

**Lewis Communications (Holdings)
Limited**

Report and Financial Statements

Year Ended

31 July 2006



BDO Stoy Hayward
Chartered Accountants

Lewis Communications (Holdings) Limited

Annual report and financial statements for the year ended 31 July 2006

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Directors

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Directors

C N Lewis
M J Hill
P D Charles

Secretary and registered office

S L Aitchison, Millbank Tower, Millbank, London, SW1P 4RS.

Company number

2850179

Auditors

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL.

Lewis Communications (Holdings) Limited

Report of the directors for the year ended 31 July 2006

The directors present their report together with the audited financial statements for the year ended 31 July 2006.

Results and dividends

The profit and loss account is set out on page 6 and shows the profit for the year.

During the year a dividend of £2.35 per share (2005 – £2.38) was paid.

The directors do not recommend the payment of a final ordinary dividend (2005 - £Nil per share).

Business review

The Group has again performed well in the year to 31 July 2006, with an increase in turnover of 16%. We achieved particularly strong turnover growth in the US (30%) and Asia-Pacific (31%). Growth in continental Europe was also strong at 19%. For the first time, group turnover exceeded £12 million, or an average of £1million per month.

A combination of an emphasis on cost control and the fixed costs in the business meant that net profit before tax more than doubled from £449,000 to just over £1 million.

We continue to invest in the capacity of the group to continue to grow. In particular, we have opened a new US headquarters in San Francisco, which should provide us with enough office accommodation for several years more growth. Also in the US, we have re-located to bigger premises in Boston and opened small offices in New York and Los Angeles. In Europe, we have upgraded and increased our office space in Madrid. In Asia we relocated to bigger offices in Singapore, opened an office just before the start of the year in Shanghai and since the year end in Mumbai. In the UK, we opened our first office outside London, in Manchester.

All these developments have been financed from internal cash flow, without recourse to external financing. As a result of the strong gains in profitability, our group cash position at the year end increased from £383,000 to £700,000.

Principal risks and uncertainties

The principal risks that the company faces are the possible loss of senior staff and the possible loss of clients in excess of new business won. As the majority of the group's business is with companies operating in the technology sector, the group is also exposed to changes affecting the markets for technology-based products.

The group places considerable importance on the motivation and retention of its senior staff and continuously reviews its HR policies to this end. The group monitors client wins and losses on a regular basis and aims to avoid any single client representing more than 10% of the group revenue.

The group's credit risk is primarily attributable to its trade receivables. Credit risk is managed by running credit checks on new clients and by monitoring payments against contractual agreements.

The group monitors its cash position and cash flow projections as part of its day-to-day control procedures. Action is taken as appropriate.

Lewis Communications (Holdings) Limited

Report of the directors for the year ended 31 July 2006 (Continued)

Key performance indicators

The principal financial indicators, which the group uses to monitor performance throughout the year, are net revenues (gross profit) and net margin as well as cash at bank. The principal non-financial indicators are the levels of new business won and client losses as well as staff turnover.

The key financial performance indicators in the year, with comparatives for 2005 were as follows

	£'000	£'000
Net revenues	11,171	9,586
Net profit before tax	1,002	449
Net margin (%)	9.0	4.7
Cash at bank	700	383

Charitable and political contributions

During the year the group made charitable contributions of £15,364 (2005 - £7,677).

Directors and their interests

The directors who served during the year and their beneficial interests in the share capital of the company were as follows:

	Ordinary shares of 5p each	
	2006	2005
C N Lewis	85,000	85,000
M J Hill	-	-
P D Charles (appointed 19 April 2006)	-	-

M J Hill held options over 64 ordinary shares in the company at an exercise price of £11.76 per ordinary share. The options were granted on 5 August 2002 and expire on 5 August 2012. These options are exercisable only in the event of sale, listing or takeover of the company.

