

Anness Publishing Limited

Registered No. 2375310

DIRECTORS

Mr P Anness
Ms J Lorenz
Mrs D Lie
Mr S Hill
Mr V Smith

SECRETARY

Ms J Lorenz

AUDITORS

Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

BANKERS

NatWest Plc
1 Princes Street
London EC2R 8PA

SOLICITORS

Nabarro Nathanson
50 Stratton Street
London W1X 6NX

REGISTERED OFFICE

Hermes House
88-89 Blackfriars Road
London SE1 8HA



DIRECTORS' REPORT

The directors present their report and accounts for the 14 months to 31 October 1997.

PRINCIPAL ACTIVITY

The principal activity of the company remained that of publishing and editing services both in the United Kingdom and overseas.

RESULTS AND DIVIDEND

During 1997 the directors decided to change the company's financial year end to 31 October in order to better reflect and work within the commercial cycles and seasonality of the illustrated book publishing industry: this resulted in a 14 month trading period.

Profit before tax for the 14 month period ended 31 October 1997 was £154,370, up from £150,705 (restated) in the year ended 31 August 1996.

Turnover in the 1997 period was £28.9m, compared to £17.3m in 1996 (restated). Taking a cautious estimate for comparative purposes of £23.0m for turnover on a like-for-like 12 month basis, 1997 sales are up 33% on 1996, maintaining the consistent growth rate which has been the company's principal strategic objective over the past five years.

The £154,370 profit before tax is declared after charging three exceptional costs totalling £1,228,800. The exceptional costs are detailed within the accounts, and comprise:

Currency losses

Due to unanticipatedly strong sales in Europe in local currencies (sales into these markets rose 100% in the period against a budgeted growth of 20%), the company left itself unexpectedly vulnerable to the extreme exchange-rate fluctuations that occurred in the year. Losses were £445,143. Currency hedging systems are now in place to better deal with similar situations in the future and currency revenues are now balanced more equitably by currency purchases: the directors believe that the company now has only minimal exposures to future currency losses.

Stock write-off

Due to the deteriorating performance and effectiveness of some of the company's distribution channels through third parties, the decision was taken early in 1997 to accelerate termination and to immediately initiate their replacement with more tightly controlled, higher margin marketing systems. The cost of this exercise was a one-off loss of £459,448 against the rapid disposals of the existing stocks which were effectively, through local branding, non-transferrable. The replacement sales mechanisms are now fully bedded-in and trading very successfully.

Professional fees

The company invested in 1997 in consultancy and professional fees primarily relating to the future of the company and its gradual operational and financial restructuring to face the challenges of life as a £30.0m organisation. Benefits already achieved through this exercise include a reduction of over £120,000 per annum in bank interest payable in 1998 and improvements in operating margins of over 5% in the first three months of the 1998 period compared to the same period in 1997 - which improvements are projected to be a permanent feature.

The new USA company, Anness Publishing Inc, which commenced its activities on 1 September 1996, performed very creditably in its first year of operations, with turnover of \$9.9m, a small profit, and positive net worth at the year end. With an eye to the longer term, the company has worked exceptionally hard to build close relationships with the most important USA buyers, and a vibrant springboard has been created for strong growth and solid profitability.

DIRECTORS' REPORT

RESULTS AND DIVIDEND (continued)

The Australian company, Anness Publishing Pty, now in its third year of activity, continued its pattern of success, with sales of A\$4.7m and profits before tax of A\$374,000. With just two employees we believe this to be one of the most effective publishing organisations in the world.

During the year the company reassessed its accounting policy for the treatment of work-in-progress. The previous policy determined a 20% per month write-off of all creative costs commencing when the actual cost was incurred, meaning that the vast majority of all product development costs were written off well before the finished book was actually taken to the market. In consultation with their professional advisors the directors felt that this policy was no longer a suitable or sensible system for a company that had aggressively invested over £8.0m on new-product creation in the previous 36 months: nor did it properly reflect the active life of the company's high-quality titles, which are consistently proven to generate substantial sales into their fourth, fifth and sixth years of existence.

