Flying Brands Limited

Annual Report and financial statements for the 52 weeks ended 30 December 2005

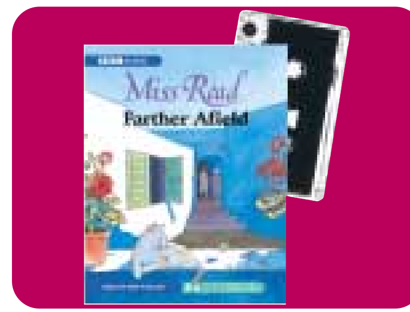
FLYING BRANDS

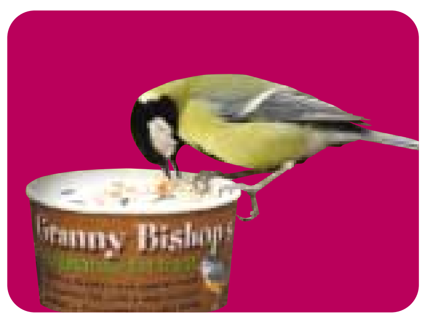
Annual Report and Financial Statements for the 52 weeks ended 30 December 2005

gifts

garden

entertainment





flying brands delivering value that exceeds expectations to its customers and its shareholders

contents

financial calendar

AGM	13 April 2006
payment of 2005 final dividend	21 April 2006
interim results announced	28 July 2006

a strong performance
after a weak first quarter

financial highlights

	2005	2004
• sales	**£36.3m**	£35.8m
• profit before taxation and profit on disposal of building	**£5.3m**	£5.8m
• profit before taxation	**£5.6m**	£5.8m
• profit after taxation	**£4.4m**	£4.4m
• earnings per share	**17.1p**	17.2p
• final dividend per share	**6.00p**	5.65p
• cash balance	**£4.2m**	£6.0m
• cash flow from operations	**£7.8m**	£6.8m

at a glance

gifts

the uk's largest postal flower brand

comprising

flying flowers

total sales

£12.8m

contribution

£3.6m

garden

the uk's leading mail order bedding plant and garden bird food specialists

comprising

gardening direct
garden bird supplies

total sales

£15.3m

contribution

£4.7m

entertainment

a leading distributor of audio books, cds and collectables

comprising

listen2books
silverminds direct
benham

total sales

£8.1m

contribution

£2.2m

chairman's statement

the company is successfully expanding its brand into wider market places and channels

overview and financial results

The strong performance in the second half was particularly encouraging and went some way towards offsetting the weak first quarter. We saw the management team execute its first two acquisitions and the successful integration and subsequent performance of these new businesses has demonstrated the potential of one key aspect of our forward strategy. Equally important, we took several significant steps towards turning our core brands into credible internet businesses, both in terms of the products offered and the way they are promoted. In addition, management continued to reduce fixed overheads and improve overall efficiency in the face of increasing costs, particularly postal rates from Jersey.

As a result of weak spring trading from Gardening Direct, profit before tax and profit on disposal of building fell to £5.3m from £5.8m in 2004. Profit before tax, including contribution from the disposal of a property, was £5.6m. The second half saw a much stronger performance, particularly from Gardening Direct, Flying Flowers at Christmas, and the newly acquired Garden Bird Supplies, with profit before tax and profit on disposal of building up by 31% over the same period in 2004. Earnings per share were 17.1p (2004: 17.2p).

Sales were £36.3m, a 1% improvement over 2004. Excluding the two new acquisitions, sales were 4% down on 2004 figures. Again, the second half of the year saw a much improved performance, with sales excluding the acquisitions up by 4% and, including them, an increase of 15% over 2004.

Our continuing ability to generate substantial cash has enabled us to buy two businesses for a combined consideration of £5.3m, as well as buy back over a million shares for cancellation at a cost of £1.9m, and purchase 0.28m shares for our ESOP scheme for £0.5m. This has still left us with £4.2m cash on the balance sheet at the end of the year (2004: £6.0m). Both the acquired companies are cash generating, reinforcing the underlying financial strength of our business.

dividend

The Directors are recommending a final dividend increase of 6% to 6.00p per share. Together with the interim dividend of 2.85p (2004: 2.75p), the total dividend payment per share will be 8.85p (2004: 8.40p), a 5% increase for the year. Dividend cover is 1.9 times. The final dividend will be paid on 21 April 2006 to shareholders on the register as at 31 March 2006 with the shares going ex dividend on 29 March 2006.

outlook

The company is successfully expanding its brands into wider market places and channels, aided by its acquisition strategy and now has well defined divisions in Gifts, Garden and Entertainment.

We are successfully transforming Flying Flowers into a low cost, value gift provider and have added music to our existing entertainment offering of audio books, DVD and video. Our challenge is to transform Gardening Direct into a more rounded direct retailer that offers the customer substantially more than just bedding plants: this process has started with the addition of Garden Bird Supplies and will continue through 2006.

We plan to increase significantly our internet presence in 2006 and we will also see continuing product expansions, through organic development, marketing partnerships, and further possible acquisitions. This will ensure that our existing customers spend more with us and new customers see our brands as destinations of choice. We expect to generate considerable free cash and the absence of any unfunded pension liabilities puts us in a strong position to move the Group forward.

employees

We saw some important executive changes on the Board in 2005 and have used the opportunity to strengthen the management team. The work put in by all the staff is greatly appreciated and they have created a robust platform which will enable the company to fulfil its considerable potential.

After four years as Chairman, and having reached retirement age, I will be stepping down on 10 March 2006. I have immensely enjoyed help create a much more dynamic business with a clear strategic direction. We are fortunate to have now an outstanding management team that will drive the company forward as a major force in the home shopping market.

The board have appointed Paul Fraser to succeed me as Chairman, with Tim Trotter as his Deputy, and I wish them and the company every success in the future.

Alan Fryer
Chairman

10 March 2006

chief executive's report

we aim to extract greater value from our database of 3 million customers

Despite the disappointing Gardening Direct Spring campaign during the first quarter of 2005, the year as a whole saw the business move forward substantially. Not only did we acquire two new businesses, but we also made real progress in developing our core brands, particularly Flying Flowers. The acquisitions, bought out of free cash flow, have already contributed to growing our top line and were a significant factor in a successful second half's trading. We can now claim to be a genuine dual channel retailer, with internet sales in 2005 increasing over 2004 by 21% to £3.5m, representing 11% of total sales (2004: 9%). This excludes Garden Bird Supplies, where the internet represents 21% of total sales.

strategic focus and opportunities

Our strategy remains the same and remains clear:

extract greater value from our existing business

We aim to extract greater value from our database of more than 3 million customers by persuading them to buy more from us more often, as well as encouraging new customers to buy from us for the first time and then converting them to subsequent purchases. This simple objective underpins most of our activities and translates into product diversification for our existing brands, making appropriate acquisitions, and broadening the promotional remit. We are building our presence on the internet, to supply customers with greater opportunities for them to buy at times that are both relevant and convenient.

acquisitions of complementary businesses

We are commited to make appropriate acquisitions to drive top line and profits growth as well as achieving economies of scale through our infrastructure. We deliberately set ourselves a series of strict criteria when assessing potential new businesses. As has been the case with both Garden Bird Supplies and Silverminds Direct, this approach ensures that the companies or brands that we acquire add real value to the Group as a whole, but for which we have paid a fair price.

divisional organisation

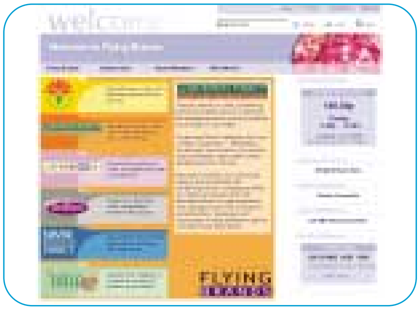
Through the successful acquisitions of both Silverminds Direct (a nostalgic music business), and Garden Bird Supplies (a bird food and wildlife accessories company), we have been able to rationalise our stable of brands into three distinct, focused divisional units:

- Gifts (Flying Flowers)
- Garden (Gardening Direct, Garden Bird Supplies)
- Entertainment (Listen2Books, Silverminds Direct, Benham)

It is, therefore, now very clear what Flying Brands represents and we will be reporting on our business at this divisional level going forward. Behind these divisions lies the database, reflecting a similar profile of customers across all brands, demographically very much 'middle Britain'. These customers appreciate good service and excellent value, are loyal, as witnessed by our high retention rates, and are becoming increasingly on line literate. This market represents a significant opportunity for this business, not just because it is growing but also because it responds to the types of offers and products we provide, and to the way in which we present them. We are confident that we can find more brands and products that will appeal to this target market and which we can accommodate within our existing infrastructure.

business challenges

A short term challenge for our business is the decline of our traditional new customer recruitment channels. We have relied on advertising in national media (catalogue inserts or direct off-the-page offers in newspapers and magazines) for growing our customer databases cost effectively. The decline in circulations of these media (without significant rate reductions) as well as increasing competition has meant that our cost per new customer is gradually increasing, making overall growth more challenging. We have responded by working



over the past 12 months our internet sales increased by 21%

operating results for the period

	2005				2004			
	Gifts £'000	**Garden £'000**	**Entertainment £'000**	**Total £'000**	Gifts £'000	Garden £'000	Entertainment £'000	Total £'000
Sales	**12,822**	**15,324**	**8,112**	**36,258**	12,858	15,274	7,636	35,768
Contribution	**3,574**	**4,664**	**2,163**	**10,401**	4,061	5,299	1,727	11,087
Operational overheads	**(1,403)**	**(1,553)**	**(1,642)**	**(4,598)**	(1,597)	(1,623)	(1,595)	(4,815)
Corporate overheads	**(283)**	**(315)**	**(95)**	**(693)**	(281)	(336)	(78)	(695)
Profit on disposal of building	**–**	**–**	**282**	**282**	–	–	–	–
Profit before interest and amortisation	**1,888**	**2,796**	**708**	**5,392**	2,183	3,340	54	5,577
Interest	**151**	**160**	**(46)**	**265**	93	144	(28)	209
Amortisation on acquisitions intangibles	**–**	**(52)**	**(45)**	**(97)**	–	–	–	–
Profit before taxation	**2,039**	**2,904**	**617**	**5,560**	2,276	3,484	26	5,786

harder to reactivate lapsed customers, by looking for more marketing partnerships with complementary businesses, and by attracting new customers through driving footfall to our web sites. The latter is a significant opportunity as we will gain exposure to a more 'retail' orientated customer rather than a traditional mail order one. This is a much larger market and explains why we are very focused towards on line development.

We are a Jersey company that employs Jersey people and pays Jersey taxes. We also benefit from the Low Value Consignment Relief ("LVCR") that means products below £18 are shipped into the UK free of VAT. As a Jersey company, we are also supported by the States of Jersey and we make a significant contribution to the Jersey economy. However, were changes to be made to LVCR, we have contingency plans in place to offset the sales lost to VAT and we firmly believe that our business will not be impacted in the medium term. In addition, corporate income tax in Jersey is expected to taper down to zero between 2007 and 2009, which will obviously deliver a significant positive impact on our free cash as well as on our earnings per share.

nearly 1 million gifts despatched in 2005

flying flowers is becoming a low cost gift solution provider for all occasions

gifts

flying flowers

Sales were flat on 2004 at £12.8m with a profit before interest and amortisation of £1.9m (2004: £2.2m). Internet sales increased by 28%, representing 17% of total sales and e-mail addresses increased to above 100,000.

Flying Flowers is beginning to transform itself from being a supplier of postal carnations to becoming a low cost gift solution provider for all occasions. This has entailed diversifying the product range, initially into other flower types offering more varied bouquets, including a next day delivery courier range, to providing gifts other than flowers as part of the mix. Successfully tested new products include personalised teddy bears, pot plants, chocolates, wine and themed baskets of goods such as a Jersey hamper or a lavender collection. The catalogue is now promoted as 'Gift Ideas from Flying Flowers' and we are also able to offer combinations of gifts such as flowers and chocolates in the same package. We also attempt to 'upsell' customers by proposing that they buy additional flower stems at low extra cost and adding a ribbon to their bouquet for £1. This has driven up average order values significantly.

