

204498

# CASELL PLC

## ANNUAL REPORT AND ACCOUNTS 1997



Chairman's Statement	1
Review of Operations	6
Directors and Advisers	14
Directors' Report	15
Corporate Governance	18
Report of the Remuneration Committee	21
Statement of Directors' Responsibilities	23
Auditors' Report	24
Consolidated Profit and Loss Account	25
Balance Sheets	26
Consolidated Cash Flow Statement	27
Notes to the Consolidated Cash Flow Statement	28
Notes to the Financial Statements	29
Notice of Annual General Meeting	44

## FINANCIAL HIGHLIGHTS

	1997 £'000	1996 £'000
<b>Turnover</b>	<b>23,250</b>	<b>24,434</b>
<b>Operating profit</b>		
before exceptional items	759	1,149
after exceptional items	549	1,022
<b>Profit before interest and taxation</b>	<b>783</b>	<b>1,022</b>
<b>Profit before taxation</b>	<b>396</b>	<b>712</b>
<b>Shareholders' funds</b>	<b>9,881</b>	<b>9,797</b>
<b>Key ratios</b>		
<b>Return on shareholders' funds*</b>	<b>7.9%</b>	<b>10.4%</b>
<b>Earnings per share</b>	<b>4.6p</b>	<b>8.6p</b>
<b>Dividends per share</b>	<b>3.0p</b>	<b>4.5p</b>
<b>Net assets per share</b>	<b>£1.35</b>	<b>£1.33</b>

\* Calculated as profit before interest and tax divided by shareholders' funds.

# Chairman's Statement 1997

**O**n behalf of the Board I have pleasure in presenting our Annual Report and Accounts for the year ended 31 December 1997.

## Results

Following our success in 1996, we had expected that our 1997 results would show further improvement in operating profit. In the event, despite several high profile successes and chart appearances for our bestsellers, our good performance in the UK was insufficient to offset the difficulties in international markets widely shared by other book publishers.

Although UK turnover advanced to £15.9 million (1996: £15.4 million) the last quarter of the year did not match up to our expectations and, together with disappointing sales to international markets, this meant that total sales reduced to £23.3 million from £24.4 million in 1996. Of this reduction, about £650,000 related to the strategic sale of our children's list in April 1997. Whilst gross margins improved overall, the relatively fixed nature of our overheads meant that the effect of this reduced turnover dropped to the bottom line with the result that operating profit for 1997 was £549,000 (1996: £1,022,000). In both 1997 and 1996 there were exceptional charges. In 1997 the charge of £210,000 relates primarily to rationalisation designed to improve productivity in 1998, to legal and professional fees incurred in the reorganisation of the group's subsidiaries and to an acquisition that was terminated after due diligence enquiry. In 1996 the exceptional charge of £127,000 was in relation to group restructuring.

Adding in the profit on the sale of our small children's list in the first half which delivered £234,000, profit before tax for 1997 was £396,000 compared with £712,000 for 1996.

We have made good progress in improving our working capital management. Inventory was reduced from £7.6 million in 1996 to £7.2 million in 1997 and gearing dropped to 20% (1996: 35%). The reduction in bank borrowings to £1.9 million at 1997 year end (1996: £3.3 million) resulted in a positive net cash flow of £1.4 million, roughly half of which came from trading and half from the disposal of the children's list.

## Dividend

In line with the results for 1997, the directors have recommended a final dividend of 1.5p per share payable on 2 June 1998 to shareholders on the register on 24 April 1998. This makes the total dividend for the year 3.0p (1996: 4.5p).

## Divisional Performance

### General Division

Turnover in this division fell from £18.9 million in 1996 to £18.1 million in 1997. As mentioned previously, we estimate that about 80%, £650,000, of this reduction is due to the strategic sale of the children's list in April 1997. UK turnover grew by 4.1% but the international markets declined. In the USA this was due to both currency and difficulties in the retail market. In Australia the main reason was an agency change at the end of 1996 where we sold opening inventory to the new agent in late 1996 and it took longer than anticipated for replenishment orders to come through in 1997.

However, despite a drop in turnover, our focus on gross margins was particularly successful, raising margins by 2.7 percentage points.

Raising margins at a time when retailers are demanding higher discounts to fund price discounting is no mean achievement. It is in part the result of our strategy of concentrating our publishing on the bigger books with their longer print runs and consequent lower unit costs. It is also due to good housekeeping across the whole of the list. In relation to the 'best-sellers' aspect, the division scored notable successes. *High Fidelity* and *Fever Pitch*, both from Nick Hornby, continued to appear in the paperback charts. *The Lost Gardens of Heligan* was number one in hardback non-fiction and at the British Book Awards for 1997 won the BCA Illustrated Book of the Year award. Our latest edition of the *Cassell Concise English Dictionary*, with a CD-ROM option, sold well as did another authoritative reference work - the *Cassell Atlas of World History*. *Mrs Beeton's Best of British Cookery* was a favourite Christmas title and *Practical Feng Shui* led the list of books on this popular subject. *Jingo*, the last Discworld novel from Terry Pratchett that we shall publish, was in the hardback fiction charts for 16 weeks, four of them at number one.

#### Academic Division

This division performed less well with both turnover and margins failing to match the 1996 performance. Gross margins reduced by 5.5 percentage points. UK sales remained steady year on year at £3.1 million, but international sales were down to £2.1 million (1996: £2.4 million). As with the general division, one of the main reasons was a change

in agency arrangements in late 1996 but, in this division, the change was in the USA. Whilst we retained the same agent, we changed the basis from consignment to firm sales and sold backlist stock in late 1996. New stock orders took longer than anticipated to come through in 1997. This factor, together with currency issues, saw US sales fall from £1.2 million in 1996 to £0.7 million in 1997.

Nonetheless the Division had some notable publishing successes in the year. *The Revised Common Lectionary*, which was introduced in the Church of England from Advent Sunday 1997, was published in both Lectern and Pew editions by our Mowbray imprint. The textbook programme scored several successes with *Production & Operations Management*, *Reflective Teaching in Primary Schools* and *The Theory & Practice of Counselling*.

#### Staff

The Board would like to thank all the members of staff of the Group for their commitment and enthusiasm during what has been a challenging year.

#### Improving profitability

We have been focusing our programme to improve profitability on three particular areas. These are improving margins, developing our US academic marketing and reducing group overheads. As I have discussed above, our attention to generating increased gross margins has been particularly successful in the general division. In addition, by concentrating on margins, we will also

continue the trend evidenced in 1997 of improving working capital management. We are examining carefully the rates of return on capital employed in each of our imprints.

In relation to academic business in the USA, I am pleased to report a significant positive move. We would like our marketing to be alongside another US academic publishing company. Ideally we would like to have such a company as part of our group but our focus in 1998 is to ensure that our core UK business performs better. We believe that we have got the best of both worlds by negotiating an arrangement with The Continuum Publishing Company Incorporated, based in New York, whereby we appoint them as our marketing agent for the academic division and in return obtain an option to purchase the business which in 1997 had a turnover of about \$2.8 million. This option, which is at an agreed but confidential price, is exercisable at our discretion, at any time before 31 March 1999. During the period of the option Continuum's owner and chief executive, Werner Mark Linz, will advise us on international publishing, especially in the USA, and I shall join the Board of Directors of Continuum.

Continuum's publishing programmes are complementary to our own. Our marketing needs coincide, our publishing culture is shared and we have established a good rapport with Mr. Linz. While the new arrangements cannot be expected to produce instant results they will strengthen our marketing and give our commissioning editors more power when they compete for good authors. The profile of academic publishing, with its strong backlist and more predictable performance, is a useful balance to the potentially more volatile trade publishing.

We have completed a major review of our overheads. Most of the overhead cost is people related and cutting overheads inevitably means reducing staff numbers. In December 1996, the group employed 175 people and at the end of March 1998 the headcount was 155. Rising turnover per staff member should reflect a substantial productivity increase. As a result of this programme, we are expecting to conclude a sublet of a further half floor in our London headquarters.

#### Prospects

The first quarter of the year is never a guide to the full year. Most of our sales and profit comes from the last quarter. However, the first quarter of 1998 has seen the release of a new book, *About a Boy*, from Nick Hornby, the publication of the mass market edition of *Poems on the Underground* and a strong paperback programme from Indigo and Vista, the paperback imprints we launched in 1996.

