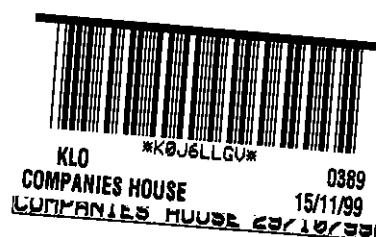


Distribution Network Company Limited

Report and Accounts

31 December 1998



MARTIN GREENE RAVDEN

*Chartered Accountants
and Registered Auditors*

**55 Loudoun Road
St John's Wood
London NW8 0DL**

Company No. 2760501

Distribution Network Company Limited

REPORT AND ACCOUNTS

For the year ended 31 December 1998

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Distribution Network Company Limited

COMPANY INFORMATION

Directors

D A Crux
A E Crux
P J King

Secretary

A E Crux

Business address

Park House
12 Deer Park Road
London SW19 3FB

Registered office

55 Loudoun Road
St John's Wood
London NW8 0DL

Auditors

Martin Greene Ravden
Chartered Accountants
and Registered Auditors
55 Loudoun Road
St John's Wood
London NW8 0DL

Principal bankers

Coutts and Company
440 Strand
London
WC2R 0QS

Distribution Network Company Limited

DIRECTORS' REPORT

For the year ended 31 December 1998

The directors present their report and the audited accounts for the year ended 31 December 1998.

Statement of directors' responsibilities

A statement of the directors' responsibilities in relation to the accounts is set out on page 4.

Principal activities and business review

The principal activities of the company are those of wholesalers and mail order retailers of licensed leisurewear and novelty products.

The directors are satisfied with the results for the year and the company's future trading prospects. The directors believe that the company is soundly based to take advantage of opportunities arising in the coming year.

Results and dividends

The results for the year are set out in the profit and loss account on page 6. The directors recommend that no dividend be paid for the year (1997 - £nil).

Directors and their interests

The directors who held office during the year and their beneficial interests in the company's share capital were as follows:

	Number of £1 Ordinary Shares at	
	1 January 1998	31 December 1998
D A Crux	50,000	50,000
A E Crux	50,000	50,000
P J King	-	-

Year 2000 compliance

As is well known, many computers and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of the company's business depends not only on its computer systems, but also to some degree on those of its suppliers, bankers, customers and anyone else associated with its business. This could expose the company to risks in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The directors believe that the potential risks have been reviewed and reasonable steps have or are being taken to deal with the Year 2000 issues within the company.

The costs of dealing with these issues have been, and will continue to be absorbed within the normal running costs of the business.

Distribution Network Company Limited

DIRECTORS' REPORT

For the year ended 31 December 1998

Auditors

A resolution to re-appoint the auditors, Martin Greene Ravden, will be proposed at the forthcoming annual general meeting.

On behalf of the Board



D A Crux
Chairman

28 October 1999

Distribution Network Company Limited

STATEMENT OF DIRECTORS' AND AUDITORS' RESPONSIBILITIES in relation to the accounts for the year ended 31 December 1998

The following statement is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the company's state of affairs at the end of the year and of the profit or loss 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;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts 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.

The directors confirm that the accounts comply with these requirements.

The directors, having prepared the accounts, are required to provide to the auditors such information and explanations as the auditors think necessary for the performance of their duty.

Auditors' responsibilities

The auditors are required to form an independent opinion on the accounts presented by the directors, based on their audit, and to report their opinion to the shareholders. The Companies Act 1985 also requires the auditors to report to shareholders if the following requirements are not met:

- that the company has maintained proper accounting records;
- that the accounts are in agreement with the accounting records;
- that directors' emoluments and other transactions with directors are properly disclosed in the accounts; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

The Companies Act 1985 requires the auditors to report to shareholders if the matters contained in the directors' report are inconsistent with the accounts.

