

# Anness Publishing Limited

Registered No. 2375310

## DIRECTORS

Mr P Anness  
Ms J Lorenz  
Mrs D Lie  
Mr S Hill  
Mr N Thompson  
Mr J Wallace

## SECRETARY

Ms J Lorenz

## AUDITORS

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

## BANKERS

Barclays Bank PLC  
54 Lombard Street  
London EC3V 9EX

## SOLICITORS

Nabarro Nathanson  
50 Stratton Street  
London W1X 6NX

## REGISTERED OFFICE

Hermes House  
88-89 Blackfriars Road  
London SE1 8HA

ERNST & YOUNG



# Anness Publishing Limited

## DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 October 1998.

### 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

Profit before tax for the year ended 31 October 1998 was £1,013,924 (compared to £154,370 in 1997).

Turnover in the year was £26.8m (1997 fourteen months - £28.9m). Taking a cautious estimate for comparative purposes of £23.0m for turnover on a like-for-like 12-month basis, 1998 sales are up 16% on 1997.

No dividend was distributed for this year. The undistributed reserves of the company at 31 October 1998 totalled £2,267,963 (1997 £1,409,648).

The plan for the year was to focus on margins, with cautious growth, so it is pleasing to report a 16% growth in turnover and record profits in this the Company's 10<sup>th</sup> anniversary year, though the improvement of 2% in gross margins was less than targeted and a little disappointing – there is more work to be done here.

This result was achieved against a backdrop of serious turbulence in the emerging markets; the consequent threat of bad debts; and the strength of sterling, all of which continued to make it hard for businesses such as ours which rely on export for a majority of their sales. These disruptive factors – combined with a seemingly relentless downward pressure on retail prices in the promotional, door to door and own brand markets both in the UK and overseas – do place the figures in a relatively positive context: but there is a definite feeling among the Directors that more could and should have been done, and out of this questioning is now emerging the research and development of improved publishing, manufacturing and marketing strategies which, together with a concentration on cost and inventory control, are intended to further increase sales, margins and profits in 1999 and beyond.

### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

#### Creative Work

Expenditure on new-title development was almost exactly the same in 1998 as in the 14-month 1997 period, thus representing an increase of 14% in creative investment on a like-for-like basis.

The company jealously maintained and enhanced its reputation as one of the highest-quality producers in the illustrated book market, and will continue to invest aggressively in new products for 1999.

Some highlights of the 1998 publishing year were:

- the launch of an innovative and generously-received high-end cookery range which started with *The World Encyclopaedia of Cheese* and *The World Encyclopaedia of Fruit*
- the creation of two extremely successful new children's series, *Nature Watch* and *Step Into*
- the expansion of the well-established *New Life Library* series of alternative health and new age subjects

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## DIRECTORS' REPORT

- the addition of 10 new titles to the company's unique 512-page cooking and general interest series of practical encyclopaedias. Each of the books in this 512-page programme contains over 1000 colour photographs and 300-400 recipes or projects, making it the best value-for-money gift series available in the market.

### Production

Gross margins were improved through better print buying, tighter control of individual printings, improved production flexibility and focus (basically using the right printer for the right job) and increased marketing co-ordination. Maximum benefits were derived from greater global production volumes, and leveraged off a substantial increase in the average unit quantity produced on each print run. This increase in margins was achieved despite retail and net prices coming under pressure throughout the period.

Service, timeliness and delivery performances all showed radical improvements, which boosted customer confidence, improved relationships and had a significant positive impact on cashflows.

### Inventory

Group stocks at the end of October 1998 had increased radically, as is evident from the Balance Sheet.

This is in part because of the high levels of goods in transit to customers at the year end, and in part a justifiable reflection of the growth in the group's publishing activity – particularly in the USA where stock-related, self-published revenues grew by nearly 40%.

However the directors specifically acknowledge that there is an element of over-stocking throughout the system and we have instituted for 1999 refined inventory reporting, more tightly policed control systems, and more aggressive parameters for the review and disposal of under-performing lines, all of which have yielded immediate benefits in the first three months of the new financial year with no material impact on the profit and loss.

**Australia:** The Australian company, Anness Publishing Pty, had a perceptibly successful sales year in the face of swings of over 20% in exchange rates: these not only affected local trading conditions (which were volatile and difficult) but also served to devalue the Australian revenues upon consolidation. On a like-for-like basis, 1998 turnover was up 10% on 1997 in local currency terms - a great performance set in the context of very tough trading conditions.

**USA:** On a like for like basis, the American company, Anness Publishing Inc, grew by over 50% in 1998.

Top line sales success was marred to a degree by an unravelling awareness of the dynamics of the market in the form of unexpectedly high returns rates from major customers, many of which related to goods sold in previous trading periods. It is established practice in the USA for all publishers to sell trade books on a returnable basis, and the group is exposed to this tradition through its trade publishing programme, which represents 50% of the US company's business.

