

K2 Direct Mail Limited

Report and Accounts

30 April 2000

www.k2direct.com



K2 Direct Mail Limited

Registered No.02384773

DIRECTORS

K Coleman - Chairman
K N Illingworth
R Husband
P Teer resigned 3 June 2000
R Wheldrick
D Monks resigned 17 September 1999
L Snow

SECRETARY

R Wheldrick

AUDITORS

Ernst & Young
100 Barbirolli Square
Manchester
M2 3EY

BANKERS

Royal Bank of Scotland
45 Mosley Street
Manchester
M60 2BE

REGISTERED OFFICE

Kay Street
Openshaw
Manchester
M11 2XX

CHAIRMAN'S REPORT

Four years! It feels more like four weeks since we relocated to Openshaw, Manchester. At that time we invested heavily in premises, capital equipment and new technology. In order to balance technology and people skills, we undertook a massive training and development project for all our employees. This was to create the foundation in the medium term, from which we could provide long term security for our employees and shareholders, whilst providing quality products and services to our customers.

Today we are extremely proud of our achievement as a Direct Communications provider, with £22.5 million turnover, an 80,000 square feet purpose-built factory and a highly trained and developed workforce. We also have a culture and commitment which is second to none.

The investment in our people over the years, which is now bearing fruit, has been both costly and time consuming, but for me personally very satisfying, and worthwhile for the people involved. Training and development, with the aim of having a workforce with a profound understanding of the processes and a wider view of the industry, is something we will continue to strive for.

Growing a substantial business organically, at pace, is never easy or cheap, and cannot be achieved without some degree of pain. Our goal from the beginning was to become a recognised market leader, with the best people, state of the art technology and skill levels which complemented a clearly defined sales and marketing plan, supported by unequalled customer service. This has attracted impressive market share, forming a base from which we can achieve our wider aspirations. Needless to say, it is very exciting and challenging, whilst creating a stimulating atmosphere and culture, in which people can grow and where change has become a natural expectation. The ability to be nimble on our feet has been one of the main elements of our success, a skill we will continue to nurture.

The most significant changes in the industry have been brought about by technology and the foresight and demands of our customers, to which our employees have responded magnificently. Although I cannot promise its going to get any easier, I wish to thank them for their contribution to date and also for their anticipated efforts, towards a very promising and rewarding future.

The speed of unrelenting change has been extremely exciting and has attracted staff, customers, suppliers, and professional advisers who have become part of the K2 story. Most of our major customers today, have supported us consistently from the beginning, to them – may I say Thank You.

During this time we have also had some great fun and good times, which have resulted in customers, staff, suppliers, and professional advisers also becoming our friends.

The industry and market place is experiencing its own revolution with the advent of new technology coupled with CRM initiatives and one-to-one communications. Over the past three of four years, K2 has been developing its own tailor made software solutions, to assist our customers in achieving their improved business results, from the various communication channels now available.

The launch of our New Directions programme will outline our new communications products and services, which enable us to provide a range of business and marketing solutions, in addition to our well established core direct mail manufacturing.

As new players enter the supplier arena and consolidation takes place through acquisition and merger, we at K2 will not become complacent, continually striving to improve all aspects of the business. Equally, I believe we are in an excellent position to exploit the opportunities, which will be forthcoming from an ever changing and demanding market place.

CHAIRMAN'S REPORT

As we enter the fifth year of our investment programme, along with the changing profile and the subsequent maturity of the whole business, the resulting benefits are very encouraging. Providing us with the opportunity to take stock of the market place and evaluate the many options available to us in the future. I am genuinely excited about the future of the industry and in particular K2, with its increased ability to respond and meet the requirements and aspirations of our customers, employees and shareholders. Our passion to be the best has been the major driving force since the outset and remains unscathed today. 'With a little help from our friends' who knows what we might achieve in the future.



K Coleman
Chairman

K2 Direct Mail Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 30 April 2000.