Distribution Network Company Limited

AUDITORS' REPORT

to the shareholders of Distribution Network Company Limited

We have audited the accounts on pages 6 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

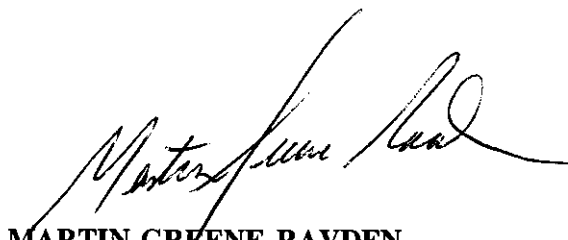
Basis of opinion

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 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 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 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 company's affairs at 31 December 1998 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



MARTIN GREENE RAVDEN

*Chartered Accountants
and Registered Auditors*

55 Loudoun Road
St John's Wood
London NW8 0DL

28 October 1999

Distribution Network Company Limited

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1998

	Notes	1998 £	1997 £
Turnover	2	5,313,652	4,050,055
Cost of sales		(4,023,197)	(3,159,851)
Gross profit		1,290,455	890,204
Administrative expenses		(1,170,863)	(947,248)
		119,592	(57,044)
Other operating income		73,557	46,167
Operating profit (loss)	3	193,149	(10,877)
Interest receivable		26,363	44,041
Interest payable	6	-	(3,959)
Profit on ordinary activities before taxation		219,512	29,205
Taxation	8	(69,968)	(12,525)
Profit for the financial year		149,544	16,680
Retained profit brought forward		388,842	372,162
Retained profit carried forward		538,386	388,842

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

Distribution Network Company Limited

BALANCE SHEET at 31 December 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	9	125,492	94,184
Current assets			
Stocks	10	272,245	217,672
Debtors	11	1,532,076	550,217
Cash at bank and in hand		377,872	558,808
		2,182,193	1,326,697
Creditors due within one year			
Trade and other creditors	12	1,578,786	932,039
Short term borrowings	13	78,883	-
		1,657,669	932,039
Net current assets		524,524	394,658
Total assets less current liabilities		650,016	488,842
Creditors due after one year			
Loans and other borrowings	13	11,630	-
Net assets		638,386	488,842
Capital and reserves			
Called up share capital	15	100,000	100,000
Profit and loss account		538,386	388,842
Shareholders' funds		638,386	488,842

The accounts were approved by the Board
on 28 October 1999 and signed on its behalf by


D A Crux - Director

Distribution Network Company Limited

CASH FLOW STATEMENT

For the year ended 31 December 1998

	Notes	1998 £	1997 £
Net cash (outflow) from operating activities	18.1	(199,273)	(18,741)
Returns on investments and servicing of finance			
Interest received		26,363	44,041
Interest paid		-	(3,959)
Net cash inflow from returns on investments and servicing of finance		26,363	40,082
Taxation paid		(11,939)	(150,554)
Capital expenditure			
Purchase of tangible fixed assets		(136,400)	(47,451)
Disposal of tangible fixed assets		49,800	22,150
Net cash outflow from capital expenditure		(86,600)	(25,301)
Management of liquid resources			
Cash inflow (outflow) from short term deposits		133,000	(67,108)
Net cash (outflow) before financing		(138,449)	(221,622)
Financing			
Increase in short term bank borrowings		73,068	-
Capital element of finance lease payments		(17,445)	(23,728)
Net cash inflow (outflow) from financing		55,623	(23,728)
(Decrease) in cash		(82,826)	(245,350)

NOTES TO THE ACCOUNTS

For the year ended 31 December 1998

1. ACCOUNTING POLICIES

1.1 Basis of accounting

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

1.2 Turnover

Turnover represents the invoiced value of goods supplied by the company stated net of value added tax.

1.3 Royalties payable

Royalties payable are charged to the profit and loss account on an accruals basis. Advances to artists and licensors are assessed and the value of the unrecouped proportion to be included in debtors is determined by the prospects of future recoupment, based on past sales performance, current popularity and projected sales. Provisions are made for unrecouped royalty advances in the accounting period in which they are regarded as irrecoverable.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Computer software	25% straight line
Fixtures and fittings	15% straight line
Office equipment	20% straight line
Motor vehicles	25% straight line

1.5 Leasing and hire purchase

Assets acquired under hire purchase contracts or finance leases are capitalised at fair value as tangible fixed assets and depreciated in accordance with the company's normal depreciation policy for the class of asset concerned. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. Finance charges are taken to the profit and loss account on a straight line basis over the period of the lease.

Rentals payable under operating leases are charged to the profit and loss account as incurred.

1.6 Stocks

Stocks are valued at the lower of cost and net realisable value.

1.7 Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences arising in the normal course of trade are included in the profit and loss account.

Distribution Network Company Limited

NOTES TO THE ACCOUNTS

For the year ended 31 December 1998

1. ACCOUNTING POLICIES

1.8 Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes to the extent that a liability to taxation is likely to crystallise.

1.9 Pensions

The company operates a money purchase pension scheme and contributions are charged to the profit and loss account in the year in which they are payable.

