4086466

RCD1 LIMITED

GROUP REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

RCD1 LIMITED

ANNUAL REPORT

31 December 2005

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RCD1 LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mr. R.C. Desmond (Chairman)
Mr. R. Sanderson
Mr. S. Myerson
Mr. M.S. Ellice
Dr. P. Ashford

SECRETARY

Mr. R. Sanderson (appointed 8 August 2005)
Mr. M.S. Gill (resigned 8 August 2005)

COMPANY NUMBER

4086466 (England)

AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

BANKERS

Bank of Scotland
155 Bishopsgate
London EC2M 3YB

HSBC
452 Fifth Avenue
New York
NY10018
USA

Bank of Western Australia
108 St Georges Terrace
Perth
WA 6000
Australia

REGISTERED OFFICE

The Northern & Shell Building
Number 10 Lower Thames Street
London EC3R 6EN

RCD1 LIMITED

DIRECTORS' REPORT

For the year ended 31 December 2005

The directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

RCD1 Limited is the ultimate holding company of the Northern & Shell group of companies. The Company regards its subsidiary, Northern & Shell Network Limited, to be the operational parent of the Group. It owns a group of companies principally engaged in newspaper publishing and printing, magazine publishing and television broadcasting.

It is the intention of the Group to continue trading in these areas for the foreseeable future.

RESULTS AND DIVIDENDS

The Group recorded a profit before taxation of £4.5 million (2004: restated £9.3 million).

The directors do not recommend the payment of a dividend (2004: £nil).

REVIEW OF THE PERIOD AND FUTURE PROSPECTS

The Group reacted to the competitive markets it faced in all of its principal publishing and broadcasting activities by increasing its investment in new products, including internationally, in 2005. Accordingly, the directors consider the underlying performance of the Group to be highly satisfactory. Group turnover decreased by £6.4 million (1.5%) and operating profit before tax and chairman's emoluments/pension contributions decreased by £14.5 million (26.9%). After deducting £27.3 million (2004: £51.7 million) Chairman's emoluments and pension contributions, and incurring a start-up operating loss of £27.5 million in respect of the American edition of OK! Magazine (2004: £nil), the Group recorded an operating profit of £12.1 million (2004: restated £2.1 million).

The Newspaper divisions' operating profit before tax and chairman's emoluments/pension contributions increased by £0.7 million (1.8%), with strong cost control compensating for a reduction in turnover. During the year, turnover was reduced by £13.9 million principally as a result of cover price reductions.

In the magazine publishing area, the major developments were the launch of the United States and Canadian editions of OK! magazine and the launch of Happy 'the one-stop shopping magazine' in the UK. Building on the financial strength and experienced management of the Group, the world class OK! brand was further enhanced by the launch of the US and Canadian OK! Weekly editions in 2005, with a team of around 70 staff and offices in New York and Los Angeles. The directors are delighted to report that the title has firmly established itself in the American celebrity magazines arena and within a short period of time has, the directors believe, now taken a place in the top 15 newsstand revenue earning magazine titles in the USA. The directors view this operation as a significant investment which is both financially and strategically beneficial to the Group. Additionally, the directors have added to the OK! network with the launch of further international editions of OK! Magazine, under license agreements with other publishers, making 7 in total, to supplement the wholly owned and operated UK, US and Australian titles.

The Group has continued to focus on the profitability of its television production and broadcasting activities in the year which resulted in an improved performance in these operations in 2005. Arising from this focus, and in a mutual decision made with the Group's partners N.Brown Plc, the Group decided to exit its 50% owned joint venture home shopping operation, the Express Shopping Channel, during the period. Home shopping is not the Group's core business and, therefore, the exit was determined once it had become clear that continued sustained investment would be required before the operation would become viable and when a highly attractive offer for some of the operations facilities was received.

As stated in note 1(a), the Group has adopted FRS 17, 'Retirement benefits', in these financial statements. This has resulted in the recognition of a net pension liability of £39.3 million at 31 December 2005 (excluding joint venture companies). As disclosed in note 30, 'Post Balance Sheet Events', the directors have taken action, and are continuing to take further steps, to reduce this deficit.

REVIEW OF THE YEAR AND FUTURE PROSPECTS (continued)

The Group considers that it is well placed to build on its established publishing and television activities and take advantage of new opportunities as they arise.

DIRECTORS AND THEIR INTERESTS

The present membership of the board is set out on page 2. These directors, and no others, held office throughout the entire year.

During the year 225,000 £1 Ordinary 'B' shares were issued in Northern & Shell North America Limited, a group undertaking, to its directors. The consideration paid by the directors in respect of these shares was £900,000. At the beginning and end of the year, the directors' beneficial interests in the issued ordinary 'B' share capital of that company were:

	£1 Ordinary 'B' shares	
	At 1 January 2005	**At 31 December 2005**
Mr. R. Sanderson	-	37,500
Mr. S. Myerson	-	75,000
Mr. M.S. Ellice	-	75,000
Dr. P. Ashford	-	37,500

Details of the share issue are stated in the financial statements of that company.

At the beginning and end of the year, Mr. R.C. Desmond was beneficially interested in the whole of the remaining issued share capital of the Company.

POLICY ON PAYMENT OF CREDITORS

The Company and its subsidiaries agree terms and conditions for their business transactions with their suppliers. Payment is made on these terms, subject to the terms and conditions being met by the supplier.

The Company does not have any trade creditors.

EMPLOYEE INVOLVEMENT

During the year the Company and Group maintained their practice of keeping employees informed about current activities and progress using various methods including formal briefings and e-mails. Consultation with employees or their representatives has continued at all levels, with the aim of ensuring their views are taken into account where decisions are likely to affect their interests. This practice is reviewed regularly.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company and Group continues and the appropriate training is arranged. It is the policy of the Company and Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks that include credit, liquidity, interest rate and foreign exchange risk. The Group has mechanisms in place that seek to limit the impact of adverse effects of these risks on the financial performance of the Group.

Credit risk

The Group has implemented policies that require appropriate credit checks to be performed on potential customers before sales are made.

FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

The Group actively manages its finances to ensure that the Group has sufficient funds available for its operations.

Interest rate cash flow risks

The Group has both interest bearing assets and liabilities. The interest bearing assets are cash balances subject to floating interest rates. The Group utilises interest rate swaps with a fixed rate to manage some of its liabilities. Other liabilities are managed using floating rate arrangements. The directors keep these measures under constant review.

Foreign exchange risk

The Group has foreign currency assets and liabilities. The Group does not currently use financial instruments to manage the risk of fluctuating exchange rates and as such no hedge accounting is applied. The directors keep these measures under constant review.

POLITICAL AND CHARITABLE DONATIONS

Charitable contributions were made during the year amounting to £731,353 (2004: £334,015) to a charitable trust (see note 31).

There were no political contributions made during the year (2004: £nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 the Group and of the profit or loss of the Group for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently, except as disclosed in note 1 to the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 also responsible for the maintenance and integrity of the Group's website. Uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next annual general meeting.

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

Mr. R. Sanderson
Secretary

Date: 23 May 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

RCD1 LIMITED

For the year ended 31 December 2005

We have audited the Group and Parent Company financial statements (the "financial statements") of RCD1 Limited for the year ended 31 December 2005 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities 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) 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Directors' 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 judgments 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.