PRINCIPAL ACTIVITIES

The principal activities of the group are direct mail and communication service specialists encompassing printing, data processing, lasering, finishing, enclosing facilities, envelope production and procurement services, database management and customer relationship marketing solutions. The current production capacity of the organisation is two hundred and fifty million packs per annum.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The consolidated profit and loss account for the year is set out on page 9.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £27,000 (1999: £780,000). The directors have declared and now recommend the following dividends in respect of the year ended 30 April 2000:

	£
Fixed cumulative preference dividend	5,500
Fixed cumulative preferential 'A' ordinary dividend	5,610
Cumulative preferential 'A' ordinary dividend	42,797

The retained loss for the year of £27,000 (1999: £695,000 profit) stated after the above dividends, will be carried forward to revenue reserves.

DIRECTORS AND THEIR INTERESTS

The directors of the company at 30 April 2000 are listed on page 2. The interests of the directors in the shares of the company at 30 April 2000 were as follows:

	2000 'A'		1999 'A'	
	Ordinary £1 shares	preference £1 shares	Ordinary £1 shares	preference £1 shares
K Coleman	42,500	60,000	42,500	60,000
K N Illingworth	42,500	60,000	42,500	60,000

EMPLOYEES

The group's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests. Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness, on the part of all employees, of the financial and economic factors affecting the group's performance.

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

DIRECTORS' REPORT

YEAR 2000

The directors have taken steps to ensure the matter of year 2000 compliance is addressed. A programme to investigate and confirm compliance has taken place and system enhancements completed.

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be proposed at the Annual General Meeting.

On behalf of the Board.



R Wheldrick
Director

Date: 20/10/2000

K2 Direct Mail Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

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

The directors confirm that they have complied with the above requirements in preparing the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS to the members of K2 Direct Mail Limited

We have audited the accounts on pages 9 to 24 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 13 and 14.

Respective responsibilities of directors and auditors

As described on page 7 the company's directors are responsible for the preparation of the accounts in accordance with United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

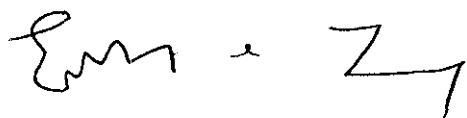
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of the affairs of the company and of the group as at 30 April 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
Manchester

Date: 3 November 2000

K2 Direct Mail Limited

GROUP PROFIT AND LOSS ACCOUNT for the year ended 30 April 2000

	Notes	2000 £000	1999 £000
TURNOVER	2	22,533	20,136
Cost of sales		(12,761)	(10,784)
GROSS PROFIT		9,772	9,352
Administrative expenses		(9,104)	(7,940)
OPERATING PROFIT	3	668	1,412
Interest payable and similar charges	6	(641)	(605)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		27	807
Tax on profit on ordinary activities	7	-	(27)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		27	780
Dividends	9	(54)	(85)
RETAINED (LOSS) / PROFIT FOR THE FINANCIAL YEAR	19	(27)	695

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The group has no recognised gains and losses other than those included in the profit and loss account above.

K2 Direct Mail Limited

GROUP BALANCE SHEET at 30 April 2000

	Notes	2000 £000	1999 £000
FIXED ASSETS			
Tangible assets	10	8,180	7,381
CURRENT ASSETS			
Stocks	12	557	482
Debtors	13	5,253	4,963
		5,810	5,445
CREDITORS: amounts falling due within one year	15	(9,282)	(8,278)
NET CURRENT LIABILITIES		(3,472)	(2,833)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,708	4,548
CREDITORS: amounts falling due after more than one year	16	(2,889)	(2,702)
NET ASSETS		1,819	1,846
CAPITAL AND RESERVES			
Called up share capital	18	386	386
Profit and loss account	19	1,352	1,379
Capital redemption reserve	19	81	81
Equity shareholders' funds		1,569	1,596
Non-equity shareholders' funds		250	250
SHAREHOLDERS' FUNDS	19	1,819	1,846

