

LBM Direct Marketing Limited
Financial statements
For the year ended 31 May 2002

Grant Thornton 



Company No. 2714607

Company information

Company registration number :	2714607
Registered office :	LBM House Atlantic Point Atlantic Street Broadheath Altrincham WA14 5FY
Directors :	T M Borthwick R A Beck P W Beck V S Townsend NP Kennedy J H Gunn ND Pople B P Dixon (appointed 21 November 2002)
Secretary :	M J Tonroe
Bankers :	Barclays Bank Plc Manchester The Co-Operative Bank Plc Salford
Solicitors :	EMW Law Milton Keynes
Auditors :	Grant Thornton Registered Auditors Chartered Accountants Manchester

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Report of the directors

The directors present their report together with financial statements for the year ended 31 May 2002.

Principal activity

LBM is a results driven direct marketing agency that designs and delivers innovative marketing and contact strategies for the UK corporate market place.

Business review

The loss for the year after taxation amounted to £(1,963,877) (2001 : profit of £579,633). The directors recommend dividends absorbing £180,000 (2001 : £150,000) leaving £(2,143,877) (2001 : £429,633) retained.

Drawing this financial year to a welcome close, we summarise the main issues we were faced with as follows :

2001 Business Fall Out

Apart from incurring bad debtors of £494,001 in the last financial year, we lost a significant amount of recurring business following the collapse of the IT and Telecoms, sectors that had delivered 45% of our turnover in 2001. We estimate the effect on the 2002 turnover to be a reduction in the region of £3,000,000.

Contact Centre Systems Issues

We had major contact centre systems issues until December 2001 that resulted in lost business and revenues. We estimate that lost revenues were in the region of £600,000. The system was successfully replaced in January 2002.

Accounting treatment of Research and Development Costs

The direct costs of developing the company's proprietary email database had been capitalised in financial years 2000 and 2001. In line with current generally accepted accounting principles, a total of £837,981 has been written off in these accounts.

Putting 2002 behind us the company has recovered very strongly in 2003 with profits before interest and tax of £2,304,003 and net assets at 31 May 2003 of £1,361,488.

Post balance sheet events

On 28 February 2003 the company issued 1,178,987 ordinary shares of £1 each at par value. The shares were issued to LBM Holdings (UK) Limited, the company's ultimate parent undertaking. The consideration for the shares of £1,178,987 was satisfied by the capitalization of the amount due to LBM Holdings (UK) Limited. At 31 May 2002 the balance due to LBM Holdings (UK) Limited was £1,091,135. If the capitalization and share issue had taken place on 31 May 2002 the effect on the balance sheet would have been to reduce the net current liabilities by £1,091,135 and change the balance sheet total from £(849,848) to £241,287.

Research and development

The company's research and development activities amounted to £367,550, and they have been written off to the profit and loss account. In the previous year the company incurred development costs of £778,470 which were capitalised as an intangible fixed asset.

Directors

The present membership of the Board is set out below. All served on the Board throughout the year, unless otherwise indicated:

T M Borthwick
R A Beck
P W Beck
V S Townsend
NP Kennedy
J H Gunn
ND Pople
B P Dixon (appointed 21 November 2002)

None of the directors have an interest in shares of the company, details of those directors who have an interest in the shares in the ultimate parent undertaking, LBM Holdings (UK) Limited, are disclosed in that company's financial statements.

Directors' responsibilities

United Kingdom 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
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employee involvement

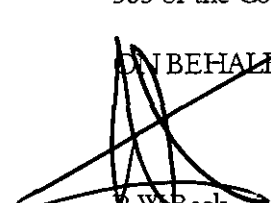
The company maintains a policy of recruiting and promoting its employees on the basis of aptitude and ability without discrimination of any kind. Applications for employment by disabled people are always fully considered bearing in mind the qualifications and abilities of the applicants.

The management of the company consult with employees and keep them regularly informed of matters of interest and concern to the business.

