

2375310

Anness Publishing Limited

Report and Financial Statements

31 October 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 2006.

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 £1.74m (2005 was £1.12m, so profit was up 55%)
- The undistributed reserves of the company at 31 October 2006 totalled £9.89m (2005 was £8.67m, so up 14 %)
- No dividend is proposed for the year (2005 was £nil)

Review of the business and future developments

Sales

In a tough climate, turnover increased 5.7%, primarily based on a strong sales to USA retailers and good sales to UK special customers.

Margins

Gross margin increased by 4.9% based on lower returns levels, fewer overstocks, a higher proportion of licensed rights contracts and the successful launch of the new photo-library business.

Overhead

Administrative expense in 2006 was £2.89m, £290,000 (11.2%) up on 2005.

The increased overhead is mainly caused by a £180,000 provision created against the £260,000 owed by Advanced Marketing Services Inc, a USA customer, when it entered Chapter 11 on 29 December 2006.

58 people were employed in 2006 versus 56 in 2005.

Funding and cashflow

Cash at the 2006 year end stands at £3,563,877. 2005 year end cash was £946,341, so cash holdings are up 277%.

At the year-end the company had a total of £1.5m in funding available that was not being utilised in addition to the £3.6m in the bank.

Inventory

The business maintained tight controls over inventory levels, starting the year with £2.39m in finished book stocks and ending it with £ 2.36m 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 £3.38m and a closing value of £3.24m, though investment levels were kept at the same level as 2005 and 2004.

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 3,450 titles in print, and around 600,000 copyright-owned photo-images. Actual investment in new products in 2006 was in the region of £1.4m, which took management's estimate of total creative investment since 1997 to £25.1m, only a small proportion of which is currently carried on the balance sheet as work-in-progress (£3.2m). 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

Creditors rose to £5.24m from £4.02m reflecting in part higher levels of manufacture to support increased sales but also a 100% increase in tax reserve to pay for increased profits, and close to 100% increase in accruals for advanced contract payments received. Trade creditors (the vast majority of which are printers in the Far East) rose from £3.5m in 2005 to £4.3m in 2006 (up £800,000) while cash increased in the business by £2.6m at the same time, and this reflects the timing of payments for Christmas deliveries.

Debtors

Debtors fell by £477,720, from £5.87m to £5.40m, due to faster payments from customers balancing out the higher level of revenues.

New technology

The company continues the development of its leading edge digital asset management system. Over 100,000 images are now fully indexed and searchable and an additional 200,000 further images are available digitally and stored accessibly on system. In 2006 a new company, Practical Pictures, was launched to commercially exploit this asset as a photo-library and picture licensing business: the launch was profitable and close to £100,000 was generated in revenues.

Ethical trading

The company has embarked on a forestry project with the intention of cultivating, managing and planting as many trees annually as it utilises each year in the paper consumption of its book manufacture (over 8.55m books were manufactured in 2006). 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 600,000 trees which approximates to about two and a half year's paper consumption.

Summary

2006 was a successful year for the company. Management is pleased that the business has increased sales, improved profit margins and delivered further growth in its net worth whilst simultaneously investing solidly in new products, advanced technology and ecological sustainability.

We would like to thank everyone in the company, and all who worked with us in 2006, for all their great efforts, and we look forward keenly to the prospect of sharing a good year in 2007 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:

		2006	2005
		£1	£1
		ordinary	ordinary
		shares	shares
Mr P Anness	(Managing Director/Chairman)		900
Ms J Lorenz	(Publisher)		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

Risk Factors

The Company does not have material exposure to interest, liquidity and investment risks and hedges its main exposure to revenues denominated in foreign currencies by arranging as far as is practical to pay for purchases in matching currencies.

