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Anness Publishing Limited

Report and Financial Statements

31 October 2004

 **ERNST & YOUNG**



Anness Publishing Limited

Registered No: 2375310

Directors

Mr P Anness
Ms J Lorenz
Mr S Hill
Mr N Thompson
Mr B Worley
Ms J Simons
Ms H Sudell

Secretary

Ms J Lorenz

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office

Hermes House
88-89 Blackfriars Road
London SE1 8HA

Directors' report

The directors present their report and financial statements for the year ended 31 October 2004.

Principal activity

The principal activity of the group remained that of publishing, book production and editorial services both in the United Kingdom and overseas.

Results and dividend

- The undistributed reserves of the group at 31 October 2004 totalled £7.93m (2003 - £6.47m), an increase of 22%
- Net cash inflow from operating activities in the year was £829,196
- Profit before tax for the year was £2.14m
- Operating profit was £2.25m at 11.1%, up from 10.69% in 2003
- Gross profit was £4.85m at 23.9%, up from 22.6% in 2003
- Revenue for the year was £20.28m, down from £28.96m
- No dividend is proposed for the year (2003 - £nil)

Commentary on results

The increase in gross margins is driven by favourable currencies, efficiently managed production relationships in the Far East, and a more realistic response to customer demands, though there is still enormous downward pressure on sales price points.

The increase in net margins is gained from a radically pared down overhead base and a great performance in reducing the company's funding and finance costs to virtually zero.

The fallback in sales turnover arises from a combination of events:

- Around 15% of the reduction in turnover is due to the changing value of the US dollar between 2003 and 2004 – i.e. similar sales amounts as 2003 translate into sterling at lower levels. The dilution on the revenue line is more than matched by a reduction in the sterling value of print creditors in US dollars, so these exchange rate movements had a favourable impact on margin which rose from 22.6% to 23.9%.
- The company continues to take a tough line on credit issues, and the general unwillingness of credit insurers to extend cover to some markets and some customer types has both impacted on the existing customer base and held back the pioneering of new territories. Customers worth over £3.5m in sales at 2002 levels have been stripped out of the account portfolio in the past two years.
- A big proportion of the reduction in turnover, over 40%, is due to an extended softening in demand for cookbooks during the course of the year. Cookbooks have represented as much as 46% of company sales in the past 5 years, so fluctuations in this category of the market have a significant impact. The market downturn in food books followed widespread media concern about obesity and the phenomenon that was the Atkins diet which, retailers report, had a major impact on demand for general cookery-based products during 2004. Recent reports indicate the Atkins period is coming to an end, and in any case the company has undertaken a timely investment programme in the past four years to build strength in other categories and reduce long-term over-dependency on cooking.

Directors' report

Commentary on results (continued)

- Licensing income rose by over 40% in the year, representing a strategic decision to increase sales penetration in some markets without taking on the risk and liabilities of physical manufacturing. Increases in licensing deals produce material decreases in top line revenues without diluting the bottom line.
- The balance of the decrease in sales is due to reduced sales volumes with particular large customers. In some cases this was a reflection of the cooking downturn, in other cases it is apparent that customers devoted a smaller percentage of retail space, budget and resource to our kinds of illustrated books for their own strategic reasons, and in yet more cases, some of our customers just had a tough trading year and were more interested in selling out existing stocks than in purchasing new lines.
- There is no doubt that a significant part of the sales resizing over the past three years is the calculated result of lower levels of investment in some types of new creative work, and a much reduced workforce, including fewer sales people actually employed by the company. The company took the long-term strategic decision to focus on core strengths in publishing and to concentrate on a smaller group of quality international accounts rather than trying to service everyone. This plan has generated over £8.0m in profits in three years, and has driven out nearly £8.0m in positive cashflows in the same period, but the other side of the equation has been the sacrifice of previously-held market positions in some channels and some territories, and the loss of global market share in some publishing categories, not least children's, gift and stationery.

Review of the business and future developments

Savings

The group has consistently reduced overheads over the past four years and is now particularly benefiting from phasing out its Australian subsidiary company (in 2003) and its USA subsidiary company (at the end of 2003) and outsourcing much of its sales activity to commissioned agents. These changes have helped the Company to increase operating profit margins to 11.1%.