**Europe:** Translation sales into the European markets showed good growth on a like-for-like basis at 20% - which was particularly creditable given the major upheavals in the Eastern European – particularly Russian – territories, where the company has formed strong partnerships over the past three years, which were necessarily interrupted.

The financial turmoil in those countries has been well-advertised and the Company has made adequate provision against its exposure to these markets.

**UK:** The successful development of new relationships with major wholesalers and retailers in the bargain books section of the market was counter-balanced by a relatively flat year in the company's stock-holding publishing divisions and a disappointing year in the traditionally strong display marketing sales channel. Overall the company experienced acceptable like-for-like growth of 15% for the territory, which would

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## DIRECTORS' REPORT

have been higher except for the well-publicised failure of the third-party warehousing and fulfilment centre employed by the trade publishing imprint, Lorenz Books.

### Overhead

There was a not insignificant increase in general overhead for the year. A substantial proportion of the increase was attributable to the mid-year decision, with better than targeted sales achieved, to recruit an additional 15 people, mainly editors and creative workers needed to produce a greatly expanded publishing programme for the end of 1998 and for 1999.

It should be noted that much of the 1999 programme was already completed at 1998 year-end, and, unlike some competitors, the company does not capitalise these creative labour costs even when the benefit of the expenditure will principally be derived in future trading periods. As a health check, it should be noted that, at a ratio of over £330,000 in sales generated per person employed, the company still holds a place in the top handful of the most effective book publishing businesses in the UK.

The balance of the extra expenditure was attributable to provisioning for bad and doubtful debts.

### 1999 Focus & Objectives

1999 has started well, although, as ever, much will ultimately depend on the key summer shipping season, for which sales are already building well.

Internally, the Company is continuing to invest in enhancing and expanding its publishing programmes and the infrastructure required to develop and market them. Regarding people, whereas in 1998 the main developmental emphasis was on boosting the creative departments, in 1999 the principal investment will be shared between the creative department and the sales and marketing functions, as there is a danger otherwise that the company may not have the resources to maximise the benefits to be generated from the amount of quality products it has the capacity to create. To this end, it is pleasing to report the appointment of John Wallace as English Language Sales and Marketing Director. John has over 25 years experience in publishing. He has held senior management positions at Arnold (the academic division of Hodder Headline), Studio Editions (now part of Random House) and Conran Octopus where he was managing director until December 1998.

There will be an increased investment in, and focus on, continuing improvements in quality control, cost control and customer service and satisfaction – these are all functions of the company which can be predicted to come under pressure during a period of consistent growth.

The company's internal targets for 1999 are a greater than 10% growth in sales combined with a further improvement of at least an additional 2% in bottom-line margins. From the current position at the end of the first quarter it would be disappointing if these targets were not met and exceeded.

As ever, the directors would like to thank all of their colleagues and work-mates within the UK company and the overseas companies; all the authors of the 1,000 titles produced in the last 10 years together with the editors, designers, photographers and indexers who worked with them; all of the company's print and repro suppliers; all of the company's sales agents, distributors and publishing partners; and, of course, all of the company's customers: each and every one of them has played an indispensable role in the successful navigation of yet another hard, worthwhile and modestly fruitful year.

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## DIRECTORS' REPORT

### DIRECTORS AND THEIR INTERESTS

The directors at 31 October 1998 and their interests in the share capital of the company were as follows:

|             | 1998<br>£1<br>Ordinary<br>shares | 1997<br>£1<br>Ordinary<br>shares |
|-------------|----------------------------------|----------------------------------|
| Mr P Anness | 900                              | 900                              |
| Ms J Lorenz | 100                              | 100                              |
| Mrs D Lie   | -                                | -                                |
| Mr S Hill   | -                                | -                                |

In addition, Mr V Smith resigned as a director on 30 September 1998, Mr N Thompson was appointed as a director on 17 February 1999 and Mr J Wallace was appointed director on 5 March 1999.

### YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The company is well advanced in the phase of assessing the risks to our business resulting from the date change to the year 2000. Once this phase is completed we can assess the likely impact on our activities and develop prioritised action plans to deal with the key risks.

### AUDITORS

A resolution to reappoint Ernst & Young will be put to the members at the Annual General Meeting.

By order of the board

Ms J Lorenz  
Secretary

10 MARCH 1999.

## Anness Publishing Limited

### 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 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 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 8 to 22, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 13 and 14.

