

Royal Collection Enterprises Limited

Directors' report and financial statements

31 March 2005

Registered number 2778486



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Royal Collection Enterprises Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

Principal activities

The principal activities of the company are the management of public access to the Official Residences of the Queen and the Official Residence of The Prince of Wales and the sale of merchandise in shops at each location. Taxable profits are donated in full under deed of covenant to the holding company, The Royal Collection Trust, a company limited by guarantee and registered as a charity.

Business review

The purpose of the company is to generate income for the Royal Collection Trust for the presentation, maintenance and conservation of the Royal Collection.

Income is raised from fees for the management of public access and shop sales at the following locations:

- Windsor Castle
- Frogmore House, Windsor Home Park
- Buckingham Palace State Rooms (open for two months in the summer)
- The Queen's Gallery, Buckingham Palace
- The Royal Mews, Buckingham Palace (open March to October)
- Clarence House (open for two months in the summer)
- The Palace of Holyroodhouse
- The Queen's Gallery, Palace of Holyroodhouse

In addition to the above, income is raised through off-site retail activities and fees for reproducing images of items in the Royal Collection.

On 1 April 2004 the Royal Collection Trust assumed responsibility from the company for admitting visitors to Official Residences of The Queen and the Official Residence of The Prince of Wales. The company continues to act as agent of the Trust in managing the admission of visitors to the official residences.

After a difficult year in 2003-4, the outlook for 2004-5 appeared more encouraging. However, while visitor numbers did in fact achieve strong growth in the first quarter of 2004-5, the performance over the remainder of the year was extremely variable at most locations, and visitor numbers for the year were disappointing. In addition to a slower than expected recovery in overseas tourism, the continued strength of sterling against the dollar was another contributory factor and overall visitor numbers were 39,000 (2 %) lower, at 1,797,000 in 2004-5.

However visitor numbers also impacted on the contribution from retail activities, with retail and publishing income reducing by £292,000 (4%) from £7,812,000 to £7,520,000.

Royal Collection Enterprises Limited

Directors' report (*continued*)

Business review (*continued*)

Windsor Castle

The first quarter of the year saw visitor numbers increase by 18% compared with the previous year, but over the remainder of the year numbers were largely unchanged. Visitor numbers therefore ended the year up 56,000, 6% on the previous year.

For the summer season, from 17 July to 12 September, a spectacular group of gold plate from the Grand Service was shown in the Waterloo Chamber. The Grand Service was originally supplied to George IV by the royal goldsmiths Rundell, Bridge and Rundell, and is still used for State Banquets and official entertaining. The display was based on the magnificent banquet held by Queen Victoria in 1844 for Emperor Nicholas I of Russia

For the Christmas period, in addition to the now customary Christmas tree in the Queen's Guard Chamber pieces from the Grand Service were again displayed in the Waterloo Chamber which was decorated with elaborate floral arrangements in the Victorian manner.

To mark the bicentenary of the Battle of Trafalgar, a colossal bust of Lord Nelson by Sir Francis Chantrey, commissioned by William IV in 1834, was returned to its original home in the Queen's Guard Chamber. It had been removed in the reign of King Edward VII and has been on loan to other institutions for most of the last century. The redecoration of the King's Closet, with crimson silk of the pattern of adjoining rooms, was also completed. The room has been re-hung with a group of sixteenth-century Italian paintings, including works by (or attributed) to Bronzino, Lotto, Palma Vecchio, Raphael and Giorgione.

Buckingham Palace

The Summer Opening of the State Rooms

The State Rooms were open for 58 days from 31 July to 26 September (2003-4: 59 days) and attracted 294,000 visitors, an average of over 5,000 per day. The special display on the history of musical entertainment at Buckingham Palace, mounted in the Ball Supper Room for the Summer Opening, included three paintings: *Queen Victoria and Prince Albert at the Bal Costumé of 12 May 1842* by Sir Edwin Landseer, *Queen Victoria and Prince Albert in Stuart Costumes* by Franz Xaver Winterhalter and a portrait of *Karl Friedrich Abel* by Charles Jean Robineau as well as historic fancy-dress costumes, musical instruments, photographs and souvenirs. As part of the audio tour of the State Rooms, visitors heard famous performers, the sounds of the original instruments on show and some of the music specially composed for the Royal Family. The display included Queen Victoria's costume for the Stuart Ball held in 1851 and the dress worn by Alexandra, Princess of Wales (later Queen Alexandra) for the Fancy Dress Ball of 1871, when she went dressed as Mary, Queen of Scots. In addition, 52 items of insignia were shown in the Ball Room during the Summer Opening.