After a successful Valentine's Day promotion, we anticipated that the early date of Mother's Day in 2005 (it will be later in 2006) would put sales under pressure because of the much shorter trading window. We in part overcame this by creating an additional promotion for Easter, which replaced lost Mother's Day sales, and it is clear that Easter could become as important for us as Valentine's Day. This demonstrates the brand's commitment to find increasing reasons for customers to buy gifts from us.

The Christmas campaign ran smoothly, with sales 3.5% ahead of 2004, and on line sales increased by 48%. Non flower gifts took an 8.5% share of total sales, and we will see this increase through 2006.

We are confident that Flying Flowers will continue to develop an increasing internet presence and appeal to a wider market of potential customers. We will also seek out suitable partners for joint marketing activities which profitably increase the scope and appeal of the brand.

we grow over 120 million plants a year in Jersey

transforming your garden

garden

gardening direct

The brand experienced a mixed year – one of 'two halves', with first half sales down by 15% against 2004, and the second half sales 12% ahead of last year's numbers. Overall, total sales for the year, at £14.1m, were 7% below 2004 (£15.3m), with profit before interest and amortisation at £2.6m, 21% below last year. All numbers were impacted by the disappointing Spring season, which represents Flying Brands' biggest promotional campaign of the year. However, internet sales increased as a percentage of total sales from 6% to 7%, with more than 50,000 e-mail addresses.

The Autumn season was highly successful and we were able to rebuild the customer database to the same level before Spring as a result of an effective advertising campaign promoting a product called Pansy Can Can. New customers were recruited at a profit – the first time this has been achieved for several years.

The volatility of the bedding plant market is an issue that we have to address. It is clear that all of our competitors (across the entire retail spectrum – mail order, garden centres, multiple retail sheds) experienced disappointing bedding plant sales in the spring of 2005. Although the inconsistent weather was a factor, it is clear that competition in the bedding plant arena is considerable, both from other distribution channels as well as from credible alternatives such as instant and lower maintenance gardening, meaning that flower beds are being replaced by decking, patios and larger plants. Our target market, being older, is less susceptible to change but if we are to grow this brand by attracting new customers, we have to provide a wider choice in different areas of garden activity.

We have, therefore, dropped Gardening Direct's 'First Class Bedding Plants' strap line and have replaced it with 'Transforming Your Garden'. We will be trialling different garden product types through 2006 with a view to expanding the franchise, attracting new customers whilst also minimising our reliance on bedding plant sales. This will be achieved through partnerships, organic development and possibly acquisition, with Gardening Direct becoming the cornerstone of our Garden Division.

gardening bird supplies

Garden Bird Supplies was acquired in September 2005 for a gross consideration of £4.6m. It is a leading purveyor of bird food, bird related hardware, other general wildlife products and accessories for bird watching. Turnover for the year to June 2005 was £3.8m (internet sales of 17%), with a profit before tax of £0.5m. The business was acquired with 47,000 active trading customers whose profile is similar to that of Gardening Direct's.

This is a high margin, high customer retention business that avoids seasonal 'peaks'. Garden Bird Supplies has considerable synergy with Flying Brands' other activities and fits perfectly into our 'expanded gardening' concept for the Garden Division. The UK bird food business is estimated at £150m, so the opportunities for growth levering off Flying Brands' infrastructure, database management skills and other brands, is considerable. In the last quarter of 2005 (post our acquisition), sales increased by 17% over the same period in 2004 to £1.2m.

Garden Bird Supplies represents an exciting opportunity in itself, but, as part of a larger division with a much larger customer database, the prospects are considerable and will demonstrate how our acquisition strategy can drive value very quickly.

over 3,000 entertainment products are now available

a more rounded home entertainment mix of audio, video, DVD, CD and collectables

entertainment

listen2books

Sales were level with last year at £3.6m, but improving customer retention and average spend meant that the profit before interest and amortisation moved to £0.2m from a loss of £0.1m in 2004. We increased the pagination of our catalogue to 64pp from 52pp, allowing us to expand our DVD and video product offering.

The database of existing customers was encouraged to increase both their frequency of purchase and actual spend as a result of the introduction of new and exclusive products throughout the year. We have now moved firmly on from being mere distributors. The brand is seen as an important outlet for the major publishers. Besides DVD and video, we expanded the number of audio books available on CD and introduced other home entertainment products such as jigsaws and embroidery as well.

Recruiting new customers cost effectively proved difficult despite some innovative initiatives, and we need to focus on this in 2006 to grow the brand: we will use the internet to promote products that will appeal to a younger audience and try to establish a significant presence in the large children's audio market. We will also be introducing a download facility from the internet in the first half of 2006.

silverminds direct

The assets of Silverminds Direct were bought out of receivership in April 2005 for a consideration of £0.7m, including an active customer database of about 40,000. The intention was always to introduce music into Listen2Books and Silverminds has given us a fast track to achieve this. Silverminds' brand of nostalgic music on CDs, featuring titles that are hard to find on the High Street, has appeal to the Listen2Books buyer and also to other segments of our Group customer database.

The brand was fully integrated into Flying Brands' infrastructure and a new web site developed within five weeks of the acquisition being completed, and the first catalogue was mailed in May. Cross selling to the Silverminds database has been successful to date and we will bring this new acquisition closer to Listen2Books. We have been pleased with progress to date with the brand delivering sales of £0.7m between May and December.

The challenge for 2006 is to start growing the brand through external new customer recruitment, which will be achieved by developing products with wide appeal.

benham

Benham delivered sales of £3.8m (2004: £4.1m) but improved its profit before interest and amortisation by 49% to £0.2m, as a result of effective cost control, margin improvements through better use of the database and efficient stock management.

We completed improvements to Benham's back office systems and relocated administration and despatch following the sale of Benham's freehold offices in Folkestone. The sale delivered a gain of £0.3m. Benham's management, marketing and product development functions have moved to leased premises in Folkestone, whilst the finance

the group has demonstrated that its strategy for growth is successful

and call centre functions were absorbed within other Group locations. The ongoing annual savings from these moves is estimated at £0.1m.

Benham creates products in response to several one off events such as the death of the Pope or the wedding of the Prince of Wales, with fast selling first day covers. Benham also produced several Trafalgar commemoratives, but 2005 otherwise failed to produce winning products with wide appeal.

Internet sales have started to increase and this remains a great opportunity. Benham now has improved systems enabling tighter control with procedures in place allowing management to focus on developing products and promotions.

infrastructure and operations

Total operational overheads in 2005 were £4.6m; a reduction of 4% over previous year despite inflationary pressures. We have clearly benefited from centralising our call centre activity in one location at Kelvedon Park and we are committed to driving down unit costs through economies of scale.

Polystyrene boxes, the old staple for Flying Flowers, have now been phased out, being replaced by cardboard boxes. Not only has this improved the overall branding of the flower despatches, the cardboard boxes are also smaller and therefore will attract lower despatch costs. Moreover, they are considerably more environmentally friendly.

Corporate overheads were flat on 2004 at £0.7m.

We welcomed Graham Norton and Jim McDowell to head up the finance and marketing departments respectively in 2005. These appointees bring fresh approaches to their respective roles and both are making significant contributions.

The Group is committed to drive down costs where it can, increase productivity and invest in its infrastructure effectively.

outlook

Flying Brands is well positioned for the future. The Group has demonstrated that its strategy for growth is successful and its expansion will continue. Cash generation remains excellent and this will continue to improve.

The Group has great strengths:

- Market leading, strong brands
- Increasing internet presence
- Highly cash generative
- Benefits of Jersey corporate tax structure
- Very profitable within its market sector
- Progressive dividend policy
- Strong balance sheet
- Efficient operations with flexible infrastructure and growth capacity
- Debt free and no pension liabilities
- Significant freehold property portfolio
- Motivated management team, with clear vision of strategy and direction

We will continue to focus on maximising the potential of our existing business and will look for the right acquisitions that complement our brands. If we are unable to identify suitable acquisitions or we believe it is in the best interests of shareholders and the business, then we will consider other uses for our cash such as share buy backs, as we demonstrated at the end of 2005.

We could not implement our plans without the commitment and skills of our staff,and I salute their efforts. Management also appreciates the continuing support of our shareholders, and we firmly believe that your trust in us will continue to be rewarded.

I would like to record my thanks and appreciation to our Chairman, Alan Fryer, who retires on 10 March 2006. His foresight and wisdom have defined the direction of this business, and I owe him much personal gratitude for his support, advice and patience. We are fortunate in being able to maintain continuity and commitment to our strategy with the appointments of Paul Fraser as Chairman and Tim Trotter as Deputy Chairman, and I look forward to working with both of them in driving our business forward.

Mark Dugdale
Chief Executive

10 March 2006

financial review

free cash flow 19% better than in 2004

results

The Group has produced a satisfactory result across all its brands except for the Spring season of Gardening Direct. The profit after tax in 2005 is flat on 2004 at £4.4m. Profit before tax was £5.6m down by £0.2m (4%). IFRS, as endorsed by the EU, has been implemented for the first time and these new standards have resulted in £0.15m being charged against the profit that would not have been charged under UK generally accepted accounting principles. This year a one off gain of £0.3m arose from the reorganisation of the Benham group and the disposal of their freehold property in Folkestone.

The Group has continued to generate significant cash from trading operations, being £6.9m which is 19% higher than in 2004.

Whilst the profit before tax for the first half was £1.1m down on the prior period, the second half profit before tax was £0.9m better. This improvement in the second half came from better trading across all the brands, the positive impact of the two new acquisitions, delivery of cost improvements and the reorganisation of the entire Benham business.

The Group's acquisition strategy has very quickly started to deliver good results with profits (before interest and amortisation) of £0.2m since acquisition.

We have maintained the level of sales for the Gifts division, but we have seen a 14% decline in profit before interest and amortisation as a result of higher marketing costs, a 10% increase in postage costs levied by the Jersey postal company and lower margins on new products added to the gift range. The first half performance for Flying Flowers was negatively impacted by Mother's Day being earlier than in 2004 with higher marketing costs being incurred to generate sales. Gardening Direct experienced a poor Spring season with contribution down by £1.3m for the first six months, but offset by a strong performance in the Autumn with contribution up by £0.4m on last year. Garden Bird Supplies was acquired on 29 September 2005 and in the 3 months to 30 December generated profit before interest and amortisation of £0.2m. The Entertainment division saw a good growth in profit before interest and amortisation from the acquisition of Silverminds Direct and improved profitability in the Listen2Books and Benham with profit increasing from £0.1m, to £0.7m.

The 2005 operational overheads, before the impact of the two acquisitions, were £4.5m, which represents a saving of £0.3m (6%) on the level in 2004, as a result of several cost savings.

Corporate overheads were £0.7m which comprise the cost of the Chief Executive, the Finance Director, the non executive Directors, cost of options and the legal, professional and other fees connected with the running of a public company.

The Group received net interest income in the year of £0.3m, through proactive financial management of its cash and optimisation of the market interest rates.

financial review

cash flow

The net cash flow from operating activities before interest and tax was £7.8m compared with £6.8m in 2004. The improvement arose from more careful cash management although operating profits before the profit on disposal of a building were down by £0.6m.

The Group has been very focused in utilising the cash balances to maximise the value of the company for the shareholders. Two acquisitions were made during the year for a cost of £4.8m and in only a few months have generated net cash of £0.3m. In addition, the Company has spent £1.9m repurchasing 4% of the company's issued share capital and £0.5m on purchasing shares for the ESOP trust to cover the exercise of some share options.

Tax paid was £1.1m.

The resultant net decrease in cash was £1.8m.

dividend per share

The Group made dividend payments of £2.2m, and is proposing a final dividend of £1.5m to be payable in April 2006. The combined interim and final dividend results in a full year dividend per share of 8.85p which is a 5% increase over 2004. The dividend cover is 1.9 times which the Board believes is a sensible and sustainable level.

earnings per share

The Group reported basic earnings per share of 17.1p in 2005 as compared with 17.2p in 2004. The reduction arose from the lower profits achieved in 2005 as a result of the poor Gardening Direct Spring season. The diluted EPS has increased to 17.1p from 17.0p in 2004.

treasury policy

There is little currency risk in the Group. There are minimal purchases made overseas, no hedging was done this year and no currency losses arose.

