

Company Registration No. 2714607

**LBM DIRECT MARKETING
LIMITED**

Report and Financial Statements

31 May 2004



LBM DIRECT MARKETING LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

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LBM DIRECT MARKETING LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

SECRETARY

M J Tonroe

REGISTERED OFFICE

LBM House
Atlantic Point
Atlantic Street
Broadheath
Altrincham
WA14 5FY

BANKERS

Barclays Bank Plc
Manchester

The Co-operative Bank Plc
Salford

SOLICITORS

EMW Law
Milton Keynes
Halliwells Manchester

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Manchester

LBM DIRECT MARKETING LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 May 2004.

PRINCIPAL ACTIVITIES

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 profit for the year after taxation amounted to £3,476,294 (2003 - £1,300,349). The directors recommend dividends absorbing £1,029,706 (2003 - £268,000) leaving £2,446,588 (2003 - £1,032,349) retained. A very pleasing improvement on the last financial year and a performance that places the company in a strong position for 2005.

RESEARCH AND DEVELOPMENT

The company's research and development activities amounted to £209,365 (2003 - £363,476) and they have been written off to the profit and loss account.

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
N P Kennedy
J H Gunn
N D Pople
B P Dixon

None of the directors have an interest in the 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. Exceptions are the following directors, who are not directors of the ultimate holding company.

P W Beck has a beneficial interest in 48.75% (1,950,000) of the ordinary shares of the ultimate parent company and 100% (1) of the redeemable preference shares.

B P Dixon is a trustee and beneficiary of the Dixon Family Discretionary Settlement, which owns 10% (400,000) of the ordinary shares of LBM Holdings (UK) Limited.

V S Townsend is a trustee and beneficiary of the Townsend Family Discretionary Settlement, which owns 5% (200,000) of the ordinary shares of LBM Holdings (UK) Limited.

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 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.

POLITICAL AND CHARITABLE DONATIONS

During the year the company made charitable donations of £59,728 (2003 - £43,060).

LBM DIRECT MARKETING LIMITED

DIRECTORS' REPORT (continued)

AUDITORS

Grant Thornton LLP resigned as auditors of the company for the year. In their place Deloitte and Touche LLP were appointed to be the auditors of the company for the year. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to be 'M. J. A.', followed by a horizontal line.

Secretary

8 October 2004

LBM DIRECT MARKETING LIMITED

STATEMENT OF 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 as at the end of the financial year 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;
- 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. They are also responsible for establishing and maintaining the system of internal control, 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 LBM DIRECT MARKETING LIMITED

We have audited the financial statements of LBM Direct Marketing Limited for the year ended 31 May 2004 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, and the related notes 1 to 23. 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

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 United Kingdom legal and regulatory requirements and 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 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 for the above year and consider the implications for our report if we become aware of any apparent misstatements.

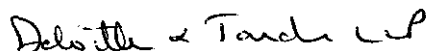
Basis of audit opinion

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the group's and the company's affairs as at 31 May 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester

8 October 2004

LBM DIRECT MARKETING LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 May 2004

	Note	2004 £	2003 £
TURNOVER	2	28,918,970	16,946,174
Cost of sales		(14,981,548)	(7,936,821)
GROSS PROFIT		13,937,422	9,009,353
Administration expenses		(8,689,363)	(6,705,350)
OPERATING PROFIT	3	5,248,059	2,304,003
Net interest rate payable	4	(223,732)	(360,111)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,024,327	1,943,892
Tax on profit on ordinary activities	6	(1,548,033)	(643,543)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		3,476,294	1,300,349
Dividends	7	(1,029,706)	(268,000)
PROFIT RETAINED/TRANSFERRED TO RESERVES	16	2,446,588	1,032,349

All of the company's operations are classed as continuing

There were no recognised gains and losses for the year other than those included in the profit and loss account, and consequently no statement of total recognised gains and losses has been presented.