**Respective responsibilities of directors and auditors**

As described on page 6 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 1998 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Registered Auditor  
London

10 March 1999

# Anness Publishing Limited

## GROUP PROFIT AND LOSS ACCOUNT for the year ended 31 October 1998

|                                                            |              | <i>Year ended<br/>31 October<br/>1998</i> | <i>14 months to<br/>31 October<br/>1997</i> |
|------------------------------------------------------------|--------------|-------------------------------------------|---------------------------------------------|
|                                                            | <i>Notes</i> | <i>£</i>                                  | <i>£</i>                                    |
| <b>TURNOVER</b>                                            | 2            | 26,770,143                                | 28,939,600                                  |
| Cost of sales                                              |              | 21,301,735                                | 23,639,946                                  |
| Gross profit                                               |              | 5,468,408                                 | 5,299,654                                   |
| Administrative expenses                                    |              | 4,049,408                                 | 3,481,415                                   |
| Exceptional items                                          | 6            | -                                         | 1,228,800                                   |
| <b>OPERATING PROFIT</b>                                    | 3            | 1,419,000                                 | 589,439                                     |
| Interest receivable and similar income                     |              | 52,997                                    | 21,796                                      |
| Interest payable and similar charges                       | 7            | (458,073)                                 | (456,865)                                   |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>       |              | 1,013,924                                 | 154,370                                     |
| Tax on profit on ordinary activities                       | 8            | 421,227                                   | 185,019                                     |
| <b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION</b> |              | 592,697                                   | (30,649)                                    |
| Minority interests: Equity                                 |              | (5,182)                                   | (12,616)                                    |
| <b>RETAINED PROFIT/(LOSS) FOR THE YEAR</b>                 |              | 587,515                                   | (43,265)                                    |

# Anness Publishing Limited

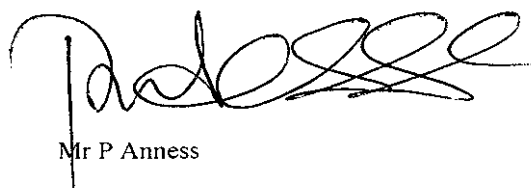
## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 October 1998

|                                                                                       | <i>Year ended<br/>31 October<br/>1998</i> | <i>14 months to<br/>31 October<br/>1997</i> |
|---------------------------------------------------------------------------------------|-------------------------------------------|---------------------------------------------|
| <i>Note</i>                                                                           | <i>£</i>                                  | <i>£</i>                                    |
| Profit/(loss) for the financial year attributable to members<br>of the parent company | 587,515                                   | (43,265)                                    |
| Exchange difference on retranslating net assets of subsidiary undertakings            | (16,952)                                  | -                                           |
| <b>TOTAL RECOGNISED GAINS AND LOSSES DURING THE YEAR</b>                              | <b>570,563</b>                            | <b>(43,265)</b>                             |

# Anness Publishing Limited

## GROUP BALANCE SHEET at 31 October 1998

|                                                       | Notes | 1998<br>£         | 1997<br>£         |
|-------------------------------------------------------|-------|-------------------|-------------------|
| <b>FIXED ASSETS</b>                                   |       |                   |                   |
| Tangible fixed assets                                 | 10    | 65,936            | 64,861            |
| Investments                                           | 11    | 5,000             | 5,000             |
|                                                       |       | <u>70,936</u>     | <u>69,861</u>     |
| <b>CURRENT ASSETS</b>                                 |       |                   |                   |
| Stocks                                                | 12    | 8,299,548         | 6,755,315         |
| Debtors                                               | 13    | 10,514,907        | 7,692,654         |
| Cash at bank and in hand                              |       | 10,731            | 2,294,756         |
|                                                       |       | <u>18,825,186</u> | <u>16,742,725</u> |
| <b>CREDITORS: amounts falling due within one year</b> | 14    | 17,099,004        | 15,589,288        |
|                                                       |       | <u>1,726,182</u>  | <u>1,153,437</u>  |
| <b>NET CURRENT ASSETS</b>                             |       | <u>1,797,118</u>  | <u>1,223,298</u>  |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |       | <u>37,024</u>     | <u>33,767</u>     |
| Minority interests: Equity                            |       | <u>1,760,094</u>  | <u>1,189,531</u>  |
| <b>CAPITAL AND RESERVES</b>                           |       |                   |                   |
| Called up share capital                               | 15    | 1,000             | 1,000             |
| Profit and loss account                               | 16    | 1,759,094         | 1,188,531         |
| Equity shareholders' funds                            | 16    | <u>1,760,094</u>  | <u>1,189,531</u>  |



Mr P Anness

Director

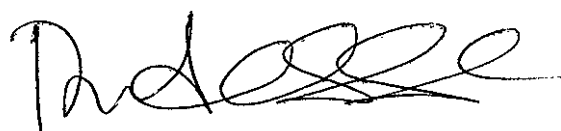
10 MARCH 1999.

