
Repayment of borrowings		(339)	(235)
Capital element of finance lease payments		(546)	(818)
<b>Net cash outflow from financing</b>		<b>(784)</b>	(820)
<b>Increase in cash</b>	24	<b>5,040</b>	8,170

The accompanying accounting policies and notes form an integral part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 December 2005

## 1. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and operating profit arise wholly within the United Kingdom from distance selling.

Profit on ordinary activities before taxation is stated after charging:

	2005 £'000	2004 £'000
Depreciation:		
Tangible fixed assets, owned	447	465
Tangible fixed assets, leased	414	861
Auditors' remuneration:		
Audit services	41	33
Non-audit services	21	19
Hire of plant and machinery	23	124

Auditors' remuneration for non-audit services comprises £9,000 (2004: £9,000) in respect of other assurance services, £5,000 (2004: £5,000) in respect of corporate tax compliance services, and £7,000 (2004: £5,000) in respect of tax advisory services.

## 2. NET INTEREST

	2005 £'000	2004 £'000
Interest income on bank deposits	506	236
Less: Interest payable and similar charges (see below)	(117)	(240)
	389	(4)
Interest payable and similar charges comprises interest on:		
Bank loans	-	(103)
Finance leases	(117)	(137)
	(117)	(240)



### 3. EMPLOYEES

Staff costs, including Directors, during the year were as follows:

	2005 £'000	2004 £'000
Wages and salaries	9,803	8,201
Social security costs	920	739
Other pension costs	124	58
	<u>10,847</u>	<u>8,998</u>

The average number of employees of the Group by category during the year was as follows:

	2005 Number	2004 Number
Management	6	5
Operations	474	439
	<u>480</u>	<u>444</u>

### 4. DIRECTORS

#### Directors' remuneration

Details of Directors' remuneration are contained within the Remuneration Report.

#### Directors' interests

The interests of the Directors in the shares of the Company are detailed within the Directors' Report.

## Notes to the Financial Statements *continued*

### 5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The tax charge represents:

	2005 £'000	2004 £'000
Corporation tax at 30% (2004: 30%)	1,694	45
Total current tax	1,694	45
Deferred tax:		
Origination and reversal of timing differences	556	1,304
Total deferred tax	556	1,304
Tax on profit on ordinary activities	2,250	1,349

The deferred tax charge of £556,000 represents release of the deferred tax asset established in respect of trading losses in prior years under FRS19 and other timing differences. The tax assessed for the period is lower (2004: lower) than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained as follows:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	7,404	4,105
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	2,221	1,231
Effect of:		
Expenses not deductible for tax purposes	9	98
Differences between capital allowances and depreciation	3	63
Marginal relief	-	(26)
Utilisation of tax losses	(294)	(1,305)
Other timing differences	(245)	(16)
Current tax charge for the period	1,694	45

## 6. PROFIT FOR THE FINANCIAL YEAR

The Parent Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements.

The Group profit for the year includes a profit of £5,154,000 (2004: £2,748,000), which is dealt with in the financial statements of the Company.

## 7. PRIOR YEAR ADJUSTMENT

As disclosed in the accounting policies section, FRS21 was adopted in the year. Under the previous accounting policy the maiden dividend of £292,000 (1p per ordinary share), which was proposed after the 2004 balance sheet date, was treated as a liability at that date. Under FRS 21 this dividend is not treated as an appropriation of profit in 2004 or as a liability in the 2004 balance sheet. The comparative figures in these financial statements have been restated accordingly.

In the current period dividends of £588,000 were proposed after the 2005 balance sheet date. Under the previous accounting policy these would have been shown as a liability and deducted from the profit for the year. Under the new accounting policy these are not accrued and are disclosed only in note 8.

## 8. DIVIDENDS

	2005 £'000	2004 Restated £'000
Dividends on ordinary shares		
Paid during the year		
– 2004 final	292	–
– 2005 interim	294	–
	<hr/> 586	<hr/> –
Proposed after the year-end (not recognised as a liability)	<hr/> 588	<hr/> 292

The proposed dividend is subject to approval by shareholders at the Annual General Meeting.

## Notes to the Financial Statements *continued*

### 9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted earnings per share is based on the basic earnings per share adjusted to allow for the issue of shares on the assumed conversion of dilutive options.