Approved by the Board on 20/10/2000

K Coleman

Director

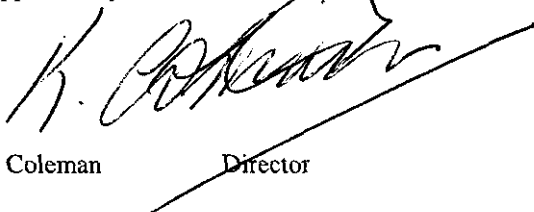
K2 Direct Mail Limited

COMPANY BALANCE SHEET

at 30 April 2000

	Notes	2000 £000	1999 £000
FIXED ASSETS			
Tangible assets	10	8,180	7,381
Investments	11	124	124
		<u>8,304</u>	<u>7,505</u>
CURRENT ASSETS			
Stocks	12	557	482
Debtors	13	5,253	4,963
		<u>5,810</u>	<u>5,445</u>
CREDITORS: amounts falling due within one year	15	(9,406)	(8,402)
NET CURRENT LIABILITIES		<u>(3,596)</u>	<u>(2,957)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,708</u>	<u>4,548</u>
CREDITORS: amounts falling due after more than one year	16	(2,889)	(2,702)
NET ASSETS		<u>1,819</u>	<u>1,846</u>
CAPITAL AND RESERVES			
Called up share capital	18	386	386
Profit and loss account	19	1,352	1,379
Capital redemption reserve	19	81	81
		<u>1,569</u>	<u>1,596</u>
Equity shareholders' funds		1,569	1,596
Non-equity shareholders' funds		250	250
SHAREHOLDERS' FUNDS	19	<u>1,819</u>	<u>1,846</u>

Approved by the Board on 20/10/2000


K Coleman Director

K2 Direct Mail Limited

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 April 2000

	<i>Notes</i>	<i>2000</i> <i>£000</i>	<i>1999</i> <i>£000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	3(b)	1,989	3,029
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(183)	(207)
Interest paid on hire purchase and finance lease agreements		(458)	(398)
Dividends paid on non-equity shares		(43)	(5)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(684)	(610)
TAXATION			
UK corporation tax paid		(15)	(8)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(491)	(420)
Proceeds from sale of tangible fixed assets		265	150
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		(226)	(270)
EQUITY DIVIDENDS PAID		-	(55)
FINANCING			
Repayment of capital element of hire purchase and finance lease agreements	14	(1,416)	(1,248)
Confidential invoice discounting	14	284	(556)
NET CASH OUTFLOW FROM FINANCING		(1,132)	(1,804)
(DECREASE) / INCREASE IN CASH	14	(68)	282

MAJOR NON-CASH TRANSACTIONS

During the year, the company entered into finance leases and hire purchase contracts in respect of assets with a total capital value at the inception of the leases of £1,786,000 (1999: £1,705,000).

K2 Direct Mail Limited

NOTES TO THE ACCOUNTS

at 30 April 2000

1. ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The group accounts consolidate the accounts of K2 Direct Mail Limited and all its subsidiary undertakings drawn up to 30 April 2000.

No profit and loss account is presented for K2 Direct Mail Limited as permitted by Section 230 of the Companies Act 1985.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows:

Short leasehold property	over the period of the lease
Plant and machinery	over 7 - 15 years
Motor vehicles	over 4 years
Fixtures and fittings	over 10 years

Stocks and work in progress

Stocks comprising raw materials, consumables and work in progress, are stated at the lower of cost and net realisable value. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made where necessary for obsolete, slow moving and defective stocks.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Pension costs

The group makes contributions to employees' personal pension plans as part of a group personal pension scheme. Contributions are charged in the profit and loss account as they are incurred.

NOTES TO THE ACCOUNTS

at 30 April 2000

1. ACCOUNTING POLICIES (continued)

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest element of the rental obligations is charged in the profit and loss account over the period of the leases and represents a constant proportion of the balance of capital repayments outstanding.

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

2. TURNOVER

Turnover, which excludes value added tax, represents the invoiced value of goods and services supplied and work done. Turnover consists of sales made entirely in the United Kingdom and is attributable to one continuing activity, being that of commercial printers and direct mail specialists.