The Queen's Gallery

The gallery was open for 329 days in the year to 31 March 2005 and attracted 111,000 visitors. The exhibition *George III & Queen Charlotte* continued until 9 January 2005 (see the 2003-4 Annual Report for details). The exhibition *Enchanting the Eye: Dutch Painting of the Golden Age* moved from Edinburgh to London where it opened in the Chambers gallery at The Queen's Gallery on 11 February 2005. At the same time a new display of *Treasures from the Royal Collection* was mounted in the Pennethorne and Nash galleries. The selection of paintings for this new display includes *The Negro Page* by A. Cuyp, *The Rape of Europa* by Claude Lorrain, *Cupid and Psyche* by Van Dyck and W. Frith's celebrated evocation of the Victorian seaside, *Ramsgate Sands*. The exhibition provides an opportunity to show some of the most popular works of art in the Collection – such as George IV's diamond diadem, the

Royal Collection Enterprises Limited

Directors' report (continued)

Business review (continued)

Cullinan Diamond brooch, Queen Victoria's Jewel Cabinet and works by Fabergé – alongside less familiar works. Included in the latter were a German seventeenth-century silver equestrian statuette of Gustavus Adolphus, a unique bronze model of a satyr by Cellini (described in the 2003-4 Annual Report) and four magnificent early eighteenth-century bronze reliefs of the *Seasons* by Massimiliano Soldani-Benzi.

The Royal Mews

The Royal Mews was open to visitors between 27 March and 31 October in 2004 and reopened on 5 March in 2005. During 2004-5 visitor numbers increased by 2,000 (2%) from 117,000 to 119,000. Due to a reduction in the number of days open compared with the previous year, this represented an increase of 3% in average daily visitors. For 2005 the visitor route has been slightly altered and a State Rolls Royce placed on view as an additional feature.

The Palace of Holyroodhouse

Overall visitor numbers have recovered well this year, increasing by 13,000 (6%) from 212,000 to 225,000. With greater royal usage of the Palace and consequent reduction in the number of open days, this represents an increase in average daily visitors of 9%. The completion of the new Scottish Parliament building, and its opening by HM The Queen in October 2004, generated considerable local interest and no doubt boosted visitor numbers around this period. These results are particularly encouraging in view of the fact that the ongoing fire compartmentation project, carried out by Historic Scotland, has caused unavoidable disruption to the visitor route.

The Queen's Gallery, Palace of Holyroodhouse

The *Padshahnama* exhibition concluded on 3 May 2004 and was followed by *Enchanting the Eye: Dutch Paintings of the Golden Age* from 14 May until 7 November 2004. The exhibition included genre scenes, portraits, still-lives, history paintings, landscapes and seascapes by the great masters of the seventeenth century. Among the works on display were Rembrandt's *Christ and Mary Magdalene at the Tomb* and his *Self-Portrait* of 1642, landscapes by Aelbert Cuyp, and Johannes Vermeer's *A Lady at the Virginals*. The exhibition attracted 47,400 visitors and was followed by *Holbein to Hockney: Drawings from the Royal Collection*, which opened on 25 November 2004 and closed on 6 March 2005 having attracted 11,500 visitors. The opening of the new exhibition, *Watercolours and Drawings from the Collection of Queen Elizabeth The Queen Mother*, was marked by a reception held by The Prince of Wales on 18 March 2005. The latter two exhibitions will both be shown in London in 2006.