Auditors

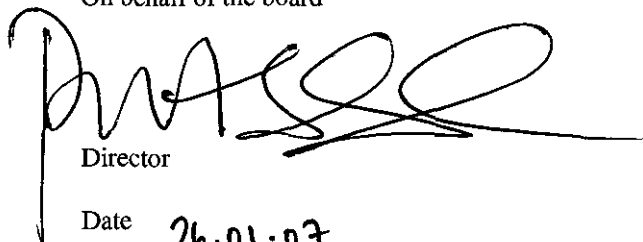
A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



Director

Date 26.01.07

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 which 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

to the members of Anness Publishing Limited

We have audited the group and parent company financial statements (the "financial statements") of Anness Publishing Limited for the year ended 31 October 2006 which comprise the primary financial statements such as the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 20. These financial statements have been prepared under 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 October 2006 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

Independent auditors' report

to the members of Anness Publishing Limited (continued)

- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Registered auditor

City

Date

Ernst & Young LLP
London
31 January 2007

Group profit and loss account

for the year ended 31 October 2006

	Notes	2006 £	2005 £
Turnover	2	16,580,791	15,692,618
Cost of sales		12,002,424	12,133,387
Gross profit		4,578,367	3,559,231
Administrative expenses		2,894,141	2,597,830
Operating profit	3	1,684,226	961,401
Interest receivable and similar income		62,947	6,465
Interest payable and similar charges	6	(8,159)	(31,310)
Profit on disposal of fixed asset investment		-	186,031
Profit on ordinary activities before taxation		1,739,014	1,122,587
Tax on profit on ordinary activities	7	516,606	286,581
Profit for the year	16	1,222,408	836,006

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £1,222,408 attributable to the shareholders for the year ended 31 October 2006 (2005 - profit of £836,006).

Group balance sheet

at 31 October 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible fixed assets	9	113,116	96,744
Investments	10	459,344	—
		<u>572,460</u>	<u>96,744</u>
Current assets			
Stocks	11	5,598,263	5,775,818
Debtors	12	5,400,287	5,874,021
Cash at bank and in hand		3,563,877	946,341
		<u>14,562,427</u>	<u>12,596,180</u>
Creditors: amounts falling due within one year	13	5,235,525	4,015,970
		<u>9,326,902</u>	<u>8,580,210</u>
Net current assets			
		<u>9,899,362</u>	<u>8,676,954</u>
Total assets less current liabilities			
		<u>9,899,362</u>	<u>8,676,954</u>
Capital and reserves			
Called up share capital	15	1,000	1,000
Profit and loss account	16	9,898,362	8,675,954
		<u>9,899,362</u>	<u>8,676,954</u>
Equity shareholders' funds	16	9,899,362	8,676,954


Director

Date 26.01.07

Company balance sheet

at 31 October 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible fixed assets	9	113,116	96,744
Investments	10	459,444	—
		<u>572,560</u>	<u>96,744</u>
Current assets			
Stocks	11	5,598,263	5,775,818
Debtors	12	5,393,169	5,874,021
Cash at bank and in hand		3,562,779	946,341
		<u>14,554,211</u>	<u>12,596,180</u>
Creditors: amounts falling due within one year	13	5,229,844	4,015,970
		<u>9,324,367</u>	<u>8,580,210</u>
Net current assets			
		<u>9,896,927</u>	<u>8,676,954</u>
Total assets less current liabilities			
		<u>9,896,927</u>	<u>8,676,954</u>
Capital and reserves			
Called up share capital	15	1,000	1,000
Profit and loss account	16	9,895,927	8,675,954
		<u>9,868,228</u>	<u>8,676,954</u>
Equity shareholders' funds	16		
		<u>9,868,228</u>	<u>8,676,954</u>



Director

Date 26.01.07

Group statement of cash flows

for the year ended 31 October 2006

	Notes	2006 £	2005 £
Net cash inflow from operating activities	19(a)	3,471,020	213,961
Returns on investments and servicing of finance			
Interest received		62,957	6,465
Interest paid		(8,169)	(31,310)
		54,788	(24,845)
Taxation			
Corporation tax paid		(361,318)	(574,653)
Capital expenditure			
Payments to acquire tangible fixed assets		(87,610)	(66,379)
(Investment in)/receipt from disposal of fixed asset investment		(459,344)	832,105
		(546,954)	765,726
Financing			
Movement in short term borrowings		–	(1,000,000)
		–	(1,000,000)
Increase/(decrease) in cash		2,617,536	(619,811)

Reconciliation of net cash flow to movement in net funds

	Note	2006 £	2005 £
Increase/(decrease) in cash in the year		2,617,536	(619,811)
Cash outflow from movement in short term borrowings		–	1,000,000
Movement in net funds		2,617,536	380,189
Net funds at beginning of the year		946,341	566,152
Net funds at end of the year	19(b)	3,563,877	946,341

