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Anness Publishing Limited

Report and Financial Statements

31 October 2005

 **ERNST & YOUNG**



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COMPANIES HOUSE 13/04/2006

Anness Publishing Limited

Registered No: 2375310

Directors

Mr P Anness
Ms J Lorenz
Mr S Hill
Mr N Thompson
Mr B Worley
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 2005.

Principal activity

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

Results and dividend

- Profit before tax for the year was £1.12m
- The undistributed reserves of the company at 31 October 2005 totalled £8.67m (2004 - £7.84m), an increase of 9%
- No dividend is proposed for the year (2004 - £nil)
- No consolidated financial statements are presented as the USA subsidiary was liquidated in the year and the new subsidiary set-up during the year remains dormant.
- The impact of the long-planned closure of the redundant USA subsidiary sales office is a £186,000 profit on disposal of the undertaking.

Review of the business and future developments

Overhead

Administrative expense in 2005 was £2.59m £20,000 less than in 2004.

56 people were employed in 2005 versus 57 in 2004.

Funding and cashflow

Cash at the 2005 year end stands at £946,342.

At the year-end the company had a total of £1.0m in funding available that was not being utilised in addition to the £946,342 in the bank.

Inventory

The business maintained tight controls over inventory levels, starting the year with £3.19m in finished book stocks and ending it with £2.39m in finished book stocks.

Work in progress

The company's valuation formula for creative work in progress remained unchanged. This meant an opening value of £4.00m and a closing value of £3.38m, though investment levels were kept at the same level as 2004 and 2003.

Investment

The company maintains its dedication to the creation and maintenance of probably the best active illustrated book portfolio in the industry, which now stands at around 3,250 titles in print, and around 580,000 wholly-owned photo-images.

Actual investment in new products in 2005 was in the region of £1.4m, which took management's estimate of total creative investment since 1997 to £23.7m, only a small proportion of which is currently carried on the balance sheet as work-in-progress (£3.38m). Given the revenue and contribution streams being palpably generated by the intellectual property, management considers this a highly prudent carrying value for this asset.

Directors' report

Review of the business and future developments (continued)

Creditors

Trade creditors (90% of which are the company's printers in the Far East) fell by £3.34m, from £7.36m to £4.02m, reflecting lower levels of manufacture, lower currency exchange rates and a quicker payment profile to valued suppliers.

Debtors

Trade debtors fell by £540,000, from £6.41m to £5.87m, due to faster payments from customers, a lower level of sales and the changes in exchange rates of major currencies.

New technology

The company continues the development of its leading edge digital asset management system. 70,000 images are now fully indexed and searchable; 250,000 further images are available digitally and stored accessibly on system. The company has registered and launched a new company, Practical Pictures, to commercially exploit this system and asset as a photo-library and picture licensing business.

Ethical trading

The company has embarked on a major forestry project with the intention of eventually owning, maintaining, managing and planting as many trees annually as it utilises each year in the paper consumption of its book manufacture (over 8,000,000 books were produced in 2005). This programme is being run in accordance with the UK Woodland Assurance Scheme and validated by the internationally recognised Forest Stewardship Council which certifies the type and quality of trees grown and timber produced. The company currently manages over 250,000 trees which approximates a year's consumption.

Summary

2005 was a successful year for the company, albeit turnover was down on the previous year. Management is pleased that notwithstanding the fallback in sales, the business maintained acceptable 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 2005, for all their great efforts, and we look forward keenly to the prospect of sharing a good year in 2006 with our outstanding authors, editors, designers, photographers, printers, shippers, bankers and auditors, and above all with our patient and loyal customers.