Lewis Communications (Holdings) Limited

Report of the directors for the year ended 31 July 2006 (*Continued*)

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the company and group 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, subject to any material departure 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 group and to 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the Board

C N Lewis

Director

Date

Lewis Communications (Holdings) Limited

Report of the independent auditors

To the shareholders of Lewis Communications (Holdings) Limited

We have audited the group and parent company financial statements (the "financial statements") of Lewis Communications (Holdings) Limited for the year ended 31 July 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement 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 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).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, 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 the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Lewis Communications (Holdings) Limited

Report of the independent auditors (*Continued*)

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 July 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 July 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*
London

Date

Lewis Communications (Holdings) Limited

Consolidated profit and loss account for the year ended 31 July 2006

	Note	2006 £	2005 £
Turnover	2	12,061,373	10,398,958
Cost of sales		890,245	812,198
		<hr/>	<hr/>
Gross profit		11,171,128	9,586,760
Administrative expenses		10,174,788	9,141,559
		<hr/>	<hr/>
Operating profit	3	996,340	445,201
Interest receivable		5,335	4,056
		<hr/>	<hr/>
Profit on ordinary activities before taxation		1,001,675	449,257
Taxation on profit from ordinary activities	6	446,063	194,887
		<hr/>	<hr/>
Profit for the year	16	555,612	254,370
		<hr/> <hr/>	<hr/> <hr/>

All amounts relate to continuing activities.

The notes on pages 11 to 23 form part of these financial statements.

Lewis Communications (Holdings) Limited

Consolidated statement of total recognised gains and losses for the year ended 31 July 2006

	2006	2005
	£	£
Profits relating to the financial year	555,612	254,370
Foreign currency exchange differences on consolidation	(23,843)	20,944
	<hr/>	<hr/>
Total recognised gain for the financial year	531,769	275,314
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 11 to 23 form part of these financial statements.

Lewis Communications (Holdings) Limited**Consolidated balance sheet at 31 July 2006**

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Intangible assets	8		21,278		24,226
Tangible fixed assets	9		475,337		383,413
			<hr/>		<hr/>
			496,615		407,639
Current assets					
Debtors	11	2,279,529		2,680,552	
Investments	12	-		70,000	
Cash at bank and in hand		700,757		382,593	
			<hr/>	<hr/>	
		2,980,286		3,133,145	
Creditors: amounts falling due within one year	13	2,020,251		2,416,153	
		<hr/>		<hr/>	
Net current assets			960,035		716,992
			<hr/>		<hr/>
			1,456,650		1,124,631
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	15		4,250		4,250
Capital redemption reserve	16		750		750
Profit and loss account	16		1,451,650		1,119,631
			<hr/>		<hr/>
Shareholders' funds	17		1,456,650		1,124,631
			<hr/> <hr/>		<hr/> <hr/>

The financial statements were approved by the Board of Directors and authorised for issue on

C N Lewis
Director

The notes on pages 11 to 23 form part of these financial statements.

Lewis Communications (Holdings) Limited**Company balance sheet at 31 July 2006**

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible fixed assets	9		-		-
Investments	10		120,693		80,561
			<hr/>		<hr/>
			120,693		80,561
Current assets					
Debtors	11	4,351		7,694	
Cash		75		75	
		<hr/>		<hr/>	
			4,426	7,769	
Creditors: amounts falling due within one year	13	107,948		67,816	
		<hr/>		<hr/>	
Net current liabilities			(103,522)		(60,047)
			<hr/>		<hr/>
Total assets less current liabilities			17,171		20,514
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	15		4,250		4,250
Capital redemption reserve	16		750		750
Profit and loss account	16		12,171		15,514
			<hr/>		<hr/>
Shareholders' funds	17		17,171		20,514
			<hr/> <hr/>		<hr/> <hr/>

The financial statements were approved by the Board of Directors and authorised for issue on

C N Lewis
Director

The notes on pages 11 to 23 form part of these financial statements.