The cash profile of the Group is very seasonal but no bank lending facilities were required. Cash is placed on deposits and the interest rates are maximised based on projected cash flows.

taxation

The Group pays taxation in Jersey and the UK depending on the domicile of its respective subsidiaries. The taxation charge for 2005 is £1.1m which equates to an effective tax rate of 21% (compared with 23% in 2004). The decrease in the effective rate was as a result of lower profits being generated in the UK following the poor spring for Gardening Direct and the one off gain on the property disposal being tax free.

The States of Jersey has recently announced their intention that its corporate income tax rates will reduce from the current rate of 20% to 0% by 2009. This effectively means that Jersey trading profits in 2006 and 2007 will be taxed at 10%, 2008 at 20% and in 2009 at 0%. The Jersey tax payable on 2005 profits is estimated at £0.9m.

Graham Norton
Finance Director

10 March 2006

financial summary

	2001 £'000	2002 £'000	2003 £'000	2004* £'000	**2005*** **£'000**
Profit after taxation	3,452	3,527	4,405	4,440	**4,413**
Dividends	1,930	1,964	2,010	2,067	**2,195**
Net (debt)/funds	(2,352)	(98)	3,920	6,022	**4,196**

* The results for 2004 and 2005 have been prepared under IFRS.

financials

directors and advisors

Alan Fryer
Non-Executive Chairman
From 10 March 2006 stepped down as Chairman.
Aged 64, appointed to the Board in 1999, appointed Chairman in 2002. Formerly Group Deputy Chief Executive of Smith & Nephew PLC (retired December 2000).

Mark Dugdale
Chief Executive
Aged 47, appointed to the Board in November 2002. Formerly Managing Director of Dial Home Shopping Limited (part of Arcadia Group plc) and Hamilton Group (Europe); also a former Marketing Director of Innovations Mail Order plc. He is a Non-Executive Director of Digivate Limited.

Graham Norton FCA
Finance Director & Company Secretary
Aged 46, appointed to the Board in April 2005. Formerly Chief Financial Officer of the UK, US and European divisions of Cable & Wireless PLC and Finance Director of the UK Division of Reuters PLC. He qualified as an accountant in 1982 with Barron Rowles & Bass before moving to KPMG.

Paul Fraser
Non-Executive Director
From 10 March 2006 was appointed Chairman.
Aged 50, joined the Company and appointed to the Board in 1998. Moved to non-executive role in 2002. Over twenty years experience of mail order and retail collectables. He is Chairman of The Stanley Gibbons Group Limited.

Len Sanderson*
Non-Executive Director
Aged 52, appointed to the Board in 2000. Former Managing Director of the Telegraph Sales, part of the Telegraph Group Limited. Non-Executive Chairman of KYN Publishing Limited.

Tim Trotter*
Non-Executive Director
From 10 March 2006 was appointed Deputy Chairman.
Aged 47, appointed to the Board in 2000. Senior Non-Executive Director of Vislink PLC, Non-Executive Chairman of Green Issues and Non-Executive Chairman of Smithfield Consultants Limited.

***** Members of the Audit Committee and the Remuneration Committee

Registered Office
Retreat Farm, St Lawrence, Jersey JE3 1GX

Company number
2044

Stockbrokers
Bridgewell Securities Limited
Old Change House, 128 Queen Victoria Street, London EC4V 4BJ

Auditors
PricewaterhouseCoopers CI LLP, Chartered Accountants
Twenty Two Colomberie, St Helier, Jersey JE1 4XA

Legal Advisors
Ogier
PO Box 404, Whitely Chambers, Don Street, St Helier, Jersey JE4 9WG

Pinsent Masons
Dashwood House, 69 Old Broad Street, London EC2M 1NR

Bankers
Barclays Bank PLC
PO Box 8, 13 Library Place, St Helier, Jersey JE4 8NE

Registrars
Capita IRG plc
The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

directors' and corporate governance report

The Directors present their report and the audited financial statements for the 52 weeks ended 30 December 2005.

incorporation

The Company is incorporated in Jersey, Channel Islands.

directors' responsibilities for the financial statements

The Directors are required by the Companies (Jersey) Law 1991 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period, and of the Group profit or loss for that period. In preparing these 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 International Financial Reporting Standards, as endorsed by the EU, have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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 (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and non compliance with law and regulations.

Although an overseas company, the Directors have sought to ensure that the financial statements of the Company and the Group comply materially with the disclosure requirements of the UK Companies Act 1985 and the listing requirements for a UK company.

principal activities

The principal activities of the Group are unchanged, being volume mail order and collectables retailing.

business review and future prospects

A commentary of the Group's progress during the period and its future prospects are set out in the Chairman's and Chief Executive's Statements on pages 3 to 9 and the Financial Review on pages 10 to 11.

flying brands holdings (uk) plc

During 1996 the Group created a twinned share structure to enable UK based shareholders to receive a UK dividend and thereby avoid being double taxed on the Jersey dividend. Consequently all shareholders hold in addition to their shares in Flying Brands Limited an equivalent number of shares in Flying Brands Holdings (UK) PLC.

Although the results for the 52 weeks ended 30 December 2005 of Flying Brands Holdings (UK) PLC are included in the consolidated financial statements of Flying Brands Limited, in accordance with UK Company Law a separate set of financial statements for Flying Brands Holdings (UK) PLC will be sent to shareholders.

results and dividends

The Group profit on ordinary activities before taxation amounted to £5.56m (2004: £5.79m).

An interim dividend of 2.85p was paid in 2005 (2004: 2.75p).

The Directors recommend a final cash dividend of 6.00p per ordinary share (2004: 5.65p).

Subject to the approval of members at the Annual General Meeting the dividend will be paid on 21 April 2006 to shareholders on the register on 31 March 2006.

The retained profit for the financial period after paying the 2004 final dividend amounted to £2.22m (2004: £2.37m).

directors

The Directors of the Company at the end of the period are shown on page 13.

The Directors of the Company during the period were as follows:

Mr A R Fryer	Non-executive
Mr M T N Dugdale	
Mr D C Harbord ACA	(resigned 31 March 2005)
Mr G H Norton FCA	(appointed 12 April 2005)
Mr T K Boden	(resigned 29 September 2005)
Mr P I Fraser	Non-executive
Mr L S Sanderson	Non-executive
Mr T H S Trotter	Non-executive

Mr G H Norton who was appointed to the Board on 12 April 2005 retires at the Annual General Meeting, and being eligible, offers himself for election. Mr A R Fryer will retire from office as a Director of the Company at the Annual General Meeting. Mr Fryer does not wish to offer himself for re-election and, accordingly, there is no further requirement for any director to retire from office or offer himself for re-election. The service contracts of all directors are noted in the Remuneration Committee Report on pages 50 to 53.

On 10 March 2006, Mr A R Fryer stepped down as Chairman. On the same date the Board appointed Mr P I Fraser as Chairman with Mr T H S Trotter as Deputy Chairman.

Biographical details of the Directors are given on page 13.

directors' interests

The interests of the Directors in the shares of the Company at 30 December 2005, together with their interests at 1 January 2005 are shown in the Remuneration Committee Report on pages 50 to 53.

share capital

Details of the share capital of the Company and the movements during the period, are set out in note 23 to the accounts.

The Directors' interests in share options are set out within the Remuneration Committee Report on page 53.

Apart from service contracts none of the Directors had a material interest in any contract of significance to which the Company or any of its subsidiaries was a party during the financial period.

policy on payment of creditors

It is Group policy, in respect of all of its suppliers, to settle the terms of payment when agreeing each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by those terms. In general the Group pays creditors at the end of the month following date of invoice. The average number of creditor days in relation to trade creditors outstanding at the period end was 51 days (2004: 44 days).

charitable and political donations

The Company did not make any political or charitable donations.

intangible assets

No value is attributed in the Balance Sheet to the Group's brand names or its extensive databases of customers, except for databases acquired in the 52 weeks to 30 December 2005.

substantial shareholdings

As at 28 February 2006, other than the Directors' holdings noted above, the Company was aware of the following interests in 3% or more of its issued share capital:
Sussex Research Limited: 3,615,999 (14.3%)

authority to purchase own shares

At the Extraordinary General Meeting of the Company held on 26 July 2005, shareholders gave the Company permission, until the earlier of the Annual General Meeting to be held on 13 April 2006 or 31 July 2006, to purchase up to 2,630,782 ordinary shares of the Company.

The directors intend only to exercise this authority where, after considering market conditions prevailing at the time, they believe the effect of such exercise would be to increase earnings per share and be in the interest of shareholders generally.

During the period from 26 July 2005 to 31 December 2005, the Company purchased 1,025,000 ordinary shares at a weighted average price of £1.82. Including transaction costs, the total aggregate consideration was £1.89m. The percentage of issued capital purchased was 4%.

The Board will be seeking the approval of the shareholders to purchase 3,803,310 ordinary shares at the forthcoming Annual General Meeting as detailed on page 54.

employees

The Company's policy is to provide equal opportunities to all present and potential employees, including, where practical, those who are disabled.

There is regular communication with staff at all levels. Staff are kept informed of performance and objectives of the Group throughout the year through their line managers, staff meetings and the Interim and Annual published results.

secretary

The Secretary of the Company is Mr G H Norton FCA who had been Secretary from 12 April 2005, previously it was Mr D C Harbord ACA.

auditors

A resolution to appoint PricewaterhouseCoopers CI LLP as auditors to the company will be proposed at the annual general meeting.

corporate governance

The Board is committed to ensuring the highest standards of corporate governance, and endorses with a small number of exceptions listed below, the supporting principles and provisions set out in the Combined Code on Corporate Governance of the Financial Reporting Council ("the Code") which came into effect for financial years beginning after 1 November 2003.

The Company has regularly updated its corporate governance policies and procedures to reflect the changes made to corporate governance guidelines in the last few years. The following describes the ways in which the Company complies with the detailed provisions of the Code. It includes full disclosure of the limited number of areas in which the Company is non compliant, and explanations as to why this is so.

board of directors

The Board meets at least eight times a year and currently comprises two Executive Directors and four Non-Executive Directors.

non-executive directors

Name	Position	Years of Service as Non-Executive Director	Meetings attended: Board	Audit	Remuneration
Mr A R Fryer	Non-Executive Chairman – Non Independent Chairman of Nominations Committee	6	8	–	–
Mr L M Sanderson	Senior Independent Non-Executive Director Chairman of Remuneration Committee Member of Audit Committee Member of Nominations Committee	5	8	4	3
Mr T H S Trotter	Independent Non-Executive Director Chairman of Audit Committee Member of Remuneration Committee Member of Nominations Committee	5	8	4	3
Mr P I Fraser	Substantial shareholder – Non Independent Former Joint Chief Executive (1998 – 2000) Member of Nominations Committee	5	8	3	3

The Non-Executive Directors meet once a year to review the performance of the Executive Directors. The performance of the Chairman is reviewed formally on an annual basis by the Senior Non-Executive Director with input from all the other Directors. A review of effectiveness of the Board has been carried out by the Chairman of the Audit Committee.

The terms of appointment of the Non-Executive Directors are described in the Remuneration Committee report on pages 50 to 53, and are made available for inspection at the AGM, along with the service contracts for the Executive Directors. None of the Non-Executive Directors has a fixed term of office in his letter of appointment. The Company has agreed a policy that Non-Executive Directors will not exceed six years in their role from the date of the Board restructuring in March 2002 other than in exceptional circumstances.

The letter of appointment of the Chairman provides that he spends up to thirty and no less than twenty five days per year in the performance of his duties.

re-election
The Articles of Association require each Director to retire and submit himself for re-election every three years, but also that at least one third of the Directors must be submitted for re-election every year. As a result of these provisions and the number of Directors this normally means that Directors retire and submit themselves for re-election every two years.