Auditors

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

ON BEHALF OF THE BOARD



P W Beck
Director

30 October 2003

Report of the independent auditors to the members of LBM Direct Marketing Limited

We have audited the financial statements of LBM Direct Marketing Limited for the year ended 31 May 2002 which comprise the principal accounting policies, the profit and loss account, the balance sheet and notes 1 to 26. These financial statements have been prepared in accordance with 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 the directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable law and United Kingdom accounting standards 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 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 other information contained in the directors' report, and consider whether it is consistent with the audited financial statements. 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 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.

Grant Thornton 

Report of the independent auditors to the members of LBM Direct Marketing Limited

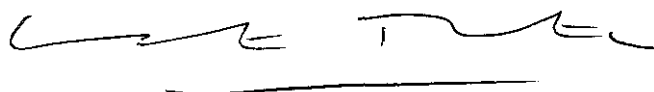
Going concern

We would draw your attention to the going concern basis used in the preparation of the financial statements as referred to in note 26.

Although at 31 May 2002 the company had net liabilities of £849,848 the directors consider that it is appropriate to prepare the financial statements on a going concern basis for the reasons stated in note 26. Our audit opinion is not qualified in this respect.

Opinion

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



GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
MANCHESTER

3 November 2003

Principal accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention.

The principal accounting policies of the company are set out below. The policies have remained unchanged from the previous year.

Although at 31 May 2002 the company had net liabilities of £849,848 the directors consider it appropriate to prepare the financial statements on a going concern basis for the reasons set out in note 26.

Turnover

Turnover is the total amount receivable by the company for services provided, excluding VAT and trade discounts.

In the case of access to information databases revenue is recognised over the period of the contract.

Tangible fixed assets and Depreciation

Tangible fixed assets are stated at cost net of depreciation.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful economic lives. The rates/periods generally applicable are:

Plant and machinery	20%
Fixtures and fittings	33 1/3%
Computer equipment	33 1/3%
Motor vehicles	30%
Leasehold improvements	5/10 years

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful economic lives. The interest element of leasing payments represent a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Investments

Current asset investments are stated at the lower of cost and net realisable value.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company 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.

Contributions to pension schemes

Defined contribution schemes

The pension costs charged against profits represent the amount of the contributions payable to the schemes in respect of the accounting period.

Research and development

Development costs incurred are capitalised as intangible fixed assets when recoverability can be assessed with reasonable certainty and amortised in line with the expected revenues from the project. All other development costs are written off to the profit and loss account in the year in which they are incurred.

Profit and loss account

	Note	2002 £	2001 £
Turnover	1	9,096,647	7,044,991
Cost of sales		<u>4,275,752</u>	<u>1,264,082</u>
Gross profit		4,820,895	5,780,909
Other operating income and charges		<u>7,330,639</u>	<u>4,541,408</u>
Operating (loss)/profit		(2,509,744)	1,239,501
Amounts written off investments		<u>99,081</u>	<u>137,364</u>
		(2,608,825)	1,102,137
Net interest	3	<u>276,901</u>	<u>96,458</u>
(Loss)/profit on ordinary activities before taxation	1	(2,885,726)	1,005,679
Tax on (loss)/profit on ordinary activities	5	<u>(921,849)</u>	<u>426,046</u>
(Loss)/profit on ordinary activities after taxation		(1,963,877)	579,633
Dividends	6	180,000	150,000
Transfer from reserves/profit retained	17	<u>(2,143,877)</u>	<u>429,633</u>

All of the company's operations are classed as continuing.

Balance sheet

	Note	2002 £	2001 £
Fixed assets			
Intangible assets	7	-	837,981
Tangible assets	8	<u>2,891,321</u>	<u>1,916,733</u>
		2,891,321	2,754,714
Current assets			
Debtors	9	3,721,819	2,131,514
Investments	10	-	337,636
Cash at bank and in hand		<u>187</u>	<u>9,942</u>
		3,722,006	2,479,092
Creditors: amounts falling due within one year	11	<u>(6,250,502)</u>	<u>(3,217,999)</u>
Net current liabilities		<u>(2,528,496)</u>	<u>(738,907)</u>
Total assets less current liabilities		362,825	2,015,807
Creditors: amounts falling due after more than one year	12	<u>(1,212,673)</u>	<u>(586,778)</u>
		(849,848)	1,429,029
Provisions for liabilities and charges	14	-	(135,000)
		<u>(849,848)</u>	<u>1,294,029</u>
Capital and reserves			
Called up share capital	16	50,000	50,000
Profit and loss account	17	<u>(899,848)</u>	<u>1,244,029</u>
Shareholders' funds	18	<u>(849,848)</u>	<u>1,294,029</u>

The financial statements were approved by the Board of Directors on 30 October 2003.