Lewis Communications (Holdings) Limited

Consolidated cash flow statement for the year ended 31 July 2006

	Note	2006 £	2006 £	2005 £	2005 £
Net cash inflow from operating activities	18		1,151,500		197,835
Returns on investments and servicing of finance					
Interest received			5,335		4,056
Taxation					
UK corporation tax		(120,636)		(85,000)	
Overseas tax		(269,734)		(18,486)	
			<u>(390,370)</u>		<u>(103,486)</u>
Capital expenditure and financial investments					
Purchase of tangible fixed assets			(306,359)		(214,321)
Equity dividends paid			(199,750)		(202,715)
Net cash inflow/(outflow) before use of liquid resources and financing			<u>260,356</u>		<u>(318,631)</u>
Management of liquid resources					
Sale of current asset investments			57,808		-
Increase/(decrease) in cash and cash equivalents	19,20		<u><u>318,164</u></u>		<u><u>(318,631)</u></u>

The notes on pages 11 to 23 form part of these financial statements.

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Basis of consolidation

The group financial statements consolidate the financial statements of Lewis Communications (Holdings) Limited and its subsidiaries made up to 31 July 2006. The group uses the acquisition method of accounting to consolidate the results of the subsidiary undertakings and the results of the subsidiary undertakings are included from the date of acquisition.

Goodwill

Goodwill arising on an acquisition of a subsidiary is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Goodwill on businesses acquired is also capitalised. All goodwill is amortised through the profit and loss account over the directors' estimate of its useful economic life of 10 years.

Turnover

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

Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the year and the balance sheet translated into sterling at the rate of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings are taken to reserves.

Depreciation

Depreciation is calculated to write down the cost, less estimated residual value, of all tangible fixed assets over their expected useful lives. The rates generally applicable are:

Short leasehold property	-	over the life of the lease
Furniture and equipment	-	over 5 years straight line

Contribution to pension funds

The company makes contributions to a defined contribution scheme, the assets of the scheme being held separately from the assets of the company. Pension costs are charged against profits in respect of the accounting period in which they are paid.

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)

1 Accounting policies (Continued)

Investments

Investments held as fixed assets are included at cost less any provision for impairment. Investments held as current assets are stated at lower of cost and net realisable value.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Leased assets

All leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

2 Turnover

The turnover and operating profit for the year are derived from the group's principal activity.

	2006	2005
	£	£
The geographical analysis of turnover is as follows:		
United Kingdom	4,504,756	4,327,587
Europe	3,964,918	3,314,530
America	2,536,206	1,952,980
Asia-Pacific	1,055,493	803,861
	12,061,373	10,398,958

3 Operating profit

	2006	2005
	£	£
The operating profit is stated after charging:		
Depreciation	214,435	209,984
Amortisation of goodwill	2,948	2,948
Operating lease - Land and buildings	847,277	689,741
Other operating lease - Other	87,156	83,504
Amounts payable to the auditors - audit services	41,000	31,737
- non-audit services	9,000	8,000
Exchange differences	28,374	41,249

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)

4 Profit for the financial year

No profit or loss account is presented for Lewis Communications (Holdings) Limited, as provided by S230 of the Companies Act 1985. The profit after tax but before dividends for the financial year of Lewis Communications (Holdings) Limited was £196,407 (2005 - £202,715) which is dealt with in its financial statements.

5 Directors and employees

	2006	2005
	£	£
Staff costs (including directors) include:		
Wages and salaries	6,059,336	4,996,365
Social security costs	797,728	695,367
Other pension costs	87,772	105,287
	<hr/>	<hr/>
	6,944,836	5,797,019
	<hr/> <hr/>	<hr/> <hr/>

The average number of employees, including directors, during the year was 182 (2005 - 142).

	2006	2005
	£	£
Directors' emoluments (including fees)	76,837	91,146
Company contributions to defined contribution pension scheme	21,000	21,454
	<hr/>	<hr/>
	97,837	112,600
	<hr/> <hr/>	<hr/> <hr/>

There was one director participating in the company's defined contribution pension scheme during the year (2005 – two).