The new policy developed during 1997 and implemented in these accounts brings the company into line with other publishing companies in its sector of the industry: it better matches costs to forward revenue streams over a still-cautious three year period commencing on the date of first publication. The impact of this change of policy is indicated in the restatement of the 1996 results herein.

No dividend was distributed for this period. The undistributed reserves of the company at 31 October 1997 totalled £1,409,648 compared to restated undistributed reserves at 31 August 1996 of £1,260,460. Undistributed reserves at 31 August 1996 under the previous accounting policy would have been £581,588.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

In summary, it would be disingenuous to ignore the fact that 1997 was a year of considerable challenge to the company.

Externally, the illustrated book market was both static in growth terms and turbulent in trading terms - the latter caused by currency fluctuation; issues of returnability (to which APL limits its exposure to about 15% of its trading); generally perceived over-production; growing competition from non-book products for the consumer's pound, and increasingly intense price competition in the mass markets.

Internally, the company had to face a year of hectic transition. Directors and senior managers coped with orchestrating 33% organic growth (coming out of the creation of 170 new titles; the consolidation of its children's programme; the pioneering of sales into a dozen new territories in Europe; the maturation of sales channels in Germany and France, and the development of a new business in the USA) while simultaneously working intensively with its professional advisors to review and restructure a business that had grown from barely £5.5m in sales three years previously and which was now nearly touching £25.0m. A major factor in this restructuring was the expansion and enhancement of the Group's management team: key elements of a substantial investment in new people were the appointments of Vincent Smith as Production Director and Simon Hill as Finance Director.

DIRECTORS' REPORT

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (continued)

Whereas the directors feel that losses incurred through exceptional items could have been better contained, that the service area of its account-handling and customer orientation needs to be carefully monitored and constantly improved, and that margin at the operating level was disappointingly at least 2% lower than it should have been, they believe that in all other respects 1997 was a year in which the company can take substantial pride in its performance. Continuity of growth was maintained under difficult circumstances, while the reputation of the company for exceptional products, superb quality and extraordinary value was enhanced. Extremely close operational partnerships and relationships were formed or strengthened in every major publishing and book distribution territory, including agreements with some of the biggest and most aggressive sales organisations in the industry. The investments made in 1997 in infrastructure - which have a particular emphasis on margin-improvement going forward - are already bearing fruit, and 1998, the company's 10th anniversary, looks set to be a record year for both sales and profits.

The directors would like to thank all their colleagues and workmates within the company, all the company's authors, designers, editors, photographers, distributors and film and print suppliers, and all the company's customers for the roles that each of them played in the successful conclusion of an important year in the company's evolution.

DIRECTORS AND THEIR INTERESTS

The directors at 31 October 1997 and their interests in the share capital of the company were as follows:

	<i>31 October 1997 £1 Ordinary shares</i>	<i>31 August 1996 £1 Ordinary shares</i>
Mr P Anness	900	900
Ms J Lorenz	100	100
Mrs D Lie	-	-

In addition, Mr S Hill and Mr V Smith were appointed as directors on 25 March 1998.

AUDITORS

Ernst & Young were appointed as auditors during the period and a resolution to reappoint them will be put to the members at the Annual General Meeting.

By order of the board

Ms J Lorenz
Secretary

26 March 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Anness Publishing Limited

We have audited the accounts on pages 7 to 21, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 12 and 13.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

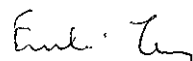
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 October 1997 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

26 March 1998

Anness Publishing Limited

GROUP PROFIT AND LOSS ACCOUNT for the 14 months to 31 October 1997

		<i>14 months to 31 October 1997</i>	<i>Restated Year ended 31 August 1996</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
TURNOVER	3	28,939,600	17,312,461
Cost of sales		23,639,946	15,130,090
Gross profit		5,299,654	2,182,371
Administrative expenses		3,481,415	1,962,342
Exceptional items	7	1,228,800	(52,939)
OPERATING PROFIT	4	589,439	272,968
Interest receivable and similar income		21,796	28,406
Interest payable and similar charges	8	(456,865)	(150,669)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		154,370	150,705
TAX ON PROFIT ON ORDINARY ACTIVITIES	9	185,019	89,349
(LOSS)/PROFIT FOR THE FINANCIAL PERIOD ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY		(30,649)	61,356
Minority interests: Equity		(12,616)	(6,194)
RETAINED (LOSS)/PROFIT FOR THE PERIOD		(43,265)	55,162