# Anness Publishing Limited

## BALANCE SHEET

at 31 October 1998

|                                                       | Notes | 1998<br>£         | 1997<br>£         |
|-------------------------------------------------------|-------|-------------------|-------------------|
| <b>FIXED ASSETS</b>                                   |       |                   |                   |
| Tangible fixed assets                                 | 10    | 53,637            | 45,195            |
| Investments                                           | 11    | 308,479           | 308,479           |
|                                                       |       | <u>362,116</u>    | <u>353,674</u>    |
| <b>CURRENT ASSETS</b>                                 |       |                   |                   |
| Stocks                                                | 12    | 6,246,910         | 5,457,571         |
| Debtors                                               | 13    | 11,347,403        | 7,726,066         |
| Cash at bank and in hand                              |       | -                 | 2,287,828         |
|                                                       |       | <u>17,594,313</u> | <u>15,471,465</u> |
| <b>CREDITORS: amounts falling due within one year</b> | 14    | <u>15,687,466</u> | <u>14,414,491</u> |
| <b>NET CURRENT ASSETS</b>                             |       | <u>1,906,847</u>  | <u>1,056,974</u>  |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |       | <u>2,268,963</u>  | <u>1,410,648</u>  |
| <b>CAPITAL AND RESERVES</b>                           |       |                   |                   |
| Called up share capital                               | 15    | 1,000             | 1,000             |
| Profit and loss account                               | 16    | 2,267,963         | 1,409,648         |
| Equity shareholders' funds                            | 16    | <u>2,268,963</u>  | <u>1,410,648</u>  |

  
Mr P Anness

Director

10 MARCH 1999.

# Anness Publishing Limited

## GROUP STATEMENT OF CASH FLOWS for the year ended 31 October 1998

|                                                                |              | <i>Year ended<br/>31 October<br/>1998</i> | <i>14 months to<br/>31 October<br/>1997</i> |
|----------------------------------------------------------------|--------------|-------------------------------------------|---------------------------------------------|
|                                                                | <i>Notes</i> | <i>£</i>                                  | <i>£</i>                                    |
| <b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>               | 20(a)        | 1,785,643                                 | 69,391                                      |
| <b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>         |              |                                           |                                             |
| Interest received                                              |              | 52,997                                    | 21,796                                      |
| Interest paid                                                  |              | (458,073)                                 | (456,865)                                   |
|                                                                |              | (405,076)                                 | (435,069)                                   |
| <b>TAXATION</b>                                                |              |                                           |                                             |
| Corporation tax paid                                           |              | (152,905)                                 | (176,309)                                   |
| Overseas taxation                                              |              | (38,220)                                  | (45,333)                                    |
|                                                                |              | (191,125)                                 | (221,642)                                   |
| <b>CAPITAL EXPENDITURE</b>                                     |              |                                           |                                             |
| Payments to acquire tangible fixed assets                      |              | (39,783)                                  | (35,571)                                    |
| Receipts from sales of tangible fixed assets                   |              | -                                         | 8,482                                       |
|                                                                |              | (39,783)                                  | (27,089)                                    |
| <b>FINANCING</b>                                               |              |                                           |                                             |
| New short term borrowings                                      |              | 617,424                                   | -                                           |
|                                                                |              | 617,424                                   | -                                           |
| <b>INCREASE/(DECREASE) IN CASH</b>                             |              | 1,767,083                                 | (614,409)                                   |
| <b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b> |              |                                           |                                             |
|                                                                |              | <i>Year ended<br/>31 October<br/>1998</i> | <i>14 months to<br/>31 October<br/>1997</i> |
|                                                                | <i>Note</i>  | <i>£</i>                                  | <i>£</i>                                    |
| Increase/(decrease) in cash in the year                        |              | 1,767,083                                 | (614,409)                                   |
| Cash inflow from increase in short term borrowings             |              | (617,424)                                 | -                                           |
| <b>MOVEMENT IN NET DEBT</b>                                    |              | 1,149,659                                 | (614,409)                                   |
| <b>NET DEBT AT BEGINNING OF THE YEAR</b>                       |              | (2,306,802)                               | (1,692,393)                                 |
| <b>NET DEBT AT END OF THE YEAR</b>                             | 20(b)        | (1,157,143)                               | (2,306,802)                                 |

# Anness Publishing Limited

## NOTES TO THE ACCOUNTS

at 31 October 1998

### 1. 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 1998. 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 year.

#### *Fixed assets*

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

#### *Depreciation*

Depreciation is provided on tangible fixed assets at rates calculated to write off the cost less residual value of each asset on a straight line basis over its expected useful life, as follows:

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

#### *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*

##### *Company*

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.

##### *Group*

The accounts of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the re-translation of opening net assets is taken to reserves. All other translation differences are taken to the profit and loss account.