Trading so far in 1998 is in line with our expectations. Despite a disappointment in 1997 the Board is determined to implement its clear strategy and deliver enhanced shareholder value. Cassell was founded in 1848. The Board expects this year, its one hundred and fiftieth, to be a fitting tribute to its traditions and inheritance.



Philip Sturrock  
Chairman and Chief Executive  
8 April 1998

# Review of Operations

## General Division

**T**his division comprises several imprints: the Cassell general imprint, Ward Lock, Blandford, Arms & Armour Press, Victor Gollancz and the new paperback imprints Vista and Indigo. Although UK sales rose by 4.1%, total sales fell from £18.9 million in 1996 to £18.1 million in 1997. Of this reduction it is estimated that about £650,000 was due to the sale of the children's list in early 1997. Our focus on margins and working capital improvement saw the division raise its gross profit 2.7 percentage points generating an increased gross profit from a lower sales base.

Each of the imprints contributed to the division's improved profitability. Under the Cassell name, the new *Concise English Dictionary* and its CD-ROM version was well supported by UK bookshops and achieved a significant international sale. *The Cassell Atlas of World History* was well received and the *Fairworld Cookbook* by Sophie Grigson, published with Oxfam, achieved a very wide distribution. In 1998, the imprint has a similarly impressive list, led in March 1998 by a mass market edition of the famous anthology *Poems On The Underground* now in its 7th edition. The cookery list has Valentina Harris on *Risotto* and several titles under the Cordon Bleu brand.

Heading the Ward Lock list in 1997 was *Practical Feng Shui* which caught the popularity of this Chinese philosophy. *Mrs Beeton's Best of British Home Cooking* brought an up to date treatment to Britain's favourite traditional cook. *Ultimate Interior Designer* continued Ward Lock's reputation for home improvement and decorating. *How to be a Supergardener* from Alan Titchmarsh and *Ultimate Garden Designer* joined the paperback edition of the *Ward Lock Encyclopaedia of Gardening* in keeping the imprint at the forefront of gardening publishing. In 1998, Ward Lock will publish the concise edition of Mrs Beeton in paperback for the first time. Tim Newbury, author of the best selling *Ultimate Garden Designer* has a new title: *Garden Design Made Easy* and the *Play the Game* series of instructional sports books will be relaunched with new full colour editions. Continuing the theme of Feng Shui, *Practical Feng Shui for Business* promises to find a more specific market. In the home decorating area, *Ultimate Home Style Guide* is the imprint's lead title.

Blandford Press, which is building a strong reputation for the paranormal, for Celtic titles and mind, body and spirit publishing, had successes with titles such as *UFO's and Ufology*, *A Dictionary of Dream Symbols* and *Classic Celtic Fairy Tales*. In 1998, a major illustrated guide to the *World of the*

*Unexplained* will be published and a major natural history title with a TV tie-in, *Forces of the Wild*.

Arms & Armour Press concentrated on military history and its *Rise and Fall of the Zulu Nation*, and *Napoleon's Army* attracted considerable sales. The imprint's extensive backlist is providing a series of popular paperbacks in 1998 under the name of Cassell Military Classics. Bookshop support so far is very encouraging for this new series, demonstrating our ability to generate incremental sales from our extensive backlist.

Victor Gollancz had an excellent year. In March *The Lost Gardens of Heligan* by Tim Smit topped the hardback non-fiction bestseller lists and sold strongly through well into the Christmas season. It was awarded the BCA Illustrated Book of the Year prize at the recent British Book Awards. Both *Fever Pitch* and *High Fidelity* by Nick Hornby featured

on the paperback bestseller lists throughout the year. In November, *Jingo* by Terry Pratchett was the number one fiction bestseller for four weeks and remained in the top ten for the rest of the year. Terry Pratchett's *Discworld Diary 1998* also sold strongly.

In April 1998, Victor Gollancz will publish Nick Hornby's exceptional new novel *About a Boy*. The paperback lists have strong programmes for the year. In the autumn there are several important non-fiction titles including *The Shooting Gallery* by Gaz Hunter about the secret wars fought by the SAS's covert elite unit and *Beat Route* by Jools Holland linked to a television series in which the popular entertainer visits the major musical hot spots around the world. Gollancz will also publish *Discworld Diary 1999* and *The Death Trilogy* by Terry Pratchett, which will enable us to extract further revenue from the valuable rights we own on our backlist.

# Review of Operations

## Academic Division

**T**his division covers religious, scholarly and contemporary publishing, and professional publishing. Although UK turnover remained steady at £3.1 million, total turnover declined to £5.2 million (1996: £5.5 million) reflecting difficulties in the international markets, particularly the USA.

In the religious area alongside the Cassell academic imprint, we have two specialist imprints: Mowbray, which is broadly Anglican and Geoffrey Chapman, which is Roman Catholic. The division's main success in 1997 came from the Mowbray imprint, which managed the publication of the *Revised Common Lectionary* in the New Revised Standard Version of the Scriptures. This lectionary was introduced in the Church of England from Advent Sunday 1997 and we published a beautiful Lectern Edition, a Pew Edition and a CD-ROM version. Further editions and related publishing are planned for 1998. Cooperation with *The Times* continued with the annual publication of *The Times Best Sermons*.

Our scholarly publishing includes textbooks, monographs and reference books across a broad range of social science and humanities subjects and is aimed at an international audience. Books are published under four imprints: Cassell, Mansell, Pinter and Leicester University Press. The programme includes books which sell well through bookshops and textbooks and reference works. Leading examples of the former type were *The Guerilla Film Maker's Handbook*, *Culture of Fear*, and the *BFI Companion to Crime*. Important textbooks in 1997 included *The Economics of Industrial Innovation* (economics), *The Global Media* (communication/media studies), *China Against the Tides* (international relations), and *Analysing Casual Conversation* (linguistics) all of which are being used in university courses in the UK, Australia and North America. Our academic reference list did well with the 14th edition of the *Careers Encyclopaedia*, *Who's Who of British Jazz*, and *Popular Music: A Select Bibliography*.



In 1998, the scholarly list will launch a major new series on the African slave trade entitled *The Black Atlantic* which will have both an academic and general interest audience. We will also be issuing a paperback of *The Archaeology of Society in the Holy Land*. This title won a major award from the Society for Biblical Archaeology in the United States and which is destined to become a leading textbook in the subject. We will follow up the success of *The Guerilla Film Maker's Handbook* with a similar book for students of theatre arts and performance studies and our international relations list will feature an important study of Cuba and a third edition of a textbook on the British party system.

The professional sector includes textbooks on education, counselling and management studies. Cassell can claim a leading position in these areas. School improvement is a major policy concern at present and Cassell has the leading series in this area. *Reflective Teaching in the Primary School* (Pollard) is a widely acknowledged lead text and is now in its third edition.

In 1997, we added *Readings in Reflective Teaching* to back it up, and also introduced *Reflective Teaching in Secondary Education*. *The Theory and Practice of Counselling* (Nelson Jones) is in its second edition, *Supervisory Management* (Evans) in its fourth edition. *Production and Operations Management* has reached its fifth edition and is now being offered with a CD-ROM of case-studies. The second edition of *How to Plan Advertising* sold out and reprinted very shortly after publication. The professional sector is proud to be bringing out Tom Cannon's next text book *Marketing*, and is working with Henley Management Centre and the Institute of Supervisory Management on further publishing.

# **DIRECTORS AND ADVISERS**

For the year ended 31 December 1997

## **EXECUTIVE DIRECTORS**

**Philip Sturrock**

Chairman and Chief Executive

**Frank Roney**

Finance Director

## **NON-EXECUTIVE DIRECTORS**

**Stewart Binnie**

**Stephen Jaeger**

**Clifford Jakes**

All members of the Audit and Remuneration Committees

## **SECRETARY AND REGISTERED OFFICE**

**Frank Roney**

Wellington House

125 Strand

London WC2R 0BB

## **REGISTERED AUDITORS**

Coopers & Lybrand

1 Embankment Place

London WC2N 6NN

## **BANKERS**

Midland Bank plc

Central Hall

Westminster

London SW1P 3AS

## **FINANCIAL ADVISERS**

Charterhouse Bank Limited

1 Paternoster Row

St Pauls

London EC4M 7DH

## **SOLICITORS**

Simmons & Simmons

21 Wilson Street

London EC2M 2TQ

## **STOCKBROKERS**

Charterhouse Tilney Securities Limited

1 Paternoster Row

St Pauls

London EC4M 7DH

## **REGISTRARS**

IRG plc

Balfour House

390/398 High Road

Ilford

Essex IG1 1NQ

# DIRECTORS' REPORT

For the year ended 31 December 1997

The directors present their report and the audited financial statements for the year ended 31 December 1997.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the group continues to be book publishing.