Anness Publishing Limited

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the 14 months to 31 October 1997

	<i>14 months to 31 October 1997</i>	<i>Restated Year ended 31 August 1996</i>
<i>Note</i>	<i>£</i>	<i>£</i>
(Loss)/profit for the financial period attributable to members of the parent company	(30,649)	61,356
Total recognised gains and losses relating to the period	(30,649)	61,356
Prior year adjustment	13 403,485	-
TOTAL RECOGNISED GAINS AND LOSSES DURING THE PERIOD	372,836	61,356

Anness Publishing Limited

GROUP BALANCE SHEET

at 31 October 1997

		31 October 1997	Restated 31 August 1996
	Notes	£	£
FIXED ASSETS			
Tangible fixed assets	11	64,861	87,943
Investments	12	5,000	5,000
		<u>69,861</u>	<u>92,943</u>
CURRENT ASSETS			
Stocks	13	6,755,315	6,053,990
Debtors	14	7,692,654	5,871,236
Cash at bank and in hand		2,294,756	400,308
		<u>16,742,725</u>	<u>12,325,534</u>
CREDITORS: amounts falling due within one year	15	15,589,288	11,178,164
		<u>1,153,437</u>	<u>1,147,370</u>
NET CURRENT ASSETS			
		<u>1,223,298</u>	<u>1,240,313</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
Minority interests: Equity		33,767	7,517
		<u>1,189,531</u>	<u>1,232,796</u>
CAPITAL AND RESERVES			
Called up share capital	16	1,000	1,000
Profit and loss account	17	1,188,531	1,231,796
		<u>1,189,531</u>	<u>1,232,796</u>
Equity shareholders' funds	17		
		<u>1,189,531</u>	<u>1,232,796</u>

Mr P Anness

Director

26 March 1998

Anness Publishing Limited

BALANCE SHEET at 31 October 1997

		31 October 1997	Restated 31 August 1996
	Notes	£	£
FIXED ASSETS			
Tangible fixed assets	11	45,195	85,629
Investments	12	308,479	5,437
		<u>353,674</u>	<u>91,066</u>
CURRENT ASSETS			
Stocks	13	5,457,571	5,899,558
Debtors	14	7,726,066	6,059,820
Cash at bank and in hand		2,287,828	340,143
		<u>15,471,465</u>	<u>12,299,521</u>
CREDITORS: amounts falling due within one year	15	14,414,491	11,129,127
		<u>1,056,974</u>	<u>1,170,394</u>
NET CURRENT ASSETS			
		<u>1,410,648</u>	<u>1,261,460</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>1,410,648</u>	<u>1,261,460</u>
CAPITAL AND RESERVES			
Called up share capital	16	1,000	1,000
Profit and loss account	17	1,409,648	1,260,460
		<u>1,410,648</u>	<u>1,261,460</u>
Equity shareholders' funds	17		
		<u>1,410,648</u>	<u>1,261,460</u>

Mr P Anness

Director

26 March 1998

Anness Publishing Limited

GROUP STATEMENT OF CASH FLOWS for the 14 months to 31 October 1997

		<i>14 months to 31 October 1997</i>	<i>Year ended 31 August 1996</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	21(a)	69,391	(736,556)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		21,796	28,406
Interest paid		(456,865)	(150,669)
		(435,069)	(122,263)
TAXATION			
Corporation tax paid		(176,309)	(86,329)
Overseas taxation		(45,333)	(8,804)
		(221,642)	(95,133)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(35,571)	(94,363)
Receipts from sales of tangible fixed assets		8,482	-
		(27,089)	(94,363)
DECREASE IN CASH		(614,409)	(1,048,315)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
		<i>14 months to 31 October 1997</i>	<i>Year ended 31 August 1996</i>
	<i>Note</i>	<i>£</i>	<i>£</i>
Decrease in cash in the period		(614,409)	(1,048,315)
NET DEBT AT BEGINNING OF THE PERIOD		(1,692,393)	(644,078)
NET DEBT AT END OF THE PERIOD	21(b)	(2,306,802)	(1,692,393)