# Anness Publishing Limited

## NOTES TO THE ACCOUNTS

at 31 October 1998

### 1. 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.

### 2. 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>Year ended<br/>31 October<br/>1998<br/>£</i> | <i>14 months to<br/>31 October<br/>1997<br/>£</i> |
|----------------|-------------------------------------------------|---------------------------------------------------|
| United Kingdom | 7,883,054                                       | 7,968,134                                         |
| Rest of Europe | 6,281,348                                       | 6,156,943                                         |
| North America  | 9,965,043                                       | 11,666,018                                        |
| Asia           | 110,301                                         | 483,870                                           |
| Australasia    | 1,999,990                                       | 2,364,715                                         |
| Africa         | 530,407                                         | 299,920                                           |
|                | <u>26,770,143</u>                               | <u>28,939,600</u>                                 |

### 3. OPERATING PROFIT

This is stated after charging/(crediting):

|                                       | <i>Year ended<br/>31 October<br/>1998<br/>£</i> | <i>14 months to<br/>31 October<br/>1997<br/>£</i> |
|---------------------------------------|-------------------------------------------------|---------------------------------------------------|
| Depreciation of tangible fixed assets | 38,277                                          | 48,863                                            |
| Operating lease rentals               | 65,479                                          | 39,915                                            |
| - land and building                   | 34,632                                          | 36,719                                            |
| - plant and machinery                 | 32,500                                          | 32,500                                            |
| Auditors' remuneration                | 100,610                                         | 204,025                                           |
| - UK audit services                   |                                                 |                                                   |
| - UK non-audit services               |                                                 |                                                   |
|                                       | <u></u>                                         | <u></u>                                           |

# Anness Publishing Limited

## NOTES TO THE ACCOUNTS at 31 October 1998

### 4. STAFF COSTS

|                       | <i>Year ended<br/>31 October<br/>1998<br/>£</i> | <i>14 months to<br/>31 October<br/>1997<br/>£</i> |
|-----------------------|-------------------------------------------------|---------------------------------------------------|
| Wages and salaries    | 2,058,372                                       | 1,855,805                                         |
| Social security costs | 175,445                                         | 137,814                                           |
| Other pension costs   | 31,911                                          | 23,345                                            |
|                       | <u>2,265,728</u>                                | <u>2,016,964</u>                                  |

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

|                             | <i>Year ended<br/>31 October<br/>1998<br/>No.</i> | <i>14 months to<br/>31 October<br/>1997<br/>No.</i> |
|-----------------------------|---------------------------------------------------|-----------------------------------------------------|
| Production and editorial    | 41                                                | 37                                                  |
| Sales and marketing         | 18                                                | 15                                                  |
| Administration and accounts | 21                                                | 13                                                  |
|                             | <u>80</u>                                         | <u>65</u>                                           |

### 5. DIRECTORS' EMOLUMENTS

|                                                                             | <i>Year ended<br/>31 October<br/>1998<br/>£</i>   | <i>14 months to<br/>31 October<br/>1997<br/>£</i>   |
|-----------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------|
| Emoluments                                                                  | <u>350,250</u>                                    | <u>209,075</u>                                      |
| Company contributions paid to defined contribution personal pension schemes | <u>16,806</u>                                     | <u>7,075</u>                                        |
|                                                                             | <i>Year ended<br/>31 October<br/>1998<br/>No.</i> | <i>14 months to<br/>31 October<br/>1997<br/>No.</i> |
| Members of defined contribution personal pension schemes                    | <u>5</u>                                          | <u>3</u>                                            |

# Anness Publishing Limited

## NOTES TO THE ACCOUNTS

at 31 October 1998

### 5. DIRECTORS' EMOLUMENTS (continued)

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

|                                                                            | <i>Year ended<br/>31 October<br/>1998<br/>£</i> | <i>14 months to<br/>31 October<br/>1997<br/>£</i> |
|----------------------------------------------------------------------------|-------------------------------------------------|---------------------------------------------------|
| Emoluments                                                                 | 90,000                                          | 72,500                                            |
| Company contributions paid to defined contribution personal pension scheme | 1,950                                           | 2,800                                             |

### 6. EXCEPTIONAL ITEMS

|                                             | <i>Year ended<br/>31 October<br/>1998<br/>£</i> | <i>14 months to<br/>31 October<br/>1997<br/>£</i> |
|---------------------------------------------|-------------------------------------------------|---------------------------------------------------|
| Recognised in arriving at operating profit: |                                                 |                                                   |
| Professional fees                           | -                                               | 324,209                                           |
| Termination of distribution agreement       | -                                               | 459,448                                           |
| Foreign exchange loss                       | -                                               | 445,143                                           |
|                                             | -                                               | 1,228,800                                         |

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

|                           | <i>Year ended<br/>31 October<br/>1998<br/>£</i> | <i>14 months to<br/>31 October<br/>1997<br/>£</i> |
|---------------------------|-------------------------------------------------|---------------------------------------------------|
| Bank loans and overdrafts | 214,413                                         | 456,865                                           |
| Other interest            | 243,660                                         | -                                                 |
|                           | 458,073                                         | 456,865                                           |