Notes to the financial statements

at 31 October 2006

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 consolidate the financial statements of Anness Publishing Limited and its subsidiary undertaking, Practical Pictures Limited, drawn up to 31 October each year. No profit and loss account is presented for the company 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. The carrying values of fixed asset investments are reviewed for impairment 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 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 2006

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:

	2006 £	2005 £
United Kingdom	5,484,791	4,917,319
Rest of Europe	2,426,000	2,463,700
North America	7,179,000	6,840,299
Asia and Africa	566,000	455,300
Australasia	925,000	1,016,000
	<u>16,580,791</u>	<u>15,692,618</u>

3. Operating profit

This is stated after charging:

	2006 £	2005 £
Exceptional items - redundancy and termination payments	-	17,192
Depreciation of tangible fixed assets	71,238	65,233
Operating lease rentals - land and buildings	167,661	178,500
- plant and machinery	9,358	15,038
Auditors' remuneration - UK audit services	40,000	40,000
- UK non-audit services	11,450	9,225
	<u>299,647</u>	<u>305,188</u>

Notes to the financial statements

at 31 October 2006

4. Staff costs

	2006 £	2005 £
Wages and salaries	1,738,392	1,687,079
Social security costs	157,542	168,065
Other pension costs	119,827	105,120
	<u>2,015,761</u>	<u>1,960,264</u>

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

	2006 No.	2005 No.
Production and editorial	38	37
Sales and marketing	11	9
Administration and accounts	9	10
	<u>58</u>	<u>56</u>

5. Directors' emoluments

	2006 £	2005 £
Emoluments	<u>558,845</u>	<u>549,787</u>
Company contributions paid to personal pension schemes	<u>88,256</u>	<u>85,458</u>
	<u>2006 No.</u>	<u>2005 No.</u>
Members of personal pension schemes	<u>5</u>	<u>6</u>

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

	2006 £	2005 £
Emoluments	<u>117,663</u>	<u>109,567</u>
Company contributions paid to personal pension scheme	<u>40,365</u>	<u>37,668</u>

Notes to the financial statements

at 31 October 2006

6. Interest payable and similar charges

	2006	2005
	£	£
Bank loans and overdrafts	8,159	27,331
Other interest	–	3,979
	<u>8,159</u>	<u>31,310</u>

7. Tax on profit on ordinary activities

(a) Analysis of charge in year:

	2006	2005
	£	£
<i>Current tax</i>		
UK corporation tax on the profit for the year	525,893	286,581
Double tax relief	(7,319)	(9,407)
Adjustment in respect of prior years	(5,300)	–
	<u>513,274</u>	<u>277,174</u>
Foreign tax	7,319	9,407
	<u>520,593</u>	<u>286,581</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences - UK	(3,987)	–
	<u>(3,987)</u>	<u>–</u>
Total deferred tax (note 15)		
	<u>516,606</u>	<u>286,581</u>

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

The tax assessed for the year is [higher/lower] (2005 - lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2006	2005
	£	£
Profit on ordinary activities before tax	1,739,014	1,122,587
	<u>521,403</u>	<u>336,776</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 % (2005 - 30 %)		
	<u>521,403</u>	<u>336,776</u>
<i>Effects of:</i>		
Expenses not deductible for tax purposes/non taxable income	719	550
Other timing differences	–	(55,809)
Capital allowances in arrears of depreciation	3,987	5,064
Adjustments in respect of prior years	(5,300)	–
Others	(216)	–
	<u>520,593</u>	<u>286,581</u>

Notes to the financial statements

at 31 October 2006

8. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company was £1,219,973 (2005 - £836,006).