A review of the year and expected future developments of the group are dealt with in the Chairman's Statement on page 1 and in the Operating and Financial Review on page 6.

On 31 December 1997 the operations of Victor Gollancz Limited, Pinter Publishers Limited, Mansell Publishing Limited and Ward Lock Limited were transferred to Cassell plc in order to simplify the group's operating structure. However, the Company will continue to trade using these imprints. Further details of these transfers are set out in note 15 of the financial statements.

## RESULTS AND DIVIDENDS

The consolidated profit and loss account is set out on page 25.

The profit after taxation for the financial year amounted to £341,000 (1996 - £629,000).

The directors have declared or now recommend the following ordinary dividends in respect of the year ended 31 December 1997:

	£'000
Interim paid	110
Final proposed	110
	<hr/>
	220

## DIRECTORS

The following directors held office during the year:

Philip Sturrock	(Chairman and Chief Executive)
Frank Roney	(Finance Director)
Stewart Binnie	(Non-executive Director)
Stephen Jaeger	(Non-executive Director)
Clifford Jakes	(Non-executive Director)

Biographical details of the independent non-executive directors are shown below.

**Stewart Binnie** is the chairman of Helicon Publishing Group plc and the chairman of TFPL Limited, an information management company. He is also a governor of Kingston University. He was formerly a partner at Schroder Ventures and the managing director of Hatchards Limited, the bookseller. He is chairman of the Remuneration Committee.

## **DIRECTORS' REPORT continued**

For the year ended 31 December 1997

**Stephen Jaeger** joined the Board of Cassell in 1992 following the acquisition of Victor Gollancz Limited. Mr Jaeger is currently executive vice president, chief financial officer and a director of The Clinical Communications Group Inc. He is also a non-executive director of Inso Corporation and Strategic Diagnostics Inc. He was previously chief financial officer and treasurer of the Perkin-Elmer Corporation and, prior to that, chief financial officer and a director of Houghton Mifflin Company. Mr Jaeger is a US citizen.

**Clifford Jakes** is a non-executive director of Mercury Holdings plc and a vice-chairman of the Periodical Publishers Association Ltd. He was formerly chairman of Argus Press Limited and Link House Publications plc and managing director (publications) of United Newspapers plc. He is chairman of the Audit Committee.

In accordance with the articles of association, Clifford Jakes retires by rotation and, being eligible, offers himself for re-election.

Philip Sturrock and Frank Roney each have a service contract, terminable by not less than twelve months notice by either party.

There were no contracts of significance with the company or any of its subsidiaries subsisting during or at the end of the financial year in which a director of the company was materially interested.

### **DIRECTORS' INTERESTS**

Details of directors' share interests are given in note 7 to the financial statements.

### **SUBSTANTIAL SHAREHOLDINGS**

As notified to the Company on 18 March 1998, the following organisations held shares representing 3% or over of the company's share capital.

	% of share capital
Vidacos Nominees Limited	16.9
RBSTB Nominees Limited	10.5
Phildrew Nominees Limited	10.4
CO Nominees Limited	10.0
Roy Nominees Limited	8.1
Nutraco Nominees Limited	6.4
BT Globenet Nominees Limited	5.8
Houghton Mifflin Company	5.5
Prudential Client (MSS) Nominees Limited	5.3

## **DIRECTORS' REPORT continued**

For the year ended 31 December 1997

### **CHARITABLE CONTRIBUTIONS**

The group made a charitable donation of £278 during the year.

### **EMPLOYEES**

The group's policy is to consult and discuss with employees individually, in departmental meetings and in company meetings, matters likely to affect employees' interests. Information on matters of concern to employees is given through information notices and meetings which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance. It is the policy of the group that there should be no unfair discrimination in considering applications for employment, including those from disabled persons.

### **CREDITOR PAYMENT POLICY**

The group's policy concerning the payment of its creditors is to:

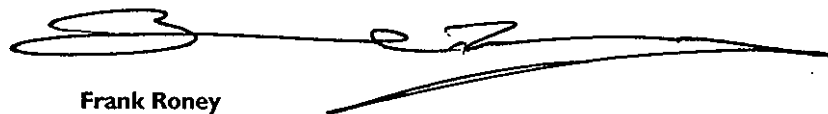
- (a) settle the terms of payment with suppliers when agreeing the terms of each transaction;
- (b) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- (c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

### **AUDITORS**

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

By order of the board



**Frank Roney**  
Company Secretary  
8 April 1998

The Board supports the highest standards in corporate governance and is pleased to confirm that the company has complied throughout the period, apart from dividing the role of chief executive and chairman as explained below, with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance (the 'Cadbury Committee').

#### **BOARD COMPOSITION**

The group Board comprises two executive and three non-executive directors. It is chaired by Philip Sturrock and meets for regular business approximately ten times a year and other meetings are held as required. The Board is responsible for the overall direction and strategy of the group and for securing the optimum performance from group assets. The meetings are open with executive and non-executive directors acting as a team. The non-executive directors are independent of the group and have a breadth of successful commercial and professional experience. Operational control and the implementation of group strategy and policy is delegated by the Board to the chief executive supported by the finance director. It is not considered appropriate, given the size of the Company, to divide the role of chief executive and chairman.

#### **BOARD COMMITTEES**

The Audit Committee comprises all the non-executive directors and is chaired by Clifford Jakes. It meets not less than twice a year and assists the Board in ensuring that the group's published financial statements give a true and fair view and in securing reliable internal financial information for decision making. It also reviews the suitability and effectiveness of the group's internal controls. The committee reviews the audit findings of the external auditors and reviews key accounting policies and judgements.

The Remuneration Committee comprises all the non-executive directors and is chaired by Stewart Binnie. It meets at least once a year and is responsible for making recommendations to the Board on remuneration policy for executive directors and for setting salaries, incentive payments and share options granted.

#### **GOING CONCERN**

After making appropriate enquiries, the directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the group's financial statements.

#### **INTERNAL FINANCIAL CONTROLS**

The Board of directors is responsible for the group's system of internal financial controls. It should be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss. Accordingly, the Board has reviewed the effectiveness of

the system of internal financial control in operation during this year through the monitoring process described above. The key features of the system which have been established are as follows:

**Control environment**

The group's control environment is the responsibility of the group's directors and managers at all levels. The group's organisational structure has clear lines of responsibility. Operating responsibility for divisions within the group is delegated to the subsidiary directors.

**Identification of business risks**

A specific exercise has been undertaken to review and assess the risks facing each of the group's businesses and to enhance the systems which manage the key risks identified. The divisions are required to assess key risks, and related control and monitoring procedures. The Board of directors continues to monitor this process.

**Major corporate information systems**

The group operates a comprehensive budgeting and financial reporting system which, as a matter of routine, compares actual out-turn to budget. Management accounts are compiled on a monthly basis. Variances from the plan are thoroughly investigated monthly and revisions to forecasts are made. Cash flow statements are prepared monthly and cover the year ahead to ensure that the group has adequate funds and resources for the foreseeable future.

**Main control procedures**

Senior management establishes control procedures in response to each of the key risks identified. Senior management reports whether its key controls have functioned effectively. Standard financial control procedures operate throughout the group to ensure the integrity of the group's financial statements. The Board has established procedures for authorisation of capital expenditure.

**Monitoring system used by the Board**

The Board reviews and approves budgets and monitors the group's performance against those budgets monthly. Variances from the expected outcome are investigated fully and where lapses in internal control are detected, these are rectified. The group's cash flow is also monitored monthly compared to forecast. The Board has established a framework in order that the effectiveness of the system of internal financial controls can be monitored on an ongoing basis and that appropriate action can be taken to improve control and monitoring procedures.

The Audit Committee reviews the findings of the external auditors and also objectively reviews management's performance in running the group's business.