P W Beck

Director

T M Borthwick

Director

Notes to the financial statements

1 Turnover and (loss)/profit on ordinary activities before taxation

Turnover attributable to geographical markets outside the United Kingdom amounted to 0.2% (2001 : 5.9%).

The (loss)/profit on ordinary activities before taxation is stated after :

	2002 £	2001 £
Research and development		
- current year expenditure	367,550	-
- amounts amortised from deferred expenditure	837,981	243,731
Auditors' remuneration		
- audit services	24,750	8,255
Depreciation		
- tangible fixed assets, owned	381,641	270,580
- tangible fixed assets, held under finance leases and hire purchase contracts	817,230	68,209
Other operating lease rentals	175,506	161,762
Dispute with supplier of computer equipment		
- damages receivable	(100,000)	-
- legal costs	328,980	-

2 Other operating income and charges

	2002 £	2001 £
Administrative expenses	7,456,836	4,541,408
Other operating income	(126,197)	-
	<u>7,330,639</u>	<u>4,541,408</u>

3 Net interest

	2002 £	2001 £
On bank loans and overdrafts	139,070	77,117
Finance charges in respect of finance leases	137,838	19,461
	<u>276,908</u>	<u>96,578</u>
Other interest receivable and similar income	(7)	(120)
	<u>276,901</u>	<u>96,458</u>

4 Directors and employees

	2002 £	2001 £
Staff costs during the year were as follows :		
Wages and salaries	5,184,378	2,502,583
Social security costs	454,195	242,181
Pension costs	34,989	76,372
	<u>5,673,562</u>	<u>2,821,136</u>

	2002 Number	2001 Number
The average number of employees during the year was :		
Selling	12	7
Administration	11	12
Operations and IT	252	104
	<u>275</u>	<u>123</u>

	2002 £	2001 £
Remuneration in respect of directors was as follows :		
Emoluments	217,612	363,958
Contributions to money purchase pension schemes	14,000	72,111
Fees paid to third parties for directors services	24,000	22,000
	<u>255,612</u>	<u>458,069</u>

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2002 £	2001 £
Emoluments	80,998	131,255
Pension contribution to money purchase pension schemes	<u>-</u>	<u>-</u>

During the year 2 directors (2001 : 4 directors) participated in money purchase pension schemes.

5 Tax on (loss)/profit on ordinary activities

	2002 £	2001 £
The taxation (credit)/charge represents :		
Corporation tax at 30% (2001 : 30%)	(385,320)	390,000
Adjustment in respect of prior period	(4,529)	(98,954)
Total current tax	<u>(389,849)</u>	<u>291,046</u>
Origination and reversal of timing differences	(535,000)	17,000
Adjustment in respect of prior period	3,000	118,000
Total deferred tax (notes 14 and 15)	<u>(532,000)</u>	<u>135,000</u>
Tax on (loss)/profit on ordinary activities	<u>(921,849)</u>	<u>426,046</u>

The tax assessed for the year is lower/higher than the standard rate of corporation tax in the United Kingdom of 30% (2001 : 30%). The differences are explained as follows :

	2002 £	2001 £
(Loss)/profit on ordinary activities before taxation	<u>(2,885,726)</u>	<u>1,005,679</u>
(Loss)/profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 30% (2001 : 30%)	<u>(865,718)</u>	<u>301,704</u>
Effect of:		
Expenses not deductible for tax purposes	(54,335)	105,981
Capital allowances for the period in excess of depreciation	111,119	(90,804)
Other short term timing differences	17,853	73,119
Utilisation of tax losses	405,761	-
Adjustments to tax charge in respect of prior period	(4,529)	(98,954)
	<u>(389,849)</u>	<u>291,046</u>