Directors and their interests

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

		2005 £1 ordinary shares	2004 £1 ordinary shares
Mr P Anness	(Managing Director/Chairman)	900	900
Ms J Lorenz	(Publisher)	100	100
Mr S Hill	(Finance Director)	—	—
Mr N Thompson	(Production Director)	—	—
Mr B Worley	(IT and Pre-Press Director)	—	—
Ms H Sudell	(Editorial Director)	—	—
Ms J Simons	(Editorial Director— resigned 31 January 2006)	—	—

Directors' report

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

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 profit or loss of the company 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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 company 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 company's financial statements for the year ended 31 October 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 20. 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 company 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

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


Ernst & Young LLP
Registered Auditor
London

11 April 2006

Profit and loss account

for the year ended 31 October 2005

	Notes	2005 £	2004 £
Turnover	2	15,692,618	20,250,259
Cost of sales		12,133,387	15,415,403
Gross profit		3,559,231	4,834,856
Administrative expenses		2,597,830	2,577,413
Operating profit	3	961,401	2,257,443
Interest receivable and similar income		6,465	3,399
Interest payable and similar charges	6	(31,310)	(111,349)
Profit on disposal of fixed asset investment		186,031	—
Profit on ordinary activities before taxation		1,122,587	2,149,493
Tax on profit on ordinary activities	7	286,581	623,734
Profit for the year	16	836,006	1,525,759

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £836,006 attributable to the shareholders for the year ended 31 October 2005 (2004 - profit of £1,525,759).

Balance sheet

at 31 October 2005

	Notes	2005 £	2004 £
Fixed assets			
Tangible fixed assets	8	96,744	95,598
Investments	9	—	646,074
		<u>96,744</u>	<u>741,672</u>
Current assets			
Stocks	10	5,775,818	7,197,200
Debtors	11	5,874,021	6,330,369
Cash at bank and in hand		946,341	1,566,152
		<u>12,596,180</u>	<u>15,093,721</u>
Creditors: amounts falling due within one year	12	4,015,970	7,994,445
		<u>8,580,210</u>	<u>7,099,276</u>
Net current assets			
		<u>8,676,954</u>	<u>7,840,948</u>
Total assets less current liabilities			
		<u>8,676,954</u>	<u>7,840,948</u>
Capital and reserves			
Called up share capital	15	1,000	1,000
Profit and loss account	16	8,675,954	7,839,948
		<u>8,676,954</u>	<u>7,840,948</u>
Equity shareholders' funds	16	8,676,954	7,840,948



P Anness
Director

Statement of cash flows

for the year ended 31 October 2005

	<i>Notes</i>	2005 £	2004 £
Net cash inflow from operating activities	19(a)	213,961	1,033,306
Returns on investments and servicing of finance			
Interest received		6,465	3,399
Interest paid		(31,310)	(111,349)
		(24,845)	(107,950)
Taxation			
Corporation tax paid		(574,653)	(441,101)
Capital expenditure			
Payments to acquire tangible fixed assets		(66,379)	(52,087)
Receipt from disposal of fixed asset investment		832,105	–
		765,726	(52,087)
Financing			
Movement in short term borrowings		(1,000,000)	–
Movement in long term borrowings		–	(1,000,000)
		(1,000,000)	(1,000,000)
Decrease in cash		(619,811)	(567,832)

Reconciliation of net cash flow to movement in net funds

	<i>Note</i>	2005 £	2004 £
Decrease in cash in the year		(619,811)	(567,832)
Cash outflow from movement in short term borrowings		1,000,000	–
Cash outflow from movement in long term borrowings		–	1,000,000
Movement in net funds		380,189	432,168
Net funds at beginning of the year		566,152	133,984
Net funds at end of the year	19(b)	946,341	566,152

Notes to the financial statements

at 31 October 2005

1. Accounting policies

Accounting convention

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

Basis of preparation

No consolidated financial statements have been prepared in light of the liquidation of the USA subsidiary during the year and because the new subsidiary set-up during the year remains dormant. Thus the numbers as presented and the comparatives are those of the company only.

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. 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:

- 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.

Notes to the financial statements

at 31 October 2005

1. Accounting policies (continued)

Foreign currencies

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

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 company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The company 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 company's operations.