Reconciliation of the earnings and weighted average number of shares used in the calculations are set out below:

	Earnings £	2005 Weighted average number of Shares	Per share amount Pence
Earnings attributable to ordinary shareholders	5,154,000	29,315,129	17.6
Dilutive effect of securities:			
Options	–	535,381	(0.3)
Diluted earnings per share	5,154,000	29,850,510	17.3
	Earnings £	2004 Weighted average number of Shares	Per share amount Pence
Earnings attributable to ordinary shareholders	2,756,000	29,203,449	9.4
Dilutive effect of securities:			
Options	–	379,884	(0.1)
Diluted earnings per share	2,756,000	29,583,333	9.3

**10. TANGIBLE FIXED ASSETS****The Group and the Company**

	<b>Freehold land and buildings £'000</b>	<b>Fixtures, fittings and equipment £'000</b>	<b>Total £'000</b>
Cost			
At 1 January 2005	5,971	5,719	11,690
Additions	167	1,585	1,752
Disposals	–	(8)	(8)
At 31 December 2005	6,138	7,296	13,434
Depreciation			
At 1 January 2005	207	3,575	3,782
Charge for the year	99	762	861
Eliminated on disposals	–	(3)	(3)
At 31 December 2005	306	4,334	4,640
<b>Net book amount at 31 December 2005</b>	<b>5,832</b>	<b>2,962</b>	<b>8,794</b>
Net book amount at 31 December 2004	5,764	2,144	7,908

Fixtures, fittings and equipment include £1,245,000 net book amount (2004: £826,000) in respect of assets held under finance leases. £414,000 (2004: £861,000) of depreciation was charged in respect of these assets for the year.

Freehold land of £1,233,000 (2004: £1,105,000) has not been depreciated.

## Notes to the Financial Statements *continued*

### 11. FIXED ASSET INVESTMENTS

#### The Company

	Subsidiary undertakings £'000
Cost	
At 1 January 2005 and 31 December 2005	200
Amounts written off	
At 1 January 2005 and 31 December 2005	200
Net book amount at 1 January 2005 and 31 December 2005	-

#### FIXED ASSET INVESTMENTS

Subsidiary	Parent company interest in ordinary shares and voting rights	Country of incorporation and operation	Principal activity
Ideal Home Mail Order Limited	100%	Great Britain	Dormant
Ideal Home Home Shopping Limited	100%	Great Britain	Dormant
Ideal World Home Shopping Limited	100%	Great Britain	Dormant
Wrightway Marketing Limited	100%	Great Britain	Dormant

The above companies did not trade during 2005 or 2004.

### 12. STOCKS

#### The Group and the Company

	2005 £'000	2004 £'000
Goods for resale	5,254	3,829

**13. DEBTORS****The Group and the Company**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Trade debtors	<b>1,453</b>	496
Other debtors	<b>141</b>	303
Prepayments	<b>614</b>	555
	<b>2,208</b>	<b>1,354</b>

Other debtors in the 2004 figures include a deferred tax asset of £278,000 in respect of recoverable trading losses (see note 5 for further details).

**14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>The Group</b>		<b>The Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
		Restated		Restated
Bank loan (see note 15)	<b>339</b>	340	<b>339</b>	340
Trade creditors	<b>9,708</b>	9,167	<b>9,708</b>	9,167
Obligations under finance leases	<b>530</b>	486	<b>530</b>	486
Corporation tax	<b>1,796</b>	102	<b>1,796</b>	102
Social security and other taxes	<b>1,515</b>	1,297	<b>1,515</b>	1,297
Other creditors	<b>103</b>	84	<b>103</b>	84
Accruals and deferred income	<b>3,304</b>	2,173	<b>3,304</b>	2,173
	<b>17,295</b>	<b>13,649</b>	<b>17,295</b>	<b>13,649</b>

## Notes to the Financial Statements *continued*

### 15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group		The Company	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loan	2,540	2,878	2,540	2,878
Obligations under finance leases	754	489	754	489
	<u>3,294</u>	<u>3,367</u>	<u>3,294</u>	<u>3,367</u>

The bank loan is secured by a first legal charge and debenture over certain freehold land and buildings and a fixed and floating charge over the other assets of the Group. The loan is repayable in equal quarterly instalments of £84,750 over its ten year term, and interest is charged at a rate of 1.5% over LIBOR to the extent that the loan is not covered by a corresponding cash balance.

Monies due to National Grid Wireless Limited, included within creditors: amounts falling due within one year, up to a maximum principle amount of £1,750,000 (2004: £1,750,000), are secured by a fixed charge over certain freehold land and buildings.