6 Dividends - equity

	2002 £	2001 £
Ordinary shares - interim dividends totalling 360 pence (2001: 300 pence) per share	<u>180,000</u>	<u>150,000</u>

7 Intangible fixed assets

	Development costs £
Cost	
At 1 June 2001 and at 31 May 2002	<u>1,081,712</u>
Amortisation	
At 1 June 2001	243,731
Provided in the year	<u>837,981</u>
At 31 May 2002	<u>1,081,712</u>
Net book amount at 31 May 2002	<u>-</u>
Net book amount at 31 May 2001	<u>837,981</u>

Remaining development costs have been fully amortised in the year as the criteria for continued capitalisation are no longer considered to be satisfied.

8 Tangible fixed assets

	Leasehold improvements £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Motor vehicles £	Total £
Cost						
At 1 June 2001	261,803	188,206	424,009	1,429,837	249,139	2,552,994
Additions	374,906	6,100	6,735	1,620,299	275,638	2,283,678
Disposals	-	(59,603)	-	-	(195,801)	(255,404)
At 31 May 2002	<u>636,709</u>	<u>134,703</u>	<u>430,744</u>	<u>3,050,136</u>	<u>328,976</u>	<u>4,581,268</u>
Depreciation						
At 1 June 2001	5,994	109,727	121,024	326,074	73,442	636,261
Charge for the year	74,703	37,910	99,824	949,438	36,996	1,198,871
Disposals	-	(57,418)	-	-	(87,767)	(145,185)
At 31 May 2002	<u>80,697</u>	<u>90,219</u>	<u>220,848</u>	<u>1,275,512</u>	<u>22,671</u>	<u>1,689,947</u>
Net book amount						
At 31 May 2002	<u>556,012</u>	<u>44,484</u>	<u>209,896</u>	<u>1,774,624</u>	<u>306,305</u>	<u>2,891,321</u>
Net book amount						
At 31 May 2001	<u>255,809</u>	<u>78,479</u>	<u>302,985</u>	<u>1,103,763</u>	<u>175,697</u>	<u>1,916,733</u>

The figures stated above include assets held under finance leases and similar hire purchase contracts as follows :

	Leasehold improvements £	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Motor vehicles £	Total £
Net book amount at 31 May 2002	<u>147,933</u>	<u>32,645</u>	<u>35,811</u>	<u>1,666,066</u>	<u>266,851</u>	<u>2,149,306</u>
Net book amount at 31 May 2001	<u>172,307</u>	<u>-</u>	<u>-</u>	<u>527,636</u>	<u>157,507</u>	<u>857,450</u>

9 Debtors

	2002 £	2001 £
Trade debtors	2,005,798	1,568,244
Amounts owed by group undertakings	-	87,852
Other debtors	498,564	35,941
Prepayments and accrued income	820,457	439,477
Deferred tax asset (note 15)	<u>397,000</u>	<u>-</u>
	<u>3,721,819</u>	<u>2,131,514</u>

The recoverability of the deferred tax asset is dependent on future taxable profits in excess of those arising from the reversal of deferred tax liabilities.

10 Current asset investments

	2002 £	2001 £
Listed investments	<u>-</u>	<u>337,636</u>
Market valuation of listed investments	<u>-</u>	<u>337,636</u>

11 Creditors: amounts falling due within one year

	2002 £	2001 £
Bank loan and overdraft	1,329,550	907,364
Amounts owed to group undertakings	1,091,135	-
Trade creditors	849,936	1,057,968
Corporation tax	385,320	390,001
Social security costs and other taxes	1,153,636	334,201
Other creditors	210,139	-
Pension contributions	2,676	-
Accruals and deferred income	400,694	143,631
Amounts due under finance leases and hire purchase contracts	<u>827,416</u>	<u>384,834</u>
	<u>6,250,502</u>	<u>3,217,999</u>

12 Creditors: amounts falling due after more than one year

	2002 £	2001 £
Net obligations under finance leases and hire purchase contracts	<u>1,212,673</u>	<u>586,778</u>

13 Borrowings

Borrowings are repayable as follows :

	2002 £	2001 £
<i>Within one year</i>		
Bank	1,329,550	907,364
Finance leases	827,416	384,834
<i>After one and within two years</i>		
Finance leases	820,940	328,783
<i>After two and within five years</i>		
Finance leases	<u>391,733</u>	<u>257,995</u>
	<u>3,369,639</u>	<u>1,878,976</u>

Obligations under finance leases are secured on the assets concerned.