NOTES TO THE ACCOUNTS

at 31 October 1997

1. **FUNDAMENTAL ACCOUNTING CONCEPT**

These accounts are prepared on a going concern basis: the directors are satisfied that the profits and cash flows of the group, together with the continuing support of its bankers, will enable the company to pay its liabilities as they fall due.

2. **ACCOUNTING POLICIES**

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The group accounts comprise the accounts of Anness Publishing Limited and all its subsidiary undertakings made up to 31 October 1997. No profit and loss account is presented for Anness Publishing Limited as permitted by section 230 of the Companies Act 1985.

Turnover

Turnover represents amounts receivable for goods and services provided to customers, from the publishing projects undertaken by the company excluding VAT, during the period.

Fixed assets

Fixed asset investments are stated at cost less provision for diminution in value.

Depreciation

Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Leasehold properties	-	straight line over the life of the lease
Fixtures, fittings and equipment	-	25% straight line
Motor vehicles	-	33.33% straight line
Computer equipment	-	50% straight line

Stocks and work in progress

Published books are stated at the lower of cost and net realisable value.

Work in progress includes costs of bringing a book to publication. It is amortised by 30% following the month of publication and then evenly at 2% per month over the next 35 months. Provision is made for abortive development costs, or where the non-amortised costs are not expected to be recovered on future sales.

Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to materialise.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the accounting date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. All differences are taken to the profit and loss account.

Anness Publishing Limited

NOTES TO THE ACCOUNTS

at 31 October 1997

2. ACCOUNTING POLICIES continued)

Leasing commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pensions

The pension costs charged in the accounts represent the contribution payable by the company during the period in accordance with SSAP 24.

3. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity, the publishing of books and provision of editing services.

An analysis of turnover by geographical market is given below:

	<i>14 months to 31 October 1997 £</i>	<i>Year ended 31 August 1996 £</i>
United Kingdom	7,968,134	4,704,511
Rest of Europe	6,156,943	2,997,654
North America	11,666,018	6,936,141
Asia	483,870	421,200
Australasia	2,364,715	2,076,412
Africa	299,920	176,543
	<u>28,939,600</u>	<u>17,312,461</u>

4. OPERATING PROFIT

This is stated after charging/(crediting):

	<i>14 months to 31 October 1997 £</i>	<i>Year ended 31 August 1996 £</i>
Depreciation of tangible fixed assets	48,863	27,751
Operating lease rentals - land and building	39,915	39,915
- plant and machinery	36,719	64,466
Auditors' remuneration - UK audit services	32,500	12,800
- UK exceptional non-audit services	204,025	-
	<u>299,022</u>	<u>144,932</u>

Anness Publishing Limited

NOTES TO THE ACCOUNTS

at 31 October 1997

5. STAFF COSTS

	<i>14 months to 31 October 1997 £</i>	<i>Year ended 31 August 1996 £</i>
Wages and salaries	1,855,805	724,163
Social security costs	137,814	81,832
Other pension costs	23,345	23,120
	<u>2,016,964</u>	<u>829,115</u>

The monthly average number of employees during the period was as follows:

	<i>14 months to 31 October 1997 No.</i>	<i>Year ended 31 August 1996 No.</i>
Production and editorial	37	28
Sales and marketing	15	9
Administration and accounts	13	8
	<u>65</u>	<u>45</u>

6. DIRECTORS' EMOLUMENTS

	<i>14 months to 31 October 1997 £</i>	<i>Year ended 31 August 1996 £</i>
Emoluments	<u>209,075</u>	<u>141,083</u>
Company contributions paid to defined contribution pension schemes	<u>7,075</u>	<u>-</u>
	<u>216,150</u>	<u>141,083</u>
	<i>14 months to 31 October 1997 £</i>	<i>Year ended 31 August 1996 £</i>
Members of defined contribution pension schemes	<u>3</u>	<u>3</u>