### 16. BORROWINGS

#### The Group and the Company

Borrowings are repayable as follows:

	2005 £'000	2004 £'000
Within one year		
Bank loan	339	340
Obligations under finance leases	530	486
After one and within two years		
Bank loan	340	340
Obligations under finance leases	482	264
After two and within five years		
Bank loan	1,020	1,020
Obligations under finance leases	272	225
After five years		
Bank loan	1,180	1,518
	<u>4,163</u>	<u>4,193</u>



**16. BORROWINGS** *continued*

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and currency risk. The Directors review and agree policies for managing each of these risks and they are summarised below:

**Interest rate risk** – the Group finances its operations through a mixture of bank borrowings and leasing. The Group's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities, and an offset agreement on the bank loan. For obligations under finance leases, the weighted average fixed interest rate is 4.41% (2004: 6.53%), and the weighted average period for which the rate is fixed is 3.86 years (2004: 3.63 years).

**Liquidity risk** – the Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group uses cash deposits at fixed rates of interest with varying maturity periods to ensure liquidity. The aggregate amount of cash deposits on fixed interest terms as at 31 December 2005 was £14,579,000 (2004: £3,000,000). The weighted average fixed interest rate on short term deposits of less than a year was 4.3% (2004: 4.2%). The aggregate amount of cash deposits on variable interest terms as at 31 December 2005 was £nil (2004: £7,391,000).

The carrying values of financial instruments represent the fair values of those instruments. At 31 December 2005 the Group owed £2,879,120 (2004: £3,218,000) under the bank loan detailed in note 15. In addition the Group also owed £1,284,000 (2004: £975,000) under ongoing finance lease agreements, which have fixed interest rates.

**Currency risk** – the Group makes purchases denominated in certain foreign currencies. The Group seeks to hedge its transaction exposures using forward foreign currency contracts, with the objective of minimising fluctuations in exchange rates on future transactions and cash flows. The Group's trade creditors as at 31 December 2005 include an amount of £1,429,452 (2004: £473,000) denominated in US dollars, and £283,437 (2004: £159,000) denominated in euros.

As at 31 December 2005 the Group had entered into a forward foreign currency contract amounting to €500,000 (2004: €nil). The fair value of this contract at the year end was £12,000. The actual gain on this contract was £11,000.

Short term debtors and creditors are excluded from the above statements, other than the currency risk disclosures.

## Notes to the Financial Statements *continued*

### 17. PROVISIONS FOR LIABILITIES

#### The Group and the Company

	Deferred taxation £'000	Other provisions £'000	Total £'000
At 1 January 2005	–	794	794
Utilised during the year	–	(794)	(794)
Provided during the year	278	479	757
<b>At 31 December 2005</b>	<b>278</b>	<b>479</b>	<b>757</b>

Provisions other than deferred tax relate primarily to sales returns and refunds.

### 18. DEFERRED TAXATION

#### The Group and the Company

Deferred tax in the financial statements is set out below.

	2005 £'000	2004 £'000
Accelerated capital allowances	322	307
Other timing differences	(44)	(130)
Losses	–	(455)
	<b>278</b>	<b>(278)</b>

There are no amounts unprovided in respect of deferred tax. The 2005 deferred tax liability is disclosed within provisions for liabilities (2004: asset disclosed within other debtors).

See note 5 for further details.

**19. CALLED UP SHARE CAPITAL****The Group and the Company**

	2005 £'000	2004 £'000
Authorised		
38,000,000 3p ordinary shares	1,140	1,140
1,000,000 1p deferred shares	10	10
	<b>1,150</b>	<b>1,150</b>
Allotted, called up and fully paid		
29,412,417 (2004: 29,242,270) 3p ordinary shares	882	877
454,500 1p deferred shares	5	5
	<b>887</b>	<b>882</b>

During the year 170,147 (2004: 41,700) ordinary shares were allotted on the exercise of share options for a consideration of £101,499 (2004: £21,667). The difference between the consideration and the nominal value of shares issued has been taken to share premium account.

