Report & Financial Statements

For the year ended 31 December 2003

The Orion Publishing Group Limited

Registered Number: 2663988

THE ORION PUBLISHING GROUP LIMITED

CONTENTS

COMPANY INFORMATION

DIRECTORS :	A Nourry (Chairman) A Bourne P de Cacqueray D Stockley MJ Edwards MJ Evans SC Lamb DAR Manderson F Meriot PCK Roche FCA ICG Trewin Lord Weidenfeld
SECRETARY:	P de Cacqueray
REGISTERED OFFICE:	Orion House 5 Upper St Martin's Lane LONDON WC2H 9EA
REGISTERED NUMBER:	2663988
AUDITORS:	Mazars 24 Bevis Marks LONDON EC3A 7NR

DIRECTORS' REPORT

The directors present their report and audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

On 1 January 2003, the company acquired the activity of Cassell Limited, a subsidiary company. As a result, the company's principal activity is now publishing.

REVIEW OF THE BUSINESS

As part of a group reorganisation decided on 3 October 2003 and effective 1 January 2003, the activity of a subsidiary, Cassell Limited, including all assets and liabilities were transferred to the company.

Both the level of business and the year end financial position were satisfactory. After a very successful year in 2002 characterised by strong Autumn and Christmas sales of illustrated books such as What not to Wear (Trinny Woodall and Suzannah Constantine) and Sahara (Michael Palin), sales continued to grow in 2003. The prospects for 2004 are to grow turnover and margins beyond 2003 achievements.

RESULTS AND DIVIDENDS

The profit for the year was £3,551,000.

The directors do not recommend the payment of a final dividend.

DIRECTORS AND THEIR INTERESTS

The following directors of the company have held office during the whole of the period from 1 January 2003 to the date of this report, unless otherwise stated:

A Nourry (Chairman, appointed 22 July 2003)
J-L Lisimachio (Resigned 25 June 2003)
AJV Cheetham (Chief Executive, resigned 30 September 2003)
A Bourne (Appointed 18 November 2003)
P de Cacqueray
CGR Cary-Elwes FCA ATII (Resigned 31 December 2003)
M Edwards
MJ Evans
SC Lamb
DAR Manderson
F Meriot
PCK Roche FCA (Chief Executive from 3 October 2003)
D Stockley
ICG Trewin
Lord Weidenfeld

None of the directors hold interests in the shares of any other group company incorporated in England and Wales.

DIRECTORS AND THEIR INTERESTS (continued)

The interests of the directors in the shares of the company at 31 December 2003 are as follows:

	At 31 December 2003 Number of Shares New Ordinary	At 1 January 2003 Number of Shares New Ordinary
AJV Cheetham	-	154,554
PCK Roche	58,498	116,996
DAR Manderson	-	8,526
ICG Trewin	-	17,329
SC Lamb	-	17,590
Lord Weidenfeld	-	6,800

Details of directors' share options are as follows:

	As at 1 January 2003	Granted/ (exercised) during the year	As at 31 December 2003	Exercise price (pence)	Date from which exercisable	Expiry date
AJV Cheetham	60,000	(60,000)	-	250	29 May 2000	29 May 2004
PCK Roche	60,000	(60,000)	-	250	29 May 2000	29 May 2004

EMPLOYEES

Information on the trading performance of the company is made available to all employees and consultation procedures are maintained to ensure that employees are aware of the company's progress.

Suitable procedures are in operation to support the company's policy that disabled persons (whether registered or not) shall be considered for employment and subsequent training, career development and promotion on the basis of their aptitude and abilities.

The company has insured its officers against liabilities for breach of trust in relation to the company.

AUDITORS

Mazars have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the annual general meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors confirm that the financial statements comply with the above requirements.

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

On behalf of the Board

P de Cacqueray
Secretary

20 July 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

THE ORION PUBLISHING GROUP LIMITED

We have audited the financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, the Balance Sheet and related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.
This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.
Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.
We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.
We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Mazars

MAZARS
CHARTERED ACCOUNTANTS
and Registered Auditors
24 Bevis Marks
London EC3A 7NR

21 July 2004

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
TURNOVER	2	63,348	15,322
Cost of sales		(38,709)	-
		24,639	15,322
Net operating expenses	3	(20,022)	(15,322)
OPERATING PROFIT	4	4,617	-
Cost of a fundamental reorganisation	5	(79)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	6	4,538	-
Income from fixed asset investments	7	589	2,679
Interest receivable and similar income		65	111
Interest payable and similar charges	8	(1,624)	(253)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	10	3,568	2,537
Taxation	11	(17)	(46)
RETAINED PROFIT FOR THE FINANCIAL YEAR	23	3,551	2,491

The company's income and expenses for the year all relate to acquired continuing operations.