On an annual basis, the Chairman considers the performance of the Board and discusses with the Company Secretary the re-election process. Given the continued success of the Company the Chairman has confirmed that those Directors being submitted for re-election in 2006 (as set out on page 15) continue to be highly effective, qualified and committed to their respective roles.

board objectives
The key objectives of the Board are as follows:
- The agreement of strategy
- The agreement of the detailed set of objectives and policies that facilitate the achievement of strategy
- Monitoring the performance of executive management in the delivery of objectives and strategy
- Monitoring and safeguarding the financial position of the Company to ensure that objectives and strategy can be delivered
- Approval of major capital expenditure and other expenditure that is not part of the defined objectives or strategic plan
- Approving corporate transactions – this includes any potential acquisition or disposal
- Delegating clear levels of authority to the executive management team. This is represented by the defined system of internal controls which is reviewed by the Audit Committee
- Providing the appropriate framework of support and remuneration structures to encourage and enable executive management to deliver the objectives and strategies of the Company
- Monitoring the risks being entered into by the Company and ensuring that all of these are properly evaluated
- Approval of all external announcements

A schedule is maintained of matters reserved for Board decision.

The Board met eight times in 2005 and each Director attended every meeting during the year.

For each Board meeting, each board member receives a full pack of required information, including financial reports, detailed project updates and a formal agenda together with any relevant documentation. This pack is circulated a number of days in advance of the meeting.

insurance cover
The Company maintains cover of £5m to cover its Directors and officers against the cost of defending themselves against civil legal proceedings taken against them. To the extent permitted by law the company also indemnifies its Directors and officers. Neither protection applies in the event of fraud or dishonesty.

nominations committee
The committee consists of the Chairman, the Chief Executive and the three other Non-Executive Directors. The committee meets as required to fulfil its duties of reviewing the Board structure and composition and identifying and nominating candidates to fill Board vacancies as they arise. One meeting was held during the year and was fully attended.

Formal terms of reference for the Nominations Committee have been documented and are made available for review at the AGM.

No formal induction process exists for new Directors, but the Chairman ensures that each individual is given a tailored introduction to the Company and the requirements of the role.

appraisal of executive directors
The Chief Executive carries out an annual formal appraisal of the performance of the other Executive Directors which takes into account the objectives set in the previous year and the individual's performance in the fulfilment of these objectives. A formal annual appraisal of the Chief Executive is carried out by the Chairman. The Chief Executive is given a formal schedule of objectives on a bi-annual basis and progress against this is monitored by the Chairman. All the appraisals of the Executive Directors are provided to the Remuneration Committee.

remuneration committee
The report of the Remuneration Committee is included on pages 50 to 53. Formal terms of reference for the Remuneration Committee have been documented and are made available for review at the annual general meeting.

audit committee

Formal terms of reference for the Audit Committee have been documented and are made available for review at the annual general meeting.

The terms of reference of the Audit Committee include the following requirements:

- To monitor the integrity of financial statements and of any formal announcements relating to the Company's financial performance
- To review the Company's internal controls and risk management systems
- To make recommendations to the Board in relation to internal control matters that need improvement or modification
- To make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve remuneration
- To establish whistle blowing procedures. These were set up and communicated in 2004

No internal audit function exists due to the size of the Company. This is reviewed annually by the Audit Committee which reflects on any increased risk or regulatory changes in the period under review in making their recommendation to the Board.

The Chairman of the Audit Committee does not have any direct, recent or relevant accountancy experience but the Board considers that he has sufficient business experience to enable him to perform the role.

The Company engages its auditors for some non audit services, including advice on taxation and VAT. The Audit Committee is satisfied that the provision of these services does not compromise the independence of the auditors. The extent of these fees are documented in note 8 of the annual report.

The Audit Committee meets at least four times a year. In addition to the two Independent Non-Executive Directors, Mr P Fraser, the external auditors and Finance Director are invited to attend part of the meetings where relevant.

internal controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The system of internal control is formally documented and is designed to ensure effective and efficient operations and compliance with relevant laws and regulations. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

The Finance Director carries out a six monthly formal review of the Company's system of internal controls and risk management systems. This review is formally circulated to the Audit Committee and discussed as an agenda item. The Audit Committee raises any particular concerns relating to internal controls and risk management systems and on occasion requires independent review of particular issues for its committee meetings. On advice from the Audit Committee, the Board does not consider any additional independent verification of the system of internal control to be required, on the basis of the size of the Company and the non complex nature of both its management systems and financial structure.

dialogue with major shareholders

The Company places considerable importance on communications with shareholders. Regular meetings take place with major shareholders with the Company delegating authority to the Chairman, Chief Executive and Finance Director to present the strategy and financial results of the Company. Major shareholders are made aware that the Senior Non-Executive Director is also available should they wish to communicate directly with him but none have yet taken advantage of this provision.

annual general meeting

At its annual general meeting the Company complies with the provisions of the Code relating to the disclosure of proxy votes, the separation of resolutions and attendance of directors, particularly committee chairmen. The timing of the despatch of the formal notice of the annual general meeting also complies with the Code.

statement on going concern

The Directors, having made appropriate enquiries, confirm that they believe that the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the financial statements.

By order of the Board
G H Norton
Secretary

10 March 2006

Registered office
Retreat Farm
St Lawrence
Jersey CI

consolidated income statement

for the 52 weeks ended 30 December 2005

	notes	2005 £'000	2004 £'000
From continuing operations			
Turnover	1.13	**36,258**	35,768
Cost of sales		**(25,396)**	(24,540)
Gross profit		**10,862**	11,228
Operating expenses	6	**(5,849)**	(5,651)
Operating profit before disposal of building		**5,013**	5,577
Profit on disposal of building	35	**282**	–
Operating profit	8	**5,295**	5,577
Interest receivable	7	**265**	209
Profit before tax		**5,560**	5,786
Taxation	11	**(1,147)**	(1,346)
Profit for the period		**4,413**	4,440
Earnings per Share expressed in pence per share	14		
Basic		**17.14p**	17.21p
Diluted		**17.05p**	17.03p

balance sheets

as at 30 December 2005

	notes	**Group 2005 £'000**	Group 2004 £'000	**Company 2005 £'000**	Company 2004 £'000
Assets					
Non-current assets					
Goodwill	15	**3,866**	–	**–**	–
Intangibles	15	**1,157**	–	**–**	–
Property, plant and equipment	16	**11,419**	13,081	**–**	–
Investments	18	**–**	–	**21,369**	21,369
Deferred tax	22	**27**	–	**–**	–
		16,469	13,081	**21,369**	21,369
Current assets					
Inventories	19	**3,154**	2,674	**–**	–
Trade and other receivables	20	**1,117**	1,322	**5,335**	1,199
Cash and cash equivalents		**4,196**	6,022	**–**	–
		8,467	10,018	**5,335**	1,199
Liabilities					
Current liabilities					
Current income tax liabilities		**(1,171)**	(969)	**–**	–
Trade and other payables	21	**(5,982)**	(4,736)	**(4,440)**	(1,216)
Net current assets/(liabilities)		**1,314**	4,313	**895**	(17)
Non-current liabilities					
Income tax liabilities		**(949)**	(846)	**–**	–
Deferred tax liabilities	22	**–**	(59)	**–**	–
		(949)	(905)	**–**	–
Net assets		**16,834**	16,489	**22,264**	21,352
Shareholders' equity					
Ordinary shares	23	**255**	265	**254**	264
Share premium		**16,021**	15,936	**16,021**	15,936
Revaluation reserve		**450**	457	**–**	–
Capital reserve	24	**(17)**	(17)	**670**	670
Capital redemption reserve		**20**	10	**20**	10
Share based payments		**71**	22	**–**	–
Treasury shares	17	**(940)**	(820)	**(940)**	(820)
Retained earnings		**974**	636	**6,239**	5,292
Total equity		**16,834**	16,489	**22,264**	21,352

The financial statements on pages 19 to 46 were approved by the Board of Directors on 10 March 2006 and signed on its behalf by

MTN Dugdale
Director

GH Norton
Director

statements of changes in shareholders' equity

for the 52 weeks ended 30 December 2005

The Group

	notes	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Capital reserve £'000	Capital redemption reserve £'000	Share based payments £'000	Treasury shares £'000	Retained earnings £'000	Total equity £'000
Balance at 03 January 2004		268	15,731	464	(17)	5	–	(927)	(744)	14,780
Profit for the period		–	–	–	–	–	–	–	4,440	4,440
Employee share option scheme	1.12,30	–	–	–	–	–	22	–	–	22
Dividend paid	13	–	–	–	–	–	–	–	(2,067)	(2,067)
Sale of own shares in ESOP	17	–	–	–	–	–	–	107	–	107
Transfer between reserves		–	–	(7)	–	–	–	–	7	–
Issue/cancellation of share capital	23	(3)	205	–	–	5	–	–	(1,000)	(793)
Balance at 31 December 2004		**265**	**15,936**	**457**	**(17)**	**10**	**22**	**(820)**	**636**	**16,489**
Balance at 01 January 2005		265	15,936	457	(17)	10	22	(820)	636	16,489
Profit for the period		–	–	–	–	–	–	–	4,413	4,413
Employee share option scheme	1.12,30	–	–	–	–	–	49	–	–	49
Dividend paid	13	–	–	–	–	–	–	–	(2,195)	(2,195)
Sale of own shares in ESOP	17	–	–	–	–	–	–	429	–	429
Purchase of own shares in ESOP	17	–	–	–	–	–	–	(549)	–	(549)
Transfer between reserves		–	–	(7)	–	–	–	–	7	–
Issue/cancellation of share capital	23	(10)	85	–	–	10	–	–	(1,887)	(1,802)
Balance at 30 December 2005		**255**	**16,021**	**450**	**(17)**	**20**	**71**	**(940)**	**974**	**16,834**

The Company

	notes	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Capital reserve £'000	Capital redemption reserve £'000	Share based payments £'000	Treasury shares £'000	Retained earnings £'000	Total equity £'000
Balance at 03 January 2004		267	15,731	–	670	5	–	(927)	8,199	23,945
Loss for the period	12	–	–	–	–	–	–	–	(1)	(1)
Dividend received		–	–	–	–	–	–	–	28	28
Dividend paid		–	–	–	–	–	–	–	(1,934)	(1,934)
Sales of own shares in ESOP	17	–	–	–	–	–	–	107	–	107
Issue/cancellation of share capital	23	(3)	205	–	–	5	–	–	(1,000)	(793)
Balance at 31 December 2004		**264**	**15,936**	**–**	**670**	**10**	**–**	**(820)**	**5,292**	**21,352**
Balance at 01 January 2005		264	15,936	–	670	10	–	(820)	5,292	21,352
Loss for the period	12	–	–	–	–	–	–	–	(71)	(71)
Dividend receivable		–	–	–	–	–	–	–	5,000	5,000
Dividend paid		–	–	–	–	–	–	–	(2,095)	(2,095)
Sale of own shares in ESOP	17	–	–	–	–	–	–	429	–	429
Purchase of own shares in ESOP	17	–	–	–	–	–	–	(549)	–	(549)
Issue/cancellation of own shares in ESOP	23	(10)	85	–	–	10	–	–	(1,887)	(1,802)
Balance at 30 December 2005		**254**	**16,021**	**–**	**670**	**20**	**–**	**(940)**	**6,239**	**22,264**

cash flow statements

for the 52 weeks ended 30 December 2005

	notes	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
Cash flows from operating activities					
Cash generated from operations	25	**7,769**	6,754	**6**	(1)
Interest received/paid	7	**265**	209	**2**	29
Tax paid		**(1,155)**	(1,186)	**–**	–
Net cash from operating activities		**6,879**	5,777	**8**	28
Cash flows from investing activities					
Acquisition of subsidiaries (net of cash acquired)	34	**(4,837)**	–	**–**	–
Purchase of property, plant and equipment	16	**(382)**	(976)	**–**	–
Proceeds from sale of property, plant and equipment		**631**	49	**–**	–
Loan repayment from subsidiary undertakings		**–**	–	**90**	1,332
Dividend received from subsidiary undertakings		**–**	–	**–**	28
Net cash used in investing activities		**(4,588)**	(927)	**90**	1,360
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		**85**	207	**85**	207
Purchase of own shares for cancellation		**(1,887)**	(1,000)	**(1,499)**	(1,000)
Purchase of treasury shares	17	**(549)**	–	**–**	–
Sale of treasury shares	17	**429**	107	**429**	107
Dividends paid to shareholders	13	**(2,195)**	(2,062)	**(2,095)**	(1,921)
Net cash used in financing activities		**(4,117)**	(2,748)	**(3,080)**	(2,607)
Net (decrease)/increase in cash and cash equivalents		**(1,826)**	2,102	**(2,982)**	(1,219)
Cash and cash equivalents at 1 January 2005/3 January 2004		**6,022**	3,920	**(1,212)**	7
Cash and cash equivalents at 30 December 2005/31 December 2004		**4,196**	6,022	**(4,194)**	(1,212)

notes to the financial statements

1 summary of significant accounting policies

IFRS1, First Time Adoption of International Financial Reporting Standards, has been applied in preparing these financial statements. These consolidated financial statements are the first Flying Brands financial statements to be prepared in accordance with IFRS.