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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 and cash flows for the year then ended; and

- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
Date: 23 May 2006

RCD1 LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2005

Continuing operations	Notes	2005 £000	As restated 2004 £000
Turnover (including share of joint ventures)	2	**463,510**	471,447
Less: *share of joint venture turnover*		**(50,803)**	(52,339)
Turnover		**412,707**	419,108
Cost of sales		**(211,695)**	(209,733)
Gross profit		**201,012**	209,375
Distribution costs		**(19,619)**	(18,986)
Administrative expenses	3	**(173,428)**	(189,840)
Other operating income	4	**4,147**	1,578
Group operating profit before Chairman's *emoluments and pension contributions*		**39,392**	53,862
- Chairman's emoluments and pension contributions	5(a)	**(27,280)**	(51,735)
Group operating profit	4	**12,112**	2,127
Share of operating loss of joint ventures (after £3.4m (2004: £3.4m) goodwill amortisation)		**(3,181)**	(1,674)
Total operating profit	2	**8,931**	453
Profit on sale of subsidiary	6	**-**	12,072
Profit on ordinary activities before interest and taxation		**8,931**	12,525
Interest receivable and similar income	7	**919**	937
Interest payable and similar charges	8	**(3,470)**	(3,464)
Other financing expenses	28	**(1,900)**	(700)
Profit on ordinary activities before taxation		**4,480**	9,298
Tax on profit on ordinary activities	9	**(2,452)**	(343)
Retained profit for the financial year	24	**2,028**	8,955

The notes on pages 12 to 35 form part of these financial statements.

RCD1 LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2005 £000	2004 £000
Profit for the financial year		**2,028**	8,955
Revaluation reserve – surplus on revaluation of property		**347**	-
Actuarial gain/(loss) recognised in the pension scheme – excluding Joint Ventures	**28**	**15,300**	(19,400)
Movement on deferred tax relating to pension liability – excluding Joint Ventures		**(4,590)**	5,820
Actuarial loss recognised in the Joint Venture pension scheme		**(2,000)**	(1,150)
Movement on deferred tax relating to Joint Venture pension liability		**600**	345
Total gains/(losses) recognised for the year		**11,685**	(5,430)
Prior year adjustment	***1(a)***	***(60,063)***	
Total losses recognised since last annual report		**(48,378)**	

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

RCD1 LIMITED

CONSOLIDATED BALANCE SHEET as at 31 December 2005

	Notes	2005 £000	As restated 2004 £000
FIXED ASSETS			
Intangible assets	11	**8,527**	9,098
Tangible assets	12	**82,941**	79,851
Investments	13		
Interests in joint ventures			
Share of gross assets		**24,327**	28,371
Share of gross liabilities		**(32,746)**	(35,920)
Goodwill arising on acquisition		**19,723**	23,092
		11,304	15,543
Other		**85**	85
		11,389	15,628
		102,857	104,577
CURRENT ASSETS			
Stocks	14	**6,590**	3,039
Debtors	15	**52,325**	43,004
Current asset investments	16	**20**	8
Cash at bank and in hand		**16,655**	18,735
		75,590	64,786
CREDITORS: amounts falling due within one year	17	**(99,285)**	(91,513)
NET CURRENT LIABILITIES		**(23,695)**	(26,727)
TOTAL ASSETS LESS CURRENT LIABILITIES		**79,162**	77,850
CREDITORS: amounts falling due after more than one year	18	**(38,284)**	(35,087)
PROVISIONS FOR LIABILITIES AND CHARGES	19	**(9,568)**	(11,938)
NET ASSETS excluding pension liability		**31,310**	30,825
PENSION LIABILITY	28	**(39,270)**	(50,470)
NET LIABILITIES including pension liability		**(7,960)**	(19,645)
CAPITAL AND RESERVES			
Called up share capital	23	**110**	110
Profit and loss account	24	**(12,377)**	(23,715)
Other reserves	24	**3,860**	3,860
Revaluation reserve	24	**347**	-
Capital redemption reserve	24	**100**	100
TOTAL EQUITY SHAREHOLDERS' FUNDS	24	**(7,960)**	(19,645)

Approved by the Board of Directors:

Mr. R.C. Desmond
Director

Date: 23 May 2006

RCD1 LIMITED

COMPANY BALANCE SHEET as at 31 December 2005

	Notes	2005 £000	2004 £000
FIXED ASSETS			
Tangible assets	12	**10,071**	9,724
Investments	13	**110**	110
		10,181	9,834
CURRENT ASSETS			
Debtors	15	**20,596**	19,231
CREDITORS: amounts falling due within one year	17	**(21,986)**	(20,451)
NET CURRENT LIABILITIES		**(1,390)**	(1,220)
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,791**	8,614
CREDITORS: amounts falling due after more than one year	18	**(4,916)**	(5,401)
NET ASSETS		**3,875**	3,213
EQUITY CAPITAL AND RESERVES			
Called up share capital	23	**110**	110
Profit and loss account	24	**3,418**	3,103
Revaluation reserve	24	**347**	-
TOTAL EQUITY SHAREHOLDERS' FUNDS	24	**3,875**	3,213

Approved by the Board of Directors:

Mr. R.C. Desmond

Date: 23 May 2006

RCD1 LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Net cash inflow from continuing operating activities	25	**1,864**	18,606
Dividends received from joint ventures		**2,597**	4,820
Returns on investments and servicing of finance			
Interest received		**919**	929
Interest paid		**(2,665)**	(4,434)
Issue costs of new bank loan		**(210)**	-
Interest element of finance lease rentals		**(31)**	(39)
		2,474	19,882
Taxation		**(214)**	(532)
Capital expenditure			
Receipt for disposal of fixed asset investment		**-**	12,000
Payments to acquire tangible fixed assets		**(11,839)**	(18,319)
Receipts from disposal of tangible fixed assets		**161**	14
		(11,678)	(6,305)
Acquisition of shares		**(12)**	-
Net cash (outflow)/inflow before financing		**(9,430)**	13,045
Financing			
Loan to joint venture		**(25)**	(2,000)
Loan from joint venture		**250**	-
Joint venture loan repaid		**-**	(3,500)
External loan repayments		**(10,492)**	(10,495)
External loan		**17,295**	-
Capital element of finance lease rentals		**(153)**	(410)
		6,875	(16,405)
Decrease in net cash	26/27	**(2,555)**	(3,360)

1. PRINCIPAL ACCOUNTING POLICIES

(a) *Accounting convention*

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below. Comparative balances have been restated as set out below to conform with the current year presentation.

Changes in accounting policies

The Group has adopted FRS 17, 'Retirement benefits', FRS 21, 'Events after the balance sheet date', and FRS 25, 'Financial instruments: disclosure presentation', in these financial statements. The adoption of each of these standards represents a change in accounting policy and the comparative figures have been restated accordingly except where the exemption to restate comparatives has been taken. Details of the effect of the prior year adjustments are given in note 24.