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)

6 Taxation on profit from ordinary activities

	2006	2006	2005	2005
	£	£	£	£
<i>Current tax</i>				
UK corporation tax	145,000		34,000	
Overseas tax	280,674		175,203	
Adjustment in respect of previous periods	6,029		(4,172)	
Total current tax	<u> </u>	431,704	<u> </u>	205,031
<i>Deferred tax</i>				
Current year charge/(credit)		14,359		(10,144)
Tax on profit on ordinary activities		<u>446,063</u>		<u>194,887</u>

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2006	2005
	£	£
Profit on ordinary activities before tax	1,001,675	449,257
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 – 30%)	300,503	134,777
Effects of:		
Expenses not deductible for tax purposes	40,986	(17,765)
Adjustments to tax charge in respect of previous years	6,029	(4,172)
Depreciation for the period in excess of capital allowances	9,871	12,252
Different tax rates	65,412	15,383
Unrelieved losses	18,815	64,556
Utilisation of brought forward losses	(9,914)	-
Current tax charge for year	<u>431,704</u>	<u>205,031</u>

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)

7 Dividends	2006	2005
	£	£
Ordinary shares paid £2.35 per share (2005 - £2.38)	199,750	202,715
	<hr/> <hr/>	<hr/> <hr/>
8 Intangible assets		Goodwill
		£
Group		
<i>Cost or valuation</i>		
At 1 August 2005 and at 31 July 2006		29,480
		<hr/>
<i>Amortisation</i>		
At 1 August 2005		5,254
Provided for the year		2,948
		<hr/>
At 31 July 2006		8,202
		<hr/>
<i>Net book value</i>		
At 31 July 2006		21,278
		<hr/> <hr/>
At 31 July 2005		24,226
		<hr/> <hr/>

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (*Continued*)

9 Tangible assets

Group	Short leasehold property £	Furniture and equipment £	Total £
<i>Cost</i>			
At 1 August 2005	32,744	1,288,504	1,321,248
Additions	30,208	276,151	306,359
	<hr/>	<hr/>	<hr/>
At 31 July 2006	62,952	1,564,655	1,627,607
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 1 August 2005	26,019	911,816	937,835
Charged for the year	7,847	206,588	214,435
	<hr/>	<hr/>	<hr/>
At 31 July 2006	33,866	1,118,404	1,152,270
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 July 2006	29,086	446,251	475,337
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 July 2005	6,725	376,688	383,413
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
			Furniture and equipment £
Company			
<i>Cost and accumulated depreciation</i>			
At 1 August 2005 and at 31 July 2006			114,747
			<hr/>
<i>Net book value</i>			
At 1 August 2005 and at 31 July 2006			-
			<hr/> <hr/>

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (*Continued*)

10 Fixed asset investments

Company	Shares in group undertakings £
<i>Cost</i>	
At 1 August 2005	80,561
Additions	40,132
	<hr/>
At 31 July 2006	120,693
	<hr/> <hr/>
<i>Net book value</i>	
At 31 July 2006	120,693
	<hr/> <hr/>
At 31 July 2005	80,561
	<hr/> <hr/>

The company had the following principal subsidiary undertakings at the end of the year, all of which have been included in the consolidated accounts:

Company	Country of registration, incorporation and operation	Class of share	Proportion of shares and voting rights held	Nature of business
<i>UK</i>				
Lewis Communications Limited	England and Wales	Ordinary shares	100%	Media relations and marketing consultancy
<i>Europe</i>				
Lewis Communications GmbH	Germany	Ordinary shares	100%	Media relations and marketing consultancy
Lewis Communications BV	Netherlands	Ordinary shares	100%	Media relations and marketing consultancy
Lewis Communications SARL	France	Ordinary shares	100%	Media relations and marketing consultancy
Lewis Communications SLU	Spain	Ordinary shares	100%	Media relations and marketing consultancy
Lewis Communications SRL	Italy	Ordinary shares	100%	Media relations and marketing consultancy
PR Lewis Communications AB	Sweden	Ordinary shares	100%	Media relations and marketing consultancy
Lewis Communications ApS	Denmark	Ordinary shares	100%	Media relations and marketing consultancy