Anness Publishing Limited

NOTES TO THE ACCOUNTS

at 31 October 1997

6. DIRECTORS' EMOLUMENTS (continued)

The amounts in respect of the highest paid director are as follows:

	<i>14 months to 31 October 1997 £</i>	<i>Year ended 31 August 1996 £</i>
Emoluments	72,500	58,333
Company contributions paid to defined contribution pension schemes	2,800	-

7. EXCEPTIONAL ITEMS

	<i>14 months to 31 October 1997 £</i>	<i>Year ended 31 August 1996 £</i>
Recognised in arriving at operating profit:		
Professional fees	324,209	-
Termination of distribution agreement	459,448	-
Foreign exchange loss	445,143	(52,939)
	1,228,800	(52,939)

Professional fees of £324,209 were incurred for assistance in the financial and operational reorganisation of the company, including the renegotiation of bank facilities.

Non-recurring costs of £459,448 relate to the disposal of residual stock following the cessation of the group's US promotional book distribution agreement in June 1997.

The effect on the taxation charge for the period of the exceptional items recognised within operating profit is disclosed in note 9.

8. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>14 months to 31 October 1997 £</i>	<i>Year ended 31 August 1996 £</i>
Bank loans and overdrafts	456,865	146,425
Other interest	-	4,244
	456,865	150,669

Anness Publishing Limited

NOTES TO THE ACCOUNTS

at 31 October 1997

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	14 months to 31 October 1997 £	Restated Year ended 31 August 1996 £
UK corporation tax	90,000	53,585
Overseas taxation	95,019	35,764
	<u>185,019</u>	<u>89,349</u>

The tax effect in the profit and loss account relating to the exceptional items recognised in operating profit is a credit of £393,216 (1996 - £nil).

10. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the accounts of the parent company was £149,188 (1996 - £77,072).

11. TANGIBLE FIXED ASSETS

Group	Short leasehold property £	Fixtures, fittings and equipment £	Motor vehicles £	Computer equipment £	Total £
Cost:					
At 1 September 1996	2,883	67,997	7,897	69,585	148,362
Exchange adjustment	-	(410)	-	(159)	(569)
Additions	-	6,208	-	29,363	35,571
Disposals	-	(2,131)	(2,500)	(8,339)	(12,970)
At 31 October 1997	<u>2,883</u>	<u>71,664</u>	<u>5,397</u>	<u>90,450</u>	<u>170,394</u>
Depreciation:					
At 1 September 1996	577	31,257	5,919	22,666	60,419
Exchange adjustment	-	(75)	-	(52)	(127)
Charge for the period	672	10,681	450	37,060	48,863
Disposals	-	(374)	(972)	(2,276)	(3,622)
At 31 October 1997	<u>1,249</u>	<u>41,489</u>	<u>5,397</u>	<u>57,398</u>	<u>105,533</u>
Net book value:					
At 31 October 1997	<u>1,634</u>	<u>30,175</u>	<u>-</u>	<u>33,052</u>	<u>64,861</u>
At 1 September 1996	<u>2,306</u>	<u>36,740</u>	<u>1,978</u>	<u>46,919</u>	<u>87,943</u>

Anness Publishing Limited

NOTES TO THE ACCOUNTS at 31 October 1997

11. TANGIBLE FIXED ASSETS (continued)

<i>Company</i>	<i>Short leasehold property £</i>	<i>Fixtures, fittings and equipment £</i>	<i>Motor vehicles £</i>	<i>Computer equipment £</i>	<i>Total £</i>
Cost:					
At 1 September 1996	2,883	65,601	7,897	68,922	145,303
Additions	-	4,830	-	15,946	20,776
Disposals	-	(4,234)	(2,500)	(17,823)	(24,557)
At 31 October 1997	2,883	66,197	5,397	67,045	141,522
Depreciation:					
At 1 September 1996	577	30,818	5,919	22,360	59,674
Charge for the period	672	9,892	450	29,844	40,858
Disposals	-	(487)	(972)	(2,746)	(4,205)
At 31 October 1997	1,249	40,223	5,397	49,458	96,327
Net book value:					
At 31 October 1997	1,634	25,974	-	17,587	45,195
At 1 September 1996	2,306	34,783	1,978	46,562	85,629