There is no difference between the profit on ordinary activities before taxation and the retained profit reported in the profit and loss account and the equivalent figures calculated on the historical cost basis.

There are no recognised gains or losses other than the profit for the year.

BALANCE SHEET as at 31 December 2003

	Note	2003 £'000	2002 £'000
FIXED ASSETS			
Tangible assets	12	1,040	1,213
Investments	13	167	9,881
Goodwill	14	4,927	-
		6,134	11,094
CURRENT ASSETS			
Stock	15	12,274	-
Debtors	16	32,183	38,947
Cash		3,150	8,670
		47,607	47,617
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	18	(37,738)	(62,155)
NET CURRENT ASSETS/(LIABILITIES)		9,869	(14,538)
TOTAL ASSETS LESS CURRENT LIABILITIES		16,003	(3,444)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(570)	-
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	20	(196)	(170)
		15,237	(3,614)
CAPITAL AND RESERVES			
Called up share capital	21	6,773	6,758
Share premium account	22	17,052	1,767
Profit and loss account	22	(8,588)	(12,139)
EQUITY SHAREHOLDERS' FUNDS	23	15,237	(3,614)

Approved by the Board on 20 July 2004
and signed on its behalf by:

PCK Roche
Director

P de Cacqueray
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The directors consider that the accounting policies set out below are suitable, have been consistently applied and are supported by reasonable and prudent judgements and estimates.

(a) Consolidated financial statements

The financial statements contain information about The Orion Publishing Group Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Lagardere SCA, a company incorporated in France.

(b) Going concern

These financial statements have been prepared on a going concern basis.

(c) Foreign currency

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rate ruling on the balance sheet date.

(d) Leased assets

Where assets are financed by leasing agreements, which give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the cash value as at the date of commencement of the lease. The corresponding leasing commitment is included in obligations under finance leases. Rentals payable are apportioned between interest, which is charged to the profit and loss account and capital, which reduces the outstanding commitment.

Rentals payable relating to all other leases are charged as incurred to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

1. ACCOUNTING POLICIES (continued)

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. The cost of fixed assets is the purchase cost together with any incidental costs of acquisition. Depreciation is calculated to write off the cost of the fixed assets over their estimated useful lives on a straight line basis. The principal annual rates used for this purpose are as follows:

Leasehold improvements	-	depreciated over the remaining period of the leases to which they relate
Motor vehicles	-	25%
Fixtures and fittings	-	15%
Office equipment	-	20%
Computer equipment	-	25%

(f) Investments

Fixed asset investments are stated at original cost less provision for permanent diminution in value.

(g) Cash flow statements

In accordance with Financial Reporting Standard No. 1 (Revised), the company is exempt from preparing a cash flow statement as its ultimate parent undertaking, Lagardere SCA, has included a cash flow statement in its financial statements which are publicly available.

(h) Stock

Stock including work in progress is stated at the lower of cost and net realisable value. Cost comprises the direct costs of production, paper, printing and binding.

(i) Royalties

Contracted royalty advances are recorded when 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

1. ACCOUNTING POLICIES (continued)

(j) Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occured at that date that will result in an obligation to pay more, or a right to pay less tax. Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis.

(k) Turnover

Turnover excludes value added tax and represents the contracted value of books sold and royalty income.

(l) Pensions

Pension costs are charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees. The pension charge is calculated on the basis of actuarial advice.

(m) Operating Lease Rentals

Rentals payable under operating leases are charged on a straight-line basis over the term of the lease.

(n) Goodwill

Goodwill value is assessed every year and depreciated if needed. In the absence of specific depreciation it is amortised over a period of 20 years on a straight line basis.

2. GEOGRAPHICAL ANALYSIS OF TURNOVER

	2003 £'000	2002 £'000
United Kingdom	49,268	15,322
United States of America	4,319	-
Australia	3,940	-
Rest of the World	5,821	
	63,348	15,322

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

3. NET OPERATING EXPENSES

	2003 £'000	2002 £'000
Distribution costs	9,868	-
Administrative expenses	10,154	15,322
	20,022	15,322