Retail

The company's retail activities have experienced extremely difficult market conditions during the year, mainly as a result of the strength of sterling against the dollar and lower numbers of US visitors. In recent years, retail performance has been boosted by sales of merchandise linked to key royal events (the Golden Jubilee in 2002; the Anniversary of the Coronation in 2003). The absence of such an event in 2004 inevitably affected sales of items such as commemorative china. Overall retail sales for the year were £7,012,000 (2003-4: £7,692,000).

Royal Collection Enterprises Limited

Directors' report *(continued)*

Business review *(continued)*

Other factors which contributed to a dilution in the average spend per visitor included a noticeable change in the visitor mix at each location, and a significant increase in children's groups. This change resulted in a reduction in sales of higher value items and greater interest in food and small souvenir items.

Sales in the Gallery shops continue to be closely linked to visitor numbers, which overall were lower than the previous year. However, off-street trade improved in the second half of the year, with a strong Christmas performance at The Queen's Gallery, Buckingham Palace, and increased footfall after the opening of the new Scottish Parliament building in Edinburgh.

With little expectation of a significant recovery in overseas visitor numbers in the short term, steps continue to be taken to maximise off-site business. Attendance at trade fairs in Europe and the USA has produced useful new distribution outlets for the company's merchandise and the outlook for the wholesale business in 2005 is more encouraging. The re-launch of the on-line shop in April 2005, which is not dependent on fluctuations in tourism, should rekindle interest in distance shopping and provide a platform to sell commemorative merchandise linked to royal events.

Catering

In April 2004 a new café at the Palace of Holyroodhouse opened its doors to the public. Created in the nineteenth-century former coach house in the Mews Courtyard, it offers a changing selection of dishes, freshly made on the premises. Whenever possible, ingredients are obtained from local companies, many of whom supply The Queen and members of the Royal Family when in residence. The light and airy conservatory-style interior accommodates 100, and during warm weather visitors are able to eat outside, with the addition of a further 120 seats. An attractive sitting-out area to the rear of the café offers spectacular views of Salisbury Crags and Arthur's Seat. In its first year of trading the Café generated sales income of £329,000.

Photographic Services

Reproduction rights for the use of images of works from the Royal Collection generated an income of £226,000 (2003-4: £296,000).

Photography for several in-house projects was undertaken and photographic material supplied for use in exhibition and commercial publications. Photographic Services exhibited at the Picture Buyer's Fair in London and, in conjunction with the Publisher, at the Frankfurt Book Fair in October 2004.

Royal Collection Enterprises Limited

Directors' report (continued)

Business review (continued)

Publishing

Royal Collection Publications produced three new exhibition catalogues in 2004-5: *Enchanting the Eye: Dutch Paintings of the Golden Age* by Christopher Lloyd, Surveyor of The Queen's Pictures; *Holbein to Hockney: Drawings from the Royal Collection* by Martin Clayton, Deputy Curator of the Print Room; and *Drawings and Watercolours from the Collection of Queen Elizabeth The Queen Mother* by Susan Owens, Assistant Curator of the Print Room.

In addition, three stand-alone books were published: *The Garden at Buckingham Palace: an illustrated history*, by the distinguished garden historian Jane Brown, traces the history of the garden from a seventeenth-century mulberry plantation to the present day. The book is illustrated with material from the Royal Collection and Royal Archives, and the specially commissioned photographs by Christopher Simon Sykes record the changing character of the garden over the seasons of a year. To mark the publication of the book, an edition of BBC Radio 4's 'Gardeners' Question Time' was broadcast from the Bow Room at Buckingham Palace, and a BBC2 'Gardeners' World' special on the Palace garden was filmed over the year and broadcast in July and December.

Developing the Picture: Queen Alexandra and the Art of Photography, by Frances Dimond, Curator of the Royal Photograph Collection, is the first-ever study of the Queen Alexandra's interest in photography and is illustrated with 180 of her photographs, most of which have never before been published. Promotion of the book included a studio discussion on 'This Morning'.

The Architect King: George III and the Culture of the Enlightenment, by the well-known architectural historian Professor David Watkin, presents a full account of George III's patronage of architects and garden designers, setting the King and his patronage in a European context.