The year-end headcount for the group as a whole is down from 97 in 2000 and 72 in 2002 to 57 at the end of 2004. The annualised run-rate for group fixed overhead is down from a high of £5.31m in 2000, and from £3.15m in 2003, to under £2.6m in 2004 and this 50% drop over a four-year period has afforded the opportunity for substantially increased profit margins.

Funding

Bringing direct sales and contract publishing into balance with the established trade publishing business over the past three years has generated quicker cash turn and made the business as a whole less capital intensive. In addition, the full impact of overhead savings achieved over a three-year period is now being felt in terms of sustained levels of profitability.

These elements have combined to allow the group to eliminate its funding need over the past three years and end 2004 with net cash of £600,000 (an increase of £100,000 on 2003).

The eradication of borrowing fees has created a huge change in the company cost profile. In 2001 the company spent over £600,000 on servicing debt, and in 2004 this has dropped to £nil (minimal bank charges are balanced out by exchange-rate gains and early payment discounts).

At the year-end the company had a total of £3.5m in additional funding available that was not being utilised.

Directors' report

Review of the business and future developments (continued)

Inventory

The business maintained tight controls over inventory levels but experienced a delayed call off of stock from certain major accounts in the last two months which was the sole reason for the £500,000 increase in year-end inventory to £3.2m, which will quickly unwind.

Investment

The group maintains its dedication to the creation and maintenance of probably the best active illustrated book portfolio in the industry, which now stands at around 3,000 titles in print, and around 550,000 wholly-owned photo-images.

The company is implementing an exciting three-year product-driven development strategy which is now at the end of its first year. This is designed to create a substantial competitive advantage in the market and to increase and consolidate both absolute sales and market share amongst the biggest group of potential global buyers by the end of 2006. This project is fully-funded out of existing budgets, and investment is already more than 50% incurred.

The company continues to invest aggressively in technology and especially in its leading-edge digital asset management, access and retrieval system, which multiplies the reuse value and creative worth of the intellectual property. Over 200,000 images are currently on the system, around 50,000-60,000 images are being added each year, and additionally around 1,000 backlist images will be fully indexed and converted from the existing archive every week throughout 2005.

Actual investment in new products in 2004 was in the region of £1.4m, which took management's estimate of total creative investment since 1997 to £22.28m, only a small proportion of which is currently carried on the balance sheet as work-in-progress (£4m). Given the revenue and contribution streams being palpably generated by the intellectual property, management considers this a highly prudent carrying value for this asset.

Creditors

Trade creditors (90% of which are the group's printers in the Far East) fell by £4.6m (a 46% decrease), from £10m to £5.4m reflecting the lower level of sales and the early payment of some accounts in return for attractive settlement discounts.

Debtors

Trade debtors fell by £3m (33% down), from £9.1m to £6.1m, due to faster payments from customers, the lower level of sales and the changes in exchange rates of major currencies.

Summary

2004 was a slow year for the company, with an unimpressive performance at the top line which has been analysed and addressed. Management is pleased that notwithstanding the fallback in sales, the business maintained its profit margins and delivered further substantial growth in its net worth whilst investing solidly in new product and advanced technology.

We would like to thank everyone in the company, and all who worked with us in 2004, for all their great efforts, and we look forward keenly to the prospect of sharing a good year in 2005 with our outstanding authors, editors, designers, photographers, printers, shippers, bankers and auditors, and above all with our patient and loyal customers.

Directors' report

Directors and their interests

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

		2004 £1 ordinary shares	2003 £1 ordinary shares
Mr P Anness	(Managing Director / Chairman)	900	900
Ms J Lorenz	(Publisher)	100	100
Mrs D Lie	(Rights Director: resigned 30 July 2004)	—	—
Mr S Hill	(Finance Director)	—	—
Mr N Thompson	(Production Director)	—	—
Mr B Worley	(IT and Pre-Press Director)	—	—
Mrs A Wood	(Sales Director: resigned 24 December 2004)	—	—
Ms H Sudell	(Editorial Director)	—	—
Ms J Simons	(Editorial Director)	—	—

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the board

P Anness
Director



21 MAR 2005

Statement of directors' responsibilities in respect of the financial statements

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

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

Independent auditors' report

to the members of Anness Publishing Limited

We have audited the group's financial statements for the year ended 31 October 2004 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

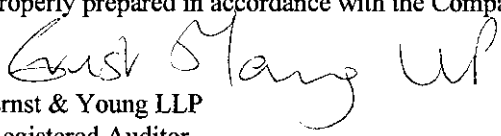
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 October 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
London