12. INVESTMENTS

Group

	<i>Other unlisted investment £</i>
Cost:	
At 1 September 1996 and 31 October 1997	5,000

<i>Company</i>	<i>Subsidiary undertakings shares £</i>	<i>Other unlisted investments £</i>	<i>Total £</i>
Cost:			
At 1 September 1996	437	5,000	5,437
Additions: Anness Publishing Inc.	303,042	-	303,042
Net book value:			
At 31 October 1997	303,479	5,000	308,479
At 1 September 1996	437	5,000	5,437

Anness Publishing Limited

NOTES TO THE ACCOUNTS

at 31 October 1997

12. INVESTMENTS (continued)

The company holds 10% or more of the share capital of the following companies:

<i>Name of company</i>	<i>Country of registration or incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Anness Publishing Pty Limited	Australia	Ordinary shares	90%	Book Publishing
Anness Publishing Inc.	United States	Ordinary shares	95%	Book Publishing

All subsidiaries are held directly by the company.

13. STOCKS

	<i>Group 31 October 1997 £</i>	<i>Restated 31 August 1996 £</i>	<i>Company 31 October 1997 £</i>	<i>Restated 31 August 1996 £</i>
Finished goods	2,905,637	3,509,805	1,607,893	3,355,373
Work in progress	3,849,678	2,544,185	3,849,678	2,544,185
	<u>6,755,315</u>	<u>6,053,990</u>	<u>5,457,571</u>	<u>5,899,558</u>

During the period the company reassessed its accounting policy for work in progress in order to better match costs and revenues. The effect of this change in policy was to increase the valuation of work in progress at 31 August 1996 by £1,005,128. This change increased the profit before tax for the year to 31 August 1996 by £384,382 with the balance of £620,746 relating to prior periods. After charges for corporation tax, the increase in retained profit for the year ended 31 August 1996 was £275,387, and a total of £403,485 for prior periods.

Due to the complex nature of this change in policy the directors do not believe it is practical to give the effect on the current period.

In addition the directors have revised the presentation of the accounts to reallocate certain expenses between cost of sales and administrative expenses. The 1996 comparatives have been modified to be consistent with 1997. The revisions of the analysis of cost and income have no impact on the profit on ordinary activities nor the balance sheet.

Anness Publishing Limited

NOTES TO THE ACCOUNTS at 31 October 1997

14. DEBTORS

	<i>Group</i>		<i>Company</i>	
	<i>31 October</i>	<i>31 August</i>	<i>31 October</i>	<i>31 August</i>
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	£	£	£	£
Trade debtors	7,245,692	4,975,170	4,908,101	4,507,581
Amounts owed by group undertakings	-	-	2,486,452	657,492
Other debtors	170,956	210,472	55,507	209,153
Prepayments and accrued income	276,006	685,594	276,006	685,594
	<u>7,692,654</u>	<u>5,871,236</u>	<u>7,726,066</u>	<u>6,059,820</u>

Trade debtors in respect of the group include factored debts amounting to £239,078 (1996 - £nil); company £nil (1996 - £nil). The balances advanced are secured by a fixed and floating charge over all the assets of Anness Publishing Pty. Limited.

15. CREDITORS: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>31 October</i>	<i>Restated</i>	<i>31 October</i>	<i>Restated</i>
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	£	£	£	£
Bank overdraft	4,601,558	2,092,701	3,700,784	2,092,701
Trade creditors (note 18)	9,370,320	8,376,992	9,370,320	8,376,992
Corporation tax	364,283	355,573	364,283	355,573
Other taxes and social security costs	102,668	66,155	22,859	31,826
Other creditors	404,645	31,628	404,645	31,628
Accruals and deferred income	745,814	255,115	551,600	240,407
	<u>15,589,288</u>	<u>11,178,164</u>	<u>14,414,491</u>	<u>11,129,127</u>

The bank overdraft is secured by a floating charge over certain of the groups' assets.

16. SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>31 October</i>	<i>31 August</i>	<i>31 October</i>	<i>31 August</i>
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	No.	No.	£	£
1,000 ordinary shares of £1 each	1,000	1,000	1,000	1,000
	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

NOTES TO THE ACCOUNTS
at 31 October 1997

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

Group

	<i>Share capital £</i>	<i>Profit and loss account £</i>	<i>Total shareholders' funds £</i>
At 1 September 1995			
As previously reported	1,000	773,149	774,149
Prior year adjustment		403,485	403,485
As restated	1,000	1,176,634	1,177,634
Profit for the year		55,162	55,162
At 31 August 1996	1,000	1,231,796	1,232,796
Loss for the period		(43,265)	(43,265)
At 31 October 1997	1,000	1,188,531	1,189,531

Company

	<i>Share capital £</i>	<i>Profit and loss account £</i>	<i>Total shareholders' funds £</i>
At 1 September 1995			
As previously reported	1,000	779,903	780,903
Prior year adjustment		403,485	403,485
As restated	1,000	1,183,388	1,184,388
Profit for the year		77,072	77,072
At 31 August 1996	1,000	1,260,460	1,261,460
Profit for the period		149,188	149,188
At 31 October 1997	1,000	1,409,648	1,410,648

18. PENSION COMMITMENTS

The company makes contributions to the personal pension plans of directors and certain senior employees.

19. RELATED PARTIES

Included in "Trade creditors" (note 15) is a balance of £28,792 (1996 - £nil) due to Gunnar Lie & Associates Limited. D Lie is a director of both companies, and Anness Publishing Limited owns 5% of the ordinary share capital of Gunnar Lie & Associate Limited. During the period the company was charged commission for sales in the normal course of business by Gunnar Lie & Associates Limited amounting to £68,264 (1996 - £54,402).

Anness Publishing Limited

NOTES TO THE ACCOUNTS

at 31 October 1997

20. OTHER FINANCIAL COMMITMENTS

At 31 October 1997 the company had annual commitments under non-cancellable operating leases set out as follows:

	<i>Land and buildings</i>		<i>Other</i>
<i>31 October 1997</i>	<i>31 August 1996</i>	<i>31 October 1997</i>	<i>31 August 1996</i>
£	£	£	£
Operating leases which expire:			
within one year	-	13,497	-
in two to five years	39,915	19,213	32,710
in over five years	-	-	-
	<u>39,915</u>	<u>32,710</u>	<u>32,710</u>

21. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	<i>14 months to 31 October 1997</i>	<i>Year ended 31 August 1996</i>
	£	£
Operating profit	589,439	272,968
Depreciation of tangible fixed assets	48,863	27,751
Increase in stocks	(701,325)	(2,967,232)
Increase in debtors	(1,821,418)	(1,606,940)
Increase in creditors	1,952,966	3,536,897
Loss on sale of tangible fixed assets	866	-
Net cash inflow/(outflow) from operating activities	<u>69,391</u>	<u>(736,556)</u>

(b) Analysis of changes in net debt

	<i>At 1 September 1996</i>	<i>Cash flow</i>	<i>At 31 October 1997</i>
Cash at bank and in hand	400,308	1,894,448	2,294,756
Overdraft	(2,092,701)	(2,508,857)	(4,601,558)
	<u>(1,692,393)</u>	<u>(614,409)</u>	<u>(2,306,802)</u>

Cash flow relating to operating exceptional items:

Net cash inflow from operating items in the period ended 31 October 1997 includes cash outflows of £1,028,800 in respect of the exceptional items shown in note 6.

22. CONTINGENT LIABILITY

The company has guaranteed the bank overdraft of a subsidiary undertaking to the extent of £596,338 (1996 - £nil), which was fully utilised at 31 October 1997.