LBM DIRECT MARKETING LIMITED

BALANCE SHEET

31 May 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Intangible fixed assets	8	-	-
Tangible fixed assets	9	4,177,719	3,373,084
		<u>4,177,719</u>	<u>3,373,084</u>
CURRENT ASSETS			
Debtors	10	7,722,632	5,019,754
Cash at bank and in hand		182	221
		<u>7,722,814</u>	<u>5,019,975</u>
CREDITORS: amounts falling due within one year	11	(7,357,604)	(6,354,980)
NET CURRENT ASSETS/(LIABILITIES)		<u>365,210</u>	<u>(1,335,005)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,542,929	2,038,079
CREDITORS: amounts falling due after more than one year	12	(734,853)	(676,591)
		<u>3,808,076</u>	<u>1,361,488</u>
CAPITAL AND RESERVES			
Called up share capital	15	1,228,987	1,228,987
Profit and loss account	16	2,579,089	132,501
EQUITY SHAREHOLDERS' FUNDS	17	<u>3,808,076</u>	<u>1,361,488</u>

These financial statements were approved by the Board of Directors on 8 October 2004.

Signed on behalf of the Board of Directors


Director

LBM DIRECT MARKETING LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 May 2004

1. ACCOUNTING POLICIES

Basis of preparation

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

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

Turnover

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

The company has a number of contracts with different customers. Under these contracts, revenue is recognised on performance by the company of all its contractual obligations. Where contracts require performance of a number of different services, the contract is accounted for as two or more separate transactions only where the commercial substance is that the individual components operate independently of each other.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost net of depreciation, and any provision for impairment.

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	33⅓%
Computer equipment	33⅓%
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 the shorter of the lease term and their expected useful economic lives. The interest element of leasing payments represents a constant proportion of the capital element outstanding and is charged to the profit and loss account over the period of the lease. The capital elements of the future lease obligations are recorded as liabilities.

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. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the first next reviewable date is shorter than the lease term, in which case the shorter is used.

Deferred taxation

Deferred tax is recognised in respect of all timing differences where transactions or events give the company an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised when it is regarded 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.

Defined contribution scheme

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.

LBM DIRECT MARKETING LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 May 2004

1. ACCOUNTING POLICIES (continued)

Cash flow statement

The company is a wholly owned subsidiary of LBM Holdings (UK) Limited and the cash flows of the Company are included in the consolidated group cash flow statement. Accordingly, the Company has taken advantage of the exemption under the terms of FRS 1 not to publish a cash flow statement.

2. TURNOVER

Turnover attributable to regions outside the United kingdom amounted to 1.1% (2003 – 1.2%).

Other than this the business operates as one segment and so no further segmental analysis is presented.

3. OPERATING PROFIT

The profit on ordinary activities before taxation is stated after:

	2004 £	2003 £
Research and development		
- current year expenditure	208,365	363,476
Auditors' remuneration		
- audit services	40,000	19,000
- non-audit services	6,000	-
Depreciation		
- tangible fixed assets, owned	657,128	429,651
- tangible fixed assets, held under finance leases and hire purchase contracts	612,477	527,342
Operating lease rentals		
- Land and buildings	237,973	193,093
- Other	236,179	222,201

4. NET INTEREST PAYABLE

	2004 £	2003 £
On bank loans and overdrafts	68,625	84,214
Finance charges in respect of finance leases	155,107	275,906
	223,732	360,120
Other interest receivable and similar income	-	(9)
	223,732	360,111

5. DIRECTORS AND EMPLOYEES

	2004 £	2003 £
Staff costs during the year were as follows:		
Wages and salaries	14,105,243	8,430,136
Social security costs	1,115,371	535,259
Pension costs	9,380	59,200
	15,229,994	9,024,595

LBM DIRECT MARKETING LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 May 2004

5. DIRECTORS AND EMPLOYEES (continued)

	2004 No.	2003 No.
Average number of persons employed		
Selling	34	26
Administration	27	12
Operations and IT	904	294
	<u>965</u>	<u>332</u>
	2004	2003
	£	£
Remuneration in respect of directors was as follows:		
Emoluments	181,116	346,933
Contributions to money purchase pension schemes	21,897	59,200
Fees paid to third parties for directors services	-	28,200
	<u>203,013</u>	<u>434,333</u>

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

	2004 £	2003 £
Emoluments	108,776	136,520
Pension contributions to money purchase pension schemes	-	16,500

During the year 4 directors (2003 – 4 directors) participated in money purchase pension schemes.