# Anness Publishing Limited

## NOTES TO THE ACCOUNTS at 31 October 1998

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

|                                                 | <i>Year ended<br/>31 October<br/>1998<br/>£</i> | <i>14 months to<br/>31 October<br/>1997<br/>£</i> |
|-------------------------------------------------|-------------------------------------------------|---------------------------------------------------|
| UK corporation tax                              | 389,500                                         | 90,000                                            |
| Overseas taxation                               | 42,399                                          | 95,019                                            |
|                                                 | <u>431,899</u>                                  | <u>185,019</u>                                    |
| Corporation tax over provided in previous years | (10,672)                                        | -                                                 |
|                                                 | <u>421,227</u>                                  | <u>185,019</u>                                    |

The tax effect in the profit and loss account relating to the exceptional items recognised in operating profit is a credit of £ nil (1997 - £393,216).

### 9. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the accounts of the parent company was £858,315 (1997 - £149,188).

### 10. TANGIBLE FIXED ASSETS

| <i>Group</i>        | <i>Short<br/>leasehold<br/>property<br/>£</i> | <i>Fixtures,<br/>fittings and<br/>equipment<br/>£</i> | <i>Motor<br/>vehicles<br/>£</i> | <i>Computer<br/>equipment<br/>£</i> | <i>Total<br/>£</i> |
|---------------------|-----------------------------------------------|-------------------------------------------------------|---------------------------------|-------------------------------------|--------------------|
| Cost:               |                                               |                                                       |                                 |                                     |                    |
| At 1 November 1997  | 2,883                                         | 71,664                                                | 5,397                           | 90,450                              | 170,394            |
| Exchange adjustment | -                                             | (1,274)                                               | -                               | 708                                 | (566)              |
| Additions           | -                                             | 1,395                                                 | -                               | 38,387                              | 39,782             |
| Disposals           | -                                             | -                                                     | (5,397)                         | -                                   | (5,397)            |
| At 31 October 1998  | <u>2,883</u>                                  | <u>71,785</u>                                         | <u>-</u>                        | <u>129,545</u>                      | <u>204,213</u>     |
| Depreciation:       |                                               |                                                       |                                 |                                     |                    |
| At 1 November 1997  | 1,249                                         | 41,489                                                | 5,397                           | 57,398                              | 105,533            |
| Exchange adjustment | -                                             | (494)                                                 | -                               | 358                                 | (136)              |
| Charge for the year | 576                                           | 10,106                                                | -                               | 27,595                              | 38,277             |
| Disposals           | -                                             | -                                                     | (5,397)                         | -                                   | (5,397)            |
| At 31 October 1998  | <u>1,825</u>                                  | <u>51,101</u>                                         | <u>-</u>                        | <u>85,351</u>                       | <u>138,277</u>     |
| Net book value:     |                                               |                                                       |                                 |                                     |                    |
| At 31 October 1998  | <u>1,058</u>                                  | <u>20,684</u>                                         | <u>-</u>                        | <u>44,194</u>                       | <u>65,936</u>      |
| At 1 November 1997  | <u>1,634</u>                                  | <u>30,175</u>                                         | <u>-</u>                        | <u>33,052</u>                       | <u>64,861</u>      |

# Anness Publishing Limited

## NOTES TO THE ACCOUNTS at 31 October 1998

### 10. TANGIBLE FIXED ASSETS (continued)

| <i>Company</i>      | <i>Short<br/>leasehold<br/>property<br/>£</i> | <i>Fixtures,<br/>fittings and<br/>equipment<br/>£</i> | <i>Motor<br/>vehicles<br/>£</i> | <i>Computer<br/>equipment<br/>£</i> | <i>Total<br/>£</i> |
|---------------------|-----------------------------------------------|-------------------------------------------------------|---------------------------------|-------------------------------------|--------------------|
| Cost:               |                                               |                                                       |                                 |                                     |                    |
| At 1 November 1997  | 2,883                                         | 66,197                                                | 5,397                           | 67,045                              | 141,522            |
| Additions           | -                                             | 1,395                                                 | -                               | 36,682                              | 38,077             |
| Disposals           | -                                             | -                                                     | (5,397)                         | -                                   | (5,397)            |
| At 31 October 1998  | 2,883                                         | 67,592                                                | -                               | 103,727                             | 174,202            |
| Depreciation:       |                                               |                                                       |                                 |                                     |                    |
| At 1 November 1997  | 1,249                                         | 40,223                                                | 5,397                           | 49,458                              | 96,327             |
| Charge for the year | 576                                           | 9,517                                                 | -                               | 19,542                              | 29,635             |
| Disposals           | -                                             | -                                                     | (5,397)                         | -                                   | (5,397)            |
| At 31 October 1998  | 1,825                                         | 49,740                                                | -                               | 69,000                              | 120,565            |
| Net book value:     |                                               |                                                       |                                 |                                     |                    |
| At 31 October 1998  | 1,058                                         | 17,852                                                | -                               | 34,727                              | 53,637             |
| At 1 November 1997  | 1,634                                         | 25,974                                                | -                               | 17,587                              | 45,195             |