3. OPERATING PROFIT

(a)	This is stated after charging:	
	2000 £000	1999 £000
Auditors' remuneration - audit services	25	24
- non-audit services	54	48
Depreciation of owned fixed assets	423	419
Depreciation of assets held under finance leases and hire purchase contracts	790	597
Operating lease rentals - plant and machinery	841	797
- land and buildings	277	254
	<hr/>	<hr/>

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

	2000 £000	1999 £000
Operating profit	668	1,412
Depreciation of tangible fixed assets	1,213	1,016
Loss on sale of fixed assets	-	4
Increase in stocks	(75)	(17)
Increase in debtors	(290)	(830)
Increase in creditors	473	1,444
	<hr/>	<hr/>
Net cash inflow from operating activities	1,989	3,029
	<hr/>	<hr/>

K2 Direct Mail Limited

NOTES TO THE ACCOUNTS at 30 April 2000

4. DIRECTORS' EMOLUMENTS

	2000 £000	1999 £000
Emoluments for management services	740	770
Pension contributions	85	82
	<u>825</u>	<u>852</u>

The emoluments of the highest paid director were:

	£000	£000
Emoluments for management services	155	171
Pension contributions	24	24
	<u>179</u>	<u>195</u>

The number of directors eligible for membership of the defined contribution pension scheme at the year end was 6 (1999: 7).

5. STAFF COSTS

The average weekly number of employees (including executive directors) during the year was as follows:

	2000 No.	1999 No.
Production	233	236
Selling and administration	93	92
	<u>326</u>	<u>328</u>

	2000 £000	1999 £000
Wages and salaries	7,493	6,699
Social security costs	734	667
Other pension costs	294	161
	<u>8,521</u>	<u>7,527</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £000	1999 £000
Bank overdraft	183	207
Hire purchase interest	378	298
Finance lease interest	80	100
	<u>641</u>	<u>605</u>

K2 Direct Mail Limited

NOTES TO THE ACCOUNTS at 30 April 2000

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000	1999
	£000	£000
Corporation tax	-	64
ACT reinstated	-	(37)
	<u>-</u>	<u>27</u>

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the accounts of the parent company was £27,000 (1999: £695,000).

9. DIVIDENDS

	2000	1999
	£000	£000
<i>On 11% preference shares of £1 each:</i>		
Paid	-	5
Proposed	5	-
<i>On 11% 'A' ordinary shares of £1 each:</i>		
Fixed dividend:		
Paid	6	6
Participating dividend of 10.95p (1999: 145p) per share		
Paid	-	74
Proposed	6	-
Additional dividend of 72.97p (1999: Nil) per share		
Paid	37	-
	<u>54</u>	<u>85</u>

K2 Direct Mail Limited

NOTES TO THE ACCOUNTS at 30 April 2000

10. TANGIBLE FIXED ASSETS

Group and company

	<i>Short leasehold property £000</i>	<i>Plant and machinery £000</i>	<i>Motor vehicles £000</i>	<i>Fixtures and fittings £000</i>	<i>Total £000</i>
Cost:					
At 3 May 1999	566	9,496	120	288	10,470
Additions	90	2,108	42	37	2,277
Disposals	-	(530)	-	-	(530)
At 30 April 2000	656	11,074	162	325	12,217
Depreciation:					
At 3 May 1999	90	2,855	22	122	3,089
Charge for the year	25	1,119	38	31	1,213
Disposals	-	(265)	-	-	(265)
At 30 April 2000	115	3,709	60	153	4,037
Net book value:					
At 30 April 2000	541	7,365	102	172	8,180
At 3 May 1999	476	6,641	98	166	7,381

The net book value of tangible fixed assets includes an amount of £5,885,793 (1999: £5,574,520) in respect of assets held under finance leases and hire purchase contracts.

11. FIXED ASSET INVESTMENTS

Company

	<i>£000</i>
Investments in subsidiary companies at cost:	
At 2 May 1999 and 30 April 2000	124

K2 Direct Mail Limited

NOTES TO THE ACCOUNTS at 30 April 2000

11. FIXED ASSET INVESTMENTS (continued)

Details of the company's subsidiaries are as follows:

<i>Name of company</i>	<i>Country of registration</i>	<i>Description and number of shares held</i>	<i>Proportion of nominal value of issued shares held</i>	<i>Principal activity</i>
K2 Graphics Limited	England and Wales	123,000 ordinary £1 shares and 1,000 preference £1 shares	100%	Dormant
K2 Envelopes Limited	England and Wales	100 ordinary £1 shares	100%	Dormant