**AUDITORS' CONFIRMATION**

The auditors have confirmed that in their opinion, with respect to the directors' statements on internal financial control and going concern on pages 18 and 19:

- the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange;
- such statements are not inconsistent with information of which they are aware from their audit work on the financial statements; and
- the directors' statement on page 18 appropriately reflects the company's compliance with the other aspects of the Cadbury Code specified for their review by Listing Rule 12.43(j).

They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the group's system of internal financial control or its corporate governance procedures nor on the ability of the company or group to continue in operational existence.



The Remuneration Committee is comprised solely of the non-executive directors and is chaired by Stewart Binnie. The Committee seeks the advice of the chairman as it considers appropriate. The Remuneration Committee does not consider the fees payable to non-executive directors which are determined by the executive directors.

The company has complied throughout the period with section A of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules, which concerns the membership and operation of the Remuneration Committee.

The company's Remuneration Committee decides the remuneration policy that applies to executive directors. In determining that policy it has given full consideration to section B of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules. In setting the policy it considers a number of factors including:

- (a) The basic salaries and benefits available to executive directors of comparable companies.
- (b) The need to attract and retain directors of an appropriate calibre.
- (c) The need to ensure executive directors' commitment to the continued success of the company by means of incentive schemes.

### REMUNERATION POLICY

The objective of the group's remuneration policy is to attract, motivate and retain high quality individuals who will contribute fully to the success of the businesses. To secure this objective the group provides competitive salaries and benefits to all employees and share option schemes for executive directors and certain senior executives.

### EXECUTIVE DIRECTOR SALARIES

The basic salary of executive directors is determined by the Remuneration Committee. Basic salaries are reviewed annually or when a change of responsibilities occurs.

### PERFORMANCE RELATED BONUSES

Bonuses for executive directors are calculated by a formula measuring the performance of the business in relation to the annual increase in earnings per share. No such bonus has been awarded since the flotation in 1994, however the Committee awarded a fixed sum performance related bonus in respect of 1996.

### PENSION ARRANGEMENTS

The executive directors are members of various pension plans administered by the group. At present, the basic pension contributions disclosed for each director are based on the overall group pension contribution rate which, for the year under review, was 10% of pensionable earnings.

#### **SHARE OPTIONS**

Share options can be granted to executive directors and certain senior executives under an Inland Revenue approved executive share option scheme and under a non-approved scheme. Non-executive directors cannot participate in these share option schemes.

#### **OTHER BENEFITS**

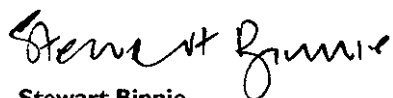
Executive directors' benefits typically include a car and life, disability and health care insurance.

#### **SERVICE CONTRACTS**

The executive directors have service contracts terminable by not less than 12 months notice by either party. The non-executive directors do not have service contracts but have letters of appointment.

#### **FINANCIAL STATEMENTS**

Full details of remuneration and share options of the directors are given in note 7 to the financial statements.



**Stewart Binnie**

Chairman, Remuneration Committee

8 April 1998

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



**Frank Roney**  
Company Secretary  
8 April 1998

We have audited the financial statements on pages 25 to 43.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As described on page 23 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

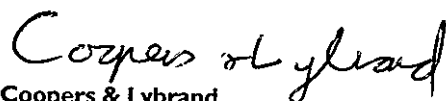
**BASIS OF OPINION**

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 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 and the group at 31 December 1997 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand

Chartered Accountants and Registered Auditors

London

8 April 1998

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1997

	Notes	1997 £'000	1996 £'000
<b>Turnover</b>	2	<b>23,250</b>	24,434
Cost of sales		<b>(14,736)</b>	(15,682)
<b>Gross profit</b>		<b>8,514</b>	8,752
Net operating expenses	3	<b>(7,755)</b>	(7,603)
Exceptional operating expenses	4	<b>(210)</b>	(127)
<b>Operating profit</b>		<b>549</b>	1,022
Profit on sale of operations	5	<b>234</b>	—
<b>Profit before interest and taxation</b>		<b>783</b>	1,022
Interest receivable and similar income		<b>3</b>	7
Interest payable and similar charges	8	<b>(390)</b>	(317)
<b>Profit on ordinary activities before taxation</b>	9	<b>396</b>	712
Taxation	10	<b>(55)</b>	(83)
<b>Profit on ordinary activities after taxation</b>		<b>341</b>	629
Dividends	11	<b>(220)</b>	(330)
<b>Retained profit for the year</b>	22	<b>121</b>	299
<b>Earnings per share</b>	12	<b>4.6p</b>	8.6p

All of the group's operations are continuing.

The group has no recognised gains and losses other than those included in the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and retained profit for the year stated above, and their historical cost equivalents.

# BALANCE SHEETS

As at 31 December 1997

	Notes	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
<b>Fixed assets</b>					
Intangible fixed assets	13	4,035	3,810	2,652	—
Tangible fixed assets	14	379	461	—	—
Investments	15	—	—	15,888	14,449
		<b>4,414</b>	<b>4,271</b>	<b>18,540</b>	<b>14,449</b>
<b>Current assets</b>					
Stocks	16	7,222	7,632	3,400	—
Debtors	17	8,186	9,864	4,373	3,410
		<b>15,408</b>	<b>17,496</b>	<b>7,773</b>	<b>3,410</b>
<b>Creditors: amounts falling due within one year</b>					
	18	<b>(9,883)</b>	<b>(11,888)</b>	<b>(15,731)</b>	<b>(4,965)</b>
<b>Net current assets/(liabilities)</b>		<b>5,525</b>	<b>5,608</b>	<b>(7,958)</b>	<b>(1,555)</b>
<b>Total assets less current liabilities</b>		<b>9,939</b>	<b>9,879</b>	<b>10,582</b>	<b>12,894</b>
<b>Creditors: amounts falling due after more than one year</b>					
	19	<b>(58)</b>	<b>(82)</b>	<b>—</b>	<b>—</b>
<b>Net assets</b>		<b>9,881</b>	<b>9,797</b>	<b>10,582</b>	<b>12,894</b>
<b>Capital and reserves</b>					
Called up share capital	21	1,468	1,468	1,468	1,468
Share premium account	22	8,004	8,004	8,004	8,004
Profit and loss account	22	409	325	1,110	3,422
<b>Equity shareholders' funds</b>	23	<b>9,881</b>	<b>9,797</b>	<b>10,582</b>	<b>12,894</b>

The financial statements on pages 25 to 43 were approved by the Board of directors on 8 April 1998 and were signed on its behalf by:

  
**Frank Roney**  
 Finance Director

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 1997

	1997	1996
	£'000	£'000
<b>Net cash inflow/(outflow) from operating activities</b>		
(reconciliation to operating profits on page 28)	2,006	(1,178)
<b>Returns on investments and servicing of finance</b>		
Interest received	3	7
Interest paid	(391)	(307)
Interest paid on hire purchase contracts	(11)	(10)
	(399)	(310)
<b>Taxation</b>		
Advance corporation tax paid	(83)	(83)
<b>Capital expenditure</b>		
Publishing rights expenditure	—	(106)
Dictionary database expenditure	(266)	—
Purchase of tangible fixed assets	(27)	(36)
	(293)	(142)
<b>Acquisitions and disposals</b>		
Additional consideration for subsidiary undertakings	(65)	—
Net proceeds from sale of operations	666	—
	601	—
<b>Equity dividends paid</b>	(330)	(330)
<b>Cash inflow/(outflow) before financing</b>	1,502	(2,043)
<b>Financing</b>		
Repayment of principal under hire purchase contracts	(68)	(43)
<b>Increase/(decrease) in cash in the year (see page 28)</b>	1,434	(2,086)

# NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 1997

	1997 £'000	1996 £'000
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		
Operating profit	549	1,022
Amortisation on intangible fixed assets	41	—
Depreciation on tangible fixed assets	145	160
Decrease/(increase) in stocks	158	(249)
Decrease/(increase) in debtors	1,498	(1,069)
Decrease in creditors	(385)	(1,042)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>2,006</b>	<b>(1,178)</b>

	1997 £'000	1996 £'000
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>		
<b>Increase/(decrease) in cash in the year</b>	<b>1,434</b>	<b>(2,086)</b>
Cash outflow from repayment of debt	68	43
Change in net debt resulting from cash flows	1,502	(2,043)
Other non-cash items:		
New hire purchase contracts	(36)	(102)
<b>Movement in net debt in the year</b>	<b>1,466</b>	<b>(2,145)</b>
Net debt at 1 January 1997	(3,475)	(1,330)
<b>Net debt at 31 December 1997</b>	<b>(2,009)</b>	<b>(3,475)</b>

	At 1 January 1997 £'000	Cash flow £'000	Other non cash changes £'000	At 31 December 1997 £'000
<b>ANALYSIS OF NET DEBT</b>				
Bank overdraft	(3,330)	1,434	—	(1,896)
Hire purchase contracts	(145)	68	(36)	(113)
<b>Total</b>	<b>(3,475)</b>	<b>1,502</b>	<b>(36)</b>	<b>(2,009)</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

### 1 PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important group accounting policies, which have been applied consistently, is set out below.