23 March 2005

Group profit and loss account

for the year ended 31 October 2004

	Notes	2004 £	2003 £
Turnover	2	20,277,895	28,963,553
Cost of sales		15,431,032	22,422,200
Gross profit		4,846,863	6,541,353
Administrative expenses		2,596,660	3,444,185
Operating profit	3	2,250,203	3,097,168
Interest receivable and similar income		3,399	51,330
Interest payable and similar charges	6	(111,349)	(254,262)
Profit on ordinary activities before taxation		2,142,253	2,894,236
Tax on profit on ordinary activities	7	623,734	742,348
Profit for the year	8	1,518,519	2,151,888

Group statement of total recognised gains and losses

for the year ended 31 October 2004

	2004	2003
	£	£
Profit for the financial year attributable to members of the parent company	1,518,519	2,151,888
Exchange difference on retranslating net assets of subsidiary undertakings	(61,909)	(58,964)
Total recognised gains relating to the year	1,456,610	2,092,924

Group balance sheet

at 31 October 2004

	Notes	2004 £	2003 £
Fixed assets			
Tangible fixed assets	9	95,598	87,049
		<u>95,598</u>	<u>87,049</u>
Current assets			
Stocks	11	7,197,200	7,693,753
Debtors	12	6,410,475	9,638,588
Cash at bank and in hand		1,587,054	2,485,474
		<u>15,194,729</u>	<u>19,817,815</u>
Creditors: amounts falling due within one year	13	7,359,870	12,431,017
		<u>7,359,870</u>	<u>12,431,017</u>
Net current assets		7,834,859	7,386,798
		<u>7,834,859</u>	<u>7,386,798</u>
Total assets less current liabilities		7,930,457	7,473,847
		<u>7,930,457</u>	<u>7,473,847</u>
Creditors: amounts falling due after more than one year	14	—	1,000,000
		<u>7,930,457</u>	<u>6,473,847</u>
Capital and reserves			
Called up share capital	17	1,000	1,000
Profit and loss account	18	7,929,457	6,472,847
		<u>7,930,457</u>	<u>6,473,847</u>
Equity shareholders' funds	18	7,930,457	6,473,847
		<u>7,930,457</u>	<u>6,473,847</u>

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Director

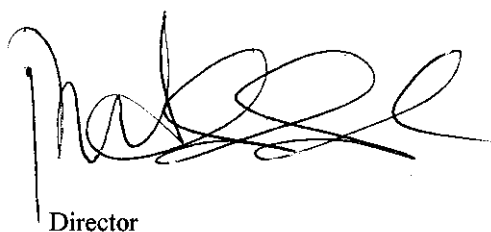
21 MAR 2005

Company balance sheet

at 31 October 2004

	Notes	2004 £	2003 £
Fixed assets			
Tangible fixed assets	9	95,598	87,049
Investments	10	646,074	646,074
		<u>741,672</u>	<u>733,123</u>
Current assets			
Stocks	11	7,197,200	7,693,753
Debtors	12	6,330,369	8,932,940
Cash at bank and in hand		1,566,152	2,133,984
		<u>15,093,721</u>	<u>18,760,677</u>
Creditors: amounts falling due within one year	13	7,994,445	12,178,611
		<u>7,099,276</u>	<u>6,582,066</u>
Net current assets		<u>7,840,948</u>	<u>7,315,189</u>
Total assets less current liabilities		<u>7,840,948</u>	<u>7,315,189</u>
Creditors: amounts falling due after more than one year	14	—	1,000,000
		<u>7,840,948</u>	<u>6,315,189</u>
Capital and reserves			
Called up share capital	17	1,000	1,000
Profit and loss account	18	7,839,948	6,314,189
		<u>7,840,948</u>	<u>6,315,189</u>
Equity shareholders' funds	18	<u>7,840,948</u>	<u>6,315,189</u>