9. Tangible fixed assets

Group and company

	<i>Short leasehold property £</i>	<i>Fixtures, fittings and equipment £</i>	<i>Computer equipment £</i>	<i>Total £</i>
Cost:				
At 1 November 2005	9,858	155,361	358,470	523,689
Additions	5,320	6,625	75,665	87,610
At 31 October 2006	15,178	161,986	434,135	611,299
Depreciation:				
At 1 November 2005	4,615	122,766	299,564	426,945
Charge for the year	1,780	17,094	52,364	71,238
At 31 October 2006	6,395	139,860	351,928	498,183
Net book value:				
At 31 October 2006	8,783	22,126	82,207	113,116
At 1 November 2005	5,243	32,595	58,906	96,744

10. Investments

	<i>Subsidiary undertakings shares £</i>	<i>Other unlisted investments £</i>	<i>Total £</i>
Cost:			
At 1 November 2005	—	—	—
Additions	100	459,344	459,344
At 31 October 2006	100	459,344	459,444

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

Other unlisted investments

Approximately 600,000 trees purchased in accordance with the UK Woodland Assurance Scheme

Notes to the financial statements

at 31 October 2006

11. Stocks

<i>Group and Company</i>	<i>2006</i>	<i>2005</i>
	<i>£</i>	<i>£</i>
Finished goods	2,358,803	2,393,090
Work in progress	3,239,460	3,382,728
	<u>5,598,263</u>	<u>5,775,818</u>

12. Debtors

	<i>2006</i>	<i>Group</i>	<i>2006</i>	<i>Company</i>
	<i>£</i>	<i>2005</i>	<i>£</i>	<i>2005</i>
		<i>£</i>		<i>£</i>
Trade debtors	5,209,474	5,713,346	5,195,240	5,713,346
Amounts owed by group undertakings	—	—	6,849	—
Other debtors	73,544	55,373	73,811	55,373
Prepayments and accrued income	97,782	89,802	97,782	89,802
Deferred tax asset (note 14)	19,487	15,500	19,487	15,500
	<u>5,400,287</u>	<u>5,874,021</u>	<u>5,393,169</u>	<u>5,874,021</u>

13. Creditors: amounts falling due within one year

	<i>2006</i>	<i>Group</i>	<i>2006</i>	<i>Company</i>
	<i>£</i>	<i>2005</i>	<i>£</i>	<i>2005</i>
		<i>£</i>		<i>£</i>
Trade creditors	4,321,837	3,523,434	4,321,837	3,523,434
Corporation tax	313,274	162,474	312,969	162,474
Other taxes and social security costs	58,585	52,832	58,585	52,832
Accruals and deferred income	541,829	277,230	536,453	277,230
	<u>5,235,525</u>	<u>4,015,970</u>	<u>5,229,844</u>	<u>4,015,970</u>

Notes to the financial statements

at 31 October 2006

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>	
	2006	2005	2006	2005
	£	£	£	£
Decelerated capital allowances	19,847	15,500	1,500	-
				£
Recognised at start of year				15,500
Deferred tax charge in profit and loss account for the year				3,987
Recognised at end of year				19,847

15. Share capital

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	2006	2005	2006	2005
	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>Group</i>	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	£	£	£
At 1 November 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
Profit for the year	-	1,222,408	1,222,408
At 31 October 2006	1,000	9,898,362	9,899,362

Notes to the financial statements

at 31 October 2006

Company

	Share capital £	Profit and loss account £	Total shareholders' funds £
At 1 November 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
Profit for the year	–	1,219,973	1,219,973
At 31 October 2006	1,000	9,895,927	9,896,927

17. Pension commitments

The company makes contributions into the personal pension schemes of its directors and staff. The pension cost during the year was £119,827 (2005 - £105,120).

18. Other financial commitments

At 31 October 2006 the company had annual commitments under non-cancellable operating leases set out as follows:

	Land and buildings		Other	
	2006 £	2005 £	2006 £	2005 £
Operating leases which expire:				
within one year	24,000	34,000	–	–
in two to five years	144,500	144,500	7,776	7,776
	168,500	178,500	7,776	7,776

19. Notes to the statement of cash flows

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

	2006 £	2005 £
Operating profit	1,684,226	961,401
Depreciation of tangible fixed assets	71,238	65,233
Decrease in stocks	177,555	1,421,382
Decrease in debtors	477,720	461,646
Increase/(decrease) in creditors	1,060,281	(2,695,701)
Net cash inflow from operating activities	3,471,020	213,961

Notes to the financial statements

at 31 October 2006

(b) Analysis of changes in net funds

	<i>At 31 October 2005 £</i>	<i>Cash flow £</i>	<i>At 31 October 2006 £</i>
Cash at bank and in hand	946,341	2,617,536	3,563,877

20. Ultimate controlling party

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