Consolidated financial statements of Flying Brands until 31 December 2004 had been prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP). UK GAAP differs in certain respects from IFRS. When preparing Flying Brands' 2005 consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these amendments.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Groups' equity and its net income are given in note 4 (pages 27-29).

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all financial periods presented, unless otherwise stated.

1.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations, as endorsed by the EU. The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and certain financial assets and liabilities. A summary of the more important group accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the period. The Group has not elected to take any of the optional exemptions in IFRS1 from retrospective application of IFRS.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions; actual results ultimately may differ from those estimates.

1.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. The results of the subsidiary undertakings acquired or disposed of during the period are included in the consolidated income statement from the date of the acquisition or up to the date of disposal.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

1.4 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1.5 Property, plant and equipment

All property, plant and equipment (PPE) is shown at cost less subsequent depreciation and impairment, except for land and buildings, which is shown at valuation or cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation on assets is calculated using a straight-line method to allocate the cost to each asset to its residual value over its estimated useful life, as follows:

	%
Freehold land and buildings including glasshouses	0- 4
Plant and equipment	10-20
Computer hardware, included in plant and equipment	20- 33.33
Motor vehicles, including tractors	15-25

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

1.6 Goodwill and intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash generating units for the purposes of impairment testing.

(b) Intangibles – Trademarks

Trademarks obtained from acquired subsidiaries are shown at fair value. They have a definite useful life and are carried at fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of the trademarks over their estimated useful lives:

Garden Bird Supplies until May 2013

(c) Intangibles – Customer Lists

Customer lists obtained from acquired subsidiaries are shown at fair value. They have a definite useful life and are carried at fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated using the reducing balance method based on the estimated annual attrition rates.

Silverminds	48%
Garden Bird Supplies	23%

1.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.8 Inventories

Inventories are valued at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Net realisable value is the price at which inventory can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow moving or defective inventories.

Included within inventory are certain First Day Cover inventories. These inventories are valued as a proportion of the anticipated realisable value, as a best estimator of the lower of cost and net realisable value, based on expert opinion of the Group's philatelists. Provision is made for slow moving inventory.

1.9 Trade receivables
Trade receivables are recognised initially at cost, which is the fair value of consideration receivable and is adjusted for provision. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the monies due. The amount of the provision is recognised in the income statement.

1.10 Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less.

1.11 Share capital
Ordinary shares are classified as equity. Where the company purchases its own shares, the consideration paid including any directly attributable incremental costs, is deducted from the equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

1.12 Share based plans
The fair value of the employees services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed rateably over the vesting period is determined by reference to the fair value of the options determined at the grant date, excluding the impact of any vesting conditions. The vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The estimate is revised at each balance sheet date and the difference is charged or credited to the income statement, with the corresponding adjustment to equity. The proceeds received on exercise of the options net of any directly attributable transaction cost are credited to equity.

1.13 Revenue recognition
Revenue represents the invoiced value of goods supplied and is stated net of VAT. Revenue is recognised at the date of despatch of goods to customers. Any refunds or replacements are recognised in the period in which the refund or replacement is made. Credit card commission and the cost of overseas bouquets are treated as cost of sales. Interest income is recognised on an accruals based method.

1.14 Operating leases
Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rentals payable under operating leases are taken to the income statement on a straight line basis over the lease term.

1.15 Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

1.16 Deferred tax
Deferred taxation is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related balance sheet tax asset is realised or the deferred liability is settled. Deferred income tax assets are recognised to the extent that it is possible that future taxable profit will be available against which temporary differences can be utilised.

1.17 Pensions
The Group makes contributions to some employees' and Directors' personal pension defined contribution schemes which are accounted on an accruals basis.

1.18 Marketing expenditure
The Group charges external campaign marketing expenditure to the income statement in the accounting period in which the related sales campaign takes place. Any losses on recruitment sales are taken to the income statement as incurred.

1.19 Taxation
Taxation is calculated at the estimated rate for the period together with the movement in the provision for deferred taxation.

1.20 Segmental reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those components operating in other economic environments.

1.21 Fixed asset investments
Investments held as fixed assets are stated at cost less provision for any impairment.

2 financial risk management
The group has minimal exposure to foreign currency fluctuation as the majority of revenue and costs are transacted in Sterling. The group has no debt and has taken out no financial instruments and thus also has minimal financial risks from interest rate movements. For nearly all sales, the customer pays before delivery of the goods thus the group is exposed to minimal credit risk.

3 critical accounting estimates and judgements
Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and judgements
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(a) Estimated impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1.7. The recoverable amounts of cash generating units have been based on value-in-use calculations. These calculations require the use of estimates (Note 15).

4 transition to IFRS Notes to the consolidated financial statements

Flying Brands Limited reported under UK GAAP in its previously published financial statements for the period ended 31 December 2004. The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP as at 31 December 2004 to the revised net assets and profit under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for this company, being 3 January 2004.

4.1 Reconciliation of equity at 3 January 2004

	notes	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets				
Non-current assets				
Intangibles		7	–	7
Property, plant and equipment		14,042	–	14,042
Investments in group company	a	927	(927)	–
		14,976	(927)	14,049
Current assets		7,331	–	7,331
Total assets		22,307	(927)	21,380
Liabilities				
Non-current liabilities				
Deferred taxation		145	–	145
Provisions		1,007	–	1,007
		1,152	–	1,152
Current liabilities	b	6,804	(1,356)	5,448
Total liabilities		7,956	(1,356)	6,600
Net assets		14,351	429	14,780
Equity				
Capital and reserves attributable to equity holders				
Share capital		268	–	268
Retained earnings	b	(2,100)	1,356	(744)
Share premium, revaluation and capital reserves		16,183	–	16,183
Treasury shares	a	–	(927)	(927)
Total equity		14,351	429	14,780

The following explains the material adjustments to the balance sheet:
a) Shares in own Company that are held in an ESOP trust are no longer treated as an investment but are netted off against equity
b) Dividends are only accounted for on an approved basis, rather than under UK GAAP on a declared basis

4 transition to IFRS continued

4.2 Reconciliation of equity at 31 December 2004

	notes	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets				
Non-current assets				
Property, plant and equipment		13,081	–	13,081
Investments in group company	a	820	(820)	–
		13,901	(820)	13,081
Current assets		10,018	–	10,018
Total assets		23,919	(820)	23,099
Liabilities				
Non-current liabilities				
Deferred taxation		59	–	59
Provisions		846	–	846
		905	–	905
Current liabilities	b	7,158	(1,453)	5,705
Total liabilities		8,063	(1,453)	6,610
Net assets		15,856	633	16,489
Equity				
Capital and reserves attributable to equity holders				
Share capital		265	–	265
Retained earnings	b, c	(795)	1,431	636
Share premium, revaluation and capital reserves		16,386	–	16,386
Treasury shares	a	–	(820)	(820)
Share based payments	c	–	22	22
Total equity		15,856	633	16,489

The following explains the material adjustments to the balance sheet:
a) Shares in own Company that are held in an ESOP trust are no longer treated as an investment but are netted off against equity
b) Dividends are only accounted for on an approved basis, rather than under UK GAAP on a declared basis
c) Fair value of share options awarded – £22,000

4 transition to IFRS continued

4.3 Reconciliation of net income for 52 weeks ended 31 December 2004

	notes	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Gross profit		11,228	–	11,228
Operating expenses	a	(5,629)	(22)	(5,651)
Operating profit		5,599	(22)	5,577
Interest		209	–	209
Profit before taxation		5,808	(22)	5,786
Taxation		(1,346)	–	(1,346)
Profit for the period		4,462	(22)	4,440

a) Fair value of share options awarded – £22,000

4.4 Reconciliation of net income for 52 weeks ended 30 December 2005

	notes	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Gross profit		10,862	–	10,862
Operating expenses	a,b	(5,703)	(146)	(5,849)
Operating profit before profit on disposal of building		5,159	(146)	5,013
Profit on disposal of building		282	–	282
Operating profit		5,441	(146)	5,295
Interest		265	–	265
Profit before tax		5,706	(146)	5,560
Taxation		(1,147)	–	(1,147)
Profit for the period		4,559	(146)	4,413

a) Fair value of share options awarded – £49,000
b) Amortisation under IFRS 6 – £97,000

5 segmental analysis

The Directors of Flying Brands Limited are of the opinion that, whilst the Group markets a number of different brands, all the business of the Group is operated within the mail order retail segment.

Due to the different risks and rewards available on different lines of business, independent of territory operations, Flying Brands primary reporting segment is by business. The secondary reporting format comprises the geographical segment.

Certain overhead costs, assets and liabilities are shared between segments. These costs, assets and liabilities have been apportioned based on the usage of these services and assets by the appropriate segment.

5.1 Segmentation by primary divisions

Period ended 30 December 2005	Gifts £'000	Garden £'000	Entertainment £'000	Total £'000
Turnover	12,822	15,324	8,112	36,258
Operating profit before profit on disposal of building	1,888	2,744	381	5,013
Profit on disposal of building	–	–	282	282
Segment result	**1,888**	**2,744**	**663**	**5,295**
Interest receivable/(payable)	151	160	(46)	265
Profit before tax	**2,039**	**2,904**	**617**	**5,560**
Segment assets (including goodwill)	**10,599**	**10,487**	**3,850**	**24,936**
Segment assets (excluding goodwill)	**10,599**	**7,121**	**3,350**	**21,070**
Segment liabilities	**(4,018)**	**(2,522)**	**(1,562)**	**(8,102)**
Depreciation	624	895	196	1,715
Amortisation on intangible assets	–	52	45	97
Capital expenditure on property, plant and equipment	94	123	165	382

5 segmental analysis continued

Period ended 30 December 2004	Gifts £'000	Garden £'000	Entertainment £'000	Total £'000
Turnover	12,858	15,274	7,636	35,768
Segment result	**2,183**	**3,340**	**54**	**5,577**
Interest receivable/(payable)	93	144	(28)	209
Profit before tax	**2,276**	**3,484**	**26**	**5,786**
Segment assets	**9,652**	**9,882**	**3,565**	**23,099**
Segment liabilities	**(3,794)**	**(1,424)**	**(1,392)**	**(6,610)**
Depreciation	715	939	206	1,860
Amortisation on intangible asset	–	7	–	7
Capital expenditure on property, plant and equipment	331	366	279	976

No goodwill was carried in the balance sheet at 31 December 2004.

5 segmental analysis continued

5.2 Segmentation by geographical area

Turnover and profit by geographical area	2005 Turnover by customer location £'000	2005 Profit before taxation £'000	2004 Turnover by customer location £'000	2004 Profit before taxation £'000
Jersey, Channel Islands	**71**	**4,350**	75	4,195
United Kingdom	**35,321**	**1,210**	34,741	1,591
Europe	**315**	**–**	367	–
Outside Europe	**551**	**–**	585	–
	36,258	**5,560**	35,768	5,786

Capital expenditure and assets by geographical area	2005 Capital expenditure £'000	2005 Net assets £'000	2004 Capital expenditure £'000	2004 Net assets £'000
Jersey, Channel Islands	**166**	**22,744**	478	23,855
United Kingdom	**216**	**(5,910)**	498	(7,366)
Europe	**–**	**–**	–	–
Outside Europe	**–**	**–**	–	–
	382	**16,834**	976	16,489

6 operating expenses

	2005 £'000	2004 £'000
Selling and distribution	**886**	839
Administrative expenses	**4,963**	4,812
	5,849	5,651

7 net interest receivable

	2005 £'000	2004 £'000
Interest receivable	**265**	209
	265	209

8 profit on ordinary activities before taxation

	2005 £'000	2004 £'000
The following items have been included in arriving at operating profit:		
Depreciation charge: property, plant and equipment	**1,715**	1,860
Amortisation of intangible assets	**97**	7
Auditors' remuneration (parent company £nil (2004: nil))	**84**	74
Auditors' remuneration (tax compliance services)	**24**	24
Auditors' remuneration (other taxation advisory services)	**25**	44
Loss on sale of plant and equipment	**6**	28
Hire of land and buildings under operating leases	**24**	13
Repair and maintenance on property, plant and equipment	**334**	405
Trade receivables impairment	**1**	(41)
Cost of inventories recognised as an expense	**8,995**	8,896
Inventory writedown	**165**	161

9 directors' emoluments

	2005 £'000	2004 £'000
Fees	**125**	123
Salary and benefits	**441**	473
Share based payments charge	**35**	12
Pension	**33**	33
	634	641

The detailed numerical analysis of Directors' remuneration is included in the Remuneration Committee Report on page 52 and forms part of these financial statements.