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Director

21 MAR 2005

Group statement of cash flows

for the year ended 31 October 2004

	Notes	2004 £	2003 £
Net cash inflow from operating activities	21(a)	829,196	5,733,918
Returns on investments and servicing of finance			
Interest received		3,399	51,330
Interest paid		(111,349)	(254,262)
		(107,950)	(202,932)
Taxation			
Corporation tax paid		(567,579)	(575,517)
		(567,579)	(575,517)
Capital expenditure			
Payments to acquire tangible fixed assets		(52,087)	(35,454)
Receipts from sales of tangible fixed assets		–	2,907
		(52,087)	(32,547)
Financing			
Movement in short term borrowings		–	(1,584,665)
Movement in long term borrowings		(1,000,000)	(1,000,000)
		(1,000,000)	(2,584,665)
(Decrease)/increase in cash		(898,420)	2,338,257
Reconciliation of net cash flow to movement in net funds			
	Note	2004 £	2003 £
(Decrease)/increase in cash in the year		(898,420)	2,338,257
Cash outflow from movement in short term borrowings		–	1,584,665
Cash outflow from movement in long term borrowings		1,000,000	1,000,000
Movement in net funds		101,580	4,922,922
Net funds/(debt) at beginning of the year		485,474	(4,437,448)
Net funds at end of the year	21(b)	587,054	485,474

Notes to the financial statements

at 31 October 2004

1. Accounting policies

Accounting convention

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

Basis of consolidation

The group financial statements comprise the financial statements of Anness Publishing Limited and all its subsidiary undertakings made up to 31 October. 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 group excluding VAT, during the year.

Fixed assets

Fixed asset investments are stated at cost less provision for diminution in value. The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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% per annum
Computer equipment	-	50% per annum

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks and work in progress

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

Work in progress includes all the external costs of bringing a new book to publication. For newly commissioned titles it is amortised over seven years, the period of expected revenue generation. They are written off 73% over 4 years, with 9% per year in the final 3 years. The cost of reformatted editions is written off over a maximum of four years. Provision is made for abortive development costs, or where the non-amortised costs are not expected to be recovered on future sales.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

Notes to the financial statements

at 31 October 2004

1. Accounting policies (continued)

Deferred taxation (continued)

- provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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 financial statements 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.

Leasing agreements

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

Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Derivative instruments

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The group considers all its derivative instruments qualify for hedge accounting as they are :

- related to a firm foreign currency commitment;
- involve the same currency as the hedged item; and
- reduce the risk of foreign currency exchange movements on the group's operations.

The group recognises the difference between the year end rate and the forward rate on each contract. As a result, gains and losses on the forward foreign currency contracts are offset against the foreign exchange gains and losses on the related financial assets and liabilities.

Notes to the financial statements

at 31 October 2004

2. Turnover

Turnover 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:

	2004 £	2003 £
United Kingdom	5,280,623	6,296,092
Rest of Europe	2,951,000	3,704,000
North America	10,328,272	16,097,461
Asia and Africa	538,000	619,000
Australasia	1,180,000	2,247,000
	<u>20,277,895</u>	<u>28,963,553</u>

3. Operating profit

This is stated after charging:

	2004 £	2003 £
Exceptional items - redundancy and termination payments	32,400	12,625
Depreciation of tangible fixed assets	43,538	43,504
Operating lease rentals - land and buildings	178,500	157,807
- plant and machinery	64,483	72,412
Auditors' remuneration - UK audit services	40,000	41,000
- UK non-audit services	13,304	22,007
	<u></u>	<u></u>

4. Staff costs

	2004 £	2003 £
Wages and salaries	1,686,078	1,844,934
Social security costs	179,263	172,662
Other pension costs	102,913	130,198
	<u>1,968,254</u>	<u>2,147,794</u>

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

	2004 No.	2003 No.
Production and editorial	35	35
Sales and marketing	11	13
Administration and accounts	11	13
	<u>57</u>	<u>61</u>

Notes to the financial statements

at 31 October 2004

5. Directors' emoluments

	2004 £	2003 £
Emoluments	601,312	552,357
Compensation for loss of office	53,895	7,000

Company contributions paid to personal pension schemes	86,431	100,804
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	2004 No.	2003 No.
Members of personal pension schemes	8	10

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

	2004 £	2003 £
Emoluments	101,680	99,000
Company contributions paid to personal pension scheme	35,207	34,861

6. Interest payable and similar charges

	2004 £	2003 £
Bank loans and overdrafts	108,358	254,262
Other interest	2,991	—
	111,349	254,262

Notes to the financial statements

at 31 October 2004

7. Tax on profit on ordinary activities

(a) Analysis of charge in year:

	2004 £	2003 £
<i>Current tax</i>		
UK corporation tax on the profit for the year	647,933	566,148
Over provision in prior years	–	(131)
Double tax relief	(10,955)	–
Foreign tax	636,978 (15,456)	566,017 168,554
Total current tax (see below)	621,522	734,571
<i>Deferred tax</i>		
Origination and reversal of timing differences: UK	2,212	(530)
Origination and reversal of timing differences: Overseas	–	8,307
Total deferred tax (note 16)	2,212	7,777
Total tax charge for year	623,734	742,348

(b) Factors affecting current tax charge for the year:

The tax assessed for the year is lower (2003 - lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 £	2003 £
Profit on ordinary activities before tax	2,142,253	2,894,236
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 - 30 %)	642,675	868,271
<i>Effects of:</i>		
Expenses not deductible for tax purposes/non taxable income	892	(2,396)
Other timing differences	(18,958)	–
Previously taxed income	–	(174,339)
Capital allowances in (advance)/arrear of depreciation	(2,212)	602
Adjustments to tax charge in respect of previous years	–	(131)
Difference in tax rates	(875)	42,564
Current tax for the year (note 7a)	621,522	734,571

Notes to the financial statements

at 31 October 2004

8. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company was £1,525,759 (2003 - £1,332,429).

9. Tangible fixed assets

<i>Group</i>	<i>Short leasehold property £</i>	<i>Fixtures, fittings and equipment £</i>	<i>Computer equipment £</i>	<i>Total £</i>
Cost:				
At 1 November 2003	7,962	112,479	291,764	412,205
Additions	1,896	4,542	45,649	52,087
Disposals	—	—	(6,982)	(6,982)
At 31 October 2004	9,858	117,021	330,431	457,310
Depreciation:				
At 1 November 2003	2,936	110,376	211,844	325,156
Charge for the year	786	1,039	41,713	43,538
Disposals	—	—	(6,982)	(6,982)
At 31 October 2004	3,722	111,415	246,575	361,712
Net book value:				
At 31 October 2004	6,136	5,606	83,856	95,598
At 1 November 2003	5,026	2,103	79,920	87,049

Notes to the financial statements

at 31 October 2004

9. Tangible fixed assets (continued)

<i>Company</i>	<i>Short leasehold property £</i>	<i>Fixtures, fittings and equipment £</i>	<i>Computer equipment £</i>	<i>Total £</i>
Cost:				
At 1 November 2003	7,962	112,479	284,782	405,223
Additions	1,896	4,542	45,649	52,087
At 31 October 2004	9,858	117,021	330,431	457,310
Depreciation:				
At 1 November 2003	2,936	110,376	204,862	318,174
Charge for the year	786	1,039	41,713	43,538
At 31 October 2004	3,722	111,415	246,575	361,712
Net book value:				
At 31 October 2004	6,136	5,606	83,856	95,598
At 1 November 2003	5,026	2,103	79,920	87,049

10. Investments

<i>Company</i>	<i>Subsidiary undertakings shares £</i>	<i>Other unlisted investments £</i>	<i>Total £</i>
Cost:			
At 1 November 2003 and 31 October 2004	646,074	—	646,074

The company holds 20% or more of the share capital of the following companies:

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Anness Publishing Inc.	United States	Ordinary shares	100%	Book Publishing

11. Stocks

	<i>2004 £</i>	<i>Group 2003 £</i>	<i>2004 £</i>	<i>Company 2003 £</i>
Finished goods	3,192,653	2,693,767	3,192,653	2,693,767
Work in progress	4,004,547	4,999,986	4,004,547	4,999,986
	7,197,200	7,693,753	7,197,200	7,693,753

Notes to the financial statements

at 31 October 2004

12. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£
Trade debtors	6,142,287	9,134,124	6,126,633	5,950,564
Amounts owed by group undertakings	—	—	24,863	2,784,054
Other debtors	119,759	323,615	30,446	57,348
Prepayments and accrued income	138,228	168,436	138,226	128,561
Deferred tax asset (note 16)	10,201	12,413	10,201	12,413
	<u>6,410,475</u>	<u>9,638,588</u>	<u>6,330,369</u>	<u>8,932,940</u>

13. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£
Bank loans (note 15)	1,000,000	1,000,000	1,000,000	1,000,000
Trade creditors	5,417,067	10,059,066	5,417,067	10,059,066
Corporation tax	509,322	455,377	445,247	264,826
Other taxes and social security costs	53,416	48,221	53,416	48,221
Accruals and deferred income	380,065	868,353	373,188	806,498
Amounts due to group undertakings	—	—	705,527	—
	<u>7,359,870</u>	<u>12,431,017</u>	<u>7,994,445</u>	<u>12,178,611</u>

The bank loans are secured by fixed and floating charges over certain of the group's assets.