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)

10 Fixed asset investments (Continued)

Company	Country of registration, incorporation and operation	Class of share	Proportion of shares and voting rights held	Nature of business
<i>US</i>				
Lewis PR Inc	USA	Common stock	100%	Media relations and marketing consultancy
<i>Asia-Pacific</i>				
Lewis Communications PTE Limited	Singapore	Ordinary shares	100%	Media relations and marketing consultancy
Lewis Communications Limited	Hong Kong	Ordinary shares	100%	Media relations and marketing consultancy
Lewis Communications (Australia) Pty Limited	Australia	Ordinary shares	100%	Media relations and marketing consultancy

In the opinion of the directors the aggregate value of the assets of the company consisting of shares in, or amounts owing (whether on account of a loan or otherwise) from, the company's subsidiary undertakings is not less than the aggregate of the amounts at which those assets are stated or included in the company's balance sheet.

11 Debtors

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade debtors	1,746,650	2,149,414	-	-
Other debtors	125,155	141,502	4,351	7,694
Prepayments and accrued income	407,724	389,636	-	-
	<u>2,279,529</u>	<u>2,680,552</u>	<u>4,351</u>	<u>7,694</u>

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)

12 Current asset investments

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Listed investments	-	70,000	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

13 Creditors: amounts falling due within one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade creditors	561,674	380,141	-	-
Amounts owed to subsidiary undertakings	-	-	106,698	66,566
Corporation tax	253,276	211,942	-	-
Other taxes and social security	428,425	447,105	-	-
Other creditors	77,820	50,627	-	-
Accruals and deferred income	699,056	1,326,338	1,250	1,250
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	2,020,251	2,416,153	107,948	67,816
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

14 Deferred taxation

Deferred tax liability / (asset)	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Balance at the beginning of the year	(10,144)	-	(7,703)	-
Charged / (credited) to the profit and loss account (note 6)	14,359	(10,144)	3,343	(7,703)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at the end of the year	4,215	(10,144)	(4,360)	(7,703)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The group deferred tax liability is included in other creditors. (2005 – asset included in other debtors).
The company deferred tax asset is included in other debtors

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (*Continued*)

15 Share capital

	Authorised		2006 £	2005 £
	2006 Number	2005 Number		
Ordinary shares of 5p each	2,000,000	2,000,000	100,000	100,000
	<hr/>	<hr/>	<hr/>	<hr/>
	Allotted, called up and fully paid			
	2006 Number	2005 Number	2006 £	2005 £
Ordinary shares of 5p each	85,000	85,000	4,250	4,250
	<hr/>	<hr/>	<hr/>	<hr/>

Share options

At 31 July 2006, 17,002 share options (comprising options granted under an Enterprise Management Incentive Scheme and options granted to directors outside that scheme) were outstanding over ordinary shares:

Date of grant	Number of shares	Period of option	Price per share
2 July 2001	6,353	2 July 2001 – 1 July 2011	£8.53
14 May 2002	191	14 May 2002 – 13 May 2012	£11.76
5 August 2002	64	5 August 2002 – 5 August 2012	£11.76
10 April 2003	4,409	10 April 2004 – 9 April 2013	£10.59
7 May 2003	574	7 May 2004 – 6 May 2013	£10.59
10 June 2004	4,936	10 June 2005 – 9 June 2014	£10.56
16 June 2005	175	16 June 2005 – 16 June 2015	£10.56
16 June 2005	150	16 June 2005 – 16 June 2015	£18.52
17 June 2005	150	17 June 2005 – 17 June 2015	£18.52

The options are exercisable only in the event of sale, listing or takeover of the company.