10 employee information

The average monthly number of persons (including Executive Directors) employed by the Group during the period was as follows:

	2005 Number	2004 Number
	351	341

	2005 £'000	2004 £'000
Staff costs (for the above persons)		
Wages and salaries	**5,097**	5,187
Share based payments charge	**49**	22
Social security costs	**346**	368
Pension contributions to personal defined contribution schemes	**113**	109
	5,605	5,686

11 tax on profit on ordinary activities

	2005 £'000	2004 £'000
Current tax		
Jersey income tax at 20%	**907**	849
UK corporation tax at 22% to 30%	**338**	549
(Under)/over provision in previous periods	**(12)**	34
Total current tax	**1,233**	1,432
Deferred tax		
Decrease in provision for the period (see note 22)	**(86)**	(86)
Total tax on profit on ordinary activities	**1,147**	1,346

11 tax on profit on ordinary activities continued

The tax assessed for the period is different from the standard rate of income tax, as explained below:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	**5,560**	5,786
Profit on ordinary activities multiplied by the standard rate of Jersey income tax of 20%	**1,112**	1,157
Adjustments to tax in respect of prior periods	**(12)**	34
Adjustments in respect of foreign tax rates (principally UK)	**107**	113
Expenses not deductible for taxation purposes	**14**	8
Other	**(2)**	34
Amortisation on intangibles not allowable	**54**	–
Disposal of building: capital gains not subject to taxation	**(126)**	–
Current tax charge for period	**1,147**	1,346

12 parent company profit for the financial period

Of the profit for the financial period, the parent company's loss of £71,000 (2004: loss £1,000) is dealt with in the financial statements of Flying Brands Limited.

13 dividends

	2005 £'000	2004 £'000
Dividends on equity shares		
Final dividend proposed in March 2005, agreed at annual general meeting in April 2005 at 5.65p	**1,453**	1,356
Interim dividend proposed at 2.85p per ordinary share in July 2005 and paid in September 2005	**742**	706
Under/(over) provision in prior period	**–**	5
	2,195	2,067

In addition the directors are proposing a final dividend in respect of the financial period ended 30 December 2005 of 6.00p per share which will absorb an estimated £1.5m of shareholders funds. It will be paid on 21 April 2006 to shareholders who are on the register of members on 31 March 2006.

14 earnings per ordinary share

Basic

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Company and held as treasury shares (Note 17). Adjusted earnings per share is calculated by dividing the profit excluding the profit on disposal of building by the weighted average number of Ordinary Shares in issue during the period, as adjusted for treasury shares.

	30 December 2005	31 December 2004
Profit attributable to equity holders of the Company (£'000)	**4,413**	4,440
Weighted average number of ordinary shares in issue, less weighted average number of treasury shares (thousands)	**25,752**	25,795
Basic earnings per share (pence per share)	**17.14**	17.21
Adjusted earnings per share (pence per share)	**16.04**	17.21

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options.

The calculation is performed for the share options to determine the number of ordinary shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	30 December 2005	31 December 2004
Profit attributable to equity holders of the Company (£'000)	**4,413**	4,440
Weighted average number of ordinary shares in issue (thousands)	**25,752**	25,795
Adjustment for share options (thousands)	**135**	281
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**25,887**	26,076
Diluted earnings per share (pence per share)	**17.05**	17.03

15 goodwill and intangible fixed assets

The Group	Intellectual Property £'000	Trade marks £'000	Customer lists £'000	Goodwill £'000	Total £'000
Cost					
At 1 January 2005	398	–	–	–	398
Additions (acquisition of subsidiaries (note 34))	–	431	823	3,866	5,120
At 30 December 2005	398	431	823	3,866	**5,518**
Amortisation					
At 1 January 2005	398	–	–	–	398
Charge for the period	–	14	83	–	97
At 30 December 2005	398	14	83	–	495
Net book value at 30 December 2005	–	417	740	3,866	**5,023**
Net book value at 1 January 2005	–	–	–	–	**–**

The intangible assets at 31 December 2004 related to intellectual property. Amortisation of £7,000 was charged in the period ending 31 December 2004. The net book value at 31 December 2004 was nil.

On 18 April 2005 the Group acquired the assets of Silverminds Direct, a music CD, video and DVD home shopping retailer. The assets that have been acquired are a database of 350,000 names and addresses (including 140,000 customers who have purchased at least one product in the last 24 months), the internet domain names, and the rights to the images and intellectual property of all former promotional campaigns of the business. The carrying value of intangibles is tested annually for impairment. No impairment charge was considered necessary. The total cost of the acquisition was £662,000, being cash paid to the receiver for the purchase of £551,000 and legal and professional fees related to the acquisition of £111,000. The Goodwill acquired was £500,000, which is attributable to the profitability of the business and the significant synergies expected to arise after the Groups acquisition. The acquired business contributed revenues of £749,000 and a net profit before amortisation and interest of £20,000 to the Group for the period 18 April 2005 to 30 December 2005. Prior to acquisition the company was in receivership and accordingly no relevant revenue and profit figures exist for the period from 01 January 2005 to the date of acquisition.

On 29 September 2005 the Group acquired 100% of the share capital of Garden Bird Supplies Limited, a home shopping retailer of garden bird food and accessories. The Company has a database of 486,000 customers of which approximately 48,000 have purchased at least one product in the last 12 months. In addition to acquiring a customer list and the Ultiva Trademark, Flying Brands also acquired other net assets with a fair value of £171,000. The Goodwill acquired was £3,366,000, which is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition. The carrying value of intangibles is tested annually for impairment. No impairment charge was considered necessary. The total cost of the acquisitions was £4,629,000, being cash paid to the shareholders of £4,290,000 and direct costs attributable to the acquisition of £339,000. £429,000 of the consideration is held in an Escrow account until 29 March 2006 to cover for any claims that could be made under the purchase agreement dated 29 September 2005. As at 28 February 2006, no material claims have been identified. The acquired business contributed revenues of £1,151,000 and a net profit before amortisation and interest to the group of £151,000 in the three months to 30 December 2005. In the twelve months to 30 June 2005, the company generated revenue of £3,761,000 and net profits before tax of £479,000.

If the two acquisitions had occurred on 1 January 2005, the group's revenue would have been £39.3m, and profit would have been £6.0m.

Further disclosure in respect of the acquisitions can be found in note 34.

16 property, plant and equipment

The Group	Freehold land and buildings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation				
At 1 January 2005	11,421	12,823	341	24,585
Additions	69	233	80	382
Acquisition of subsidiaries (note 34)	–	27	–	27
Disposals	(325)	(594)	(119)	(1,038)
At 30 December 2005	**11,165**	**12,489**	**302**	**23,956**
Depreciation				
At 1 January 2005	1,996	9,390	118	11,504
Charges for the period	346	1,300	69	1,715
Disposals	(59)	(569)	(54)	(682)
At 30 December 2005	**2,283**	**10,121**	**133**	**12,537**
Net book value at 30 December 2005	**8,882**	**2,368**	**169**	**11,419**
Net book value at 31 December 2004	9,425	3,433	223	13,081

The Group's land and buildings in Essex have been valued by a potential purchaser at marginally more than the book value. The remaining freehold land and buildings are in Jersey. The revalued element of the Jersey land and buildings is £1,638,000. This is represented by the horticultural nursery located in St Lawrence, Jersey. All other freehold property in Jersey is stated at cost.

If the freehold land and buildings had not been revalued they would have been included at the following amounts.

	2005 £'000	2004 £'000
Original cost	**1,098**	1,098
Aggregate depreciation based on cost	**(569)**	(530)
	529	568

Freehold land in Jersey was last independently valued in 1993, made on the basis of open market value. The revaluation surplus was credited to a revaluation reserve in shareholder's equity. The Directors have concluded that the carrying value continues to be appropriate.

The revalued assets represent deemed cost under IFRS1 and no revaluation is required under IAS 16.

17 treasury shares

The Group	2005 £'000	2004 £'000
Investments at cost		
Own shares		
527,565 ordinary shares (2004: 573,414) of 1p each in Flying Brands Limited		
(Market value at 30 December 2005: £946,979 (2004: £1,219,944)	**940**	820

These shares are held in an ESOP trust and are all under option to employees and form part of the options described in the Remuneration Committee Report and Note 30 to the financial statements. None of the option exercise prices are lower than the cost of the shares and therefore no charge to the profit and loss account arises. All dividends are waived whilst the shares are held in the ESOP trust. The shares are netted off against shareholders' equity.

During the period, options were exercised which resulted in the sale of 328,472 ordinary shares of 1p each with a nominal value of £3,285 for a consideration of £429,000. Purchases of 282,623 ordinary shares of 1p each with a nominal value of £2,826 for a consideration of £549,000 were made.

18 fixed asset investments

The Company			2005 £'000	2004 £'000
Investments in wholly owned subsidiary companies at written down cost				
Flying Flowers International Limited	9,000	ordinary £1 shares	**15,921**	15,921
Benham Collectors Club Limited	10	ordinary £1 shares	**185**	185
			16,106	16,106
Advances to Group companies				
Flying Flowers International Limited			**6**	6
Flying Brands Holdings (UK) PLC			**1,924**	1,924
Flying Flowers (UK) Limited			**3,333**	3,333
			21,369	21,369

The loans due from Flying Flowers International Limited, Flying Brands Holdings (UK) PLC and Flying Flowers (UK) Limited are interest-free and unsecured with no fixed terms of repayment. In the opinion of the Directors the loans are recoverable in full.

18 fixed asset investments continued

Interest in principal Group undertakings

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affect the Group:

Name of subsidiary	Country of incorporation	Description of shares held	Principal activity	Proportion of nominal value of issued shares held by Group	Company
Flying Flowers (Jersey) Limited	Jersey	Ordinary £1 shares	Mail order flowers	100%	–
DPA Direct Limited	England & Wales	Ordinary £1 shares	Mail order plants	100%	–
Benham Covers Limited	England & Wales	Ordinary 10p shares	Mail order first day covers	100%	–
Garden Bird Supplies Ltd	England & Wales	Ordinary £1 shares	Mail order bird supplies	100%	–

On 30 June 2002, the Group gave Mr Anthony Grodecki, a director of Benham Covers Limited and Benham Collectors Club Limited, a contractual entitlement to a terminal bonus in the event of the sale of these two companies or the termination by the company of his employment for whatever reason. In the event of either the sale, Mr A Grodecki would receive 30% of the net sale proceeds or in the case of termination would receive three times the profit after tax for the period in which the termination took place.

19 inventories

	Group 2005 £'000	**Company 2005 £'000**	Group 2004 £'000	Company 2004 £'000
Raw materials	**725**	**–**	813	–
Goods for resale	**2,216**	**–**	1,768	–
Livestock	**12**	**–**	13	–
Growing stock	**201**	**–**	80	–
	3,154	**–**	2,674	–

The cost of inventories recognised as expense and included in 'cost of sales' amounted to £8,995,000 (2004: £8,896,000).

The amount of stock provision written down as expense was £165,000 (2004: £161,000).