12. STOCKS

Group and company

	<i>2000 £000</i>	<i>1999 £000</i>
Raw materials and consumables	277	185
Work in progress	280	297
	<u>557</u>	<u>482</u>

13. DEBTORS

Group and company

	<i>2000 £000</i>	<i>1999 £000</i>
Trade debtors	4,259	4,266
Other debtors	-	42
Prepayments and accrued income	994	655
	<u>5,253</u>	<u>4,963</u>

NOTES TO THE ACCOUNTS
at 30 April 2000

14. MOVEMENT AND ANALYSIS OF NET DEBT

(a) Reconciliation of net cash flow to movement in net debt:

	2000 £000	1999 £000
(Decrease)/increase in cash in the year	(68)	282
Inception of finance leases and hire purchase contracts	(1,786)	(1,705)
Repayment of capital element of finance leases and hire purchase contracts	1,416	1,248
(Increase)/decrease in confidential invoice discounting	(284)	556
Change in net debt	(722)	381
Net debt at 3 May	(5,690)	(6,071)
Net debt at 30 April	(6,412)	(5,690)

(b) Analysis of changes in net debt:

	At 3 May 1999 £000	Cash flow £000	Other changes £000	At 30 Apr 2000 £000
Bank overdraft	(94)	(68)	-	(162)
Confidential invoice discounting	(1,755)	(284)	-	(2,039)
Obligations under finance leases and hire purchase contracts	(3,841)	1,416	(1,786)	(4,211)
Total	(5,690)	1,064	(1,786)	(6,412)

K2 Direct Mail Limited

NOTES TO THE ACCOUNTS

at 30 April 2000

15. CREDITORS: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank overdraft	162	94	162	94
Confidential invoice discounting (secured)	2,039	1,755	2,039	1,755
Obligations under finance leases and hire purchase contracts	1,322	1,139	1,322	1,139
Trade creditors	4,208	3,717	4,208	3,717
Amounts owed to subsidiary undertaking	-	-	124	124
Corporation tax	10	10	10	10
Advance corporation tax payable	-	15	-	15
Other creditors	46	57	46	57
Other taxation and social security	536	350	536	350
Accruals and deferred income	584	777	584	777
Proposed dividends	375	364	375	364
	<u>9,282</u>	<u>8,278</u>	<u>9,406</u>	<u>8,402</u>

The bank overdraft is secured by a fixed and floating charge over the group's assets. The invoice discounting facility is secured by a first charge over group trade debtors amounting to £2,365,304 (1999: £3,491,418).

16. CREDITORS: amounts falling due after more than one year

Group and company

	<i>2000</i>	<i>1999</i>
	<i>£000</i>	<i>£000</i>
Obligations under finance leases and hire purchase contracts	<u>2,889</u>	<u>2,702</u>

17. PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation provided in the accounts and the amounts not provided are as follows:

<i>Group and company</i>	<i>Provided</i>		<i>Not provided</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Capital allowances in advance of depreciation	-	-	835	740
ACT recoverable	-	-	(7)	-
Other timing differences	-	-	(30)	(20)
	<u>-</u>	<u>-</u>	<u>798</u>	<u>720</u>

K2 Direct Mail Limited

NOTES TO THE ACCOUNTS at 30 April 2000

18. CALLED UP SHARE CAPITAL

	2000 £000	1999 £000
Authorised		
85,000 ordinary shares of £1 each	85	85
51,000 'A' ordinary shares of £1 each	51	51
131,000 preference shares of £1 each	131	131
300,000 'A' preference shares of £1 each	300	300
	<u>567</u>	<u>567</u>
Allotted, called up and fully paid		
85,000 ordinary shares of £1 each	85	85
51,000 'A' ordinary shares of £1 each	51	51
50,000 preference shares of £1 each	50	50
200,000 'A' preference shares of £1 each	200	200
	<u>386</u>	<u>386</u>

The preference shares shall be redeemed at the earlier of:

- 31,000 were redeemed on 30 June 1995 and 25,000 will be redeemed on 30 June and 31 December each subsequent year, at the option of the shareholders; or
- flotation on a recognised Stock Exchange; or
- the date upon which an offer to purchase 90% or more of the issued equity share capital of the company becomes unconditional, or, if later, the date upon which such an offer is due to be completed;

(b) and (c) apply unless 75% of the holders give notice in writing to the company to the contrary.