#### **Basis of accounting**

The financial statements are prepared in accordance with the historical cost convention.

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of Cassell plc and its subsidiary undertakings, made up to 31 December 1997. The results of the company's subsidiary undertakings are included in the group profit and loss account from the date of acquisition. Intra-group sales and profits are eliminated on consolidation.

On acquisition of a subsidiary undertaking, all of the subsidiary undertaking's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the group has gained control of the subsidiary undertaking, are charged to the post acquisition profit and loss account.

#### **Goodwill**

Goodwill arising on consolidation represents the excess/(deficit) of the fair value of the consideration given over the fair value of the identifiable net assets acquired and is written off/credited to reserves in the year of acquisition or when additional payments arise.

Other purchased goodwill is written off immediately to reserves.

#### **Fixed asset investments**

Investments in subsidiary undertakings are included in the parent company's balance sheet at cost less amounts written off where, in the opinion of the directors, there has been a permanent diminution in value. In addition certain loans to subsidiary undertakings have been classified as part of these investments.

#### **Intangible fixed assets and amortisation**

Publishing rights are recorded at acquisition cost, being fair values at the date of acquisition determined by the directors, or direct external costs associated with the creation of own imprints. The directors consider that on the basis of annual impairment reviews, the estimated residual values of these rights are such that their amortisation would be negligible, and as such, no amortisation has been charged.

**I PRINCIPAL ACCOUNTING POLICIES (continued)**

The dictionary database has been reclassified from a tangible asset to an intangible asset, reflecting the directors' view that this represents a fairer reflection of the nature of this asset. The asset consists of external and directly identifiable internal staff costs incurred in establishing the database. The database is being amortised over a period of 10 years, its estimated economic life, on a straight line basis from the date sales commenced.

**Tangible fixed assets and depreciation**

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is provided on tangible fixed assets so that the cost, less estimated residual values, is written off on a straight line basis over the estimated useful economic lives of the assets as follows:

Short leasehold improvements	—	over life of lease
Furniture, fixtures & fittings	—	5 to 20 years
Motor vehicles	—	5 years
Computer equipment	—	4 years

**Assets held under hire purchase contracts**

Tangible fixed assets held under hire purchase contracts which have the characteristics of finance leases are capitalised at their fair value and depreciated over their estimated useful life or the term of the lease, whichever is shorter. Future instalments under such contracts, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account and the capital element which reduces the outstanding obligation for future instalments.

**Stocks**

Stocks including work in progress are stated at the lower of cost and estimated net realisable value. Cost comprises the direct costs of production, paper, printing and binding. Direct staff costs are included in work in progress on specific projects.

**Royalties**

Contracted royalty advances are recorded when the payment is made. Royalty advances are included in other debtors. Unearned balances are written down to the extent that they are not covered by estimated future earnings.

**Deferred taxation**

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

## NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 1997

### 1 PRINCIPAL ACCOUNTING POLICIES (continued)

#### Turnover

Turnover excludes value added tax and represents the contracted value of books sold, royalty income and sale of publishing and other rights.

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Assets and liabilities expressed in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the balance sheet. All gains and losses as a result of exchange movements during the year are included in the profit and loss account.

#### Pension costs

The group's pension plan is open to all eligible employees and is a funded defined benefit pension scheme. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. In addition to this plan, a subsidiary undertaking operates a defined contribution scheme for certain employees. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

Additional contributions are made in respect of certain other pension arrangements.

#### Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Income from operating sub leases is recognised on a straight line basis over the lease term.

### 2 SEGMENTAL AND GEOGRAPHICAL ANALYSIS OF TURNOVER

The directors regard the group's business as a single segment. The group's turnover and profit arise principally in the UK where its assets are situated.

The geographical analysis of turnover by destination is stated below:

	1997 £'000	1996 £'000
United Kingdom	15,913	15,410
United States of America	3,231	4,262
Australia	767	1,234
Rest of the World	3,339	3,528
	<b>23,250</b>	<b>24,434</b>

## NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 1997

### 3 NET OPERATING EXPENSES

	1997 £'000	1996 £'000
Distribution costs	4,070	3,877
Administrative expenses	3,685	3,726
	<b>7,755</b>	<b>7,603</b>

### 4 EXCEPTIONAL OPERATING EXPENSES

	1997 £'000	1996 £'000
Group reorganisation costs	183	127
Terminated acquisition costs	27	—
	<b>210</b>	<b>127</b>

Exceptional operating expenses comprise £183,000 (1996 – £127,000) in respect of redundancy and other costs resulting from a reorganisation of the group's operations and £27,000 (1996 – £nil) in respect of costs arising from a terminated acquisition.

### 5 PROFIT ON SALE OF OPERATIONS

On 7 April 1997 the group sold the Victor Gollancz children's list for a cash consideration of £862,000. The profit on the sale of the operation, amounting to £234,000, represents the consideration of £862,000 less the assets that were the subject of the disposal, amounting to £432,000, and less the associated costs of disposal, amounting to £196,000.

### 6 EMPLOYEE INFORMATION

The average monthly number of persons, including executive directors, employed by the group during the year was 166 (1996 – 171), all of whom were involved in book publishing.

	1997 £'000	1996 £'000
Staff costs, including directors' emoluments, were:		
Wages and salaries	3,257	3,273
Social security costs	303	303
Pension costs (see note 25)	145	152
	<b>3,705</b>	<b>3,728</b>

# NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 1997

## 7 DIRECTORS' EMOLUMENTS AND DIRECTORS' INTERESTS

	1997 £	1996 £
Aggregate emoluments	250,458	269,510
Pension contributions to money purchase schemes	18,525	17,643
	<b>268,983</b>	<b>287,153</b>

Directors' emoluments can be summarised as follows:

	1997				1996	
	Salary £'000	Fees £'000	Benefits £'000	Pension contri- butions £'000	Total £'000	Pension contri- butions £'000
<b>Executive:</b>						
Philip Sturrock	112	—	15	12	139	11
Frank Roney	73	—	8	7	88	7
<b>Non-executive:</b>						
Stewart Binnie	—	15	—	—	15	—
Stephen Jaegar	—	12	—	—	12	—
Clifford Jakes	—	15	—	—	15	—
	<b>185</b>	<b>42</b>	<b>23</b>	<b>19</b>	<b>269</b>	<b>18</b>

The remuneration of the executive directors is decided by the non-executive directors through the Remuneration Committee. Performance related bonuses are calculated by a formula measuring the performance of the business in relation to the annual increase in earnings per share. No formula based performance bonus is payable in respect of 1997 or 1996. No fixed sum performance related bonus was awarded for 1997 (1996 – £30,000).

Each executive director has accrued retirement benefits under money purchase schemes for both 1997 and 1996.

### Directors' interests

The directors had the following interests in the ordinary shares of the company:

	1 January 1997	31 December 1997
Philip Sturrock	213,111	218,511
Frank Roney	27,178	27,178
Stewart Binnie	2,097	2,097
Clifford Jakes	2,097	2,097
Stephen Jaeger	6,000	6,000

## NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 1997

### 7 DIRECTORS' EMOLUMENTS AND DIRECTORS' INTERESTS (continued)

The respective interests of Philip Sturrock and Frank Roney include 9,418 (1996 - 9,418) and 5,382 (1996 - 5,382) non-beneficial holdings which are either held by, or in trust for, members of their families.

There has been no change in the interests set out above between 31 December 1997 and 18 March 1998.

