

Registration
Number
3819979

Handbag.com Limited

DIRECTORS' REPORT

and

FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 2003



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Handbag.com Limited
Directors' Report
Year ended 31st March 2003

Directors

D W Colson
S R Brodie (Chairman)
H C Drayton
K J Mayled

Secretary

P J Mellor

Registered Office

1 Thane Road West
Nottingham
NG2 3AA

The directors present their annual report together with the audited financial statements for the year ended 31st March 2003.

Principal activities

The company operates a women's interest website.

Review of the business

Handbag.com is now established as the leading UK website for women, with 651,261 monthly users in March 2003 (ABC audit).

Revenues for the year totalled £1,875,000 (2002: £1,168,000). 90% of the revenue earned during the year came from advertising and sponsorship, 6% from e-commerce and the remainder relates to telephony revenue and content sales. The net loss (before taxation) for the year amounts £3,655,000 (2002: £5,003,000) and is in line with expectations.

Loss, dividends and retentions

The loss for the year and retained loss for the year is shown in the profit and loss account on page 5. No dividend is proposed (2002: £Nil).

Directors

The details of directors in office on 31st March 2003 are shown above. The changes to the board of directors during the year and up to the date of signing the financial statements are shown below.

Appointments

Date

K J Mayled
M J Oliver
T Faircliff

1st October 2002
16th February 2004
27th May 2004

Resignations

Date

D C Clayton-Smith
K J Mayled
D Colson
H.Drayton

30th August 2002
16th February 2004
23rd March 2004
7th December 2004

Registration
No: 3819979

Handbag.com Limited
Directors' Report
Year ended 31st March 2003

On 2nd September 2002 A V Lewis resigned as company secretary and was replaced on the same day by P J Mellor.

Remuneration of directors

No director has received any remuneration for his services to the company during the year, and no director holds any shares in the company.

By order of the board



Director

March 4 2005
Date

Handbag.com Limited
Directors' responsibilities statement
Year ended 31st March 2003

Company law requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing these financial statements, directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Handbag.com Limited
Independent Auditors' Report
Year ended 31st March 2003

Independent Auditors' Report to the members of Handbag.com Limited.

We have audited the financial statements on pages 5 to 15.

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 auditor's 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 company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with 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 affairs of the company as at 31st March 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham

4 March '05
Date

Handbag.com Limited
Profit and Loss Account
Year ended 31st March 2003

	Notes	2003 £000	2002 £000
Turnover	1	1,875	1,168
Cost of sales	2	(182)	(134)
Gross profit		1,693	1,034
Operating costs	3	(4,446)	(5,307)
Operating loss		(2,753)	(4,273)
Net interest payable	4	(902)	(730)
Loss on ordinary activities before taxation		(3,655)	(5,003)
Tax (charge)/credit on ordinary activities	5	(2,361)	1,969
Loss for the financial period and loss retained	12	(6,016)	(3,034)

The results for the period are wholly attributable to the continuing operations of the company. There have been no recognised gains or losses other than the loss for the financial period as stated above.

There is no material difference between the loss as stated above and the loss stated on an unmodified historical cost basis.

Handbag.com Limited
Reconciliation of Movements in Shareholders' Funds
Year ended 31st March 2003

	Notes	2003 £000	2002 £000
Loss for the financial period	12	(6,016)	(3,034)
Net increase in shareholders' deficit		<u>(6,016)</u>	<u>(3,034)</u>
Opening shareholders' deficit		(13,365)	(10,331)
Closing shareholders' deficit		<u>(19,381)</u>	<u>(13,365)</u>


Handbag.com Limited

Balance Sheet

At 31st March 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Tangible assets	6	60	80
Current assets			
Debtors falling due within one year	7	825	470
Debtors falling due after more than one year	7	1,224	3,585
		2,049	4,055
Cash at bank and in hand		53	18
		2,102	4,073
Creditors: Amounts falling due within one year	8	(1,538)	(1,250)
Net current assets		564	2,823
Total assets less current liabilities		624	2,903
Creditors: Amounts falling due after more than one year	9	(20,005)	(16,268)
Net liabilities		(19,381)	(13,365)
Capital and reserves			
Called up share capital	11	1,200	1,200
Profit and loss account	12	(20,581)	(14,565)
Equity shareholders' deficit		(19,381)	(13,365)

The financial statements were approved by the Board of Directors on March 4 2005 and are signed on its behalf by



Director

Handbag.com Limited
Notes to the Financial Statements
Year ended 31st March 2003

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

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

The shareholders have confirmed their willingness to continue to provide support to the company for a period of at least twelve months in order to enable the company to continue to trade and pay its debts as they fall due. On this basis the directors consider it appropriate to prepare the financial statements on a going concern basis.