20 trade and other receivables

	Group 2005 £'000	**Company 2005 £'000**	Group 2004 £'000	Company 2004 £'000
Amounts falling due within one year				
Trade debtors, net of impairment	**148**	**–**	161	–
Other debtors	**–**	**7**	1	–
Prepayments and accrued income	**969**	**–**	1,160	–
Amounts owed by subsidiary undertakings	**–**	**5,328**	–	1,199
	1,117	**5,335**	1,322	1,199

The amounts owed by subsidiary undertakings are interest free and unsecured with no fixed terms of repayment, with the exception of an amount of £314,000 which bears interest at 2.5% above the bank base rate and which is repayable by monthly installment.

notes to the financial statements continued

21 trade and other payables

	Group 2005 £'000	Company 2005 £'000	Group 2004 £'000	Company 2004 £'000
Bank overdraft	**–**	**4,194**	–	1,212
Trade creditors	**4,399**	**–**	3,844	–
Other creditors and accruals	**1,583**	**11**	892	4
Amounts owed to subsidiary undertakings	**–**	**235**	–	–
	5,982	**4,440**	4,736	1,216

The amounts owed to subsidiary undertakings are interest free and unsecured with no fixed terms of payment.

Barclays Bank Plc has a right to full set off between all companies within the Flying Brands Limited Group. The Group currently does not have an overdraft facility.

22 deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of between 20% and 30% (2004: 20-30%) depending on the locality of the charges/credits.

	£'000
Deferred tax	
At 1 January 2005	(59)
Credited to the income statement (see note 11)	86
At 30 December 2005	**27**

The deferred tax asset is in respect of accelerated capital allowances.

23 called-up share capital

	2005 £'000	2004 £'000
Authorised		
35,000,000 Ordinary shares of 1p each	**350**	350
Allotted, called up and fully paid		
25,355,396 (2004: 26,307,818) Ordinary shares of 1p each	**254**	264
A Shares in Flying Brands Holdings (UK) PLC		
25,355,396 (2003: 26,307,818) Ordinary shares of 0.005p each	**1**	1
	255	265

A total of 72,578 shares were issued during the period in satisfaction of employee share options. The company repurchased 1,025,000 ordinary shares of 1p each with a nominal value of £10,250 for a total consideration of £1,887,000.

24 reserves

Capital reserve

The capital reserve of the Group comprises a premium of £104,000 which was written-off in 1988 on the purchase of the minority interest in the subsidiary company, Retreat Farm (1988) Limited, (now Flying Flowers (Jersey) Limited), and the assignment of a loan in 1982 of £87,000.

The company also has a capital reserve arising on a gain on sale of subsidiaries of £687,000 following a Group reorganisation during 1995.

25 reconciliation of operating profit to net cash inflow from operating activities

	Group 2005 £'000	**Company 2005 £'000**	Group 2004 £'000	Company 2004 £'000
Operating profit/(loss)	**5,295**	**(6)**	5,577	(1)
Depreciation	**1,715**	**–**	1,860	–
Loss on sale of property, plant and equipment	**6**	**–**	28	–
(Profit) on disposal of building	**(282)**	**–**	–	–
Decrease/(increase) in stocks	**(252)**	**–**	(280)	–
Decrease/(increase) in debtors	**221**	**–**	(326)	–
(Decrease)/increase in creditors	**920**	**12**	(134)	–
Share based payments	**49**	**–**	22	–
Amortisation of intangible assets	**97**	**–**	7	–
Net cash inflow from operating activities	**7,769**	**6**	6,754	(1)

26 reconciliation of net cash flow to movement in net funds/(debt)

	2005 £'000	2004 £'000
(Decrease)/increase in cash in the period	**(1,826)**	2,102
Movement in net debt in the period	**(1,826)**	2,102
Net funds at 1 January 2005	**6,022**	3,920
Net funds at 30 December 2005	**4,196**	6,022

27 analysis of changes in net debt

	At 1 January 2005 £'000	Cash flows £'000	**At 30 December 2005 £'000**
Cash at bank and in hand	6,022	(1,826)	**4,196**

28 commitments

Financial commitments

At 30 December 2005 the Group had annual commitments under non-cancellable operating leases as follows:

	2005 Land & buildings £'000	2004 Land & buildings £'000
Not later than 1 year	–	–
Later than 1 year and not later than 5 years	55	13
	55	13

Capital commitments

	2005 £'000	2004 £'000
Authorised and contracted for	59	114

29 contingent liabilities

(a) All Jersey and UK based Group companies have given unlimited guarantees to Barclays Bank PLC in respect of facilities provided to the Group.
(b) There are unregistered promissory notes of £8,250,000 in respect of the Group's freehold property.
(c) The Company provided a guarantee in respect of a property lease commitment of Stanley Gibbons Holdings Plc (part of The Stanley Gibbons Group Limited) formerly a subsidiary of Flying Brands Limited on 16 August 2000. The lease is for £300,000 p.a. and expires in 2010. At the time of demerger the landlord refused a change of guarantor.

30 share based payments

Share options are granted to high performance employees on a discretionary basis. The exercise price of the granted options is equal to the market price of the shares on the date of the grant.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average Exercise price (£ per share)	Outstanding options (thousands)	Average Exercise price (£ per share)	Outstanding options (thousands)
At January	1.49	1,235	1.34	1,226
Granted	1.79	279	1.93	334
Exercised/lapsed	1.46	(538)	1.37	(325)
At 30 December 2005	1.60	976	1.49	1,235

30 share based payments continued

Options in shares of Flying Brands

In addition to the Directors' share options disclosed in the Directors' report the following options have been granted to employees are remaining capable of exercise.

Date of Grant	Exercise period	No of ordinary Shares	Exercise Price (£)
18 September 1996	18 September 1999 to 18 September 2006	23,489	1.49
20 August 1997	20 August 2000 to 20 August 2007	20,359	3.00
14 October 1998	14 October 2001 to 14 October 2008	31,799	1.18
21 March 2001	21 March 2004 to 21 March 2011	71,759	1.08
4 March 2002	4 March 2005 to 4 March 2012	51,899	1.66
19 May 2004	19 May 2007 to 19 May 2014	121,854	1.93
12 August 2005	12 August 2008 to 12 August 2015	68,953	1.79

The principal assumptions used in arriving at the valuation are summarised below:

	2005 awards		2004 awards
Grant date	12/08/05	15/04/05	19/05/04
Share price at grant	£1.795	£1.805	£1.925
Exercise price	£1.793	£1.793	£1.925
Number of employees	5	2	8
Shares under option	121,570	157,208	333,521
Vesting period (years)	3	3	3
Expected volatility	27.40%	27.80%	27.80%
Option life (years)	3	3	3
Expected life	4	4	4
Risk free rate	4.59%	4.60%	4.81%
Expected dividends expressed as a dividend yield	4.64%	4.42%	4.55%
Possibility of ceasing employment before vesting	30%	20%	35%
Expectation of meeting performance criteria	90%	90%	90%
Fair value per option	£0.370	£0.386	£0.539
Valuation model	Black-Scholes	Black-Scholes	Black-Scholes

The expected volatility is based on historical volatility over the last two years plus the likely implied volatility for stock options at a maturity of one year. The expected life is the average expected period to exercise. The risk free rate of return is the zero-coupon interest rate interpolated to the relevant maturity of the option prevailing at the time of the valuation. The total charge for the period relating to employee share based payment plans was £49,000 (2004: £22,000).

notes to the financial statements continued

31 financial instruments

The section headed Treasury Policy within the Financial Review on page 11 details the Group's policy for the holding and issuing of financial instruments. IFRS requires numerical disclosures in respect of financial assets and liabilities and these are set out below.

a Fair value of financial assets and liabilities

	2005 Book value £'000	2004 Book value £'000
Financial assets		
Cash at bank and in hand	**4,196**	6,022
Trade debtors	**148**	161
	4,344	6,183
Financial liability		
Trade creditors	**4,399**	3,844

The carrying amounts of trade debtors and trade creditors stated at book value above approximate to fair value due to their short term nature.

b Maturity and interest rate profile

The group had no financial liabilities other than short term trade creditors and accounts, which are all documented in Sterling, at 1 January 2005 and 30 December 2005.

c Currency exposures

Foreign currency exposure based on net foreign currency monetary assets is £nil (2004: £nil). The foreign exchange loss for the period was £8,000 (2004: £26,000).

d Gains and losses on hedges

There are no unrecognised or deferred gains and losses on hedges on long term liabilities.

32 pension arrangements

For many employees the Group makes contributions to personal defined contribution schemes based on a fixed percentage of those employees' basic remuneration (see note 10).

33 related party

Mr T H S Trotter is Chairman of Smithfield Consultants Limited, who were paid £24,000 during the period for financial public relations consultancy services.

Under IAS24 the following transactions are deemed related party transactions. Flying Brands Limited (the company) had the following transactions with its subsidiary undertakings during the period.

A dividend receivable from Flying Flowers International of £5.0m was paid on 10 February 2006.

Interest of £26,000 was received from Benhams Collectors Club Limited and £98,000 interest was payable to Flying Flowers (Jersey) Limited in respect of interest on an inter group bank overdraft, during the period.

At the 30 December 2005 Flying Brands Limited was owed £5.01m by Flying Flowers International Limited and £0.31m by Benham Collectors Club Limited. Flying Brands Limited owed £0.23m to Flying Flowers (Jersey) Limited.

34 business combinations

On 18 April 2005, the Group acquired a music CD, video and DVD home shopping retailer database of Silverminds Direct, and on 29 September the Group also acquired 100% of the share capital of Garden Bird Supplies Limited. Details of net assets acquired and goodwill are as follows:

	notes	Silverminds Direct £'000	Garden Bird Supplies Ltd £'000	Total £'000
Purchase consideration				
– Cash paid		551	4,290	4,841
– Direct costs relating to acquisition		111	339	450
Total purchase consideration		662	4,629	5,291
Fair value of net assets acquired		162	1,263	1,425
Goodwill	15	500	3,366	3,866

The assets and liabilities arising from the acquisition are as follows:

	notes	Silverminds Direct £'000	Garden Bird Supplies Ltd £'000	Total £'000
Cash and equivalents		–	454	454
Property, plant and equipment	16	–	27	27
Trademarks (included in intangibles)	15	–	431	431
Customer lists (included in intangibles)	15	162	661	823
Inventories		–	228	228
Receivables		–	18	18
Payables		–	(326)	(326)
Current corporation tax		–	(227)	(227)
Deferred corporation tax		–	(3)	(3)
		162	1,263	1,425

The fair value of these assets is equal to their carrying value.

35 disposal of building

On 30 September 2005, the Group sold Benham House for £660,000. This transaction completed the reorganisation of the Benham business. The resultant one off gain was £282,000.

five year summary

	2001 £'000	2002 £'000	2003 £'000	2004* £'000 (restated)	**2005*** **£'000**
Turnover	33,350	37,110	35,912	35,768	**36,258**
Operating profit before exceptional items and goodwill	4,671	4,889	5,190	5,577	**5,013**
Net interest (payable)/receivable	(216)	(88)	75	209	**265**
	4,455	4,801	5,265	5,786	**5,278**
Exceptional items	(104)	(297)	23	–	**–**
(Loss)/profit on sale of subsidiaries and businesses	–	–	287	–	**–**
Profit on disposal of building	–	–	–	–	**282**
Profit/(loss) before taxation	4,351	4,504	5,575	5,786	**5,560**
Taxation	(899)	(977)	(1,170)	(1,346)	**(1,147)**
Profit/(loss) after taxation	3,452	3,527	4,405	4,440	**4,413**
Dividends	(1,930)	(1,964)	(2,010)	(2,067)	**(2,195)**
Retained profit/(loss)	1,522	1,563	2,395	2,373	**2,218**
Adjusted earnings per share	13.52p	14.31p	15.67p	17.21p	**16.04p**
Earnings per share	13.13p	13.43p	16.86p	17.21p	**17.14p**
Proposed dividends per share	7.35p	7.50p	7.75p	8.40p	**8.85p**
Share capital and premium	15,817	15,899	15,999	16,201	**16,276**
Reserves	(5,128)	(3,563)	(1,648)	288	**558**
Net assets excluding goodwill	10,689	12,336	14,351	16,489	**16,834**

* The results for 2004 and 2005 have been prepared under IFRS. All other periods have been prepared under UK GAAP.

auditors' report

Independent Auditors Report to the members of Flying Brands Limited

We have audited the group and parent company financial statements (the "financial statements") of Flying Brands Limited for the period ended 30 December 2005 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Change in Shareholders' Equity 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 Article 110 of the Companies (Jersey) Law 1991 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 whether the financial statements have been properly prepared in accordance with the accordance with Article 110 of the Companies (Jersey) Law 1991. 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 review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chief Executives Report, the Directors' Report, the Remuneration Committee Report, the Chairman's Statement, the Financial Review and the Corporate Governance Statement. 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.

auditors' report continued

opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 December 2005 and of its profit and cash flows for the period then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies (Jersey) Law 1991, of the state of the parent company's affairs as at 30 December 2005 and cash flows for the period then ended.