### 11. INVESTMENTS

#### *Group*

|                                        |                                            |
|----------------------------------------|--------------------------------------------|
|                                        | <i>Other unlisted<br/>investment<br/>£</i> |
| Cost:                                  |                                            |
| At 1 November 1997 and 31 October 1998 | 5,000                                      |

#### *Company*

|                                        |                                                     |                                                 |                    |
|----------------------------------------|-----------------------------------------------------|-------------------------------------------------|--------------------|
|                                        | <i>Subsidiary<br/>undertakings<br/>shares<br/>£</i> | <i>Other<br/>unlisted<br/>investments<br/>£</i> | <i>Total<br/>£</i> |
| Cost:                                  |                                                     |                                                 |                    |
| At 1 November 1997 and 31 October 1998 | 303,479                                             | 5,000                                           | 308,479            |

# Anness Publishing Limited

## NOTES TO THE ACCOUNTS

at 31 October 1998

### 11. INVESTMENTS (continued)

The company holds 20% 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           |

Both subsidiaries are held directly by the company.

### 12. STOCKS

|                  | <i>1998</i>      | <i>Group 1997</i> | <i>1998</i>      | <i>Company 1997</i> |
|------------------|------------------|-------------------|------------------|---------------------|
|                  | <i>£</i>         | <i>£</i>          | <i>£</i>         | <i>£</i>            |
| Finished goods   | 4,580,135        | 2,905,637         | 2,527,497        | 1,607,893           |
| Work in progress | 3,719,413        | 3,849,678         | 3,719,413        | 3,849,678           |
|                  | <u>8,299,548</u> | <u>6,755,315</u>  | <u>6,246,910</u> | <u>5,457,571</u>    |

### 13. DEBTORS

|                                    | <i>1998</i>       | <i>Group 1997</i> | <i>1998</i>       | <i>Company 1997</i> |
|------------------------------------|-------------------|-------------------|-------------------|---------------------|
|                                    | <i>£</i>          | <i>£</i>          | <i>£</i>          | <i>£</i>            |
| Trade debtors                      | 9,954,252         | 7,245,692         | 7,280,385         | 4,908,101           |
| Amounts owed by group undertakings | -                 | -                 | 3,523,646         | 2,486,452           |
| Other debtors                      | 55,604            | 170,956           | 52,847            | 55,507              |
| Prepayments and accrued income     | 505,051           | 276,006           | 490,525           | 276,006             |
|                                    | <u>10,514,907</u> | <u>7,692,654</u>  | <u>11,347,403</u> | <u>7,726,066</u>    |

Trade debtors in respect of the group include factored debts amounting to £883,942 (1997 - £239,078).

# Anness Publishing Limited

## NOTES TO THE ACCOUNTS

at 31 October 1998

### 14. CREDITORS: amounts falling due within one year

|                                       | 1998              | Group<br>1997     | 1998              | Company<br>1997   |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                       | £                 | £                 | £                 | £                 |
| Bank overdrafts                       | 550,450           | 4,601,558         | 544,731           | 3,700,784         |
| Bank loan                             | 617,424           | -                 | -                 | -                 |
| Trade creditors (note 18)             | 11,404,523        | 9,370,320         | 11,382,218        | 9,370,320         |
| Corporation tax                       | 594,385           | 364,283           | 594,385           | 364,283           |
| Other taxes and social security costs | 129,234           | 102,668           | 49,867            | 22,859            |
| Other creditors                       | 3,079,624         | 404,645           | 2,613,918         | 404,645           |
| Accruals and deferred income          | 723,364           | 745,814           | 502,347           | 551,600           |
|                                       | <u>17,099,004</u> | <u>15,589,288</u> | <u>15,687,466</u> | <u>14,414,491</u> |

The bank loan and overdrafts are secured by fixed and floating charges over certain of the groups' assets.

Other creditors of the group includes an amount of £465,706 (1997 £ nil) which is secured by a fixed and floating charge over all the assets of a subsidiary undertaking. Other creditors of both the group and the company include an amount of £2,228,223 (1997 £ nil) secured by a fixed charge over the company's trade debtors.

