

**Company Registration No. 2858623**

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the year ended 28 February 1998**

**Advanced Marketing  
(UK) Limited**

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# Advanced Marketing (UK) Limited

## Company information

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<b>Directors</b>	Charles C. Tillinghast III (US citizen) (Chairman) Tony Pickup Michael Nicita (US citizen) Adam Zoldan (US citizen)
<b>Secretary</b>	Tony Pickup
<b>Company number</b>	2858623
<b>Registered office</b>	Suite 25, Challenge House Sherwood Drive Bletchley Milton Keynes MK3 6DP
<b>Auditors</b>	Mazars Neville Russell 202 Upper Fifth Street, Silbury Boulevard Central Milton Keynes Bucks MK9 2 JB

# Advanced Marketing (UK) Limited

## Directors' report For the year ended 28 February 1998

The directors present their report and financial statements for the year ended 28 February 1998.

### 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 1997:

Charles C. Tillinghast III (US citizen) (Chairman)	
Jonathan S. Fish (US citizen)	(Resigned 11 October 1997)
Tony Pickup	(Appointed 20 February 1998)
Michael Nicita (US citizen)	(Appointed 20 February 1998)
Adam Zoldan (US citizen)	(Appointed 20 February 1998)

### Directors' interests

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

	Ordinary shares of £1 each	
	28 February 1998	1 March 1997
Charles C. Tillinghast III (US citizen) (Chairman)	-	-
Tony Pickup	-	-
Michael Nicita (US citizen)	-	-
Adam Zoldan (US citizen)	-	-

Mr Tillinghast is chairman and chief executive officer of the parent company, Advanced Marketing Services Inc.

# **Advanced Marketing (UK) Limited**

## **Directors' report**

**For the year ended 28 February 1998**

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### **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 £6,918,000 and the profit on ordinary activities after taxation for the year was £151,000.

The directors do not recommend the payment of any dividend.

### **Auditors**

On 1 September 1998 our auditors, Neville Russell, changed their name to Mazars Neville Russell. A resolution to appoint Mazars Neville Russell as auditors will be proposed at the forthcoming annual general meeting.

By order of the board

  
.....  
Tony Pickup

**Director**

25 September 1998

MAZARS NEVILLE RUSSELL

Chartered Accountants

**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 following the accounting policies set out on pages 7 and 8.

**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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Mazars Neville Russell*

**MAZARS NEVILLE RUSSELL  
CHARTERED ACCOUNTANTS  
and Registered Auditors**

**Milton Keynes**

*28 September 1998*



INVESTOR IN PEOPLE

## Advanced Marketing (UK) Limited

### Profit and loss account For the year ended 28 February 1998

		1998	1997
	Notes	£	as restated £
<b>Turnover</b>	<b>2</b>	6,918,137	4,636,947
Cost of sales		(6,058,493)	(4,149,172)
<b>Gross profit</b>		859,644	487,775
Distribution costs		(459,844)	(182,789)
Administrative expenses		(232,552)	(226,858)
<b>Operating profit</b>	<b>3</b>	167,248	78,128
Other interest receivable and similar income	<b>4</b>	9,431	-
Interest payable and similar charges	<b>5</b>	(18,458)	-
<b>Profit on ordinary activities before taxation</b>		158,221	78,128
Tax on profit on ordinary activities	<b>8</b>	(7,500)	-
<b>Profit on ordinary activities after taxation</b>	<b>15</b>	150,721	78,128

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.

The profits for the year have been calculated on the historical cost basis.

# Advanced Marketing (UK) Limited

## Balance sheet As at 28 February 1998

	Notes	1998 £	£	1997 £	£
<b>Fixed assets</b>					
Tangible assets	9		19,358		16,394
<b>Current assets</b>					
Stocks	10	1,323,734		829,573	
Debtors	11	435,703		288,621	
Cash at bank and in hand		207,071		141,684	
		<u>1,966,508</u>		<u>1,259,878</u>	
<b>Creditors: amounts falling due within one year</b>	12	<u>(1,763,610)</u>		<u>(456,788)</u>	
<b>Net current assets</b>			<u>202,898</u>		<u>803,090</u>
<b>Total assets less current liabilities</b>			<u>222,256</u>		<u>819,484</u>
<b>Creditors: amounts falling due after more than one year</b>	13		<u>(209,857)</u>		<u>(957,806)</u>
			<u>12,399</u>		<u>(138,322)</u>
<b>Capital and reserves</b>					
Share capital	14		1		1
Profit and loss account	15		<u>12,398</u>		<u>(138,323)</u>
<b>Shareholders' funds - equity interests</b>	16		<u>12,399</u>		<u>(138,322)</u>

The financial statements were approved by the Board on 25/9/98.