2. TURNOVER

The whole of the turnover is attributable to the company's principal activities as stated in the Directors' Report. A geographical analysis of turnover is as follows:

	1998 £	1997 £
United Kingdom	4,455,733	2,923,919
Rest of Europe	822,910	1,111,756
Rest of the World	35,009	14,380
	<u>5,313,652</u>	<u>4,050,055</u>

3. OPERATING PROFIT (LOSS)

	1998 £	1997 £
The operating profit (loss) is stated after charging:		
Staff costs (Note 4)	707,460	588,565
Depreciation of tangible fixed assets		
owned by the company	55,751	61,583
held under finance leases	450	-
(Profit) loss on disposal of fixed assets	(909)	10,249
Operating lease rentals		
Hire of plant and machinery	946	-
Auditors' remuneration	10,000	8,000
	<u>712,707</u>	<u>607,804</u>

Distribution Network Company Limited

NOTES TO THE ACCOUNTS

For the year ended 31 December 1998

4. STAFF COSTS	1998 £	1997 £
Staff and directors' costs		
Wages and salaries	636,761	532,340
Social security costs	64,305	50,209
Other pension costs	6,394	6,016
	<u>707,460</u>	<u>588,565</u>

	No.	No.
Average monthly number of employees during the year		
Sales and distribution	19	23
Administrative	7	7
	<u>26</u>	<u>30</u>

5. DIRECTORS' EMOLUMENTS	1998 £	1997 £
Management remuneration and benefits	342,819	138,553
Money purchase pension scheme contributions	6,394	6,016
	<u>349,213</u>	<u>144,569</u>

During the year, retirement benefits were accruing to 2 directors (1997 - 2) in respect of a money purchase pension scheme.

Emoluments disclosed above include the following amounts paid to the highest paid director:	1998 £	1997 £
Management remuneration and benefits	<u>168,833</u>	<u>55,000</u>

6. PENSION COSTS

The company operates a money purchase pension scheme for certain of its directors, the assets of which are held in an independently administered fund. Contributions paid in the year amounted to £6,394 (1997 - £6,016).

7. INTEREST PAYABLE	1998 £	1997 £
Hire purchase contracts and finance leases	<u>-</u>	<u>3,959</u>

Distribution Network Company Limited

NOTES TO THE ACCOUNTS

For the year ended 31 December 1998

8. TAXATION

	1998 £	1997 £
Taxation on profit on ordinary activities:		
UK corporation tax at 31% (1998 - 21.75%)	70,000	15,000
Prior year adjustments	(32)	(2,475)
	<u>69,968</u>	<u>12,525</u>

The taxation charge for the year has been affected by the disallowance of certain expenditure.

9. TANGIBLE FIXED ASSETS

	Computer software £	Fixtures and fittings £	Office Equipment £	Motor vehicles £	Total £
Cost					
At 1 January 1998	15,342	42,581	128,506	64,899	251,328
Additions	-	-	12,356	124,044	136,400
Disposals	-	-	-	(91,349)	(91,349)
At 31 December 1998	<u>15,342</u>	<u>42,581</u>	<u>140,862</u>	<u>97,594</u>	<u>296,379</u>
Depreciation					
At 1 January 1998	13,331	27,530	82,833	33,450	157,144
Charge for the year	2,010	6,386	26,923	20,882	56,201
Disposals	-	-	-	(42,458)	(42,458)
At 31 December 1998	<u>15,341</u>	<u>33,916</u>	<u>109,756</u>	<u>11,874</u>	<u>170,887</u>
Net book value					
At 31 December 1998	<u>1</u>	<u>8,665</u>	<u>31,106</u>	<u>85,720</u>	<u>125,492</u>
At 31 December 1997	<u>2,011</u>	<u>15,051</u>	<u>45,673</u>	<u>31,449</u>	<u>94,184</u>

Included in the total net book value of tangible fixed assets at 31 December 1998 is £21,146 (1997 - £nil), in respect of assets held under finance leases and hire purchase contracts. The depreciation charged on these assets for the year was £450 (1997 - £nil).

10. STOCKS

	1998 £	1997 £
Goods for resale	<u>272,245</u>	<u>217,672</u>

There is no material difference between the replacement cost and historical cost of stocks.