The publication of these three titles, backed by substantial media coverage and increased marketing, helped boost UK trade sales from £56,000 to £138,000. In addition to the above projects, work is underway on publishing the papers from the symposium held at The Queen's Gallery, Buckingham Palace, in 2004, and continues on four major *catalogues raisonnés* as well as new titles and reprints of Royal Collection guidebooks.

As in previous years, Royal Collection Publications exhibited at the Frankfurt Book Fair, with a revised trade catalogue of titles. As a result, discussions are underway for future publications with several foreign publishers. A new US distribution agreement was successfully negotiated during the year and this has already produced a marked increase in trade sales in the US - \$73,000 from September 2004 to March 2005, compared to \$61,000 for the year to March 2004.

Royal Collection Enterprises Limited

Directors' report (continued)

Business review (continued)

Education

New educational resources developed over the last 12 months have included the formation of a handling collection and the introduction of a series of practical workshops at the Palace of Holyroodhouse. Garden Tours and Activity Boxes were developed for family groups during the summer school holidays, and these have proved very popular. In the coming year a joint initiative with Historic Scotland, involving Edinburgh Castle and the Palace, includes a workshop exploring the life of Mary, Queen of Scots.

The expanded schools programme at the Royal Mews, Buckingham Palace, incorporated a popular 'Behind the Scenes' guided tour. The new Education Room at the Mews has been well used by family groups over school holidays and weekends. The activities and resources made available included workshops, quizzes and thematic trails.

In the last few weeks of the Summer Opening of Buckingham Palace, over 500 pupils from local schools visited the State Rooms. Using the new garden activity trail developed by Royal Collection Education and the Gardens Manager, pupils aged seven to eleven learned about the vast range of wildlife and flowers to be found in the Palace garden, and the different uses of the garden today.

At Windsor Castle, arts-based activity weeks were run throughout the school year on the themes of 'Victorian Castles', 'Knights and Castles' and 'Castles Long Ago'. Teachers of Key Stage 1 and 2 pupils were also offered a new introductory talk given at St George's Chapel. A programme of Christmas activities took place on 29 and 30 December, with family groups following an activity trail through the State Apartments on the theme of Christmas celebrations, past and present. Over 500 adults and children took part in the February half-term family activities exploring State portraiture.

Teachers' evenings held at each location helped to raise awareness of the resources available for school groups. Further development of the schools programme during the year included a schools leaflet for each location.

E-Gallery

The Royal Collection e-Gallery, the interactive multimedia catalogue installed at The Queen's Galleries in London and Edinburgh in 2002, was updated with the addition of the Buckingham Palace Summer Opening display and the exhibitions *Enchanting the Eye*, *Holbein to Hockney*, *Queen Alexandra and the Art of Photography* and *Drawings and Watercolours from the Collection of Queen Elizabeth The Queen Mother*. More than 1,600 items from the Collection are now accessible through this medium. Some 150 interactive features have been developed and new features are created for each exhibition. Terminals were installed in the Drawings Gallery, Windsor Castle for the duration of the *Queen Alexandra* exhibition. The updated Royal Collection website, which now includes the e-Gallery, was launched in April 2005.

Distributions

During the year, distributions were payable under deed of covenant amounting to £1,756,000 (2003-4: £3,669,000).

The directors do not recommend any further distribution. After distributions, the loss for the year retained in the company is £335,000 (2003-4: £23,000).

Royal Collection Enterprises Limited

Directors' report *(continued)*

Business review *(continued)*

The directors who held office during the year were as follows:

Alan Reid (Chairman)
Hugh Roberts
Michael Stevens
Michael Bourke
Frances Dunkels
Christopher Lloyd
Jonathan Marsden
Nuala McGourty
Jane Roberts
Frances Mossman (Non executive director)
Joanna Oswin (Non executive director)

Directors and directors' interests

None of the directors who held office at 31 March 2005 had any disclosable interest in the shares of the company. According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the year.

Liability insurance

During the year the company purchased liability insurance for its officers.