  
 .....  
 Tony Pickup  
 Director

# Advanced Marketing (UK) Limited

## Cash flow statement For the year ended 28 February 1998

	Notes	1998 £	1997 £
Net cash inflow(outflow) from operating activities	17	83,237	(109,588)
<b>Returns on investments and servicing of finance</b>			
Interest received	9,431	-	-
Interest paid	(18,458)	-	-
		<u>          </u>	<u>          </u>
<b>Net cash inflow for returns on investments and servicing of finance</b>		(9,027)	-
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible assets	(8,823)	(8,771)	
		<u>          </u>	<u>          </u>
<b>Net cash outflow for capital expenditure</b>		(8,823)	(8,771)
<b>Net cash inflow(outflow) before management of liquid resources and financing</b>	18	65,387	(118,359)
		<u>          </u>	<u>          </u>
<b>Increase/(decrease) in cash in the year</b>		<u>65,387</u>	<u>(118,359)</u>



# **Advanced Marketing (UK) Limited**

## **Notes to the financial statements For the year ended 28 February 1998**

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### **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 and 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 1998

#### 1.10 Prior year adjustment

The directors have decided, in common with industry practice, to allocate those costs incurred with packaging and licence fees associated with sales made during the year to be shown as cost of sales. This adjustment has the effect of transferring £132,845 from distribution costs to cost of sales in 1997 as restated.

#### 2 Turnover

##### Geographical market

	Turnover	
	1998 £	1997 £
United Kingdom	6,918,137	4,636,947

#### 3 Operating profit

	1998 £	1997 £
Operating profit is stated after charging:		
Depreciation of tangible assets	5,859	4,577
Operating lease rentals	35,582	7,943
Auditors' remuneration	6,000	3,500

#### 4 Other interest receivable and similar income

	1998 £	1997 £
Bank interest	9,431	-

#### 5 Interest payable

	1998 £	1997 £
On intercompany loan	18,458	-

## Advanced Marketing (UK) Limited

### Notes to the financial statements For the year ended 28 February 1998

#### 6 Employees

##### Number of employees

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

	1998 Number	1997 Number
Sales	2	2
Administration	5	4
	<u>7</u>	<u>6</u>

##### Employment costs

	£	£
Wages and salaries	138,276	130,842
Social security costs	14,147	11,377
Other pension costs	6,657	4,582
	<u>159,080</u>	<u>146,801</u>

#### 7 Directors' emoluments

	1998 £	1997 £
Emoluments for qualifying services	<u>1,103</u>	<u>-</u>

#### 8 Taxation

	1998 £	1997 £
U.K. current year taxation		
U.K. corporation tax	<u>7,500</u>	<u>-</u>

# Advanced Marketing (UK) Limited

## Notes to the financial statements For the year ended 28 February 1998

### 9 Tangible fixed assets

	Plant and machinery	Fixtures, fittings & equipment	Warehouse equipment	Total
	£	£	£	£
<b>Cost</b>				
At 1 March 1997	7,999	8,066	8,300	24,365
Additions	5,792	621	2,410	8,823
	<u>13,791</u>	<u>8,687</u>	<u>10,710</u>	<u>33,188</u>
<b>Depreciation</b>				
At 1 March 1997	3,042	2,162	2,767	7,971
Charge for the year	2,126	1,732	2,001	5,859
	<u>5,168</u>	<u>3,894</u>	<u>4,768</u>	<u>13,830</u>
<b>Net book value</b>				
At 28 February 1998	<u>8,623</u>	<u>4,793</u>	<u>5,942</u>	<u>19,358</u>
At 28 February 1997	<u>4,957</u>	<u>5,904</u>	<u>5,533</u>	<u>16,394</u>