The overdraft is secured by a fixed and floating charge over the assets of the company and life insurance policies of Mr T Borthwick and Mrs R Beck.

The bank loan (repaid as at 31 May 2002) was repayable by quarterly instalments of £45,368, bearing interest at a rate of 2.5% over base rate.

14 Provisions for liabilities and charges

Deferred tax (note 15)

	2002 £	2001 £
At 1 June 2001	135,000	-
(Reversed)/provided during year	<u>(135,000)</u>	<u>135,000</u>
At 31 May 2002	<u>-</u>	<u>135,000</u>

15 Deferred taxation

Deferred taxation provided for in the financial statements is set out below :

	2002 £	2001 £
Accelerated capital allowances	9,000	117,000
Other timing differences	<u>-</u>	<u>18,000</u>
	9,000	135,000
Less: Tax losses carried forward	<u>(406,000)</u>	<u>-</u>
	<u>(397,000)</u>	<u>135,000</u>

16 Share capital

	2002 £	2001 £
Authorised		
50,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

17 Profit and loss account

	£
At 1 June 2001	1,244,029
Transfer from reserves	<u>(2,143,877)</u>
At 31 May 2002	<u>(899,848)</u>

18 Reconciliation of movements in shareholders' funds

	2002 £	2001 £
(Loss)/profit for the financial year	(1,963,877)	579,633
Dividends	<u>180,000</u>	<u>150,000</u>
	<u>(2,143,877)</u>	<u>429,633</u>
Opening shareholders' funds	<u>1,294,029</u>	<u>864,396</u>
Closing shareholders' funds	<u>(849,848)</u>	<u>1,294,029</u>

19 Capital commitments

	2002 £	2001 £
Contracted for but not provided in these financial statements	<u>-</u>	<u>33,000</u>

20 Pension costs

The pension cost charge represents contributions payable by the company to defined contribution pension schemes and amounted to £34,989 (2001 : £76,372).

21 Leasing commitments

Included in other creditors is £178,600 (2001 : £Nil) in respect of amounts outstanding on the purchase of a fixed asset for which the company entered into commitments in respect of finance leases commencing after the balance sheet date.

Operating leases amounting to £424,115 (2001 : £368,147) are due within one year. The leases to which these amounts relate expire as follows :

	Land and buildings £	2002 Other £	Land and buildings £	2001 Other £
Operating leases which expire :				
- in one year or less	-	45,503	-	27,241
- between one and five years	52,382	185,579	-	111,278
- in five years or more	140,651	-	152,382	77,246
	<u>193,033</u>	<u>231,082</u>	<u>152,382</u>	<u>215,765</u>

22 Other commitments

Other financial commitments of £382,083 (2001 : £169,583) in respect of data supply are due within one year. The contract expires between one and five years.

23 Transactions with related parties

As a wholly owned subsidiary of LBM Holdings (UK) Limited, the company is exempt from the requirements of FRS 8 to disclose transactions with its parent undertaking.

24 Controlling related party

The ultimate parent undertaking of this company is LBM Holdings (UK) Limited.

25 Post balance sheet event

On 28 February 2003 the company issued 1,178,987 ordinary shares of £1 each at par value. The shares were issued to LBM Holdings (UK) Limited, the company's ultimate parent undertaking. The consideration for the shares of £1,178,987 was satisfied by the capitalization of the amount due to LBM Holdings (UK) Limited. At 31 May 2002 the balance due to LBM Holdings (UK) Limited was £1,091,135. If the capitalization and share issue had taken place on 31 May 2002 the effect on the balance sheet would have been to reduce the net current liabilities by £1,091,135 and change the balance sheet total from £(849,848) to £241,287.

26 Going concern

Although at 31 May 2002, the company had net liabilities at £849,848, the directors consider that it is appropriate to prepare the financial statements on a going concern basis, due to the forecasts of the company for the foreseeable future indicating that the company will be profitable.