The effect to the Group of the change in accounting policy to adopt FRS 17 was to reduce administrative costs and increase other financing expenses and the charge for deferred taxation by £11,900,000 (2004: £9,171,000), £1,900,000 (2004: £700,000) and £3,000,000 (2004: £2,541,000) respectively, to increase profit for the year by £7,000,000 (2004: £5,930,000) and to reduce the total recognised gains and losses by £10,710,000 (2004: £13,580,000 increase). With the adoption of FRS 17, all costs, assets and liabilities in respect of SSAP 24 are no longer recognised in the financial statements and the financial impacts noted above take into account the elimination of the SSAP 24 charges. The combined effect of the adoption of FRS 17 on the Group's net assets at 31 December 2005, excluding those in respect of Joint Ventures, was to reduce them by £29,429,000 (2004: £47,139,000). The Group's share of results for Joint Ventures has also been restated to take effect of FRS 17 (see note 13).

There is no impact on the Group or Company financial statements from the adoption of FRS 21.

The effect of the change in accounting policy to adopt the presentation requirements of FRS 25 was to reclassify the Group's share of Joint Venture preference shares of £3,000,000 (2004: £3,000,000) from equity to liabilities, reducing the Group's net assets by £3,000,000 (2004: £3,000,000).

(b) Basis of consolidation

The consolidated profit and loss account, balance sheet, statement of total recognised gains and losses and cash flow statement includes the results, financial position and cash flows of the Company and its subsidiary undertakings, and the Group's share of profits or losses and reserves of its joint ventures, from the date of acquisition and until the date of disposal. Intra-group sales, profits and balances are eliminated fully on consolidation.

(c) Revenue recognition

Turnover represents the invoiced amount of goods dispatched and services provided (stated net of value added tax and net of trade discounts). Turnover generated from publishing activities is recognised on release of the newspaper or magazine issue to which it relates. Television subscription revenue is recognised evenly over the period of the subscription, and pay for view revenue is recognised in the period in which the broadcast occurs.

Group turnover includes sales made by group undertakings to joint ventures, but excludes sales by joint ventures.

(d) Foreign currencies

Transactions denominated in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date with any differences being taken to the profit and loss account.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) *Foreign currencies (continued)*

For consolidation purposes, the monetary assets and liabilities of overseas subsidiary undertakings are translated at the exchange rates ruling at the balance sheet date or at a contracted rate if applicable. Non-monetary assets and liabilities are translated at the exchange rate ruling at the date of transaction or, where forward contracts have been arranged, at the contracted rates. The profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising are taken to reserves.

Foreign operations which are conducted through a foreign branch are accounted for using the temporal method, whereby transactions denominated in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date with any differences being taken to the profit and loss account.

(e) Tangible fixed assets

Freehold investment properties are stated at their open market value at the balance sheet date. In accordance with SSAP 19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve unless a deficit, or its reversal, is expected to be permanent in which case it is charged in the profit and loss account. No provision is made for the depreciation of freehold investment properties. This departure from the requirements of the Companies Act 1985, which requires all properties to be depreciated, is, in the opinion of the directors necessary for the accounts to show a true and fair view in accordance with applicable accounting standards.

All other tangible fixed assets are stated at cost less accumulated depreciation. The cost of tangible fixed assets represents the purchase cost together with any incidental costs of acquisition (including interest costs). Depreciation is provided on all tangible fixed assets to write off the cost of each asset, less any estimated residual value, evenly over its expected useful life, as follows: -

Leasehold land & buildings	50 years or estimated useful life, if shorter
Plant & machinery	3 to 24 years
Fixtures and fittings & office equipment	2 to 5 years or period of the lease, if shorter
Motor vehicles	2 to 5 years

The Group reviews its depreciation rates regularly to take account of technological changes, intensity of use over the life of the assets and market requirements.

(f) Intangible fixed assets

Trademarks

Trademarks comprise the cost of registering trademarks. These are amortised over 20 years, which is considered to be the useful economic life of the trademarks.

Goodwill

Goodwill represents the excess of the fair value of the consideration paid for acquisitions over the fair value of net assets acquired. Goodwill is amortised on a straight line basis over the estimated economic life of the acquisition.

Goodwill arising on acquisition of the Express Newspapers group in 2000 is being amortised over its estimated economic life of 20 years.

Goodwill arising on joint venture acquisitions is being amortised over its estimated useful economic life of 10 years.

These periods are the periods over which the directors estimate that the value of the underlying businesses acquired are expected to match the value of the underlying assets.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) **Stocks**

Raw materials comprise mainly paper and are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Also included within stocks are contributors and printing costs relating to magazines, which will be published in the following year. These amounts will be expensed upon publication.

Finished goods comprise mainly programme and film stocks, which are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items. It is the policy of the Group to write off the whole cost of a film or programme in the month of its first transmission.

(h) **Leases**

Assets obtained under finance leases are capitalised and depreciated over the lesser of the period of the lease and the estimated useful life of the asset. Obligations relating to finance leases, net of finance charges in respect of future periods, are included in Creditors due within or after more than one year, as appropriate.

Finance costs are charged to the profit and loss account and allocated to accounting periods during the lease term so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

Rental costs under operating leases are charged to the profit and loss account as incurred.

Assets leased to third parties under operating leases are capitalised and depreciated over the estimated useful life of the asset. Operating lease rental is recorded as revenue in equal annual amounts over the period of the lease.

(i) **Fixed asset investments**

Fixed asset investments are recorded at cost, adjusted for any permanent diminution in value. Any diminution in value is reflected in the profit and loss account when the diminution is identified.

The Company carries its investment in subsidiary undertakings at cost less any provision for permanent diminution in value. Any diminution in value is reflected in the profit and loss account when the diminution is identified.

(j) **Interests in joint ventures**

Where the Group holds a 50% interest in an entity on a long term basis and this interest is jointly controlled by the Group and other parties, the investment is treated as a joint venture. The Group's share of the profits and losses of the joint venture are disclosed separately in the Group's profit and loss account. Joint ventures are disclosed using the gross equity method under which the share of gross assets and liabilities are disclosed in the balance sheet.

(k) **Deferred taxation**

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in 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 regarded as recoverable and recognised in the financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted. The recoverability of tax losses is assessed by reference to forecasts, which have been prepared and approved by the board.

Deferred tax assets and liabilities are not discounted.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Pension costs

For the defined benefit schemes, the amount charged to operating profit is the cost of accruing pension benefits promised to employees over the year plus any benefit improvements granted to members by the Group during the year. Other finance charges/income in the profit and loss account includes a credit equivalent to the company's expected return on the pension plans' assets over the year, offset by a charge equal to the expected increase in the plans' liabilities over the year. The difference between the market value of the plans' assets and the present value of the plans' liabilities is disclosed as an asset/liability on the balance sheet, net of deferred tax (to the extent that it is recoverable). Any difference between the expected return on assets and that actually achieved, and any changes in the liabilities over the year due to changes in assumptions or experience within the plans, are recognised in the statement of total recognised gains and losses.

Pension costs relating to defined contribution schemes are the amount of the contributions payable for the year.

(m) Finance charges

Costs in relation to obtaining finance are deferred and amortised over the term of the related financing.

2. SEGMENTAL ANALYSIS

The Group's turnover and profit before taxation arises solely from its publishing, broadcasting and printing activities.

The Group's significant turnover, profit before taxation and net assets are attributable to activities in the United Kingdom and the United States of America.