### 15. SHARE CAPITAL

|                                  | 1998  | Authorised<br>1997 | Allotted, called up<br>and fully paid<br>1998 | 1997  |
|----------------------------------|-------|--------------------|-----------------------------------------------|-------|
|                                  | No.   | No.                | £                                             | £     |
| 1,000 ordinary shares of £1 each | 1,000 | 1,000              | 1,000                                         | 1,000 |

# Anness Publishing Limited

## NOTES TO THE ACCOUNTS at 31 October 1998

### 16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

#### Group

|                     | Share<br>capital<br>£ | Profit and<br>loss account<br>£ | Total<br>shareholders'<br>funds<br>£ |
|---------------------|-----------------------|---------------------------------|--------------------------------------|
| At 1 September 1996 | 1,000                 | 1,231,796                       | 1,232,796                            |
| Loss for the period |                       | (43,265)                        | (43,265)                             |
| At 1 November 1997  | 1,000                 | 1,188,531                       | 1,189,531                            |
| Exchange Adjustment |                       | (16,952)                        | (16,952)                             |
| Profit for the year |                       | 587,515                         | 587,515                              |
| At 31 October 1998  | 1,000                 | 1,759,094                       | 1,760,094                            |

#### Company

|                       | Share<br>capital<br>£ | Profit and<br>loss account<br>£ | Total<br>shareholders'<br>funds<br>£ |
|-----------------------|-----------------------|---------------------------------|--------------------------------------|
| At 1 September 1996   | 1,000                 | 1,260,460                       | 1,261,460                            |
| Profit for the period |                       | 149,188                         | 149,188                              |
| At 1 November 1997    | 1,000                 | 1,409,648                       | 1,410,648                            |
| Profit for the year   |                       | 858,315                         | 858,315                              |
| At 31 October 1998    | 1,000                 | 2,267,963                       | 2,268,963                            |

### 17. PENSION COMMITMENTS

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

### 18. RELATED PARTIES

Included in "Trade creditors" (note 14) is a balance of £17,661 (1997 - £28,792) 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 & Associates Limited. During the year the company was charged commission for sales in the normal course of business by Gunnar Lie & Associates Limited amounting to £76,510 (1997 - £68,264).

# Anness Publishing Limited

## NOTES TO THE ACCOUNTS

at 31 October 1998

### 19. OTHER FINANCIAL COMMITMENTS

At 31 October 1998 the company had annual commitments under non-cancellable operating leases set out as follows:

|                                | <i>Land and buildings</i> |               | <i>Other</i>  |               |
|--------------------------------|---------------------------|---------------|---------------|---------------|
|                                | <i>1998</i>               | <i>1997</i>   | <i>1998</i>   | <i>1997</i>   |
|                                | £                         | £             | £             | £             |
| Operating leases which expire: |                           |               |               |               |
| within one year                | -                         | -             | 6,575         | 13,497        |
| in two to five years           | 39,915                    | 39,915        | 33,933        | 19,213        |
|                                | <u>39,915</u>             | <u>39,915</u> | <u>40,508</u> | <u>32,710</u> |

### 20. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

|                                           | <i>Year ended<br/>31 October<br/>1998</i> | <i>14 months to<br/>31 October<br/>1997</i> |
|-------------------------------------------|-------------------------------------------|---------------------------------------------|
|                                           | £                                         | £                                           |
| Operating profit                          | 1,419,000                                 | 589,439                                     |
| Depreciation of tangible fixed assets     | 38,277                                    | 48,863                                      |
| Increase in stocks                        | (1,544,233)                               | (701,325)                                   |
| Increase in debtors                       | (2,822,253)                               | (1,821,418)                                 |
| Increase in creditors                     | 4,694,852                                 | 1,952,966                                   |
| Loss on sale of tangible fixed assets     | -                                         | 866                                         |
| Net cash inflow from operating activities | <u>1,785,643</u>                          | <u>69,391</u>                               |

(b) Analysis of changes in net debt

|                          | <i>At<br/>1 November<br/>1997</i> | <i>Cash<br/>flow</i> | <i>At<br/>31 October<br/>1998</i> |
|--------------------------|-----------------------------------|----------------------|-----------------------------------|
|                          | £                                 | £                    | £                                 |
| Cash at bank and in hand | 2,294,756                         | (2,284,025)          | 10,731                            |
| Bank overdrafts          | (4,601,558)                       | 4,051,108            | (550,450)                         |
| Cash                     | (2,306,802)                       | 1,767,083            | (539,719)                         |
| Short term bank loan     | -                                 | (617,424)            | (617,424)                         |
|                          | <u>(2,306,802)</u>                | <u>1,149,659</u>     | <u>(1,157,143)</u>                |

### 21. CONTINGENT LIABILITY

The company has guaranteed the bank overdraft of a subsidiary undertaking to the extent of \$2 million of which £617,784 (1997 - £596,338) was utilised at 31 October 1998.

### 22. ULTIMATE CONTROLLING PARTY

The directors regard Mr P Anness, a director of the company, to be the ultimate controlling party.