4. OPERATING PROFIT

	Continuing Acquired Operations Year ended 31 December	Total Year ended 31 December	As restated Discontinued Operations Year ended 31 December	Total Year ended 31 December
	2003 £000	2003 £000	2002 £000	2002 £000
Turnover	63,348	63,348	15,322	15,322
Cost of Sales	(38,709)	(38,709)	-	-
Gross Profit	24,639	24,639	15,322	15,322
Operating expenses	(20,022)	(20,022)	(15,322)	(15,322)
Operating Profit	4,617	4,617	-	-
Cost of a fundamental reorganisation	(79)	(79)	-	-
Profit on ordinary activities before interest	4,538	4,538	-	-

5. COST OF A FUNDAMENTAL REORGANISATION

	2003 £'000	2002 £'000
Exceptional gain on loan waivers	9,587	-
Amounts written off investments	(9,666)	-
	(79)	-

The company received loan waivers from other group companies as part of a group reorganisation on 16th December 2003. Subsequent to this, investments have been impaired to the level of underlying net assets.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

6. EMPLOYEE INFORMATION

The average monthly number of persons, including executive directors, employed by the company during the year was 147 (2002: 153) all of whom were involved in book publishing.

	2003 £'000	**2002 £'000**
Staff costs, including directors' emoluments, were:		
Wages and salaries	6,052	5,725
Social security	624	535
Other pension costs	847	546
	7,523	6,806

7. INCOME FROM FIXED ASSET INVESTMENTS

	2003 £'000	**2002 £'000**
Dividends receivable from subsidiary company	589	2,679

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000	**2002 £'000**
Interest payable on bank loans and overdrafts repayable within five years	980	108
Group loan interest	618	121
Hire purchase and finance leasing charges	26	24
	1,624	253

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

9. DIRECTORS' EMOLUMENTS AND DIRECTORS' INTERESTS

Directors Emoluments:	2003 £'000	As restated 2002 £'000
Emoluments	1,255	1,391
Amounts payable under long term incentive scheme	433	250
Pension contributions: Retirement benefit scheme	415	134
Total emoluments	2,103	1,775

Directors Emoluments have been restated for 2002 to correctly disclose amounts for bonuses paid and also to include the emoluments of a director previously omitted.

	2003 £'000	2002 £'000
Compensation to directors or past directors for loss of office	642	-

Highest paid director:	2003 £'000	As restated 2002 £'000
Emoluments	166	293
Accrued pension	303	32
	469	325

The highest paid director exercised 60,000 share options during the year.

During the period the following number of directors:

		As restated
Accrued benefits under defined benefit schemes	8	7
Exercised share options	2	1
Accrued amounts under long term incentive scheme	4	1

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

10. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £'000	2002 £'000
Profit/(Loss) on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
- Audit fee	37	35
- Amounts payable to Mazars by the company in respect of non-audit services	26	13
Depreciation		
- Owned assets	333	372
- Assets held under finance leases	163	152
(Profit)/loss on disposal of fixed assets	(22)	(82)
Exchange gain/(loss)	20	(3)
Operating lease rentals		
- Property	1,424	786
- Other	92	125

11. TAXATION

	2003		2002	
	£000	£000	£000	£000
(a) Analysis of charge in period				
Current tax:				
UK corporation tax on profits of the period	17		33	
Adjustments in respect of previous periods	-		13	
Current tax charge for period (see (b) below)		17		46
Deferred Tax:				
Origination and reversal of timing differences	-		-	
Increase in discount	-		-	
Total deferred tax		-		-
Tax on profit on ordinary activities		17		46

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

11. TAXATION (continued)

(b) Factors affecting tax charge for period

The tax assessment for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £000	2002 £000
Profit / (loss) on ordinary activities before tax	3,567	2,537
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	1,070	761
Effects of:		
Expenses not deductible for tax purposes	168	87
Rate differences	-	-
Depreciation in excess of capital allowances	100	-
Dividends receivable from UK companies	(177)	(804)
Creation / (utilisation) of tax losses	(883)	(143)
Other timing differences	(261)	132
Corporation Tax Prior year adjustments	-	13
Current tax charge for period (see (a) above)	17	46

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

12. TANGIBLE ASSETS

	Leasehold improvements £'000	Equipment fixtures and fittings £'000	Motor vehicles £'000	Total £'000
COST				
At 1 January 2003	347	2,403	650	3,400
Additions	-	116	216	332
Disposals	-	-	(159)	(159)
At 31 December 2003	347	2,519	707	3,573
ACCUMULATED DEPRECIATION				
At 1 January 2003	116	1,742	329	2,187
Charge for the period	15	318	163	496
Disposals	-	-	(150)	(150)
At 31 December 2003	131	2,060	342	2,533
Net book amount:				
At 31 December 2003	216	459	365	1,040
At 31 December 2002	231	661	321	1,213