**20. SHARE OPTIONS**

The following share options were outstanding over 3p ordinary shares in respect of Ideal Shopping Direct plc share option schemes:

Date option granted	Option price per share	Date exercisable	Number of Options
Discretionary schemes:			
30 May 2002	£0.335	30 May 2005 - 30 May 2012	25,000
31 October 2002	£0.385	31 October 2005 - 31 October 2012	17,000
15 May 2003	£0.470	15 May 2006 - 15 May 2013	35,000
1 April 2004	£0.485	1 April 2007 - 1 April 2014	100,000
6 April 2004	£0.335	6 April 2007 - 6 April 2014	50,000
2 July 2004	£0.850	2 July 2007 - 2 July 2014	126,000
8 November 2004	£1.565	8 November 2007 - 8 November 2014	95,847
4 March 2005	£2.415	4 March 2008 - 4 March 2015	224,224
7 March 2005	£2.385	7 March 2008 - 7 March 2015	92,250
19 September 2005	£3.65	19 September 2008 - 19 September 2015	108,082
28 September 2005	£3.64	28 September 2008 - 28 September 2015	20,000
Save As You Earn scheme:			
3 June 2005	£1.94	1 August 2008 - 1 February 2009	79,412
3 June 2005	£1.94	1 August 2010 - 1 February 2011	110,892

The market price of the 3p ordinary shares was 320.0p at 31 December 2005. The market price ranged from 176.5p to 395.0p during the year.

## Notes to the Financial Statements *continued*

### 21. SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £'000	Profit and loss account £'000
<b>The Group and the Company</b>		
Original balance brought forward	84	8,540
Prior year adjustment (note 7)	–	292
	<hr/>	<hr/>
	84	8,832
Premium on shares issued in the year	96	–
Retained profit for the year	–	5,154
Equity dividends paid	–	(586)
	<hr/>	<hr/>
<b>At 31 December 2005</b>	<b>180</b>	<b>13,400</b>

### 22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £'000	2004 £'000 Restated
<b>The Group and the Company</b>		
Profit for the financial year	5,154	2,756
Equity dividends paid	(586)	–
	<hr/>	<hr/>
	4,568	2,756
Issue of shares	101	21
	<hr/>	<hr/>
Net increase in shareholders' funds	4,669	2,777
Shareholders' funds brought forward	9,506	7,021
Prior year adjustment (note 7)	292	(292)
	<hr/>	<hr/>
Shareholders' funds carried forward	14,467	9,506
	<hr/>	<hr/>
Attributable to:		
Equity shareholders	14,467	9,506
	<hr/>	<hr/>

**23. NET CASH INFLOW FROM OPERATING ACTIVITIES**

	2005 £'000	2004 £'000
Operating profit	7,015	4,109
Depreciation	861	1,326
(Increase)/decrease in stocks	(1,425)	581
(Increase)/decrease in debtors	(1,132)	43
Increase in creditors	1,594	3,166
Net cash inflow from operating activities	<u>6,913</u>	<u>9,225</u>

**24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**

	2005 £'000	2004 £'000
Increase in cash in the year	5,040	8,170
Cash outflow from financing	339	23
Cash outflow from finance leases	546	818
Change in net funds resulting from cash flows	<u>5,925</u>	<u>9,011</u>
Inception of finance leases	(855)	(119)
Movement in net funds in the year	<u>5,070</u>	<u>8,892</u>
Net funds at 1 January 2005	<u>10,324</u>	<u>1,432</u>
Net funds at 31 December 2005	<u>15,394</u>	<u>10,324</u>

**25. ANALYSIS OF CHANGES IN NET FUNDS**

	At 1 January 2005 £'000	Cash flow £'000	Non-cash items £'000	At 31 December 2005 £'000
Cash in hand and at bank	14,517	5,040	–	19,557
	<u>14,517</u>	<u>5,040</u>	<u>–</u>	<u>19,557</u>
Debt	(3,218)	339	–	(2,879)
Finance leases	(975)	546	(855)	(1,284)
	<u>10,324</u>	<u>5,925</u>	<u>(855)</u>	<u>15,394</u>

## Notes to the Financial Statements *continued*

### 26. MAJOR NON-CASH TRANSACTIONS

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £855,000 (2004: £119,000).

### 27. LEASING COMMITMENTS

#### The Group and the Company

Operating lease payments amounting to £223,000 (2004: £223,000) are due within one year. The leases to which these amounts relate expire as follows:

	2005 Other £'000	2004 Other £'000
Between two and five years	223	223

### 28. CAPITAL COMMITMENTS

#### The Group and the Company

	2005 £'000	2004 £'000
Contracted for but not provided in these financial statements	32	855

### 29. CONTINGENT LIABILITIES

#### The Group and the Company

There were no contingent liabilities at 31 December 2005 or 31 December 2004.

### 30. PENSION SCHEMES

The Group contributes to defined contribution pension schemes for the benefit of employees and executive directors. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge represents contributions payable by the Group to the funds and amounted to £123,601 (2004: £66,000).