

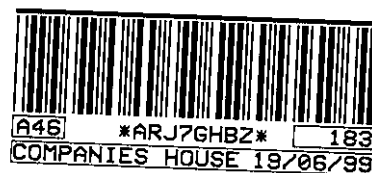
Company Registration No. 2858623

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**Financial statements for
the year ended 28 February 1999**

**Advanced Marketing
(UK) Limited**

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Advanced Marketing (UK) Limited

Company information

Directors

Charles C. Tillinghast III (US citizen) (Chairman)
Tony Pickup
Michael Nicita (US citizen)
Adam Zoldan (US citizen)

Secretary

Tony Pickup

Company number

2858623

Registered office

Suite 25, Challenge House
Sherwood Drive
Bletchley
Milton Keynes
MK3 6DP

Auditors

Mazars Neville Russell
202 Upper Fifth Street, Silbury Boulevard
Central Milton Keynes
Bucks
MK9 2JB

Advanced Marketing (UK) Limited

Directors' report For the year ended 28 February 1999

The directors present their report and financial statements for the year ended 28 February 1999.

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 period. In preparing those financial statements, the directors are required to:

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

Directors

The following directors have held office since 1 March 1998:

Charles C. Tillinghast III (US citizen) (Chairman)
Tony Pickup
Michael Nicita (US citizen)
Adam Zoldan (US citizen)

Directors' interests

The directors' beneficial interests in the shares of the company were as stated below:

	Ordinary shares of £1 each	
	28 February 1999	1 March 1998
Charles C. Tillinghast III (US citizen) (Chairman)	-	-
Tony Pickup	-	-
Michael Nicita (US citizen)	-	-
Adam Zoldan (US citizen)	-	-

Mr Tillinghast is also Chairman of the parent company, Advanced Marketing Services Inc., a company incorporated in the United States of America.

Advanced Marketing (UK) Limited

Directors' report For the year ended 28 February 1999

Principal activities and review of the business

The principal activities of the company continued to be those of the sourcing and distribution of books and music products to the warehouse club and specialist retail industries in the United Kingdom.

The directors are pleased with the progress made by the company during the year and anticipate continued growth during the next twelve months.

Results and dividends

The results for the year are set out on page 4.

Turnover for the year was £8,392,000 (1998: £6,918,000) and the profit on ordinary activities after taxation for the year was £173,000 (1998: £151,000).

The directors do not recommend the payment of any dividend.

Year 2000

The company's IT systems are in the process of being updated to ensure that they are effective throughout the year 2000 change. Costs are charged to the profit and loss account as appropriate.

However, it is recognised that complete year 2000 compliance will not be possible without the successful co-operation of the company's suppliers.

Auditors

Mazars Neville Russell have signified their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the forthcoming annual general meeting.

By order of the board



Tony Pickup

Director

14/6/99

Auditors' report
To the shareholders of Advanced Marketing UK Limited

We have audited the financial statements on pages 4 to 14 which have been prepared in accordance with the Financial Reporting Standards for Smaller Entities, following the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of 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.

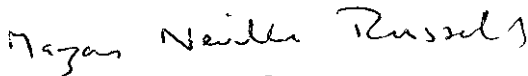
Basis of opinion

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 the company's affairs as at 28 February 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



MAZARS NEVILLE RUSSELL
CHARTERED ACCOUNTANTS
and Registered Auditors
Milton Keynes

16 June 1999



Advanced Marketing (UK) Limited

Profit and loss account For the year ended 28 February 1999

	Notes	1999 £	1998 £
Turnover	2	8,391,689	6,918,137
Cost of sales		(7,199,225)	(6,058,493)
Gross profit		1,192,464	859,644
Distribution costs		(618,740)	(459,844)
Administrative expenses		(316,998)	(232,552)
Operating profit	3	256,726	167,248
Other interest receivable and similar income	4	12,251	9,431
Interest payable and similar charges	5	(23,345)	(18,458)
Profit on ordinary activities before taxation		245,632	158,221
Tax on profit on ordinary activities	8	(72,307)	(7,500)
Profit on ordinary activities after taxation	15	173,325	150,721

The profit and loss account has been prepared on the basis that all operations are continuing operations.

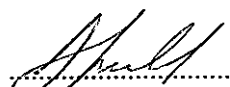
There are no recognised gains and losses other than those passing through the profit and loss account.