Turnover in respect of continuing joint venture entities arises from printing activities in the United Kingdom and from publishing activities in the Republic of Ireland. Included in turnover is an amount in respect of broadcasting activities. During the year the joint venture in broadcasting activities ceased. The operations are not material to the Group and the directors do not consider it necessary to treat it as a discontinued operation in the profit and loss account.

	2005 £000	As restated 2004 £000
Turnover (including share of Joint Ventures)		
Publishing and printing – excluding US	**370,599**	**389,017**
Publishing – US	**4,658**	**-**
Publishing and printing – joint ventures	**49,570**	**52,024**
Broadcasting	**37,450**	**30,091**
Broadcasting – joint ventures	**1,233**	**315**
	463,510	**471,447**
Group operating profit before Chairman's emoluments/pension contributions – including Joint Ventures:		
Publishing and printing – excluding US	**52,812**	43,579
Publishing – US	**(27,485)**	-
Publishing and printing – joint ventures	**(889)**	(200)
Broadcasting	**13,360**	10,080
Broadcasting – joint ventures	**(2,292)**	(1,479)
Property Investment	**705**	208
	36,211	52,188
Group – excluding Joint Ventures	**39,392**	53,862
Joint Ventures	**(3,181)**	(1,674)
	36,211	52,188
Chairman's emoluments and pension contributions	**(27,280)**	(51,735)
Total operating profit:	**8,931**	453
Profit before taxation:		
Publishing and printing – excluding US	**23,636**	6,590
Publishing – US	**(27,588)**	-
Publishing and printing – joint ventures	**(3,563)**	(197)
Broadcasting	**14,022**	4,524
Broadcasting – joint ventures	**(2,477)**	(1,556)
Property Investment	**450**	(63)
	4,480	9,298

2. SEGMENTAL ANALYSIS (Continued)

	2005	As restated 2004
Net operating assets:	**£000**	**£000**
Publishing and printing – excluding US	**51,513**	28,498
Publishing – US	**(20,683)**	-
Publishing and printing – joint ventures	**11,273**	16,630
Broadcasting	**30,850**	17,593
Broadcasting – joint ventures	**31**	(1,089)
Property Investment	**9,217**	9,064
	82,201	70,696

Reconciliation of net operating assets to net liabilities		
Net operating assets	**82,201**	70,696
Investments	**105**	93
Corporation tax	**(7,967)**	(4,272)
Deferred tax	**(9,069)**	(11,070)
Pension liability	**(39,270)**	(50,470)
Net borrowings	**(33,960)**	(24,622)
	(7,960)	(19,645)

3. ADMINISTRATIVE EXPENSES

	2005 £000	As restated 2004 £000
Chairman's emoluments and pension contributions (note 5a)	**27,280**	51,735
Other administrative expenses	**146,148**	138,105
	173,428	189,840

4. GROUP OPERATING PROFIT

	2005 £000	As restated 2004 £000
Operating profit is stated after charging/(crediting):		
Auditors' remuneration – audit fees – group	**363**	274
Auditors' remuneration – non audit fees – group	**1,014**	587
Revaluation of investment property	**-**	442
Depreciation – owned assets	**6,759**	6,078
Depreciation – leased assets	**2,302**	2,444
Amortisation of trademarks	**4**	23
Amortisation of goodwill – acquisitions	**567**	567
Amortisation of goodwill – joint ventures	**3,369**	3,370
(Profit)/loss on disposal of fixed assets	**(126)**	102
Operating lease rentals – plant and machinery	**337**	433
Operating lease rentals – other	**6,341**	7,264
Foreign exchange loss	**1,291**	4
Operating lease rentals – other income	**(1,998)**	(415)
Other operating income:		
Net rental income	**(1,140)**	(1,497)
Sale of share of intellectual property	**(3,000)**	-
Investment income	**(7)**	(81)

Audit fees for the Company are borne by a subsidiary undertaking. Non audit fees relate mainly to tax and pension advice.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

(a) Directors

	2005 £000	2004 £000
Emoluments	**2,850**	48,545
Company contributions to money purchase pension schemes	**26,074**	4,822
	28,924	53,367

Pension benefits are accruing to five directors under money purchase schemes (2004: five directors).

The above emoluments and pension contributions include the following amounts in respect of the highest paid director, the Chairman.

Highest paid director :	2005 £000	2004 £000
Emoluments	**1,276**	46,981
Company contributions to money purchase pension schemes	**26,004**	4,754
	27,280	51,735

(b) Staff Costs (Including Directors)

	2005 £000	As restated 2004 £000
Wages and salaries	**55,209**	95,925
Social security costs	**5,883**	11,669
Pension costs	**25,240**	8,889
	86,332	116,483

Pension costs include an FRS 17 pension credit of £2.6 million (2004: £2.5 million charge).

Average number of people employed by activity:	2005 Number	2004 Number
Production	**752**	744
Selling and distribution	**141**	144
Administration	**346**	245
	1,239	1,133

6. PROFIT ON SALE OF SUBSIDIARY

During 2004, 100% of the share capital of Fantasy Publications Limited and Best Magazines Limited was sold by the Group to Remnant Media Limited for £10.9 million (at a profit of £10.9 million) and the business of Attitude magazine was also sold by the Group to Remnant Media Limited for a further £1.2 million (at a profit of £1.2 million). Further consideration, the precise amount of which is subject to certain criteria being met, may become due in respect of both of these disposals. No account has been taken of these potential receipts in these financial statements.

RCD1 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 £000	2004 £000
Bank deposit	717	799
Other interest receivable	202	130
Joint venture interest receivable	-	8
	919	937

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £000	2004 £000
Bank loans and overdrafts	2,756	2,930
Finance leases	31	39
Amortisation of financing charges	134	121
Other interest payable	167	292
Joint venture interest payable	382	82
	3,470	3,464

9. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2005 £000	As restated 2004 £000
Current tax:		
UK corporation tax on profit for the year at 30% (2003: 30%)	**4,883**	676
Adjustment in respect of previous periods	**1,437**	625
Foreign taxes suffered	**226**	191
Double taxation relief	**(101)**	(5)
Share of joint venture taxation	**(2,202)**	295
Total current tax charge	**4,243**	1,782
Deferred tax:		
Origination and reversal of timing differences (Accelerated capital allowances and other)	**(443)**	278
Adjustment in respect of previous periods	**(1,558)**	(757)
Total deferred tax credit excluding deferred tax charge/(credit) on pension liability (note 19)	**(2,001)**	(479)
Pension cost relief in excess of pension cost charge	**210**	(960)
Total deferred tax credit	**(1,791)**	(1,439)
Tax on profit on ordinary activities	**2,452**	343

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below:

	2005 £000	2004 £000
Profit on ordinary activities before tax	**4,480**	9,298
Profit on ordinary activities multiplied by standard rate in the UK 30% (30%)	**1,344**	2,790
Effects of:		
Expenses not deductible for tax purposes	**281**	631
Excess of depreciation over capital allowances and other timing differences	**233**	682
Adjustments in respect of previous periods	**1,437**	625
Utilisation of prior year tax losses	**(900)**	-
Non taxable sale of subsidiaries	**-**	(3,262)
Profits subject to lower level of overseas tax	**(431)**	(995)
Non tax deductable goodwill amortisation and other permanent differences	**1,181**	1,178
Deferred tax assets not recognised	**1,098**	-
Revaluation of investment property	**-**	133
	4,243	1,782

Factors that may effect future tax charges:

Based on current capital investment plans, the Group expects depreciation to continue to exceed capital allowances in future years. The deferred tax asset not recognised relates to unutilised trading losses realised during the period.