Tim Borthwick waived £73,337 of salary during the year (2003 -£nil) and Paul Beck waived £27,500 (2003 -£nil).

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £	2003 £
The taxation charge represents:		
Corporation tax at 30% (2003 – 30%)	1,583,626	246,000
Adjustment in respect of prior period	619	8,543
Total current tax	<u>1,584,245</u>	<u>254,543</u>
Origination and reversal of timing differences	6,674	394,000
Adjustment in respect of prior period	(42,886)	(5,000)
Total deferred tax (note 14)	<u>(36,212)</u>	<u>389,000</u>
Tax on profit on ordinary activities	<u>1,548,033</u>	<u>643,543</u>

LBM DIRECT MARKETING LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 May 2004

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The tax assessed for the year is lower/higher than the standard rate of corporation tax in the United Kingdom of 30% (2003- 30%). The differences are as follows:

	2004 £	2003 £
Profit on ordinary activities before taxation	5,024,327	1,943,892
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 30% (2003 - 30%)	1,507,300	583,168
Effects of:		
Expenses not deductible for tax purposes	83,000	55,920
Capital allowances for the period in excess of depreciation	(6,674)	(8,613)
Other short term timing differences	-	20,540
Utilisation of tax losses	-	(405,015)
Adjustments to tax charge in respect of prior period	619	8,543
	<u>1,584,245</u>	<u>254,543</u>

7. DIVIDENDS - EQUITY

	2004 £	2003 £
Ordinary shares - interim dividend of 83.785 pence (2003 - 21.8 pence) per ordinary share	<u>1,029,706</u>	<u>268,000</u>

8. INTANGIBLE FIXED ASSETS

	Development Costs £
Cost	
At 1 June 2003 and at 31 May 2004	<u>1,081,712</u>
Amortisation	
At 1 June 2003 and at 31 May 2004	<u>1,081,712</u>
Net book value	
At 31 May 2004 and 2003	<u>-</u>

LBM DIRECT MARKETING LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 May 2004

9. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Plant and machinery £	Fixtures and fittings £	Computer equipment	Motor vehicles £	Total £
Cost						
At 1 June 2003	1,079,632	134,703	545,561	3,584,967	649,038	5,993,901
Additions	623,484	-	156,605	1,375,764	243,652	2,399,505
Disposals	-	-	-	-	(395,291)	(395,291)
At 31 May 2004	1,703,116	134,703	702,166	4,960,731	497,399	7,998,115
Depreciation						
At 1 June 2003	213,910	112,674	322,722	1,902,850	68,661	2,620,817
Charge for the year	64,582	17,639	140,523	952,677	94,184	1,269,605
Disposals	-	-	-	-	(70,026)	(70,026)
At 31 May 2004	278,492	130,313	463,245	2,855,527	92,819	3,820,396
Net book value						
At 31 May 2004	1,424,624	4,390	238,921	2,105,204	404,580	4,177,719
Net book value						
At 31 May 2003	865,722	22,029	222,839	1,682,117	580,377	3,373,084

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 value						
At 31 May 2004	62,805	-	9,002	757,979	334,129	1,163,915

10. DEBTORS

	2004 £	2003 £
Trade debtors	6,854,449	4,164,773
Amounts owed by group undertakings	196,798	87,852
Other debtors	15,666	819
Pension contributions	5,165	10,945
Prepayments and accrued income	606,342	747,365
Deferred tax (note 14)	44,212	8,000
	7,722,632	5,019,754

The directors consider that there will be sufficient future profits to ensure the recoverability of the deferred tax asset, hence recognition of the asset.