The gross amount of assets held under finance leases and the related accumulated depreciation included in the tables above are as follows:

	Cost £'000	Depreciation £'000	Net £'000
Motor vehicles:			
At 31 December 2003	707	(342)	365
At 31 December 2002	650	(329)	321

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

13. INVESTMENTS

	Shares in subsidiary undertakings £'000	**Shares in associates £'000**	**Other investments £'000**	**Total £'000**
COST				
At 1 January 2003	24,971	250	49	25,270
Additions	1	-	-	1
Disposals	-	-	(49)	(49)
At 31 December 2003	24,972	250	-	25,222
PROVISION FOR DIMINUTION IN VALUE				
At 1 January 2003	(15,341)	(48)	-	(15,389)
Increased Provision	(9,539)	(127)	-	(9,666)
At 31 December 2003	(24,880)	(175)	-	(25,055)
NET BOOK VALUE				
At 31 December 2003	92	75	-	167
At 31 December 2002	9,630	202	49	9,881

a) Investments in subsidiary undertakings:

The company's principal trading subsidiaries, all of which are registered and trade in England, are as follows:

Company	**Principal activity**	**% holding of ordinary shares of £1 each**
Littlehampton Book Services Limited	Book distribution	100%
Cassell Limited	Non trading	100%

The additional provision of £9,539k arises on the transfer of the business of Cassell Limited. Additions relate to dormant subsidiaries acquired from Cassell Limited.

b) Associates

The Company's associates are Double Exposure Limited and McArthur & Company Publishing Limited. Double Exposure Limited is a film production company incorporated in the UK. McArthur & Company is a book publishing and distribution company incorporated in Canada. The increased provision relates to the Double Exposure investment.

c) Other Investments

The minority stake in MQ Publications Limited a gift book publisher, has been disposed of.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

14. GOODWILL

	2003 £'000	2002 £'000
Addition 1st January 2003	5,186	-
Amortisation	(259)	-
	4,927	-

The Goodwill of £5,186k arises due to the purchase of the activities and net assets of Cassell Ltd, a subsidiary company.

15. STOCK

	2003 £'000	2002 £'000
Raw materials and work in progress	2,608	-
Finished Goods	9,666	-
	12,274	-

16. DEBTORS

	2003 £'000	2002 £'000
Trade debtors	19,328	22,437
Amounts owed by subsidiary undertakings	299	15,156
Other debtors	11,600	449
Prepayments and accrued income	956	905
	32,183	38,947

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.

17. DEFERRED TAX ASSET NOT PROVIDED

	2003 £000	2002 £000
Accelerated capital allowances	(371)	(118)
Other timing differences	(81)	(261)
Tax losses carried forward	(3,779)	(6)
	(4,231)	(385)

The deferred tax asset has not been recognised, which is in accordance with the company's accounting policy. The amount disclosed includes amounts transferred in from Cassell Limited.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £'000	2002 £'000
Bank loans on demand	12,000	24,000
Obligations under hire purchase and finance leases	129	150
Trade creditors	8,519	7,994
Amounts owed to subsidiary undertakings	-	8,732
Group loan	3,000	16,500
Corporation tax	17	33
Other tax and social security	219	167
Other creditors	10,521	1,775
Accruals and deferred income	3,333	2,804
	37,738	62,155

The group loan is a loan from HL99 Limited, the immediate parent company of The Orion Publishing Group Limited. The loan is repayable on demand and bears interest at the rate of 4.68%.

19. PROVISIONS FOR LIABILITIES AND CHARGES

	2003 £'000	2002 £'000
At 1 January	-	-
Transferred from subsidiary company	570	-
Charged to profit and loss account	264	-
Utilised in year	(264)	-
At 31st December	570	-

The provision transferred from Cassell Limited relates to an onerous contract on unoccupied premises.

20. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2003 £'000	2002 £'000
Obligations under hire purchase and finance leases repayable between 1 and 5 years	196	170
	196	170

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

21. CALLED UP SHARE CAPITAL

	2003 £'000	2002 £'000
Authorised share capital:		
Equity shares		
672,652,571 Deferred shares of 1p each	6,727	6,727
5,573,502 (2002: 4,155,129) New ordinary shares of 1p each	55	42
	6,782	6,769

	2003 £'000	2002 £'000
Authorised, allotted, called up and fully paid:		
Equity shares		
672,652,571 Deferred shares of 1p each	6,727	6,727
4,683,303 (2002: 3,144,930) New ordinary shares of 1p each	46	31
	6,773	6,758

During the year an additional 1,418,373 new ordinary shares at 1p each nominal value were issued to HL99 Ltd.