### 10 Stocks

	1998	1997
	£	£
Finished goods and goods for resale	<u>1,323,734</u>	<u>829,573</u>

### 11 Debtors

	1998	1997
	£	£
Trade debtors	408,694	285,197
Other debtors	16,631	489
Prepayments and accrued income	10,378	2,935
	<u>435,703</u>	<u>288,621</u>

## Advanced Marketing (UK) Limited

### Notes to the financial statements For the year ended 28 February 1998

<b>12 Creditors: amounts falling due within one year</b>	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>
Trade creditors	1,016,213	386,512
Amounts owed to parent company	610,788	-
Corporation tax	7,500	-
Other taxes and social security costs	4,219	3,984
Other creditors	12,007	24,000
Accruals and deferred income	112,883	42,292
	<u>1,763,610</u>	<u>456,788</u>

<b>13 Creditors: amounts falling due after more than one year</b>	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>
Amounts owed to parent company	<u>209,857</u>	<u>957,806</u>
<b>Analysis of loans</b>		
Wholly repayable within five years	820,645	957,806
Included in current liabilities	(610,788)	-
	<u>209,857</u>	<u>957,806</u>
<b>Loan maturity analysis</b>		
Between two and five years	<u>209,857</u>	<u>957,806</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 5.72%.

<b>14 Share capital</b>	<b>1998</b>	<b>1997</b>
	<b>£</b>	<b>£</b>
<b>Authorised</b>		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>
<b>Allotted, called up and fully paid</b>		
1 Ordinary share of £1 each	<u>1</u>	<u>1</u>

# Advanced Marketing (UK) Limited

## Notes to the financial statements For the year ended 28 February 1998

### 15 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 March 1997	(138,323)
Retained profit for the year	150,721
	<hr/>
Balance at 28 February 1998	12,398
	<hr/>

### 16 Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Profit for the financial year	150,721	78,128
Opening shareholders' funds	(138,322)	(216,450)
	<hr/>	<hr/>
Closing shareholders' funds	12,399	(138,322)
	<hr/>	<hr/>

### 17 Reconciliation of operating profit to net cash inflow(outflow) from operating activities

	1998 £	1997 £
Operating profit	167,248	78,128
Depreciation of tangible assets	5,859	4,577
Increase in stocks	(494,161)	(342,642)
Increase in debtors	(147,082)	(59,399)
Increase/(decrease) in creditors within one year	551,373	209,749
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	83,237	(109,588)
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# Advanced Marketing (UK) Limited

## Notes to the financial statements For the year ended 28 February 1998

18 Analysis of net debt	1 March 1997	Cash flow	Other non-cash changes	28 February 1998
	£	£	£	£
Net cash:				
Cash at bank and in hand	141,684	65,387		207,071
Debt:				
Debts falling due within one year	-	(610,788)	-	(610,788)
Debts falling due after one year	(957,806)	747,949	-	(209,857)
Net debt	(816,122)	202,548	-	(613,574)

19 Reconciliation of net cash flow to movement in net debt	1998 £	1997 £
Increase/(decrease) in cash in the year	65,387	(118,359)
Cash inflow/(outflow) from increase/(decrease) in debt	137,161	(215,090)
<b>Movement in net debt in the year</b>	<b>202,548</b>	<b>(333,449)</b>
Opening net (debt)/funds	(816,122)	(482,673)
<b>Closing net debt</b>	<b>(613,574)</b>	<b>(816,122)</b>

## 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 £6,657 (1997 £4,582).

## 21 Financial commitments

At 28 February 1998 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	1998 £	1997 £	1998 £	1997 £
Expiry date:				
Within one year	114,996	27,600	-	-
Between two and five years	5,700	5,700	4,136	-
	120,696	33,300	4,136	-

## **Advanced Marketing (UK) Limited**

### **Notes to the financial statements For the year ended 28 February 1998**

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#### **22 Post balance sheet events**

On 11 August 1998 the company's authorised share capital was increased from 100 £1 ordinary 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. The consideration for the increase in share capital was the conversion of £425,170 of the intercompany account.

#### **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.