The company 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.

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:

	2005 £	2004 £
United Kingdom	4,917,319	5,280,623
Rest of Europe	2,463,700	2,951,000
North America	6,840,299	10,300,636
Asia and Africa	455,300	538,000
Australasia	1,016,000	1,180,000
	<u>15,692,618</u>	<u>20,250,259</u>

3. Operating profit

This is stated after charging:

	2005 £	2004 £
Exceptional items - redundancy and termination payments	17,192	32,400
Depreciation of tangible fixed assets	65,233	43,538
Operating lease rentals - land and buildings	178,500	178,500
- plant and machinery	15,038	64,483
Auditors' remuneration - UK audit services	40,000	40,000
- UK non-audit services	9,225	13,304
	<u>307,148</u>	<u>368,225</u>

Notes to the financial statements

at 31 October 2005

4. Staff costs

	2005	2004
	£	£
Wages and salaries	1,687,079	1,686,078
Social security costs	168,065	179,263
Other pension costs	105,120	102,913
	<u>1,960,264</u>	<u>1,968,254</u>

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

	2005	2004
	No.	No.
Production and editorial	37	35
Sales and marketing	9	11
Administration and accounts	10	11
	<u>56</u>	<u>57</u>

5. Directors' emoluments

	2005	2004
	£	£
Emoluments	549,787	601,312
Compensation for loss of office	—	53,895
	<u>—</u>	<u>—</u>

Company contributions paid to personal pension schemes

2005	2004
£	£
85,458	86,431

	2005	2004
	No.	No.
Members of personal pension schemes	6	8

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

	2005	2004
	£	£
Emoluments	109,567	101,680
Company contributions paid to personal pension scheme	37,668	35,207

Notes to the financial statements

at 31 October 2005

6. Interest payable and similar charges

	2005	2004
	£	£
Bank loans and overdrafts	27,331	108,358
Other interest	3,979	2,991
	<u>31,310</u>	<u>111,349</u>

7. Tax on profit on ordinary activities

(a) Analysis of charge in year:

	2005	2004
	£	£
<i>Current tax</i>		
UK corporation tax on the profit for the year	286,581	647,933
Double tax relief	(9,407)	(10,955)
	<u>277,174</u>	<u>636,978</u>
Foreign tax	9407	(15,456)
Total current tax (see below)	<u>286,581</u>	<u>621,522</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences - UK	(5,299)	2,212
Total deferred tax (note 15)	<u>(5,299)</u>	<u>2,212</u>
Total tax charge for year	<u>281,282</u>	<u>623,734</u>

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

The tax assessed for the year is lower (2004 - lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005	2004
	£	£
Profit on ordinary activities before tax	1,122,587	2,149,493
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 % (2004 - 30 %)	<u>336,776</u>	<u>644,848</u>
<i>Effects of:</i>		
Expenses not deductible for tax purposes/non taxable income	550	892
Other timing differences	(55,809)	(21,131)
Capital allowances in arrears/(advance) of depreciation	5,064	(2,212)
Difference in tax rates	—	(875)
Current tax for the year (note 7(a))	<u>286,581</u>	<u>621,522</u>

Notes to the financial statements

at 31 October 2005

8. Tangible fixed assets

	<i>Short leasehold property</i>	<i>Fixtures, fittings and equipment</i>	<i>Computer equipment</i>	<i>Total</i>
	£	£	£	£
Cost:				
At 1 November 2004	9,858	117,021	330,431	457,310
Additions	—	38,340	28,039	66,379
At 31 October 2005	9,858	155,361	358,470	523,689
Depreciation:				
At 1 November 2004	3,722	111,415	246,575	361,712
Charge for the year	893	11,351	52,989	65,233
At 31 October 2005	4,615	122,766	299,564	426,945
Net book value:				
At 31 October 2005	5,243	32,595	58,906	96,744
At 1 November 2004	6,136	5,606	83,856	95,598

9. Investments

	<i>Subsidiary undertakings shares</i>	<i>Other unlisted investments</i>	<i>Total</i>
	£	£	£
Cost:			
At 1 November 2004	646,074	—	646,074
Disposals	(646,074)	—	(646,074)
At 31 October 2005	—	—	—

The company disposed of its entire investment in Anness Publishing Inc. during the period under review. Anness Publishing Inc. was liquidated in the United States giving rise to profit on disposal in the UK of £186,093.