Distribution Network Company Limited

NOTES TO THE ACCOUNTS

For the year ended 31 December 1998

11. DEBTORS	1998 £	1997 £
Due within one year		
Loan to director	3,521	-
Trade debtors	1,465,159	518,521
Value added tax recoverable	-	4,353
Other debtors	15,689	20,282
Prepayments and accrued income	47,707	7,061
	<u>1,532,076</u>	<u>550,217</u>

Other debtors include loans to directors, the details of which are as follows:

	Balance at year end		Highest balance during the year	
	1998 £	1997 £	1998 £	1997 £
D A Crux	3,521	-	3,521	3,090
M A Conlon	-	-	-	3,000
P J King	-	-	-	62
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

12. CREDITORS	1998 £	1997 £
Due within one year		
Trade creditors	1,005,181	843,222
Corporation tax	70,000	11,971
Other taxes and social security	115,509	27,842
Unpaid directors' bonuses	192,333	-
Accruals	195,763	49,004
	<u>1,578,786</u>	<u>932,039</u>

Distribution Network Company Limited

NOTES TO THE ACCOUNTS

For the year ended 31 December 1998

13. BORROWINGS

	Due within one year		Due after one year	
	1998	1997	1998	1997
	£	£	£	£
Secured				
Bank overdraft	73,068	-	-	-
Net obligations under hire purchase contracts and finance leases	5,815	-	11,630	-
	<u>78,883</u>	<u>-</u>	<u>11,630</u>	<u>-</u>

The bank overdraft is secured by a mortgage debenture over the assets of the company. The finance leases are secured on the assets concerned.

14. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASES

	1998	1997
	£	£
Amounts payable:		
Within one year	6,602	-
Between one and two years	6,602	-
Between two and five years	6,603	-
	<u>19,807</u>	<u>-</u>
Finance charges allocated to future periods	(2,362)	-
	<u>17,445</u>	<u>-</u>
Net obligations	<u>17,445</u>	<u>-</u>
Net obligations are analysed as follows:		
Current obligations	5,815	-
Non-current obligations	11,630	-
	<u>17,445</u>	<u>-</u>

15. CALLED UP SHARE CAPITAL

	1998	1997
	£	£
Authorised		
100,000 Ordinary shares of £1 each	100,000	100,000
	<u>100,000</u>	<u>100,000</u>
Allotted, called up and fully paid		
100,000 Ordinary shares of £1 each	100,000	100,000
	<u>100,000</u>	<u>100,000</u>

Distribution Network Company Limited

NOTES TO THE ACCOUNTS

For the year ended 31 December 1998

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	1998 £	1997 £
Retained profit for the year 16,680	149,544	
Opening shareholders' funds	488,842	472,162
Closing shareholders' funds	<u>638,386</u>	<u>488,842</u>

17. CONTROLLING PARTIES

The company is controlled by Mr D A Crux and Mr A E Crux by virtue of their combined ownership of 100% of the issued share capital.

Distribution Network Company Limited

NOTES TO THE ACCOUNTS

For the year ended 31 December 1998

18. NOTES TO THE CASH FLOW STATEMENT

18.1 Reconciliation of operating profit (loss) to net cash inflow (outflow) from operating activities	1998 £	1997 £
Operating profit (loss)	193,149	(10,877)
Depreciation	56,201	61,583
(Profit) loss on sale of tangible fixed assets	(909)	10,249
(Increase) decrease in working capital:		
Stocks	(54,573)	7,900
Debtors	(981,859)	438,153
Creditors	588,718	(525,749)
Net cash (outflow) from operating activities	(199,273)	(18,741)

18.2 Reconciliation of net cash flow to movement in net funds	1998 £	1997 £
(Decrease) in cash for the year	(82,826)	(245,350)
Cash outflow to decrease finance lease obligations	17,445	23,728
Cash (inflow) outflow from liquid resources	(133,000)	67,108
Cash inflow from bank borrowings	(73,068)	-
Change in net funds resulting from cash flows	(271,449)	(154,514)
Movement in net funds in the year		
Net funds at 1 January 1998	558,808	713,322
Net funds at 31 December 1998	287,359	558,808

18.3 Analysis of changes in net funds	Start of year £	Cash flow £	Non cash charge £	End of year £
Cash at bank and in hand	54,215	(47,936)	-	6,279
Bank overdraft	-	(73,068)	-	(73,068)
Current asset investments	504,593	(133,000)	-	371,593
Finance lease obligations	-	-	(17,445)	(17,445)
Total net funds	558,808	(254,004)	(17,445)	287,359