Advanced Marketing (UK) Limited

Balance sheet As at 28 February 1999

	Notes	1999 £	£	1998 £	£
Fixed assets					
Tangible assets	9		12,930		19,358
Current assets					
Stocks	10	1,299,590		1,323,734	
Debtors	11	785,463		435,703	
Cash at bank and in hand		110,761		207,071	
		<u>2,195,814</u>		<u>1,966,508</u>	
Creditors: amounts falling due within one year	12	<u>(1,151,015)</u>		<u>(1,763,610)</u>	
Net current assets			<u>1,044,799</u>		<u>202,898</u>
Total assets less current liabilities			<u>1,057,729</u>		<u>222,256</u>
Creditors: amounts falling due after more than one year	13		<u>(443,084)</u>		<u>(209,857)</u>
			<u>614,645</u>		<u>12,399</u>
Capital and reserves					
Share capital	14		428,922		1
Profit and loss account	15		185,723		12,398
Shareholders' funds - equity interests	16		<u>614,645</u>		<u>12,399</u>

The financial statements were approved by the Board on 14/6/99


Tony Pickup
Director

Advanced Marketing (UK) Limited

Cash flow statement For the year ended 28 February 1999

	Notes	1999 £	1998 £
Net cash (outflow)/inflow from operating activities	17	(765,902)	812,728
Returns on investments and servicing of finance			
Interest received		<u>12,251</u>	<u>9,431</u>
Net cash inflow for returns on investments and servicing of finance		12,251	9,431
Taxation		<u>(4,807)</u>	<u>-</u>
Net cash (outflow)/inflow before management of liquid resources and financing		(758,458)	822,159
Financing			
Issue of ordinary share capital		428,921	-
Other new long term loans		<u>233,227</u>	<u>-</u>
Net cash inflow/(outflow) from financing		<u>662,148</u>	<u>-</u>
(Decrease)/increase in cash in the year	18	<u>(96,310)</u>	<u>822,159</u>

Advanced Marketing (UK) Limited

Notes to the financial statements For the year ended 28 February 1999

1 Accounting policies

1.1 Accounting convention

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

1.2 Compliance with accounting standards

The financial statements have been prepared in accordance with applicable accounting standards.

1.3 Turnover

Turnover represents the amounts invoiced, excluding value added tax, in respect of the sale of goods and services to customers.

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 less estimated residual value of each asset over its expected useful life, as follows:

Plant & machinery	5 years
Fixtures, fittings & equipment	5 years
Warehouse equipment	5 years

1.5 Leasing

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

1.6 Stock

Stock is valued at the lower of cost and net realisable value.

1.7 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year.

1.8 Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

1.9 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Advanced Marketing (UK) Limited

Notes to the financial statements For the year ended 28 February 1999

2 Turnover

Geographical market

	Turnover	
	1999 £	1998 £
United Kingdom	8,391,689	6,918,137

3 Operating profit

	1999 £	1998 £
Operating profit is stated after charging:		
Depreciation of tangible assets	6,428	5,859
Operating lease rentals - land	82,204	31,446
Operating lease rentals - plant and machinery	4,136	4,136
Auditors' remuneration	7,500	6,000

4 Other interest receivable and similar income

	1999 £	1998 £
Bank interest	11,610	9,431
Other interest	641	-
	12,251	9,431

5 Interest payable

	1999 £	1998 £
On intercompany loan	23,345	18,458

Advanced Marketing (UK) Limited

Notes to the financial statements For the year ended 28 February 1999

6 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	1999 Number	1998 Number
Sales	2	2
Administration	7	5
	<u>9</u>	<u>7</u>

Employment costs

	£	£
Wages and salaries	188,552	138,276
Social security costs	18,996	14,147
Other pension costs	9,012	6,657
	<u>216,560</u>	<u>159,080</u>

7 Directors' emoluments

	1999 £	1998 £
Emoluments for qualifying services	<u>77,951</u>	<u>1,103</u>

8 Taxation

	1999 £	1998 £
U.K. current year taxation		
U.K. corporation tax	75,000	7,500
Prior years		
U.K. corporation tax	(2,693)	-
	<u>72,307</u>	<u>7,500</u>

Advanced Marketing (UK) Limited

Notes to the financial statements For the year ended 28 February 1999

9 Tangible fixed assets

	Plant & machinery	Fixtures, fittings & equipment	Warehouse equipment	Total
	£	£	£	£
Cost				
At 1 March 1998 & at 28 February 1999	13,791	8,687	10,710	33,188
Depreciation				
At 1 March 1998	5,168	3,894	4,768	13,830
Charge for the year	2,590	1,704	2,134	6,428
At 28 February 1999	7,758	5,598	6,902	20,258
Net book value				
At 28 February 1999	6,033	3,089	3,808	12,930
At 28 February 1998	8,623	4,793	5,942	19,358

10 Stocks

	1999 £	1998 £
Finished goods and goods for resale	1,299,590	1,323,734

11 Debtors

	1999 £	1998 £
Trade debtors	239,862	408,694
Amounts owed by parent and fellow subsidiary undertakings	534,986	-
Other debtors	-	16,631
Prepayments and accrued income	10,615	10,378
	785,463	435,703