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>
Practical Pictures Limited	United Kingdom	Ordinary shares	100%	Image licensing

Notes to the financial statements

at 31 October 2005

10. Stocks

	2005 £	2004 £
Finished goods	2,393,090	3,192,653
Work in progress	3,382,728	4,004,547
	<u>5,775,818</u>	<u>7,197,200</u>

11. Debtors

	2005 £	2004 £
Trade debtors	5,713,346	6,126,633
Amounts owed by group undertakings	—	24,863
Other debtors	55,373	30,446
Prepayments and accrued income	89,802	138,226
Deferred tax asset (note 15)	15,500	10,201
	<u>5,874,021</u>	<u>6,330,369</u>

12. Creditors: amounts falling due within one year

	2005 £	2004 £
Bank loans (note 14)	—	1,000,000
Trade creditors	3,523,434	5,417,067
Corporation tax	162,474	445,247
Other taxes and social security costs	52,832	53,416
Accruals and deferred income	277,230	373,188
Amounts due to group undertakings	—	705,527
	<u>4,015,970</u>	<u>7,994,445</u>

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

13. Loans

	2005 £	2004 £
Amounts repayable:		
In one year or less or on demand	—	1,000,000
	<u>—</u>	<u>1,000,000</u>

Notes to the financial statements

at 31 October 2005

14. Deferred tax assets

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

	<i>Recognised</i>		<i>Not recognised</i>	
	2005	2004	2005	2004
	£	£	£	£
Decelerated capital allowances	15,500	10,201		1,500
				£
Recognised at start of year				10,201
Deferred tax charge in profit and loss account for the year				5,299
Recognised at end of year				15,500

15. Share capital

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	2005	2004	2005	2004
	No.	No.	£	£
Ordinary shares of £1 each	1,000	1,000	1,000	1,000

16. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	£	£	£
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
Profit for the year	–	836,006	836,006
At 31 October 2005	1,000	8,675,954	8,676,954

17. Pension commitments

The company makes contributions into the personal pension schemes of its directors and staff. The pension cost during the year was £105,120 (2004 - £102,913).

Notes to the financial statements

at 31 October 2005

18. Other financial commitments

At 31 October 2005 the company had annual commitments under non-cancellable operating leases set out as follows:

	<i>Land and buildings</i>		<i>Other</i>	
	2005	2004	2005	2004
	£	£	£	£
Operating leases which expire:				
within one year	34,000	34,000	–	2,084
in two to five years	144,500	144,500	7,776	9,136
	<u>178,500</u>	<u>178,500</u>	<u>7,776</u>	<u>11,220</u>

19 Notes to the statement of cash flows

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

	2005	2004
	£	£
Operating profit	961,401	2,257,443
Depreciation of tangible fixed assets	65,233	43,538
Decrease in stocks	1,421,382	496,553
Decrease in debtors	461,646	2,600,359
Decrease in creditors	(2,695,701)	(4,364,587)
Net cash inflow from operating activities	<u>213,961</u>	<u>1,033,306</u>

(b) Analysis of changes in net funds

	<i>At 31 October 2004</i>	<i>Cash flow</i>	<i>At 31 October 2005</i>
	£	£	£
Cash at bank and in hand	1,566,152	(619,811)	946,341
Short term bank loans	(1,000,000)	1,000,000	–
	<u>566,152</u>	<u>380,189</u>	<u>946,341</u>

20. Ultimate controlling party

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