PricewaterhouseCoopers CI LLP
Chartered Accountants and Registered Auditors
Jersey, Channel Islands

10 March 2006

The maintenance and integrity of the Flying Brands Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

remuneration committee report

The Remuneration Committee presents its report for the 52 weeks ended 30 December 2005.

membership of the remuneration committee

At 30 December 2005, the Remuneration Committee is comprised of Mr L M Sanderson (Chairman) and Mr T H S Trotter. The two non-independent Non-Executive Directors on the Board were invited to attend, as observers, the 2005 meetings.

The Committee makes its decisions following consultation with the Chief Executive. No other third parties have provided advice that materially assisted the Remuneration Committee during the period.

The remuneration of the Non-Executive Directors with the exception of the Chairman, is determined by the Board. The remuneration of the Chairman is determined by the remuneration committee.

compliance

The Company has complied materially with The United Kingdom Directors' Remuneration Report Regulations 2002 ("the Regulations"). In accordance with the Regulations, a resolution to approve this report will be proposed at the Annual General Meeting ("AGM") of the Company. The vote will have advisory status, will be in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

remuneration policy for executive directors

The Remuneration Committee seeks to provide the remuneration packages necessary to attract, retain and motivate Executive Directors of the quality required to manage the business of the Group and seeks to avoid paying more than is necessary for this purpose. In establishing the level of remuneration of each Director the Committee has regard to packages offered by similar companies.

Consistent with this policy, the benefit packages awarded to Executive Directors comprise a mix of performance and non-performance elements. 45% of the Executive Director's pay is based on the Group achieving a 15% increase in adjusted Earnings Per Share ("EPS"), above the retail price index.

The main components of the remuneration packages for Executive Directors are:

a) Contracts

All Executive Directors have a one-year rolling service contract and contractual termination payments in all cases equal the value of Director's annual salary together with benefits and accrued bonus.

b) Basic salary and benefits

Salaries and benefits are approved annually. Basic benefits include a fully expensed company car together with private medical insurance, death in service cover and PHI.

c) Bonuses

The Chief Executive and the Finance Director have a contractual scheme that is based on the increase in adjusted EPS over the prior period. Payments start at the level of 20% of salary for the achievement of 5% plus the increase in the retail price index for the year ("RPI") over prior period, and increases at 2.5% for each additional 1% increment in EPS. The maximum payment under the scheme is 45% for achievement of 15% plus RPI of adjusted EPS above prior period.

Mr M T N Dugdale and Mr G H Norton were awarded a bonus for their work on the acquisitions made during the period.

d) Share Option Schemes

Awards of Share Options to Directors and senior employees have been made in the past as an incentive to improve the Group's performance.

The original scheme was set up in 1993 for a period of 10 years and no further options can now be granted under that scheme. Exercise of options granted under the 1993 scheme are subject to a performance condition. The condition is that an average annual increase in the adjusted EPS in excess of 5% plus RPI must have been achieved during any consecutive three year period prior to the date of exercise of the option, with the first year commencing no earlier than the financial period ending in the 12 months prior to the date the option was granted.

A new scheme was set up in 2004 for a period of 10 years. Exercise of options granted from 2004 are subject to a performance condition. The condition is that the average annual increase in the adjusted EPS in excess of 5% plus RPI must have been achieved in the 3 years following the date of the grant of the option.

e) Pensions

Executive Directors select a money purchase scheme and the company makes a payment of 9% of salary, excluding bonus and benefits, per year to the chosen scheme.

performance graph

As required by the Regulations the graph below shows the performance of Flying Brands Limited, measured by total shareholder return (total share price growth plus dividends paid), against a ‘broad equity market index’ over the past five years. We have chosen the All Share Index because this is a recognised broad equity market index of which Flying Brands Limited is a member.

The Group has performed ahead of the All Share Index since the demerger of Stanley Gibbons Group Limited in September 2000.

remuneration committee report continued

non-executive directors

The Non-Executive Directors' terms of engagement are set out in a letter of appointment. The Chairman has a one-year rolling term of office. The other Non-Executive Directors have a six-month rolling term of office unless they are not re-elected at the AGM. None of the Non-Executive Directors' appointments have a fixed term.

Directors' interests in the company's shares	**30 December 2005**	1 January 2005
M T N Dugdale	**30,000**	30,000
P I Fraser	**5,790,875**	5,646,719
A R Fryer	**15,500**	15,500
G H Norton	**11,000**	–
L M Sanderson	**30,012**	30,012
T H S Trotter	**13,000**	13,000

The Directors' interests in shares are all beneficial.

There has been no change in the interests set out above between 30 December 2005 and 9 March 2006.

auditable information

The following tables and supporting notes have been audited:

Directors' emoluments	**2005**						2004
	Salary & Fees £'000	**Share based payments £'000**	**Bonus** £'000**	**Pension £'000**	**Benefits £'000**	**Total** £'000	Total
A R Fryer	**64**	**–**	**–**	**–**	**–**	**64**	62
M T N Dugdale	**189**	**26**	**10**	**17**	**15**	**257**	269
G H Norton*	**95**	**9**	**10**	**8**	**5**	**127**	–
P I Fraser	**19**	**–**	**–**	**–**	**–**	**19**	19
L M Sanderson	**21**	**–**	**–**	**–**	**–**	**21**	21
T H S Trotter	**21**	**–**	**–**	**–**	**–**	**21**	21
D C Harbord*	**34**	**–**	**–**	**2**	**5**	**41**	140
T K Boden*	**64**	**–**	**–**	**6**	**14**	**84**	109
	507	**35**	**20**	**33**	**39**	**634**	641

* Employed by the Group as a Director for part of the period.

** Mr M T N Dugdale and Mr G H Norton were awarded a bonus for their work on the acquistions made during the period.

Mr M T N Dugdale is a Non-Executive Director of Digivate Limited. He receives an annual fee of £6,000 and attends meetings, as agreed, in time allowed by the Group.

Mr A R Fryer's services were invoiced by Tuckenhay Consultants Limited.

Mr T H S Trotter's services were invoiced by Trotter and Company Limited.

Mr P I Fraser's services were invoiced by Fraser Investments Limited.

Remuneration committee report continued

Directors' share options Date of grant	Earliest exercise date	Expiry date	Exercise price (1p shares)	Number at 1 Jan 2005	Granted in period	Exercised in period	**Number at 30 Dec 2005**
M T N Dugdale							
04.11.02	04.11.05	04.11.12	124.00	282,258	–	–	**282,258**
19.05.04	19.05.07	19.05.14	192.50	93,766	–	–	**93,766**
15.04.05	15.04.08	15.04.15	179.30	–	52,635	–	**52,635**
12.08.05	12.08.08	12.08.15	179.30	–	52,635	–	**52,635**
				376,024	105,270	–	**481,294**
G H Norton							
15.04.05	15.04.08	15.04.15	179.30	–	104,573	–	**104,573**
P I Fraser							
14.10.98	14.10.01	02.09.05	117.96	144,156	–	(144,156)	**–**

All share options were granted at nil cost to the Directors.

No share options have lapsed during the financial period ended 30 December 2005 and none of the terms and conditions of the share options were varied during the period.

The market price of the shares on 3 March 2006 was £1.86. The range of market prices during the period was between £1.76 and £2.17.

The options referred to above have been granted under the UK and Jersey Executive Share Option Schemes.

Apart from the share option schemes described above, the Group is not party to any arrangements whereby Directors or their families may acquire interests in the Company or any other company.

P I Fraser made a pre-tax gain of £89,000 on exercise of share options in August 2005.

L M Sanderson
Chairman of the Remuneration Committee
10 March 2006

notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Flying Brands Limited will be held at Retreat Farm, St Lawrence, Jersey, Channel Islands on 13 April 2006 at 9.30 am for the following purposes:

Ordinary Business

Resolution 1 To receive and adopt the accounts for the 52 weeks ended 30 December 2005 and the Reports of the Directors and Auditors thereon.

Resolution 2 To approve the Remuneration Committee Report for the 52 weeks ended 30 December 2005.

Resolution 3 To declare a final net dividend for the 52 weeks ended 30 December 2005 of 6.00 pence per share.

Resolution 4 To appoint Mr G H Norton as a Director of the Company.

Resolution 5 "That the Company be generally and unconditionally authorised pursuant to Article 57(2) of the Companies (Jersey) Law 1991 to make one or more market purchases of its own shares, such purchases to be of Ordinary Shares of 1p each and in the capital of the Company ("Ordinary Shares") on the London Stock Exchange, provided that:

a) the maximum number of Ordinary Shares hereby authorised to be purchases shall be 3,803,310 Ordinary Shares, being approximately 15 per cent of the issued share capital of the Company;

b) the minimum price which may be paid for any such Ordinary Shares shall be 1p per Ordinary Share (exclusive of expenses);

c) the maximum price which may be paid for such Ordinary Shares shall be an amount equal to 5 per cent above the average middle market quotations for a Unit (comprising one Ordinary Share and one "A" ordinary share of Flying Brands Holdings (UK) PLC) as derived from the Daily Official List of the UK Listing Authority for the five business days immediately preceding the day on which any such Ordinary Shares are purchased or contracted to be purchased;

d) unless otherwise varied renewed or revoked the authority hereby conferred shall expire at the earlier of 31 July 2007 and the conclusion of the Annual General Meeting of the Company to be held in 2007;

e) prior to expiry of the authority hereby conferred the Company may enter into a contract or contracts for the purchase of Ordinary Shares which may be executed in whole or part after such expiry and may purchase Ordinary Shares pursuant to such contracts or contracts as if the authority hereby conferred had not so expired."

By Order of the Board
G H Norton, Secretary

Notes:

1 Subject to note 3 below any member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote on their behalf who need not be members of the Company. The lodging of a proxy will not prevent a member from attending the meeting and voting in person.

2 To be valid the instrument appointing a proxy, together with any necessary authority under which it is executed needs to be lodged with the Company's Registrars, Capita IRG plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time for commencement of the meeting.

3 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company hereby gives notice that only those shareholders registered on the Register of Members as at 11.00 am on 11 April 2006 shall be entitled to attend and vote at the meeting in respect of the number of shares registered against their name at that time.

4 Copies of the Directors' service agreements and a summary of their interests and transactions in shares of the Company are available during normal business hours at the offices of the Company's Registrar and at the meeting for the period of 15 minutes prior to commencement and its conclusion.

5 As of 30 December 2005 there were options outstanding over 975,691 shares, after allocating the 527,565 shares held in an ESOP, this represents 1.8% of the Company's issued share capital. If the authority given by the resolution was to be fully used, this would represent 2% of the Company's issued share capital.

6 In accordance with the Articles of Association Mr A R Fryer retires from office as a Director of the Company at the Annual General Meeting. Mr Fryer does not wish to offer himself for re-election and, accordingly, there is no further requirement for any Director to retire from office or offer himself for re-election.

flying brands

www.flyingbrands.com

gifts

flying flowers

www.flyingflowers.com

garden

gardening direct

www.gardeningdirect.com

garden bird supplies

www.gardenbird.com

entertainment

listen2books

www.listen2books.co.uk

silverminds

www.silverminds.co.uk

benhams

www.benham.co.uk

Flying Brands Limited
Registered Office and Headquarters
Retreat Farm
St Lawrence
Jersey JE3 1GX

UK Office
Kelvedon Park
London Road
Rivenhall
Witham
Essex CM8 3HB