Deferred tax liabilities have not been discounted.

10. PROFIT OF COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the company is not presented as part of these financial statements. The Company's profit for the year amounted to £315,012 (2004: loss £171,933).

11. INTANGIBLE ASSETS

THE GROUP

	Trademarks £000	Goodwill as restated £000	Total as restated £000
Cost:			
At 1 January 2005 as previously reported	158	9,817	9,975
Prior year adjustment	-	1,530	1,530
At 1 January 2005 as restated and at 31 December 2005	**158**	**11,347**	**11,505**
Amortisation:			
At 1 January 2005 as previously reported	111	1,987	2,098
Prior year adjustment	-	309	309
At 1 January 2005 as restated	111	2,296	2,407
Charge for the year	4	567	571
At 31 December 2005	**115**	**2,863**	**2,978**
Net book amounts:			
At 31 December 2005	**43**	**8,484**	**8,527**
At 31 December 2004	47	9,051	9,098

The prior year balance has been restated to exclude a SSAP 24 pension fair value adjustment which was recognised on the acquisition of Express Newspapers. This adjustment is not required under FRS 17.

12. TANGIBLE ASSETS

THE GROUP	Freehold Land & Buildings £000	Short Leasehold Land & Buildings £000	Motor Vehicles, Plant & Machinery £000	Fixtures, Fittings & Office Equipment £000	Total £000
Cost/ valuation					
At 1 January 2005	9,724	49,630	112,523	17,752	189,629
Additions	-	8,559	1,743	1,537	11,839
Disposals	-	-	(1,732)	(184)	(1,916)
Revaluation	347	-	-	-	347
At 31 December 2005	**10,071**	**58,189**	**112,534**	**19,105**	**199,899**
Depreciation:					
At 1 January 2005	-	14,007	80,819	14,952	109,778
Charge for the year	-	1,810	6,602	649	9,061
Disposals	-	-	(1,697)	(184)	(1,881)
At 31 December 2005	-	**15,817**	**85,724**	**15,417**	**116,958**
Net book amounts:					
At 31 December 2005	**10,071**	**42,372**	**26,810**	**3,688**	**82,941**
At 31 December 2004	9,724	35,623	31,704	2,800	79,851

Freehold land & buildings represents an investment property from which the Group derives rental income, which was previously recorded at open market valuation of £9.7 million. The property was valued at £10.1 million by Peter Galan & Company as at 31 December 2005 on the basis of open market value. At 31 December 2005 the property is stated at the open market valuation of £10.1 million. The historical cost of the investment property is £10.5 million. If the investment property was depreciated the accumulated depreciation at 31 December 2005 would be £3.7 million (2004: £3.5 million). Net book value at 31 December 2005 would be £6.8 million (2004: £7.0 million).

Motor vehicles, plant & machinery, fixtures & fittings and office equipment includes assets acquired under finance leases in respect of which, as at 31 December 2005, the net book value was £10.6 million (2004: £12.9 million) after charging £2.3 million (2004: £2.4 million) depreciation for the year.

Included within the following categories are assets leased to a joint venture under an operating lease:

- Short leasehold land and buildings - gross asset cost of £19.0 million (2004: £19.0 million) and accumulated depreciation of £8.5 million (2004: £8.0 million). Motor vehicles, plant and machinery - gross cost of £57.8 million (2004: £57.8 million) and accumulated depreciation of £48.0 million (2004: £45.7 million).

Capitalised interest included in the net book value of fixed assets amounted to:

- Short leasehold land and buildings - £0.9 million (2004: £0.9 million)
- Motor vehicles, plant and machinery - £0.5 million (2004: £0.7 million).

THE COMPANY

The tangible fixed assets of the company at 31 December 2005 amount to £10.1 million (2004: £9.7 million) and consist entirely of the investment property referred to above.

13. FIXED ASSET INVESTMENTS

THE GROUP

	2005 £000	As restated 2004 £000
Interest in joint ventures		
At 1 January as previously stated - net assets	5,065	8,566
Prior year adjustment - FRS 17	(9,614)	(8,817)
- FRS 25	(3,000)	(3,000)
At 1 January as restated - net liabilities	(7,549)	(3,251)
- goodwill (gross)	33,691	33,691
	26,142	30,440
Share of losses retained	(870)	(4,298)
At 31 December - net liabilities	(8,419)	(7,549)
- goodwill (gross)	33,691	33,691
	25,272	26,142
Aggregate amortisation of goodwill		
At 1 January	(10,599)	(7,229)
Charge for the period	(3,369)	(3,370)
At 31 December	(13,968)	(10,599)
Net book amount at 31 December		
Net liabilities	(8,419)	(7,549)
Goodwill	19,723	23,092
	11,304	15,543
Other fixed asset investment	85	85
Total fixed asset investments	11,389	15,628

Interests in joint ventures principally comprise:

- 50% of the equity share capital of West Ferry Printers Limited, a newspaper printing company.
- 50% of the equity share capital of Independent Star Limited, a newspaper publisher registered in the Republic of Ireland, the principal activity of which is the publishing of 'The Star' newspaper in that country.
- 50% of the equity share capital of Express Shopping Channel, a broadcasting and television production company. The company terminated broadcasting during the year.

The prior year balances have been restated on the adoption of FRS 17 with respect to the pension scheme in West Ferry Printers Limited. The prior year balances have also been restated on the adoption of FRS 25 with respect to preference shares held in West Ferry Printers Limited. The preference shares are now classified as liabilities.

13. FIXED ASSET INVESTMENTS (Continued)

Details of significant investments in Joint Venture Companies

	2005 £000	As restated 2004 £000
Summary of Joint Venture net assets		
Share of fixed assets	**15,007**	19,238
Share of current assets	**9,320**	9,133
Share of gross assets	**24,327**	28,371
Share of liabilities		
Due within one year	**(4,756)**	(5,628)
Due after one year	**(27,990)**	(30,292)
Share of gross liabilities	**(32,746)**	(35,920)
Net liabilities	**(8,419)**	(7,549)

The Group's share of the results of its principal joint venture company is disclosed below:

	2005 £000	As restated 2004 £000
West Ferry Printers Limited		
Turnover	**35,843**	38,649
(Loss)/profit before taxation	**(438)**	2,159
Taxation	**124**	(646)
(Loss)/profit after taxation	**(314)**	1,513
Losses recognised in statement of total recognised gains and losses	**(1,400)**	(805)
Fixed assets	**14,812**	16,782
Current assets	**6,218**	6,510
Liabilities due within one year	**(2,053)**	(288)
Liabilities due after more than one year	**(27,879)**	(30,192)
Net liabilities	**(8,902)**	(7,188)

THE COMPANY	2005 £000	2004 £000
Shares in group undertakings		
At 1 January 2005 and 31 December 2005	**110**	110

The immediate subsidiary undertaking and its percentage holding is:

	Principal activity	Ordinary shares
Northern & Shell Network Limited	Publishing, printing and broadcasting	100%

Investments in group undertakings are stated at cost less any provision for permanent diminution in value. A list of the principal subsidiaries and joint ventures is given in Note 32.