Notes to the financial statements

at 31 October 2004

14. Creditors: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£
Bank loans (note 15)	—	1,000,000	—	1,000,000

15. Loans

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£
Amounts repayable:				
In one year or less or on demand	1,000,000	1,000,000	1,000,000	1,000,000
In more than one year but not more than two years	—	1,000,000	—	1,000,000
	1,000,000	2,000,000	1,000,000	2,000,000

16. Deferred tax assets

Deferred tax assets recognised in the financial statements and the amounts not recognised are as follows:

<i>Group</i>	<i>Recognised</i>		<i>Not recognised</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£
Decelerated capital allowances	10,201	12,413	—	—
Tax losses carried forward	—	—	1,500	1,500
	10,201	12,413	1,500	1,500
				£

Recognised at start of year	12,413
Deferred tax charge in profit and loss account for the year	(2,212)
Recognised at end of year	10,201

<i>Company</i>	<i>Recognised</i>		<i>Not recognised</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£
Decelerated capital allowances	10,201	12,413	1,500	1,500

Notes to the financial statements

at 31 October 2004

16. Deferred tax assets (continued)

	£
Recognised at start of year	12,413
Deferred tax charge in profit and loss account for the year	(2,212)
Recognised at end of year	10,201

17. Share capital

	2004 No.	Authorised 2003 No.	Allotted, called up and fully paid 2004 £	2003 £
Ordinary shares of £1 each	1,000	1,000	1,000	1,000

18. Reconciliation of shareholders' funds and movement on reserves

Group	Share capital £	Profit and loss account £	Total shareholders' funds £
At 31 October 2002	1,000	4,379,923	4,380,923
Exchange differences on retranslating net assets of subsidiary undertaking		(58,964)	(58,964)
Profit for the year		2,151,888	2,151,888
At 31 October 2003	1,000	6,472,847	6,473,847
Exchange differences on retranslating net assets of subsidiary undertaking		(61,909)	(61,909)
Profit for the year		1,518,519	1,518,519
At 31 October 2004	1,000	7,929,457	7,930,457

Company	Share capital £	Profit and loss account £	Total shareholders' funds £
At 31 October 2002	1,000	4,981,760	4,982,760
Profit for the year		1,332,429	1,332,429
At 31 October 2003	1,000	6,314,189	6,315,189
Profit for the year		1,525,759	1,525,759
At 31 October 2004	1,000	7,839,948	7,840,948

Notes to the financial statements

at 31 October 2004

19. Pension commitments

The company makes contributions into the personal pension schemes of its directors and staff. The pension cost during the year was £102,913 (2003 - £130,198).

20. Other financial commitments

At 31 October 2004 the company had annual commitments under non-cancellable operating leases set out as follows:

	<i>Land and buildings</i>		<i>Other</i>	
	2004	2003	2004	2003
	£	£	£	£
Operating leases which expire:				
within one year	34,000	–	2,084	47,714
in two to five years	144,500	178,500	9,136	16,869
	<u>178,500</u>	<u>178,500</u>	<u>11,220</u>	<u>64,583</u>

21. Notes to the group statement of cash flows

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

	2004	2003
	£	£
Operating profit	2,250,203	3,097,168
Depreciation of tangible fixed assets	43,538	43,504
Decrease in stocks	496,553	1,231,154
Decrease in debtors	3,225,903	4,010,893
Decrease in creditors	(5,125,092)	(2,596,478)
Loss on write off of fixed asset investment	–	5,000
Loss on sale of tangible fixed assets	–	1,640
Exchange loss on cash, liquid resources and loans	(61,909)	(58,963)
Net cash inflow from operating activities	<u>829,196</u>	<u>5,733,918</u>

(b) Analysis of changes in net funds

	<i>At 31 October 2003 £</i>	<i>Cash flow £</i>	<i>At 31 October 2004 £</i>
Cash at bank and in hand	2,485,474	(898,420)	1,587,054
Short term bank loans	(1,000,000)	–	(1,000,000)
Long term bank loans	(1,000,000)	1,000,000	–
	<u>485,474</u>	<u>101,580</u>	<u>587,054</u>

22. Ultimate controlling party

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