Advanced Marketing (UK) Limited

Notes to the financial statements For the year ended 28 February 1999

12 Creditors: amounts falling due within one year	1999	1998
	£	£
Trade creditors	702,297	1,016,213
Amounts owed to parent company	265,298	610,788
Corporation tax	75,000	7,500
Other taxes and social security costs	33,689	4,219
Other creditors	10,000	12,007
Accruals and deferred income	64,731	112,883
	<u>1,151,015</u>	<u>1,763,610</u>
13 Creditors: amounts falling due after more than one year	1999	1998
	£	£
Amounts owed to parent company	<u>443,084</u>	<u>209,857</u>
Analysis of loans		
Wholly repayable within five years	708,382	820,645
Included in current liabilities	<u>(265,298)</u>	<u>(610,788)</u>
	<u>443,084</u>	<u>209,857</u>
Loan maturity analysis		
Between two and five years	<u>443,084</u>	<u>209,857</u>

The interest on the above loan is based on the applicable federal short term rate for demand loans as set in the state of California, USA. At the year end the rate was 5.00%.

Advanced Marketing (UK) Limited

Notes to the financial statements For the year ended 28 February 1999

14 Share capital	1999	1998
	£	£
Authorised		
500,000 Ordinary shares of £1 each	<u>500,000</u>	<u>100</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>428,922</u>	<u>1</u>

On 11 August 1998 the company's authorised share capital was increased from 100 ordinary £1 shares to 500,000 £1 ordinary shares. On that same date, the company then issued an additional 428,921 shares, at par, to the ultimate holding company Advanced Marketing Services Inc., a company incorporated in the United States of America, for partial settlement of the intercompany loan.

15 Statement of movements on profit and loss account

	Profit and loss account
	£
Balance at 1 March 1998	<u>12,398</u>
Retained profit for the year	<u>173,325</u>
Balance at 28 February 1999	<u>185,723</u>

16 Reconciliation of movements in shareholders' funds	1999	1998
	£	£
Profit for the financial year	173,325	150,721
Proceeds from issue of shares	<u>428,921</u>	<u>-</u>
Net addition to shareholders' funds	602,246	150,721
Opening shareholders' funds	<u>12,399</u>	<u>(138,322)</u>
Closing shareholders' funds	<u>614,645</u>	<u>12,399</u>

Advanced Marketing (UK) Limited

Notes to the financial statements For the year ended 28 February 1999

17 Reconciliation of operating profit to net cash (outflow) inflow from operating activities	1999	1998
	£	£
Operating profit	256,727	167,248
Depreciation of tangible assets	6,428	5,859
Decrease (increase) in stocks	24,144	(494,161)
Increase in debtors	(349,760)	(147,082)
(Decrease) increase in creditors within one year	(17,948)	551,373
Net cash (outflow) inflow from operating activities	<u>(80,409)</u>	<u>83,237</u>

18 Analysis of net debt	1 March 1998	Cash flow	Other non-cash changes	28 February 1999
	£	£	£	£
Net cash:				
Cash at bank and in hand	<u>207,071</u>	<u>(96,310)</u>		<u>110,761</u>
Debt:				
Debts falling due within one year	(610,788)	774,411	(428,921)	(265,298)
Debts falling due after one year	<u>(209,857)</u>	<u>(233,227)</u>	<u>-</u>	<u>(443,084)</u>
Net debt	<u>(613,574)</u>	<u>444,874</u>	<u>(428,921)</u>	<u>(597,621)</u>

19 Reconciliation of net cash flow to movement in net debt	1999	1998
	£	£
(Decrease) increase in cash in the year	(96,310)	65,387
Cash inflow from decrease in debt	<u>112,263</u>	<u>137,161</u>
Movement in net debt in the year	15,953	202,548
Opening net debt	<u>(613,574)</u>	<u>(816,122)</u>
Closing net debt	<u><u>(597,621)</u></u>	<u><u>(613,574)</u></u>

20 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £9,012 (1998 £6,657).

Advanced Marketing (UK) Limited

Notes to the financial statements For the year ended 28 February 1999

21 Financial commitments

At 28 February 1999 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	1999	1998	1999	1998
	£	£	£	£
Expiry date:				
Within one year	55,005	114,996	-	-
Between two and five years	-	5,700	4,136	4,136
	<u>55,005</u>	<u>120,696</u>	<u>4,136</u>	<u>4,136</u>

22 Related party transactions

The company has taken advantage of the exemptions conferred by Financial Reporting Standard 8 from the requirement to make disclosures concerning related parties within the group.

23 Control

The company is a wholly-owned subsidiary of Advanced Marketing Services Inc., a publicly held corporation in the United States of America.

Advanced Marketing Services Inc. is also the ultimate holding company.

The largest and smallest group in which the company's results are consolidated is that headed by Advanced Marketing Services Inc. The consolidated accounts of Advanced Marketing Services Inc. are available to the public and may be obtained from Advanced Marketing Services Inc., 5880 Oberlin Drive, Suite 400, San Diego, California 92121-9653.