14. STOCKS

	The Group	
	2005 £000	2004 £000
Raw materials and consumables	5,966	2,688
Finished goods and goods for resale	624	351
	6,590	3,039

15. DEBTORS

	The Group	
	2005 £000	As restated 2004 £000
Trade debtors	32,428	31,144
Other debtors	6,881	5,110
Loan to joint venture company	2,025	2,000
Prepayments and accrued income	10,991	4,750
	52,325	43,004

	The Company	
Amounts falling due within one year:	2005 £000	2004 £000
Amounts owed by group undertakings	20,596	19,231
	20,596	19,231

Amounts owed by group undertakings carry interest between 2.0% and 2.5% above base rate, are unsecured and repayable on demand. Amounts owed by dormant group undertakings, included in amounts owed by group undertakings, are non-interest bearing. The loan to a joint venture company carries interest of 2.5% above LIBOR, is unsecured and repayable on demand.

16. CURRENT ASSET INVESTMENTS

	The Group	
	2005 £000	2004 £000
Quoted investments	19	8
Unquoted investments	1	-
	20	8

17. CREDITORS: amounts falling due within one year

	The Group	
	2005	**2004**
	£000	**£000**
Bank loans and overdrafts (note 20 and note 27)	**14,509**	10,596
Less: deferred finance charges	**(554)**	(478)
Amounts owed with respect to group relief and consortium relief	**3,971**	416
Loans from joint venture	**250**	-
Other amounts owed to joint ventures	**1,924**	2,214
Trade creditors	**30,967**	20,960
Other creditors	**4,915**	29,471
Taxation and social security	**1,395**	1,396
Obligations under finance leases (note 21)	**153**	153
Corporation tax	**7,966**	4,272
Redeemable ordinary 'B' shares	**900**	-
Accruals and deferred income	**32,889**	22,513
	99,285	91,513

Amounts owed with respect to group relief are non interest bearing. Amounts owed to joint ventures carry interest between 2.0% and 2.5% above base rate, are unsecured and repayable on demand. Included in other creditors is £nil million (2004: £24.8 million) relating to directors' bonuses and contributions payable to a director's money purchase pension scheme (note 31).

Redeemable ordinary 'B' shares are in respect of shares issued during the year by a group undertaking, Northern & Shell North America Limited, at a premium of £3 each and a total consideration of £900,000. In accordance with FRS 25, the redeemable ordinary 'B' shares meet the criteria of a liability and accordingly have been stated above within creditors: amounts falling due with one year.

	The Company	
	2005	**2004**
	£000	**£000**
Bank loans (note 20)	**536**	557
Amounts owed to group undertakings	**21,252**	19,682
Corporation tax payable	**-**	2
Accruals and deferred income	**198**	210
	21,986	20,451

18. CREDITORS: amounts falling due after more than one year

	The Group	
		As restated
	2005	**2004**
	£000	**£000**
Bank loan (note 20)	**37,752**	34,402
Obligations under finance leases (note 21)	**532**	685
	38,284	35,087

	The Company	
	2005	**2004**
	£000	**£000**
Bank loan (note 20)	**4,916**	5,401

19. PROVISION FOR LIABILITIES AND CHARGES

	Deferred Tax – excluding deferred tax on pension liability £000	Other provisions £000	Total £000
The Group			
At 1 January 2005 as previously reported	9,630	868	10,498
Prior year adjustment – elimination of SSAP 24 liability on adoption of FRS 17	1,440	-	1,440
At 1 January 2005 as restated	11,070	868	11,938
Credited to the profit and loss account	(2,001)	-	(2,001)
Utilised during the year	-	(369)	(369)
At 31 December 2005	**9,069**	**499**	**9,568**

The amount provided in respect of other provisions was settled in March 2006.

The deferred taxation provided in these financial statements is as follows:

	2005 £000	As restated 2004 £000
Provision for deferred tax including deferred tax on pension liability		
Accelerated capital allowances	**6,769**	7,990
Other timing differences	**2,300**	3,080
Deferred tax excluding that relating to pension liability	**9,069**	11,070
Deferred tax on pension liability (note 28)	**(16,830)**	(21,630)
Total provision for deferred tax – asset	**(7,761)**	(10,560)
1 January 2005 as previously reported	**9,630**	
Prior year adjustment - FRS 17 (note 28)	**(21,630)**	
- SSAP 24 (above)	**1,440**	
1 January 2005 as restated	**(10,560)**	
Deferred tax credit in profit and loss account (note 9)	**(1,791)**	
Deferred tax on the actuarial gain on the pension scheme charged to the statement of total recognised gains and losses	**4,590**	
At 31 December 2005	**(7,761)**	

Based on current capital investment plans, the Group expects depreciation to continue to exceed capital allowances in future years. Deferred tax is measured on a non-discounted basis at the rates and laws enacted at the balance sheet date.

20. BANK LOAN OBLIGATIONS

	The Group 2005 £000	2004 £000
The group's bank loan obligations are due :		
Within 1 year	**13,995**	10,557
In more than 1 year but not more than 2 years	**5,970**	10,517
In more than 2 years but not more than 5 years	**18,097**	7,604
In more than 5 years	**13,685**	16,280
	51,747	44,958
Less: deferred finance charges	**(554)**	(478)
	51,193	44,480

Bank loans are secured over the assets of the Group. Included in bank loans is an amount of £8 million, which is payable in six monthly instalments over one year. The Group entered into an interest rate swap arrangement on 24 February 2003, which has fixed the interest rate until 21 November 2006, the end of the loan period, at a LIBOR rate of 4.11%. The loan is also subject to a maximum margin of 1.25%. Also included in bank loans is a loan of £21 million, which carries interest at LIBOR plus 1.5% and is repayable in quarterly instalments over eleven years. Subsequent to the year end this loan was extended to £30 million over the same term and with a margin of 1.0%. During the year, the Group also entered into a US$ 30 million loan (sterling equivalent at 31 December 2005: £17.3 million), which carries interest at LIBOR plus a maximum margin of 1.15% and is repayable in six monthly instalments over five years. The balance of £5.4 million is secured on the investment property held by the Group, is repayable over 10 years and carries interest at the NatWest bank base rate plus 1.0%.

THE COMPANY

The Company's bank loan obligations of £5.4 million (2004: £6.0 million) of which £0.5 million are due within one year (2004: £0.6 million), and £4.9 million due after more than one year (2004: £5.4 million) is subject to the terms and conditions set out in respect of the £5.4 million group bank loan above.