Employment policies

Royal Collection Enterprises Limited is an equal opportunities employer and every effort is made to give employment to disabled applicants. Royal Collection Enterprises Limited would endeavour to re-train any employee who developed a disability while in its employ. All staff receive an annual appraisal to assess performance and to identify career development opportunities and training requirements. Regular meetings with staff are held to keep employees informed of the activities and objectives of the company and to discuss other matters of interest or concern.

Auditors

During the year the Audit Committee oversaw a competitive tender for the provision of audit services to the group. Four firms were invited to tender and KPMG LLP successfully retained their position as auditors to the group. A resolution concerning the reappointment of KPMG LLP as auditors and their remuneration will be proposed at the forthcoming meeting of the Board.

By order of the board



Alan Reid
Chairman
Stable Yard House
St James's Palace
London SW1A 1JR
8 June 2005

Royal Collection Enterprises Limited

Statement of directors' responsibilities

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

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

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

Royal Collection Enterprises Limited
Independent Auditors' report to the members of
Royal Collection Enterprises Limited

We have audited the financial statements on pages 11 to 23.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 8, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Royal Collection Enterprises Limited
Independent Auditors' report to the members of
Royal Collection Enterprises Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2005 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG LLP
Chartered Accountants
Registered Auditor

8 June 2005
London

Royal Collection Enterprises Limited

Profit and loss account

for the year ended 31 March 2005

	Note	Continuing Operations		Discontinued Operations	Total
		2005	2004	2004	2004
		£000	£000	£000	£000
Turnover	1,2	19,173	18,870	1,451	20,321
Direct costs, including cost of sales	2	(16,832)	(16,203)	-	(16,203)
Gross profit	2	2,341	2,667	1,451	4,118
Administrative expenses		(670)	(587)	-	(587)
Donation to Privy Purse Charitable Trust	18	(290)	-	-	-
Other operating income		38	114	-	114
Operating profit		1,419	2,194	1,451	3,645
Interest receivable and other similar income	6	2	-	-	1
Profit on ordinary activities before and after taxation	3	1,421			3,646
Deed of covenant		(1,756)			(3,669)
Retained loss for the financial year	12	(335)			(23)

There are no recognised gains or losses other than those included above.

The profit on ordinary activities before and after taxation is measured under the historical cost convention.

The notes on pages 13 to 23 form part of these financial statements.

Royal Collection Enterprises Limited

Balance sheet

at 31 March 2005

	Note	2005		2004	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	7		572		2,244
Current assets					
Stock and work in progress	8	1,718		1,620	
Debtors	9	2,020		652	
Cash at bank and in hand		213		1,206	
Creditors: amounts falling due within one year	10	3,951 (4,244)		3,478 (5,108)	
Net current liabilities			(293)		(1,630)
Total assets less current liabilities			279		614
Capital and reserves					
Called up share capital	11	-		-	
Capital reserve	12	-		159	
Profit and loss account	13	279		455	
Shareholders' funds			279		614

These financial statements were approved by the board of directors on 8 June 2005 and were signed on its behalf by:



Alan Reid
Chairman

Royal Collection Enterprises Limited

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

The company is exempt from the requirement of Financial Reporting Standard 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of the Royal Collection Trust (limited by guarantee) and its cash flows are included within the consolidated cash flow statement of that company.

Under Financial Reporting Standard 8, the company is exempt from the requirement to disclose the details of related party transactions with its parent undertaking.

On 1 April 2004 the Royal Collection Trust assumed responsibility from the company for admitting visitors to the Official Residences of The Queen and the Official Residence of The Prince of Wales. The company will continue to act as agent of the Royal Collection Trust in managing the admission of visitors to the Official Residences. As a result of the transfer of activity the discontinued activity has been reported separately in the profit and loss account comparative figures.

Turnover

Turnover, which excludes Value Added Tax, includes management fees for managing the admission of visitors to the Official Residences of The Queen and the Official Residence of The Prince of Wales, the publication of books on the Royal Collection and the granting of rights for the use of images from the Royal Collection in books and other media, sales of merchandise and sponsorship income. Management fees comprise both direct and indirect costs related to these activities and a contribution to central management and administrative costs.