16 Reserves

Group	Capital redemption reserve £	Profit and loss account £
At 1 August 2005	750	1,119,631
Profit for the year	-	555,612
Dividends paid	-	(199,750)
Foreign currency exchange differences	-	(23,843)
	<hr/>	<hr/>
At 31 July 2006	750	1,451,650
	<hr/>	<hr/>

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)

16 Reserves (Continued)

Company	Capital redemption reserve £	Profit and loss account £
At 1 August 2005	750	15,514
Profit for the year	-	196,407
Dividends	-	(199,750)
At 31 July 2006	750	12,171
	750	12,171

17 Reconciliation of movement in shareholders' funds

Group	2006 £	2005 £
Profit for the financial year	555,612	254,370
Foreign exchange gains	(23,843)	20,944
Dividends	(199,750)	(202,715)
	332,019	72,599
Increase in shareholders' funds	332,019	72,599
Opening shareholders' funds	1,124,631	1,052,032
	1,456,650	1,124,631
	1,456,650	1,124,631
Company		
Profit for the financial year	196,407	202,715
Dividends	(199,750)	(202,715)
	(3,343)	-
Increase in shareholders' funds	(3,343)	-
Opening shareholders' funds	20,514	20,514
	17,171	20,514
Closing shareholders' funds	17,171	20,514

Lewis Communications (Holdings) LimitedNotes forming part of the financial statements for the year ended 31 July 2006 *(Continued)***18 Reconciliation of operating profit to net cash inflow from operating activities**

	2006	2005
	£	£
Operating profit	996,340	445,201
Depreciation	214,435	209,984
Amortisation of intangible assets	2,948	2,984
Exchange differences	(23,843)	20,944
Decrease/(increase) in debtors	394,134	(1,456,732)
(Decrease)/increase in creditors	(444,706)	975,454
Loss on sale of current asset investments	12,192	-
	<hr/>	<hr/>
	1,151,500	197,835
	<hr/> <hr/>	<hr/> <hr/>

19 Reconciliation of net cash inflow to movement in net funds

	2006	2005
	£	£
Increase/(decrease) in cash in the year	318,164	(318,631)
Cash outflow from changes in liquid resources	(57,808)	-
	<hr/>	<hr/>
Movement in net funds in the year resulting from cash flows	260,356	(318,631)
Loss on sale of current asset investments	(12,192)	-
	<hr/>	<hr/>
Movement in net debt	248,164	(318,631)
Opening net funds	452,593	771,224
	<hr/>	<hr/>
Closing net funds	700,757	452,593
	<hr/> <hr/>	<hr/> <hr/>

Lewis Communications (Holdings) Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)

20 Analysis of net funds

	At 1 August 2005 £	Cash flow £	Other non-cash items £	At 31 July 2006 £
Cash at bank and in hand	382,593	318,164	-	700,757
Other liquid resources	70,000	(57,808)	(12,192)	-
	<u>452,593</u>	<u>260,356</u>	<u>(12,192)</u>	<u>700,757</u>

21 Operating lease commitments

As at 31 July 2006, the group had annual commitments under non-cancellable operating leases as set out below:

	2006 Land and buildings £	2006 Other £	2005 Land and buildings £	2005 Other £
On leases expiring:				
Within one year	120,018	14,304	104,591	24,056
In two to five years	435,124	91,112	210,150	59,448
In over 5 years	407,809	-	375,000	-
	<u>962,951</u>	<u>105,416</u>	<u>689,741</u>	<u>83,504</u>

22 Related parties

During the year the group rented premises from Chris Lewis, a director, for a total of £24,000 (2005 - £4,000).

Included in other debtors is £3,255 (2005 - £60,000) that was due from Chris Lewis, this was fully repaid by 28 February 2007. The maximum liability owed to the group during the year was £60,000.

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related Party Disclosures" not to disclose transactions with members of the group headed by Lewis Communications (Holdings) Limited on the grounds that at least 90% of the voting rights in the company are controlled within that group and the company is included in consolidated financial statements.