There is no premium payable on redemption.

The preference shares attract a fixed dividend of 11 pence per share payable on 31 March and 30 September each year, receive no voting rights and rank first on a return of assets on liquidation or capital reduction.

The 'A' preference shares shall be redeemed at the earlier of:

- date upon which an offer to purchase 90% or more of the issued equity share capital of the company becomes unconditional, or, if later, the date upon which such an offer is due to be completed; or
- the discretion of the company.

(a) applies unless 75% of the holders give notice in writing to the company to the contrary.

(b) is subject to not less than three months notice in writing.

There is no premium payable on redemption.

K2 Direct Mail Limited

NOTES TO THE ACCOUNTS

at 30 April 2000

18. CALLED UP SHARE CAPITAL (continued)

The 'A' preference shares do not attract a dividend, receive no voting rights and rank fourth in a return of assets on liquidation or capital reduction.

The 'A' ordinary shares attract the following dividends:

Fixed dividend of 11 pence per share, which accrues from 31 March 1991, paid half yearly.

Participating dividend of 8½% of the net profit of the group as defined in the company's Articles of Association, less the fixed dividend of 11 pence per share. The dividend is payable on the earlier of:

- (a) 6 months after the end of each successive accounting reference period; or
- (b) 14 days after the annual general meeting at which the financial statements are presented.

An additional dividend calculated in accordance with a formula specified in the Articles of Association of the company.

The whole of the 'A' ordinary shares may at any time be converted into ordinary shares provided 75% of the 'A' ordinary shareholders notify the company in writing of their intention to convert their shares.

The ordinary shares and the 'A' ordinary shares have one vote per share and rank third and second respectively on a return of assets on liquidation or capital reduction.

19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

<i>Group</i>	<i>Share capital</i>	<i>Capital redemption reserve</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 2 May 1998	386	81	684	1,151
Profit for the year	-	-	780	780
Dividends	-	-	(85)	(85)
At 2 May 1999	386	81	1,379	1,846
Profit for the year	-	-	27	27
Dividends	-	-	(54)	(54)
At 30 April 2000	386	81	1,352	1,819

NOTES TO THE ACCOUNTS
at 30 April 2000

19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES
(continued)

<i>Company</i>	<i>Share capital</i>	<i>Capital redemption reserve</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 2 May 1998	386	81	684	1,151
Profit for the year	-	-	780	780
Dividends	-	-	(85)	(85)
At 2 May 1999	386	81	1,379	1,846
Profit for the year	-	-	27	27
Dividends	-	-	(54)	(54)
At 30 April 2000	386	81	1,352	1,819

20. PENSION COMMITMENTS

During the year the group closed its defined contribution pension scheme and now makes contributions to employees' personal pension plans as part of a group personal pension scheme. The pension cost charge represents contributions payable by the group during the year and amounted to £294,000 (1999: £161,000).

21. CAPITAL COMMITMENTS

	<i>2000</i>	<i>1999</i>
	<i>£000</i>	<i>£000</i>
Contracted	157	1,300

22. OTHER FINANCIAL COMMITMENTS

At 30 April 2000 the group had annual commitments under non-cancellable operating leases as follows:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Within one year	-	13	1,064	327
In two to five years	-	-	1,506	523
In over five years	246	246	-	-
	246	259	2,570	850

NOTES TO THE ACCOUNTS
at 30 April 2000

23. LEGAL TITLE AND LIABILITIES

Following the transfer of the trade, assets and liabilities of K2 Graphics Limited in the year ended 30 April 1995 to the holding company, legal title to certain assets and obligations under certain agreements remain with K2 Graphics Limited. However, these have been recorded in the balance sheet of the holding company in accordance with the principles of FRS 5.