Fixed assets and depreciation

The buildings comprising Windsor Castle, Buckingham Palace (including The Queen's Gallery and the Royal Mews) and the Palace of Holyroodhouse (including The Queen's Gallery) are owned by The Queen as Sovereign and maintained by the Royal Household Property Section and Historic Scotland and are therefore not capitalised in these financial statements. However, where improvements are made to these buildings by the company, in order to increase revenues, the expenditure is capitalised and depreciation is charged over the estimated useful lives of the assets.

Royal Collection Enterprises Limited

Notes (continued)

1 Accounting policies (continued)

Fixed assets and depreciation (continued)

No depreciation is charged on assets in the course of construction until the assets have been successfully commissioned and are available for use. Finance costs incurred in connection with the construction of tangible assets are not capitalised and are charged to the profit and loss account as incurred.

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives which are determined on an individual asset basis as follows:

Property improvements	-	10 to 20 years
Plant and machinery	-	3 to 10 years
Furniture, fittings and equipment	-	2 to 10 years

Individual assets costing less than £2,000 are not capitalised (2003-04: £1,000).

Publishing

The cost of producing each Royal Collection book is carried forward in work in progress until publication. Where, however, it is envisaged that a book will make a loss, the loss is recognised immediately. Published books are included in stock at the lower of cost or net realisable value. Publishing royalties are recognised when earned.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Capital Reserve

The assets and liabilities of the company, which were acquired from the Royal Collection on 31 March 1993 for no consideration, were recorded at their fair value on date of acquisition; the surplus arising on the acquisition was credited to the Capital Reserve.

During the year the company disposed of all its fixed assets to its parent, The Royal Collection Trust, for an amount equivalent to the net book value of the assets at the transfer date. The disposal of the assets resulted in the Capital Reserve being realised, and the balance has therefore been credited to the profit and loss account.

Royal Collection Enterprises Limited

Notes (*continued*)

1 Accounting policies (*continued*)

Pensions

The company participates in pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Stock and work in progress

Stock is stated at the lower of cost and net realisable value. Work in progress relates to the component cost of publishing stock and china products. In determining the cost of goods purchased for resale, the weighted average purchase price is used.

Deferred taxation

The company fully provides for deferred tax to the extent that it has any liability to tax. However, it is bound by a deed of covenant to transfer all of its taxable profit to the Royal Collection Trust and consequently has no liability to tax.

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Liabilities

Liabilities are recognised when a constructive obligation arises.

Royal Collection Enterprises Limited

Notes (continued)

2 Turnover and gross profit

Turnover and gross profit from each of the company's main activities may be analysed as set out below.

	----- Continuing Operations -----					Discontinued Operations	
	Management Fees	Retail and publishing	Other	2005 Total	2004	2004	2004 Total
	£000	£000	£000	£000	£000	£000	£000
Turnover	11,427	7,520	226	19,173	18,870	1,451	20,321
Direct costs, including cost of sales	<u>(9,204)</u>	<u>(7,307)</u>	<u>(321)</u>	<u>(16,832)</u>	<u>(16,203)</u>		<u>(16,203)</u>
Gross profit/(loss)	<u>2,223</u>	<u>213</u>	<u>(95)</u>	<u>2,341</u>	<u>2,667</u>	<u>1,451</u>	<u>4,118</u>

Admission numbers at each location were as follows:

	2005	2004
	'000	'000
Windsor Castle	914	858
Windsor Castle Education Centre	15	13
Frogmore House	8	10
Buckingham Palace State Rooms	295	315
Clarence House	42	47
The Queen's Gallery, Buckingham Palace	111	159
The Royal Mews, Buckingham Palace	119	117
The Palace of Holyroodhouse	225	212
The Queen's Gallery, Palace of Holyroodhouse	65	103
The Palace of Holyroodhouse Education Centre	3	2
	<hr/>	<hr/>
	1,797	1,836
	<hr/>	<hr/>