LBM DIRECT MARKETING LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 May 2004

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 £
Bank overdraft (note 13)	961,901	1,177,879
Trade creditors	1,585,506	2,791,702
Corporation tax	1,830,245	6,000
Social security and other taxes	1,732,784	1,220,845
Other creditors	-	12,847
Pension contributions	-	1,250
Accruals and deferred income	135,490	202,369
Amounts due under finance leases and hire purchase contracts	929,799	942,088
Dividend creditor	181,879	-
	<u>7,357,604</u>	<u>6,354,980</u>

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004 £	2003 £
Net obligations under finance leases and hire purchase contracts	<u>734,853</u>	<u>676,591</u>

13. BORROWINGS

	2004 £	2003 £
Borrowings are repayable as follows:		
Within one year		
Bank overdraft	961,901	1,177,879
Finance leases	929,799	942,088
After one and within two years		
Finance leases	453,956	608,768
After two and within five years		
Finance leases	280,897	67,823
	<u>2,626,553</u>	<u>2,796,558</u>

Obligations under finance leases are secured on the assets concerned.

The bank overdraft is secured by a fixed and floating charge over the assets of the group.

LBM DIRECT MARKETING LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 May 2004

14. DEFERRED TAXATION

	2004 £	2003 £
Deferred taxation asset		
At 1 June 2003	8,000	397,000
Credit/(charged) to profit and loss	36,212	(389,000)
At 31 May 2004	<u>44,212</u>	<u>8,000</u>
Deferred taxation provided for in the financial statements is set out below:		
	2004 £	2003 £
Accelerated capital allowances	<u>(44,212)</u>	<u>(8,000)</u>

15. CALLED UP SHARE CAPITAL

	2004 £	2003 £
Authorised		
1,228,987 (2003 - 1,228,987) ordinary shares of £1 each	<u>1,228,987</u>	<u>1,228,987</u>
Called up, allotted and fully paid		
1,228,987 (2003 - 1,228,987) ordinary shares of £1 each	<u>1,228,987</u>	<u>1,228,987</u>

16. PROFIT AND LOSS ACCOUNT

	2004 £
At 1 June 2003	132,501
Profit for the year	<u>2,446,588</u>
At 31 May 2004	<u>2,579,089</u>

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
Profit for the financial year	3,476,294	1,300,349
Dividends	<u>(1,029,706)</u>	<u>(268,000)</u>
	2,446,588	1,032,349
Opening shareholders' funds	1,361,488	(849,848)
Allotted share capital	<u>-</u>	<u>1,178,987</u>
Closing shareholders' funds	<u>3,808,076</u>	<u>1,361,488</u>

LBM DIRECT MARKETING LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 May 2004

18. CAPITAL COMMITMENTS

	2004 £	2003 £
Contracted for but not provided in these financial statements	<u>350,000</u>	<u>114,865</u>

19. PENSION COSTS

The pension cost charge represents contributions payable by the company to defined contribution pension schemes and amounted to £9,380 (2003 - £59,200).

20. LEASING COMMITMENTS

Operating leases amounting to £591,881 (2003 - £532,333) are due within one year. The leases to which these amounts relate expire as follows:

	2004		2003	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
- in one year or less	-	177,742	-	33,198
- between one and five years	-	106,106	52,382	306,102
- in five years or more	308,033	-	140,651	-
	<u>308,033</u>	<u>283,848</u>	<u>193,033</u>	<u>339,300</u>

21. OTHER COMMITMENTS

Other financial commitments of £500,000 (2003 - £445,833) in respect of data supply contracts are due within one year. The contract expires between one and five years.

22. 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 undertakings.

During the year the company disposed of a vehicle to Paul Beck, a director of the company. The Net Book Value of the vehicle at the time of the disposal was £50,606. Proceeds of £39,650 were received, giving rise to a loss on disposal of £10,956.

23. ULTIMATE CONTROLLING PARTY

The ultimate parent undertaking of this company is LBM Holdings (UK) Limited. The accounts of that company are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ. LBM Holding (UK) Limited is the parent of the smallest and largest group into which the results of LBM Direct Marketing Limited are consolidated.