There were 9,000 share options over ordinary shares unexercised as at 31st December 2003. These are exercisable until August 2005 at £10.5755 per share.

22. RESERVES

	Share premium account £'000	Profit and loss account £'000
Balance at 1 January 2003	1,767	(12,139)
Arising from shares issued during the year	15,285	-
Retained Profit for the year	-	3,551
Balance at 31 December 2003	17,052	(8,588)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total 2003 £'000	Total 2002 £'000
As at 1 January 2003	6,758	1,767	(12,139)	(3,614)	(6,211)
New share capital subscribed	15	15,285	-	15,300	106
Retained Profit for the year	-	-	3,551	3,551	2,491
As at 31 December 2003	6,773	17,052	(8,588)	15,237	(3,614)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

24. PENSION COSTS

Pension costs

The Orion Group operates a group pension scheme ('Orion scheme'), providing benefits based on final pensionable pay, which is funded with the assets of the scheme held separately from those of the group.

Accounting policy

The company accounts for pension costs in accordance with SSAP 24. The company Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The latest full valuation report for the Orion scheme was carried out at 1 January 2003. The report showed the market value of the scheme's assets at £8,339k and the actuarial value of those assets represented 61% of the value of the benefits that had accrued to members, after allowing for expected future increases in salaries. The total pension cost for the company was £847,000 (2002: £546,000). The pension cost is assessed in accordance with the advice of a qualified actuary using the projected unit method. The main actuarial assumptions used to determine the pension costs are rates of investment return of 7.5% per annum prior to retirement and 4.5% per annum during retirement, pensionable salary increases of 3.75% per annum and pension increases of 2.5% per annum.

Following recommendations from the actuary the company has adopted a funding rate of 18.1% of pensionable salary from 1st July 2003 and this contribution rate will continue until it is reviewed following the next full valuation of the scheme on 1 January 2006.

In order to provide information about the existence of a surplus or deficit of the scheme, a separate valuation of the scheme using the measurement basis required by the UK Financial Reporting Standard 17 was obtained as at 31 December 2003.

The major assumptions used by the actuary were:

	31 December 2003	31 December 2002
	%	%
Rate of increase in salaries p.a.	3.75	3.50
Limited Price Indexation Pension increases p.a	2.75	2.50
Limited Price Indexation Pension increases for ex-Cassell members p.a	3.75	3.50
Inflation assumption p.a.	2.75	2.50
Discount rate	5.60	5.75

The assets of the schemes are held in Managed Funds and Unit Trusts operated by Legal & General Investment Management Limited. The split of assets and the expected rate of return were:

	Expected Rate of Return at 31 December 2003 p.a	Fair Value at 31 December 2003 £000
Equities & Property	7.50%	8,241
Bonds	5.00%	1,689
Cash	3.75%	695
		10,625
Present value of Scheme liabilities		(17,370)
Deficit in the Scheme		(6,745)
Related deferred tax asset		2,024
Net pension liability		(4,721)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2003 (continued)

24. PENSION COSTS (continued)

For the purposes of these financial statements, these figures are illustrative only and do not impact on the results or the balance sheet of the company. It should also be noted that these figures include a proportion of pension assets and liabilities relating to other group companies, which also participate in the scheme. It has not been possible to identify the share of the deficits which relates solely to Orion Publishing Group Limited.

25. FINANCIAL COMMITMENTS

At 31 December 2003 there were commitments made in the normal course of business to authors for the payment of royalty advances at various dates relating to the delivery of manuscripts and the publication of books. None of these are considered onerous. There were no material commitments in respect of capital expenditure outstanding both at 31 December 2003 and 31 December 2002.

At 31 December 2003 the company had annual commitments under leasehold property and motor vehicle operating leases as follows:

	2003 £'000	2002 £'000
Operating leases which expire:		
Sundry:		
Within 1 year	92	125
Property:		
Over 5 years	1,424	885
	1,516	1,010

26. RELATED PARTY DISCLOSURES

In accordance with Financial Reporting Standard No 8 "Related Party Disclosures", transactions with other undertakings within the Lagardere group have not been disclosed in these financial statements.

27. CONTROLLING PARTIES

The immediate parent undertaking is HL99 Limited, a company incorporated in England and Wales.

The Company's ultimate holding company is Lagardere SCA, France, which is registered in France and is the largest and only group to consolidate these accounts. A copy of its financial statements can be obtained from The Orion Publishing Group Limited, Orion House, 5 Upper St Martin's Lane, London WC2H 9EA.