21. OBLIGATIONS UNDER FINANCE LEASES

The Group is subject to finance lease obligations which are due:

	2005 £000	2004 £000
Within one year	**153**	153
Within two to five years	**532**	605
In more than five years	**-**	80
	685	838

22. OPERATING LEASE COMMITMENTS

At 31 December 2005 the Group was committed to making the following annual payments in respect of operating leases which expire:

	Land and Buildings 2005 £000	Land and Buildings 2004 £000	Other 2005 £000	Other 2004 £000
Within one year	**4**	78	**8**	-
Two to five years	**405**	60	**329**	18
After five years	**6,199**	6,363	**-**	-
	6,608	6,501	**337**	18

23. SHARE CAPITAL

	The Group & The Company			
	Authorised		Allotted and Fully Paid	
	2005 £000	2004 £000	2005 £000	2004 £000
Ordinary shares of £1 each	**110**	110	**110**	110

24. SHAREHOLDERS' DEFICIT

Reserves	The Group			
	Capital redemption reserve £000	Other reserve £000	Revaluation reserve £000	Profit & loss £000
At 1 January 2005 as previously reported	100	3,860	-	36,348
Prior year adjustment - FRS 17 note 1(a)	-	-	-	(57,063)
- FRS 25 note 1(a)	-	-	-	(3,000)
At 1 January 2005 restated	100	3,860	-	(23,715)
Surplus on revaluation of property	-	-	347	-
Retained profit for the year	-	-	-	2,028
Actuarial gain on pension scheme - excluding Joint Ventures (note 28)	-	-	-	15,300
Movement on deferred tax relating to pension scheme - excluding Joint Ventures (note 19)	-	-	-	(4,590)
Actuarial loss on Joint Venture pension scheme	-	-	-	(2,000)
Movement on deferred tax relating to Joint Venture pension scheme	-	-	-	600
At 31 December 2005	**100**	**3,860**	**347**	**(12,377)**

Reserves	The Company	
	Revaluation reserve £000	Profit & loss £000
At 1 January 2005	-	3,103
Retained profit for the year	-	315
Surplus on revaluation of property	347	-
At 31 December 2005	**347**	**3,418**

SHAREHOLDERS' DEFICIT (continued)

Reconciliation of movements in shareholders' deficit

	The Group	
	2005	**As restated 2004**
	£000	**£000**
Profit for the year	**2,028**	8,955
Surplus on revaluation of property	**347**	-
Actuarial gain/(loss) on pension scheme – excluding Joint Ventures (note 28)	**15,300**	(19,400)
Movement on deferred tax relating to pension scheme – excluding Joint Ventures (note 19)	**(4,590)**	5,820
Actuarial loss on Joint Venture pension scheme (above)	**(2,000)**	(1,150)
Movement on deferred tax relating to Joint Venture pension scheme (above)	**600**	345
Net addition to/(reduction in) shareholders' funds	**11,685**	(5,430)
Opening shareholders' funds as previously reported	**40,418**	37,343
Prior year adjustment - FRS 17 (note 1(a))	**(57,063)**	(48,558)
- FRS 25 (note 1 (a))	**(3,000)**	(3,000)
Opening shareholders' deficit as restated	**(19,645)**	(14,215)
Closing shareholders' deficit	**(7,960)**	(19,645)

	The Company	
	2005	**2004**
	£000	**£000**
Profit/(loss) for the year	**315**	(172)
Surplus on revaluation of property	**347**	-
Net addition/(reduction) to shareholders' funds	**662**	(172)
Opening shareholders' funds	**3,213**	3,385
Closing shareholders' funds	**3,875**	3,213

25. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW

	2005 £000	As restated 2004 £000
Operating profit	**12,112**	2,127
Depreciation charge	**9,061**	8,522
Amortisation of intangible assets	**571**	591
Revaluation of investment property	**-**	442
(Profit)/loss on sale of tangible assets	**(126)**	102
(Increase)/decrease in stocks	**(3,551)**	109
Increase in debtors	**(2,414)**	(6,484)
(Decrease)/increase in creditors	**(13,420)**	12,529
(Decrease)/Increase in provisions	**(369)**	668
Net cash inflow from continuing operating activities	**1,864**	18,606

26. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT

	2005 £000	2004 £000
Net debt at 1 January	**(24,622)**	(37,546)
Decrease in cash in the period	**(2,555)**	(3,360)
Cash outflow from finance lease payments	**153**	410
Loan finance received	**(17,295)**	-
Finance charges paid	**210**	-
Loan finance repaid	**10,492**	10,495
Loan repaid to joint venture	**-**	3,500
Loan paid to joint venture	**25**	2,000
Loan from joint venture	**(250)**	-
Other non cash changes	**(120)**	(121)
Net debt at 31 December	**(33,962)**	(24,622)

27. ANALYSIS OF CHANGES IN NET DEBT

	1 January £000	Cash flow £000	Non cash £000	31 December £000
Cash in hand & at bank	18,735	(2,080)	-	16,655
Overdrafts excluding short term loan	(39)	(475)	-	(514)
	18,696	(2,555)	-	16,141
Finance leases	(838)	153	-	(685)
Loan finance due within 1 year	(8,078)	6,808	(10,396)	(11,666)
Loan finance due after 1 year	(34,402)	(13,836)	10,486	(37,752)
Net debt	(24,622)	(9,430)	90	(33,962)

28. PENSION SCHEMES

FRS17 Disclosure

The latest full actuarial valuations of the Express Newspapers 1988 Pension Fund and the Express Newspapers Senior Management Pension Fund were carried out as at 6 April 2004 and 5 April 2003 respectively. The results below have been updated by a qualified independent actuary using the projected unit valuation method. The Group currently makes contributions at 6% of the Contribution Earnings. Both Funds are defined benefit schemes.

The Group also participates in a defined contribution scheme for its employees. Contributions are charged to the profit and loss account to reflect amounts payable under the scheme. The charge for the year was £622,586 (2004: £536,912). At 31 December 2005 there were no contributions outstanding (2004: £nil).

The Express Newspapers 1988 Pension Fund was closed to new members in October 1996. As a result of the Fund becoming closed, the current service cost, as a percentage of Contribution Earnings, will increase as members approach retirement (but will reduce as members leave and are not replaced).

The major financial assumptions used in the calculations at 31 December were:

	2005	2004	2003
Discount rate	4.90%	5.30%	5.30%
Rate of increase in salaries	3.10%	3.75%	3.75%
Rate of LPI increase in pensions in payment	3.00%	3.00%	2.75%
Inflation assumption	2.70%	2.80%	2.75%

The fair value of the assets presented below reflect the aggregated assets of the Express Newspapers 1988 Pension Fund and the Express Newspapers Senior Management Fund.

The fair value of the assets in the schemes and the expected rates of return at 31 December were:

	Long – term rate of return expected at 2005	Fair value at 2005 £000	Long – term rate of return expected at 2004	Fair value at 2004 £000	Long – term rate of return expected at 2003	Fair value at 2003 £000
Equities	7.75%	114,000	7.75%	109,300	7.75%	120,900
Bonds	4.30%	255,300	4.99%	228,800	4.89%	209,300
Other	4.50%	5,700	4.75%	8,100	3.75%	2,800
Total market value of assets		375,000		346,200		333,000
Present value of scheme liabilities		(431,100)		(418,300)		(382,500)
Deficit in the schemes		(56,100)		(72,100)		(49,500)
Related deferred tax asset		16,830		21,630		14,850
Net pension liability under FRS 17		(39,270)		(50,470)		(34,650)

Details of experience gains and loses for the year ended 31 December 2005:

History of experience gains and losses	**2005**	**2004**	**2003**
Difference between the expected and actual rate of return on assets	£26.5m	£11.7m	£11.6m
Percentage of scheme assets	7.1%	3.4%	3.5%
Experience gain/(loss) on scheme liabilities	£2.0m	(£28.6m)	(£0.9m)
Percentage of the present value of scheme liabilities	0.5%	(6.8)%	(0.2)%
Total amount recognised in STRGL	£15.3m	(£19.4m)	(£5.7m)
Percentage of the present value of the scheme liabilities	3.5%	(4.6)%	(1.5)%

28. PENSION SCHEMES (continued)

The following amounts have been recorded in the consolidated profit and loss account for both schemes as at 31 December 2005:

Operating profit	**2005 £000**	**2004 £000**
Current service cost	**3,300**	3,400
Past service cost	**(4,700)**	-
Total operating charge	**(1,400)**	3,400

Other finance income/(expenses)	**2005 £000**	**2004 £000**
Expected return on assets	**19,800**	19,100
Interest cost	**(21,700)**	(19,800)
Total net return	**(1,900)**	(700)

Movement in deficit during the year	**2005 £000**	**2004 £000**
Deficit at start of year	**(72,100)**	(49,500)
Current service cost	**(3,300)**	(3,400)
Past service cost	**4,700**	-
Employer contributions	**1,200**	900
Other financing expenses	**(1,900)**	(700)
Actuarial gain/(loss)	**15,300**	(19,400)
Deficit at end of the year	**(56,100)**	(72,100)

Statement of total recognised gains and losses	**2005 £000**	**2004 £000**
Actual return less expected return on scheme assets	**26,500**	11,700
Experience gains and losses on scheme liabilities	**2,000**	(28,600)
Change in actuarial assumptions	**(13,200)**	(2,500)
Actuarial gain/(loss)	**15,300**	(19,400)

29. GUARANTEES AND CONTINGENT LIABILITIES

Bank loans and overdrafts have been jointly and severally guaranteed by the Company and certain subsidiaries. At 31 December 2005 the maximum liabilities which could arise under these credit arrangements was £51.7 million (2004: £45 million). The shares of the subsidiary companies are pledged as security for these arrangements.

At 31 December 2005, certain claims in the normal course of business were pending against the Company and Group and certain tax computations were still subject to agreement with the relevant taxation authorities. Although there is uncertainty regarding the final outcome of these matters, the directors believe, based on professional advice received, that adequate provision has been made in the financial statements for anticipated liabilities and the probable ultimate resolution of such matters will not have a material effect on the financial statements of the Company and Group.

30. POST BALANCE SHEET EVENTS

The Group's defined benefit pension schemes show a deficit at 31 December 2005, as reported in note 28. The Directors, together with the Pension Trustees are continually looking at ways of reducing this deficit. As part of this process, in 2006, current pensioners were given the option to receive a lump sum cash payment in lieu of non-statutory pension increases. In March 2006, £1.2 million was paid to pensioners who accepted this option, reducing the deficit by approximately £9 million.

31. RELATED PARTY TRANSACTIONS

The Group, through its subsidiary company Express Newspapers, participates in a joint venture under which it holds a 50% shareholding in the company West Ferry Printers Limited, where the remaining shares are owned by Telegraph Group Limited. The purpose of the joint venture is the provision of printing facilities to both Express Newspapers and Telegraph Group Limited and certain third parties. In the year ended 31 December 2005, West Ferry Printers Limited provided Express Newspapers with printing which was included in the turnover of the year ended 31 December 2005 at £16.5 million (2004: £16.2 million). At 31 December 2005, £1.9 million was payable in respect of that printing (2004: £2.2 million) by the Group to West Ferry Printers Limited.

It was agreed by the shareholders of West Ferry Printers Limited that they could borrow, in equal amounts, some of the surplus cash of the company. The loan incurs interest of base rate plus 1.0% and there are no fixed repayment terms. The balance remaining payable by Express Newspapers was £250,000 as at 31 December 2005 (2004: £nil million).

The Group, through its subsidiary company Northern & Shell Network Limited, participates in a joint venture with N Brown Group Plc under which it holds a 50% shareholding in the company Express Shopping Channel Limited. During the year the Group made a loan to Express Shopping Channel Limited and as at 31 December 2005 the amount owed to the Group was £2,025,000 (2004: £2,000,000). The loan incurs interest of Base rate plus 2.5% and there are no fixed repayment terms. During the year the joint venture company terminated its broadcasting activities. During the year, Express Shopping Channel Limited sold plant and machinery of £100,000 (2004: £nil) to the Group. At 31 December 2005, the Group owed £nil (2004: £nil) to Express Shopping Channel Limited in respect of the plant and machinery. Tax losses incurred by Express Shopping Channel Limited will be surrendered to Group companies in accordance with the Consortium Relief provisions and will be paid for.

At 31 December 2005, the Group owed £nil (2004: £24.8 million) in relation to Mr. R.C. Desmond's emoluments and pension contributions for 2005. The £24.8 million outstanding at 31 December 2004 was settled in 2005.

During the year, the Group made contributions of £731,353 (2004: £334,015) to a charitable trust, of which Mr R. C. Desmond is a trustee. At the year end there were no balances due to or from the charitable trust.

Badger Property Partners LLP, of which Mr. R.C.Desmond is a partner, owns the 10 Lower Thames Street property which is the head office of the Northern & Shell Network group. The 10 Lower Thames street property is let to Express Newspapers on a 20 year lease from 1 January 2004 for an annual rental of £5,489,905, with a rent review every 5 years. The lease drawn up in line with current market terms with the rent payable being in line with rents achieved in relation to other similar properties in the area. No amounts were due to Badger Property Partners LLP as at 31 December 2005.

The Company has taken advantage of the exemption available under FRS 8 from disclosing transactions with other group companies that form part of the wholly owned group.

32. PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Principal subsidiaries and percentage holding:

Company Name	Principal Activity	% Shareholding
Northern & Shell Network Limited	Principal holding company	100%
Northern & Shell Group Limited	Holding company	100%
Portland Television Limited	Holding company	100%
Northern and Shell Finance Limited	Treasury	100%
Express Newspapers	Publishing	100%
Broughton Printers Limited	Printing	100%
Northern & Shell Distribution Limited	Magazine distributor	100%
Northern & Shell plc	Publishing	100%
Portland Enterprises Limited	Television production	100%
Portland Enterprises (CI) Limited	Television broadcasting	100%
RHF Productions Limited	Television broadcasting	100%
Northern & Shell Magazines Limited	Publishing	100%
Northern & Shell North America Limited *	Publishing	100%
Northern & Shell Pacific Limted **	Publishing	100%

All the above companies are registered in England, except for Portland Enterprises (CI) Limited and RHF Productions Limited which are registered in Jersey. *Denotes operates a branch in the United States of America. **Denotes operates a branch in Australia.

All of the above companies are consolidated within the group accounts.

Joint Ventures	Incorporated in	Principal activity	Stake	Nominal value of allotted share
West Ferry Printers Limited	United Kingdom	Printing	50%	£50 ordinary shares
Independent Star Limited	Republic of Ireland	Publishing	50%	€635 'E' ordinary shares
Express Shopping Channel	United Kingdom	Broadcasting	50%	£449 ordinary shares

33. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure authorised and contracted for but not provided in the accounts amounted to £1.4 million (2004: £2.5 million) relating to the purchase of plant and machinery.