Details of share options granted to directors are as follows:

	Date granted	Option price per share	Number of options granted	At 31 December 1997
Philip Sturrock	2.6.94	£1.22	20,181	20,181
	5.4.95	£1.42	22,500	22,500
Frank Roney	2.6.94	£1.22	9,418	9,418
	5.4.95	£1.42	15,000	15,000

No options were granted or exercised during the year.

The options granted on 2 June 1994 are exercisable, other than in limited circumstances, between 3 and 7 years from the date of grant conditional on the increase in the company's pre-tax earnings per share being at least 5% greater than the increase in the retail price index each year compounded over the 3 year period from 1 January 1994.

The options granted on 5 April 1995 are exercisable, other than in limited circumstances, between 3 and 10 years from the date of grant conditional on the increase in the company's earnings per share, at the time of the exercise, being at least 5% greater than the increase in the retail price index compounded over a period of three consecutive financial years.

The market price of the company's ordinary shares at the end of the financial year was £0.64 (1996 - £0.93) and the range of market prices during the year was between £0.64 and £0.97 (1996 - between £0.66 and £1.06).

No other directors have been granted share options in the shares of the company or other group companies.

### 8 INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £'000	1996 £'000
Bank overdraft	365	300
Hire purchase contracts	10	10
Other	15	7
	<b>390</b>	<b>317</b>

**NOTES TO THE FINANCIAL STATEMENTS continued**  
For the year ended 31 December 1997

**9 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

	1997 £'000	1996 £'000
Profit on ordinary activities before taxation is stated after charging:		
Amortisation		
– intangible fixed assets	41	—
Depreciation		
– tangible owned fixed assets	91	98
– tangible fixed assets held under hire purchase contracts	54	62
Auditors' remuneration		
– audit (company – £1,100 (1996 – £1,000))	42	40
– other services	79	80
Rentals under operating leases		
– land and buildings	414	422
– office equipment and motor vehicles	240	216

**10 TAXATION**

	1997 £'000	1996 £'000
Irrecoverable advance corporation tax	55	83

There are trading losses for taxation purposes in subsidiary undertakings available to be carried forward and set off against future profits of approximately £3.9 million (1996 – £4.3 million), subject to the agreement of HM Inspector of Taxes.

For approximately £610,000 (1996 – £1 million) of the tax losses available for carry forward, 50% of any benefit realised must be paid to former holding companies of certain subsidiary undertakings. Amounts totalling £53,000 (1996 – £149,000) became payable to former holding companies during the year, arising from the utilisation of tax losses.

**11 DIVIDENDS**

	1997 £'000	1996 £'000
Dividends on equity shares:		
Ordinary – interim paid of 1.5p (1996 – 1.5p)	110	110
Ordinary – final proposed of 1.5p (1996 – 3p)	110	220
	220	330

## 12 EARNINGS PER SHARE

The calculation of earnings per share on the net basis is based on the profit on ordinary activities after taxation, namely £341,000 (1996 – £629,000) and on 7,339,540 (1996 – 7,339,540) shares in issue and ranking for dividend during the year.

The earnings per share on a nil distribution basis is 5.4p (1996 – 9.7p). The calculation of earnings per share on the nil distribution basis assumes no dividend and therefore no write-off of advance corporation tax.

## 13 INTANGIBLE FIXED ASSETS

Group	Publishing rights £'000	Dictionary database £'000	Total £'000
<b>Cost or valuation</b>			
At 1 January 1997 (as adjusted)	3,562	248	3,810
Additions	—	266	266
<b>At 31 December 1997</b>	<b>3,562</b>	<b>514</b>	<b>4,076</b>
<b>Amortisation</b>			
At 1 January 1997	—	—	—
Charge for year	—	41	41
<b>At 31 December 1997</b>	<b>—</b>	<b>41</b>	<b>41</b>
<b>Net book value</b>			
<b>At 31 December 1997</b>	<b>3,562</b>	<b>473</b>	<b>4,035</b>
At 31 December 1996	3,562	248	3,810
			Publishing rights £'000
<b>Company</b>			
<b>Cost or valuation</b>			
At 1 January 1997			—
Transfer from subsidiary undertakings			2,652
<b>At 31 December 1997</b>			<b>2,652</b>

No amortisation has been provided on publishing rights, as the directors consider that their value exceeds their carrying cost.

The directors consider that it is more appropriate for the dictionary database to be classified as an intangible fixed asset, rather than tangible, as this represents a fairer reflection of the nature of this asset and accordingly the comparative figures have been adjusted to reflect this.



**NOTES TO THE FINANCIAL STATEMENTS continued**

For the year ended 31 December 1997

**14 TANGIBLE FIXED ASSETS**

Group	Short leasehold improvements £'000	Furniture, fixtures, fittings and motor vehicles £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
At 1 January 1997	362	368	349	1,079
Additions	1	6	56	63
<b>At 31 December 1997</b>	<b>363</b>	<b>374</b>	<b>405</b>	<b>1,142</b>
<b>Depreciation</b>				
At 1 January 1997	124	224	270	618
Charge for year	64	29	52	145
<b>At 31 December 1997</b>	<b>188</b>	<b>253</b>	<b>322</b>	<b>763</b>
<b>Net book value</b>				
<b>At 31 December 1997</b>	<b>175</b>	<b>121</b>	<b>83</b>	<b>379</b>
At 31 December 1996	238	144	79	461

Tangible fixed assets with a net book value of £113,000 (1996 – £131,000) are held under hire purchase contracts. The company has no tangible fixed assets.

**15 FIXED ASSET INVESTMENTS**

Company	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
<b>Cost or valuation</b>			
At 1 January 1997	1,111	13,338	14,449
Additions	45	3,410	3,455
Reduction	(16)	—	(16)
Provision	—	(2,000)	(2,000)
<b>At 31 December 1997</b>	<b>1,140</b>	<b>14,748</b>	<b>15,888</b>

Additions to shares in subsidiary undertakings of £45,000 (1996 – £130,000) relate to an amount payable to the former holding company of a subsidiary undertaking equal to 50% of the benefits from the utilisation of tax losses. A further amount of £8,000 (1996 – £19,000) in respect of the benefits of the losses utilised was accounted for in the financial statements of a subsidiary undertaking.

The reduction is in respect of a decrease in the previously anticipated deferred consideration for Pinter Publishers Limited, originally acquired in February 1995.

**15 FIXED ASSET INVESTMENTS (continued)**

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figures of the group.

On 31 December 1997, the company had the following principal wholly-owned subsidiary undertakings, all of which have ordinary shares of £1 each and are incorporated and operate in Great Britain, are registered in England and Wales, and are involved in book publishing:

Cassell Educational Limited  
 Cassell Publishers Limited  
 Victor Gollancz Limited  
 Pinter Publishers Limited  
 Mansell Publishing Limited\*  
 Ward Lock Limited

\* Subsidiary undertaking of Cassell Educational Limited

**Transfer of certain subsidiary undertakings' operations**

On 31 December 1997 the trade and business assets and liabilities of Victor Gollancz Limited, Pinter Publishers Limited, Mansell Publishing Limited and Ward Lock Limited were transferred to Cassell plc, in order to simplify the group's operating structure.

The assets were transferred at net book value which equated to fair value and comprised in aggregate publishing rights of £2,652,000, stock of £3,400,000, and debtors of £4,308,000. Creditors transferred amounted to £3,924,000. Total consideration amounted to £6,881,000 resulting in goodwill arising of £445,000. This was satisfied by intercompany balances.

**16 STOCKS**

	<b>Group 1997 £'000</b>	<b>Group 1996 £'000</b>	<b>Company 1997 £'000</b>	<b>Company 1996 £'000</b>
Raw materials and consumables	<b>73</b>	58	<b>33</b>	—
Work in progress	<b>1,735</b>	1,626	<b>918</b>	—
Finished goods	<b>5,414</b>	5,948	<b>2,449</b>	—
	<b>7,222</b>	7,632	<b>3,400</b>	—

**NOTES TO THE FINANCIAL STATEMENTS continued**

For the year ended 31 December 1997

**17 DEBTORS**

	<b>Group 1997 £'000</b>	<b>Group 1996 £'000</b>	<b>Company 1997 £'000</b>	<b>Company 1996 £'000</b>
Trade debtors	<b>4,911</b>	6,568	<b>2,277</b>	—
Amounts owed by subsidiary undertakings	—	—	—	3,410
Other debtors	<b>2,955</b>	3,035	<b>1,905</b>	—
Prepayments and accrued income	<b>320</b>	261	<b>191</b>	—
	<b>8,186</b>	9,864	<b>4,373</b>	3,410

Debtors are all due within one year except certain advances to authors, included in other debtors, which may not be recovered until after one year.