Royal Collection Enterprises Limited

Notes (continued)

3 Profit on ordinary activities before and after taxation

	2005 £000	2004 £000
<i>Profit on ordinary activities before and after taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	8	8
Other services - tax	8	19
Depreciation and other amounts written off owned tangible fixed assets	400	477
Operating lease charges:	69	75
	<hr/>	<hr/>

4 Remuneration of directors

	2005 £000	2004 £000
Directors' emoluments including pension contributions	336	320
	<hr/>	<hr/>

The Chairman received no emoluments during the year in connection with services to the company, other than £175 (2003-4: £117) in respect of the cost of directors' liability insurance. The emoluments, excluding pension contributions, of the highest paid director were £98,589 (2003-4: £88,347).

Contributions to provide defined pension benefits were made for four directors (2003-4: four). The accrued benefits due to the highest paid director at 31 March 2005 amounted to an annual pension of £20,181 and a lump sum of £51,776 (2003-4: £17,740 and £45,422).

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Notes (continued)

5 Staff numbers and costs

The average number of full time equivalent staff employed by the company or on permanent secondment from the Royal Household (including directors) analysed by category, was as follows:

	Number of employees	
	2005	2004
Windsor Castle	120	121
Buckingham Palace	101	91
Palace of Holyroodhouse	44	50
Central Retail & Warehousing	16	16
Public Relations & Marketing	5	5
Publishing	2	2
Education	4	3
Photographic Services	7	8
Finance & Administration (including directors)	12	12
	<hr/>	<hr/>
	311	308
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2005	2004
	£000	£000
Wages and salaries	5,919	5,477
Social security costs	427	355
Other pension costs (see note 15)	678	647
	<hr/>	<hr/>
	7,024	6,479
	<hr/>	<hr/>

6 Interest receivable and other similar income

	2005	2004
	£000	£000
Bank interest	2	1
	<hr/>	<hr/>

Royal Collection Enterprises Limited

Notes (continued)

7 Tangible fixed assets

	Property improvements	Plant and machinery	Furniture, fittings and the equipment	Assets in the course of construction	Total
	£000	£000	£000	£000	£000
Cost					
At 1 April 2004	1,055	282	3,397	706	5,440
Additions	40	16	100	-	156
Transfers	-	-	7	(7)	-
Disposals/write-offs	(6)	(2)	(132)	-	(140)
Disposals of assets to parent charity	(1,021)	(14)	(428)	(699)	(2,162)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	68	282	2,944	-	3,294
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 April 2004	541	106	2,548	-	3,195
Charge for year	19	34	347	-	400
Disposals/write-offs	(3)	(1)	(115)	-	(119)
Disposals of assets to parent charity	(496)	(4)	(254)	-	(754)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	61	135	2,526	-	2,722
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 March 2005	7	147	418	-	572
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	514	176	849	706	2,245
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The opening historical cost and accumulated depreciation balances at 1 April 2004 have been adjusted. There is no impact on the net book value.

Royal Collection Enterprises Limited

Notes (continued)

8 Stock and work in progress

	2005	2004
	£000	£000
Finished goods	1,480	1,352
Work in progress	238	268
	<hr/>	<hr/>
	1,718	1,620
	<hr/>	<hr/>

9 Debtors: due within one year

	2005	2004
	£000	£000
Trade debtors	40	222
Other debtors	74	303
Amounts due from parent undertaking	1,809	-
Prepayments and accrued income	97	127
	<hr/>	<hr/>
	2,020	652
	<hr/>	<hr/>

10 Creditors: amounts falling due within one year

	2005	2004
	£000	£000
Bank overdraft	1,392	-
Trade creditors	799	1,189
Other creditors including taxation	4	16
Amounts due to parent undertaking	-	2,821
Accruals and deferred income	2,049	1,082
	<hr/>	<hr/>
	4,244	5,108
	<hr/>	<hr/>

11 Called up share capital

	2005	2004
	£	£
<i>Authorised</i>		
Ordinary shares of £1 each	100	100
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	2	2
	<hr/>	<hr/>