Development costs

Development costs are written off to the profit and loss account as incurred.

Cost of sales

Commission payable on sales and advertising costs are stated as cost of sales.

Cash flow

A cash flow statement has not been presented in the financial statements of the company as permitted by paragraph 5f of the revised Financial Reporting Standard 1.

Depreciation

Tangible fixed assets are written off by equal instalments over their expected useful lives as follows:

Computer equipment	3 years
Fixtures and fittings	10 years

Any impairment in the value of such fixed assets is charged to the profit and loss account as it arises.

Turnover

Turnover comprises revenues earned net of all agency fees and value added tax.

Pensions

The company contributes to a defined contribution pension scheme operated by The Telegraph Group Limited. Contributions to the defined contribution scheme are charged to the profit and loss account as the obligation arises.

Deferred taxation

Deferred tax is provided in respect of all timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Handbag.com Limited
Notes to the Financial Statements
Year ended 31st March 2003

2. Cost of Sales	2003 £000	2002 £000
Commission payable on sales and advertising costs	182	134
	<u>182</u>	<u>134</u>
3. Operating costs	2003 £000	2002 £000
Selling and distribution costs	318	700
Administration expenses	3,491	3,905
Development costs	637	702
	<u>4,446</u>	<u>5,307</u>
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	26	30
Remuneration of auditors - Audit fees	17	17
4. Net interest payable	2003 £000	2002 £000
Interest receivable and similar income:		
Bank interest	4	5
Interest payable and similar charges		
Other interest	(906)	(735)
Net interest (payable)/receivable	<u>(902)</u>	<u>(730)</u>

Handbag.com Limited
Notes to the Financial Statements
Year ended 31st March 2003

5. Tax (charge)/credit on loss on ordinary activities

In common with last year no credit has been taken for consortium relief on the losses to be claimed by the Boots Group PLC during the year ended 31st March 2003, the potential relief available being approximately £550,000 (2002: £750,000).

	2003	2002
	£000	£000

The tax (charge)/credit on the loss for the year consists of:

Current taxation

Adjustments in respect of prior periods	(2,361)	1,969
Total current tax	(2,361)	1,969

Tax (charge)/credit on loss on ordinary activities

	(2,361)	1,969
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Reconciliation of current tax (charge)/credit

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2002: 30.0%). There is a tax charge for the current year due to the partial write-off of tax relief on losses that have previously been recognised. A reconciliation of the charge (credit for 2002) is set out below:

	2003	2002
	£000	£000

Loss on ordinary activities before tax	3,655	5,003
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UK standard rate of corporation tax at 30%	1,097	1,501
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Factors affecting credit for the year:

Differences between capital allowances and depreciation for the period	6	8
Other timing differences	9	-
Changes in pension fund prepayment	3	-
Disallowable expenses	(5)	-
Consortium relief on current year losses not recognised	(1,110)	(1,509)
Adjustments in respect of prior periods	(2,361)	1,969

Total current tax (charge)/credit for the year	(2,361)	1,969
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Handbag.com Limited
Notes to the Financial Statements
Year ended 31st March 2003

6. Tangible fixed assets	Fixtures, fittings, tools and equipment £000
Cost	
At 1st April 2002	139
Additions	7
Disposals	(3)
At 31st March 2003	143
Depreciation	
At 1st April 2002	59
Charge for the year	26
Disposals	(2)
At 31st March 2003	83
Net book value at 31st March 2003	60
Net book value at 31st March 2002	80

7. Debtors	2003 £000	2002 £000
Falling due within one year:		
Trade debtors	825	419
Other debtors	-	51
	825	470
Falling due after more than one year:		
Amounts owed by joint venture parties	1,224	3,585
Total Debtors	2,049	4,055

Amounts owed by joint venture parties are in respect of consortium relief taken by the joint venture parties on losses incurred. Payment is due at such time when the company has taxable profits on which it will be required to pay corporation tax.