**18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>Group 1997 £'000</b>	<b>Group 1996 £'000</b>	<b>Company 1997 £'000</b>	<b>Company 1996 £'000</b>
Bank overdraft	<b>1,896</b>	3,330	<b>1,896</b>	3,330
Trade creditors	<b>5,164</b>	5,735	<b>2,483</b>	—
Amounts owed to subsidiary undertakings	—	—	<b>9,520</b>	1,070
Advance corporation tax	<b>55</b>	83	<b>55</b>	83
Other taxation and social security	<b>193</b>	184	<b>101</b>	—
Other creditors	<b>268</b>	300	<b>207</b>	262
Accruals and deferred income	<b>2,197</b>	2,036	<b>1,359</b>	—
Dividends payable	<b>110</b>	220	<b>110</b>	220
	<b>9,883</b>	11,888	<b>15,731</b>	4,965

The bank overdraft is secured by fixed charges over book debts and intangible property, floating charges on all the assets of the group and guarantees from the subsidiaries. Group trade creditors include payments due within one year of £55,000 (1996 – £63,000) in respect of assets held under hire purchase contracts.

**19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

<b>Group</b>	<b>1997 £'000</b>	<b>1996 £'000</b>
Obligations under hire purchase contracts	<b>58</b>	82
The total obligations under hire purchase contracts are:		
Within one year	<b>55</b>	63
In the second to fifth years	<b>58</b>	82
	<b>113</b>	145

The company has no hire purchase contracts.

**20 DEFERRED TAXATION**

No provision for deferred taxation has been made at 31 December 1997 as no part of any potential deferred taxation liability is expected to crystallise in the foreseeable future.

No provision has been made for the potential United Kingdom taxation that would arise if the publishing rights were disposed of at the amount attributed to them in the group balance sheet. The total estimated potential liability is £1,089,000 (1996 – £1,140,000).

**21 CALLED UP SHARE CAPITAL**

	<b>1997 £'000</b>	<b>1996 £'000</b>
<b>Authorised</b>		
17,500,000 ordinary shares of 20p each	<b>3,500</b>	3,500
<b>Allotted, called up and fully paid</b>		
7,339,540 ordinary shares of 20p each	<b>1,468</b>	1,468

**Share options**

Options to subscribe for 56,237 ordinary shares at a subscription price of £1.22 were granted to the executive directors and certain senior executives under a non-approved scheme on 2 June 1994.

Options to subscribe for 47,500 ordinary shares at a subscription price of £1.42 under the Cassell plc 1994 executive scheme approved by the Inland Revenue were granted on 5 April 1995 to the executive directors and a senior executive.

The exercise of all share options is conditional on certain criteria relating to growth in the company's earnings per share being met (see note 7).

<b>Number of shares</b>	<b>Subscription price per share</b>	<b>Period of option</b>
56,237	£1.22	Between 3 June 1997 and 2 June 2001
47,500	£1.42	Between 6 April 1998 and 5 April 2005

**NOTES TO THE FINANCIAL STATEMENTS continued**  
For the year ended 31 December 1997

**22 RESERVES**

<b>Group</b>	Share premium account £'000	Profit and loss account £'000
At 1 January 1997	8,004	325
Retained profit for the year	—	121
Goodwill written off (see below)	—	(37)
<b>At 31 December 1997</b>	<b>8,004</b>	<b>409</b>

The goodwill written off is in respect of an amount of £53,000 payable to former holding companies of certain subsidiary undertakings arising for reasons explained in note 10. In addition an amount of £16,000 has been credited in respect of the acquisition of Pinter Publishers Limited that took place in February 1995 (see note 15). This represents the net decrease in the acquisition cost of the company from £403,000 to £387,000.

The goodwill written off to date against reserves, in respect of subsidiary undertakings still held by the group, amounts to £1,124,000 (1996 – £1,087,000).

<b>Company</b>	Share premium account £'000	Profit and loss account £'000
At 1 January 1997	8,004	3,422
Retained loss for the year	—	(1,867)
Goodwill written off (see below)	—	(445)
<b>At 31 December 1997</b>	<b>8,004</b>	<b>1,110</b>

The goodwill written off is in respect of the transfer of the trade and business assets and liabilities of Victor Gollancz Limited, Pinter Publishers Limited, Mansell Publishing Limited and Ward Lock Limited (see note 15).

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the year before dividends was £1,647,000 (1996 – profit of £1,680,000).

# NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended 31 December 1997

## 23 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	1997 £'000	1996 £'000
Profit for the financial year	341	629
Dividends	(220)	(330)
	121	299
Goodwill written off	(37)	(134)
	84	165
Opening shareholders' funds	9,797	9,632
<b>Closing shareholders' funds</b>	<b>9,881</b>	<b>9,797</b>

## 24 FINANCIAL COMMITMENTS

Non-cancellable annual commitments under operating leases of the group and the company were as follows:

	1997 Land and buildings £'000	1997 Office equipment and motor vehicles £'000	1996 Land and buildings £'000	1996 Office equipment and motor vehicles £'000
Leases expiring:				
Within one year	—	129	—	71
Within two to five years	—	77	—	51
After five years	460	—	460	—
	<b>460</b>	<b>206</b>	<b>460</b>	<b>122</b>

## **25 PENSION COSTS**

The group operates a pension plan providing benefits based on final pensionable salaries. The plan is funded with the assets being held by the trustees separately from the assets of the group. The pension costs are assessed by a qualified actuary and are charged to the profit and loss account so as to spread those costs over employees' working lives with the group.

The most recent valuation of the plan was carried out at 1 August 1996, and the projected unit method was used. The plan's assets were valued by discounting to the valuation date the expected income from those assets. The main assumptions used to determine the pension costs are rates of investment return of 9% per annum, pensionable salary increases of 7% per annum, pensions' increases of 4.5% per annum where limited price indexation applies and share dividend increases of 4.5% per annum. At the valuation date, the market value of the assets of the plan was £2,009,000, and the actuarial value of those assets represented 104% of the value of the benefits that had accrued to members, after allowing for expected future increases in salaries.

In addition to the above, a subsidiary undertaking operates its own defined contribution scheme for certain employees. The scheme is administered by trustees separately from the affairs of the company and is non-contracted out of the additional component of the state pension scheme. Contributions paid to this scheme are invested in a money purchase contract.

The pension cost for the two plans for the year ended 31 December 1997 was £121,000 (1996 – £127,000). The rate of contributions to the plans is expected to remain stable as a percentage of pensionable salaries.

Additional contributions of £24,000 (1996 – £25,000) were made in respect of other pension arrangements.

## **26 CONTINGENT LIABILITIES**

The group has contingent liabilities in respect of additional payments to the vendors of certain subsidiary undertakings for the utilisation of tax losses in those companies existing at the date of acquisition (see note 10).

The following Notice of Annual General Meeting and the Form of Proxy are important and require your immediate attention. If you are in any doubt as to what action you should take you should consult your stockbroker, bank manager, solicitor or other professional adviser authorised under the Financial Services Act 1986.

If you have sold or transferred all your Ordinary Shares in Cassell plc, please pass this document to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice is hereby given that the 1998 Annual General Meeting of the Company will be held at Wellington House, 125 Strand, London WC2R 0BB, on 21 May 1998, at 10.30am for the following purposes:

## ORDINARY BUSINESS

1. To receive and adopt the report of the directors and financial statements for the year ended 31 December 1997.
2. To declare a final dividend.
3. To re-elect Clifford Jakes as a non-executive director.
4. To re-appoint Coopers & Lybrand as auditors of the Company and authorise the directors to fix their remuneration.

## SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions, of which that numbered 5 will be proposed as an ordinary resolution and those numbered 6 and 7 will be proposed as special resolutions:

5. That the directors be and are hereby generally and unconditionally authorised pursuant to section 80(1) of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in sub-section (2) of that section) up to a maximum nominal amount of £489,250, such authority to expire on the earlier of 15 months after the date of passing of this resolution and the conclusion of the Annual General Meeting of the Company to be held in 1999, but so that this authority will allow the company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry provided that such allotments would have fallen within the limit set out in this authority if made during the said period and so that all unexercised authorities granted to the directors pursuant to section 80 of the Act (or the statutory provisions of which that section is a re-enactment) prior to the passing of this resolution be and are hereby revoked.
6. That, subject to the passing of the resolution numbered 5 set out in this Notice, the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in section 94(2) of the Act) of the Company pursuant to the authority conferred upon them by that resolution as if section 89(1) of the Act did not apply to any such allotment and so that the directors shall be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require equity securities to be allotted after the expiry of such power, provided that such power shall (subject as aforesaid) cease to have effect when the said authority is revoked or the conclusion of the Annual General Meeting of the Company to be held in 1999 or 15 months after the date of the passing of this resolution, whichever is the earliest, but if that authority is renewed the said power may also be renewed by a special resolution of the Company passed in general meeting for a period not longer than that for which the authority itself is renewed. The power contained in this resolution is limited to:
  - (i) the allotment of equity securities in connection with any rights or other pre-emptive offer in favour of the holders of ordinary shares and the holders of any other shares or securities of the Company which, by their terms, are entitled to participate in such issue



of offer, where the equity securities allotted are in proportion (as nearly as may be) to their respective holdings of ordinary shares (in the case of an allotment to the holders of ordinary shares) or in proportion (as nearly as may be) to their respective holdings of such other shares or securities or to the respective number of ordinary shares into which their shares or securities are deemed to be converted in calculating the extent of their participation (in the case of an allotment to holders of any other shares or securities of the Company), each such allotment to be by reference to a record date fixed by the directors and to be open for acceptance for a period fixed by the directors, but subject to such exclusions and other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory;

- (ii) the allotment of equity securities pursuant to an offer to the holders of, and persons entitled by transmission to, ordinary shares to elect to receive in respect of all or part of their holdings of ordinary shares additional ordinary shares, credited as fully paid up, instead of a cash dividend, in accordance with the articles of association for the time being of the Company; and
  - (iii) the allotment (other than pursuant to sub-paragraphs (i) and (ii) of this resolution) of equity securities having, in the case of relevant shares (as defined in section 94(5) of the Act), an aggregate nominal value not exceeding £73,395 or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having an aggregate nominal value not exceeding £73,395.
7. That the Articles of Association of the Company be and are hereby amended by the deletion of the words "Notwithstanding any other provision of these Articles, a person who is the sole Managing Director of the Company shall not whilst holding that office be subject to retirement by rotation or be taken into account in deciding the number of Directors to retire by rotation on any particular occasion." from Article 98.

Dated 8 April 1998	By Order
Registered office:	of the Board
Wellington House	
125 Strand	
London	Frank Roney
WC2R 0BB	Secretary

## Notes

1. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. To be effective, the completed form of proxy and any power of attorney or other authority (if any) under which it is signed or a duly certified copy of such a power or authority (or, if such power or authority is executed outside the United Kingdom, a notarially authenticated copy thereof) must be returned so as to reach the Company's registrars, IRG plc, Balfour House, 390-398 High Road, Ilford, Essex IG1 1BR, not less than 48 hours before the time fixed for the meeting. In the case of a corporate member, a proxy must be executed either under its common seal or under the hand of a duly authorised officer.
3. Completion and return of a form of proxy will not preclude a member from attending and voting in person at the meeting or any adjourned meeting.

Copies of the following documents are available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and holidays excepted) from the date of this notice until the date of the Annual General Meeting and will also be available for inspection at the place of meeting for a period of 15 minutes prior to and during the meeting.

- (i) the register of directors' interests;
- (ii) copies of contracts of service between directors of the Company and the Company; and
- (iii) the Articles of Association of the Company.

#### EXPLANATORY NOTES OF SPECIAL BUSINESS

##### **Resolution 5: Directors' authority to allot shares**

Under Section 80 of the Companies Act 1985, the directors cannot allot shares in the Company (other than subscribers' shares or shares allotted pursuant to an employee share scheme) unless they are authorised to do so by the Company in general meeting. The present authority of the directors to allot the unissued Ordinary share capital in the Company will expire at the conclusion of this Annual General Meeting. This Resolution seeks to renew this authority although the directors have no present intention of exercising the authority. The authority would expire on the date of the next following Annual General Meeting of the Company or, if earlier, 15 months from the date of the passing of this resolution.

##### **Resolution 6: Partial disapplication of pre-emption rights**

As explained above, the Companies Act 1985 provides that the directors may only allot unissued shares if authorised to do so by the shareholders in general meeting. If the directors wish to allot any of the unissued shares for cash, Section 89(1) of the Act requires that the new shares be offered first to existing shareholders in proportion to their existing shareholding. An offer of this type is called a "rights issue" and the shareholders' entitlement to be offered the new shares is known as a "pre-emption right".

In certain circumstances, it may be in the interest of the Company for the directors to be able to allot some shares for cash without having to offer them first to existing shareholders by way of rights issue or other pre-emptive offers. In order to be able to do this, the shareholders must first waive their pre-emption rights. This Resolution seeks this waiver and, if passed, the directors will be able to allot new securities without further reference to shareholders, particularly those who are resident overseas. This Resolution therefore also seeks authority for the directors to make appropriate exclusions or other arrangements to deal with such difficulties.

The directors have no plans at present to make such an allotment and the proposed authority, if granted, would expire at the conclusion of the next Annual General Meeting or, if earlier, 15 months from the date of the passing of this Resolution.

##### **Resolution 7: Amendment of the Articles of Association**

This Resolution proposes the deletion of a provision in Article 98 of the Articles of Association which provides that a person who holds office as the sole Managing Director of the Company shall not be subject to retirement by rotation. If resolution 7 is passed, the amendment to Article 98 will have the effect that all directors, including a sole Managing Director will be subject to retirement by rotation in accordance with the provisions of the Articles of Association.

The directors believe that the proposals set out in resolutions 1 to 7 are in the best interests of the shareholders as a whole. Accordingly, they unanimously recommend that you vote in favour of all the Resolutions.

I/We \_\_\_\_\_ of \_\_\_\_\_

(Block Letters)

a member/members of Cassell plc, hereby appoint the Chairman\* of the meeting

or \_\_\_\_\_ of \_\_\_\_\_

as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the company to be held at 10.30 am on Thursday 21 May 1998 at Wellington House, 125 Strand, London, WC2R 0BB and at any adjournment thereof.

	For	Against
<b>Ordinary business</b>		
1 To receive and adopt the Report of the Directors and Financial Statements for the year ended 31 December 1997.		
2 To declare a final dividend.		
3 To re-elect Clifford Jakes as a director.		
4 To re-appoint Coopers & Lybrand as auditors of the company and authorise the directors to fix their remuneration.		
<b>Special business</b>		
5 To authorise the directors to allot relevant securities under section 80(1) Companies Act 1985.		
6 To empower the directors to allot equity securities disapplying section 89(1) Companies Act 1985.		
7 To amend the Articles of Association of the Company		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 1998

Signature(s) \_\_\_\_\_

**Notes**

1. The manner in which the proxy is to vote should be indicated by inserting "X" in the appropriate space. Unless so indicated, the proxy will vote, or may abstain from voting, as he/she thinks fit.
2. In the case of a corporate member, the Proxy must be executed either under its common seal or under the hand of a duly authorised officer.
3. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes by the other joint holders, and for this purpose, seniority will be determined by the order in which the names stand in the register of members.
4. To be effective, this completed form of proxy and any power of attorney or other authority under which it is signed or a duly certified copy of such power or authority (or, if such power or authority is executed outside the United Kingdom, a notarially authenticated copy thereof) must be returned so as to reach the company's registrars, IRG plc, Balfour House, 390-398 High Road, Ilford, Essex IG1 1BR not less than 48 hours before the time fixed for the meeting.
5. A proxy need not be a member of the company.
6. Clifford Jakes is a member of the Remuneration Committee and Chairman of the Audit Committee.

\*Delete if it is desired to appoint any other person and insert his/her name and address.

FOLD TWO

BUSINESS REPLY SERVICE  
Licence No. ANG 1468



IRG plc,  
BALFOUR HOUSE,  
390-398 HIGH ROAD,  
ILFORD, ESSEX  
IGI IBR

FOLD ONE

FOLD THREE