Royal Collection Enterprises Limited

Notes (continued)

12 Reserves

	Capital reserve £000	Profit and loss account £000
At beginning of year	159	455
Disposal of fixed assets	(159)	159
Retained loss for the year	-	(335)
	<hr/>	<hr/>
At end of year	-	279
	<hr/>	<hr/>

13 Movement on shareholders' funds

	2005 £000	2004 £000
Retained loss for the year	(335)	(23)
Opening shareholders' funds	614	637
	<hr/>	<hr/>
Closing shareholders' funds	279	614
	<hr/>	<hr/>

14 Commitments

Capital commitments at 31 March 2005 for which no provision has been made were as follows:

	2005 £000	2004 £000
Contracted	22	186
Authorised but not contracted	81	296
	<hr/>	<hr/>

Operating lease commitments

	2005 £000	2004 £000
Amounts payable within one year of the balance sheet date in respect of operating leases expiring:		
- within one year	16	20
- between two and five years	55	47
	<hr/>	<hr/>

Royal Collection Enterprises Limited

Notes *(continued)*

15 Pension scheme

As explained in the accounting policies set out on page 15 the company participates in pension schemes providing benefits based on final pensionable pay. Details of the most recent valuations of the schemes, together with the assumptions which have the most significant effect on the results of the valuations, are given in the financial statements of the parent company, the Royal Collection Trust.

16 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of the Royal Collection Trust, a company limited by guarantee registered in England and Wales.

The largest and smallest group in which the results of the company are consolidated is that headed by its ultimate parent company, the Royal Collection Trust, registered in England and Wales. The consolidated accounts of this company are available to the public and may be obtained from the Secretary, St James's Palace, London, SW1A 1JR.

17 Guarantee

On 12 February 1997 the company provided a guarantee to Coutts & Co. in consideration for the granting of an overdraft facility in favour of its parent company, the Royal Collection Trust. At 31 March 2005, the group's overdraft balance amounted to £12,561,000 (2003-4: £13,717,000).

Royal Collection Enterprises Limited

Notes (continued)

18. Related Party Transactions

Material transactions during the year with other entities controlled by officials, Trustees or other appointees on behalf of The Queen are set out below. The figures in brackets represent the amounts to or from related parties at the balance sheet date.

Related Party	2005 £000	2004 £000	Type of Transaction	Details of Transaction
Property Services Grant-in-aid	1,657 (1,398)	1319 (339)	Maintenance services	Costs of property refurbishments, maintenance services, utilities and staff costs, included in cost of sales and administrative expenses.
Civil List	90 (22)	66 (18)	Reimbursement of staff costs	Reimbursement of staff costs for internal audit, records management and carriage conservation.
Civil List	452 (2)	452 (6)	Management charge	Various services including personnel, payroll and pensions administration and other staff related expenses, included in payroll costs.
Civil List	65 (13)	63 (38)	IT services	Costs of IT infrastructure and network services.
Privy Purse Charitable Trust	290 (50)	253 (15)	Donation	Donation to the Privy Purse Charitable Trust in lieu of its right to charge for admission to Queen Mary's Dolls' House, Windsor Castle. (2003-4: included in cost of sales).
St George's Chapel	1,094 (28)	906 18	Admissions income collected as agent	Income in respect of admissions to St. George's Chapel, Windsor Castle collected by Royal Collection Enterprises as agent and therefore excluded from Admissions income (2003-4: Income is included in Turnover and the same amount included in cost of sales).
St. George's Chapel	30 -	- -		Compensation for loss of retail income included in Retail and Publishing costs.
Historic Royal Palaces	4 -	8 1	Turnover	Charges made to Historic Royal Palaces for the right to reproduce images in the Royal Collection and goods for re-sale.
Historic Royal Palaces	- -	3 -	Reimbursement of staff costs	Reimbursement of costs of internal auditor, included in administrative expenses.

None of the directors or other related parties except as referred to above or as otherwise disclosed in the financial statements has undertaken any material transactions with Royal Collection Enterprises Limited during the year.