Handbag.com Limited
Notes to the Financial Statements
Year ended 31st March 2003

8. Creditors: Amounts falling due within one year	2003 £000	2002 £000
Trade creditors	4	362
Other taxation and social security	3	-
Other creditors	207	114
Accruals and deferred income	1,324	774
	<u>1,538</u>	<u>1,250</u>

9. Creditors: Amounts falling due after more than one year	2003 £000	2002 £000
Loans from joint venture parties	<u>20,005</u>	<u>16,268</u>

From 26 March 2001 interest became payable on the loans from joint venture parties at 1% above NatWest base rate. Interest is accrued and no specific repayment terms exist. Prior to 26 March 2001 no interest was payable on the loans for which no specific repayment terms exist.

10. Deferred tax

No amount has been provided for the deferred tax asset, as it is unlikely to be utilised by sufficient future taxable profits in the next accounting period.

The amount unprovided calculated at 30% is:

	2003 £000	2002 £000
Accelerated capital allowances	23	27
Losses	2,891	1,786
Unprovided deferred tax asset	<u>2,914</u>	<u>1,813</u>

11. Called up share capital	2003 £000	2002 £000
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Authorised, allotted, called up and fully paid:

1,200,000 ordinary shares of £1 each	<u>1,200</u>	<u>1,200</u>
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Handbag.com Limited
Notes to the Financial Statements
Year ended 31st March 2003

12. Reserves	Profit and Loss Account £000
As at 1st April 2002	(14,565)
Loss retained for the year	(6,016)
As at 31st March 2003	<u>(20,581)</u>

13. Staff numbers and costs	2003	2002
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The average full time equivalent number of persons employed by the Company during the period was as follows:

<u>30</u>	<u>24</u>
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	2003 £000	2002 £000
The aggregate payroll cost was as follows:		
Wages and salaries	1,380	1,165
Social security costs	120	105
Other pension costs	67	61
	<u>1,567</u>	<u>1,331</u>

14. Contingent liabilities

At 31st March 2003 the company had no contingent liabilities (2002: £nil).

15. Post Balance Sheet Event

On 17th February 2005, Telegraph Group Limited purchased the 50% JV share that was held by HTNM LLC, a limited liability company registered in Delaware, USA. On this date, HTNM LLC assigned all loans, made by it to handbag.com limited, to Telegraph Group Limited.

Handbag.com Limited
Notes to the Financial Statements
Year ended 31st March 2003

16. Joint venture parties

The company is a 50:50 joint venture between The Boots Company PLC, which is incorporated in Great Britain and registered in England and Wales and Telegraph Group Limited, which is a limited liability company registered in England and Wales. Neither party to the joint venture has overall control. Copies of the Handbag.com Limited statutory accounts can be obtained from the Boots Group PLC, Group Headquarters, Nottingham NG2 3AA.

17. Related party disclosures

During the period the company had transactions with the following related parties:

- a) The Boots Company PLC has a 50% interest in the share capital of Handbag.com Limited. The company provided an additional loan of £1,416,000. At 31st March 2003 the outstanding loan (including accrued interest) totalled £10,003,000 (2002 - £8,134,000). During the year interest accrued on the loan at 1% above NatWest base rate. The Boots Company PLC also provides accounting services for which there was a charge of £60,000 (2002 - £53,000) for the year.
- b) On line advertising of £8,200 (market value) was sold to Boots The Chemists, for an Advertorial feature.
- c) On line advertising of £10,000 (market value) was sold to Halfords, a wholly owned subsidiary of The Boots Company PLC prior to its disposal from the Boots group.
- d) On line advertising of £37,500 (market value) was sold to Boots The Chemists as part of a contra arrangement whereby handbag.com was promoted on the Advantage Point kiosks.
- e) Promotional items totalling £6,120 (market value) were sold to Digital Wellbeing.com, a wholly owned subsidiary of The Boots Company PLC.
- f) Hollinger Telegraph New Media Limited, a member of The Telegraph Group Limited, had a 50% interest in the share capital of Handbag.com Limited. On 26 March 2001 the shares were transferred to HTNM LLC, a subsidiary of Hollinger International Inc. Hollinger Telegraph New Media Limited provided an additional loan of £1,416,000 to Handbag.com Limited. At 31st March 2003 the outstanding loan (including accrued interest) totalled £7,652,537 (2002 - £5,890,149). The outstanding loan to HTNM LLC (including accrued interest) totalled £2,468,902 (2002-£2,243,754). During the year interest accrued at 1% above Nat West base rate.

Handbag.com Limited
Notes to the Financial Statements
Year ended 31st March 2003

- g) Handbag.com Limited sublets office space from Boots Properties at 151 Oxford Street. Handbag.com Limited was charged £71,928 in rent for the year.