

# **Waterstone's Booksellers Limited**

## **Report and Accounts**

**52 weeks ended 27 April 2002**



# **WATERSTONE'S BOOKSELLERS LIMITED**

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## **COMPANY INFORMATION**

### **DIRECTORS**

B McLaughlin  
L Miles  
D Pogrand  
M Carr (appointed 24 July 2002)  
S Dormer (appointed 15 October 2001)  
S Knott (appointed 5 November 2001)  
D Roche (appointed 2 January 2002)  
M Harris (resigned 15 October 2001)  
A Humphrey (resigned 17 August 2001)  
P Klette (resigned 14 January 2002)  
P Mitchell (resigned 26 August 2001)

### **SECRETARY**

G Howell (appointed 4 June 2001)  
D Tomblin (resigned 4 June 2001)

### **AUDITORS**

Ernst & Young LLP  
Becket House  
1 Lambeth Palace Road  
London SE1 7EU

### **SOLICITORS**

Mayer, Brown, Rowe & Maw  
11 Pilgrim Street  
London EC4V 6RW

### **REGISTERED OFFICE**

Capital Court  
Capital Interchange Way  
Brentford  
Middlesex TW8 0EX

### **REGISTERED NUMBER**

610095

# WATERSTONE'S BOOKSELLERS LIMITED

## DIRECTORS REPORT

The Directors present their financial statements for the 52 weeks ended 27 April 2002. The prior period comparative figures are for the 52 weeks ended 28 April 2001.

### Results and Dividends

Operating profit for the period amounted to £14,638,000 (2001: £11,945,000 before exceptional items). An operating exceptional item of £Nil (2001: £10,750,000) was charged in the period. The profit for the period after taxation amounted to £11,506,000 (2001: loss £1,221,000, as restated).

The Directors recommend that a dividend of £18,000,000 be paid for the period ended 27 April 2002 (2001: £Nil).

### Principal Activity and Review of the Business

The Company operated throughout the period under review as a bookseller through a chain of general bookshops in the United Kingdom and Ireland.

During the period, the Company resited one store and closed 7 stores, leaving a total of 128 stores as at 27 April 2002.

### Future Developments

The Company continues to trade successfully.

### Directors and their Interests

The names of the Directors are shown on page 1.

The Directors have no interests in the shares of the Company. The interests of the Directors in the share capital of the parent undertaking, HMV Group plc, are as follows:

	Ordinary Shares		Junior Preference Shares		Options over Ordinary Shares		
	At 28 April 2001 <sup>1</sup>	At 27 April 2002	At 28 April 2001 <sup>1</sup>	At 27 April 2002	At 28 April 2001 <sup>1</sup>	Granted during the year	At 27 April 2002
S Dormer	-	-	-	-	-	12,000	12,000
S Knott	-	-	-	-	-	30,000	30,000
B McLaughlin	50,560	50,560	9,440	9,440	56,963	73,037	130,000
L Miles	-	-	-	-	-	12,000	12,000
D Pogrand	-	-	-	-	-	12,000	12,000
D Roche	12,000	12,000	-	-	15,609	22,000	37,609

<sup>1</sup> or date of appointment

On 8 May 2002 each Junior Preference Share converted into approximately 0.86 Ordinary Shares and a bonus issue of 4.33776 shares was made to each Ordinary Shareholder, in conjunction with the Listing of the parent undertaking, HMV Group plc, on the London Stock Exchange on 15 May 2002.

# **WATERSTONE'S BOOKSELLERS LIMITED**

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## **DIRECTORS REPORT continued**

### **Euro Programme**

The implementation of the single currency unit (euro) is likely to result in considerable costs, if the United Kingdom ("UK") joins, both in training and in systems application. The Directors currently intend to charge these costs to the profit and loss account as incurred. Costs to date have not been significant.

Of the countries in Phase One of the transition, the Company has a presence in Ireland only, which contributes less than 4% of the Company's sales. The currency changeover in this country was successfully implemented on 1 January 2002. The work undertaken in the Phase One country will be incorporated into the planning for the UK businesses since similar systems are used in all businesses.

### **Employment Policies**

The Company is a decentralised organisation with the aim of employing and developing the best people, putting them in the right positions with a significant level of delegated authority and responsibility, and supporting them with the infrastructure and technology required to perform at the highest levels and at the lowest costs with the quickest response time.

Responsibility for employment matters therefore rests primarily with each business operation under the general guidance of central policy and procedure guidelines. The Company is committed to the maintenance of a work environment free of discrimination on the grounds of gender, nationality, ethnic or racial origin, sexual orientation, non-job related disability, or marital status.

The Company gives full consideration to applications from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

In order to promote employee involvement in the Company regular meetings are held between local management and employees to allow a free flow of information and ideas.

### **Supplier Payment Policy**

The Company does not impose standard payment terms on its suppliers but agrees specific terms with each. It is the Company's policy to pay its suppliers in accordance with the terms that have been agreed. The number of days' purchases outstanding at 27 April 2002 is calculated as 64 days (2001: 54 days).

### **Political and Charitable Contributions**

During the period, the Company made charitable contributions of £5,000 (2001: £8,000) in the UK. No political contributions were made in the period.

# **WATERSTONE'S BOOKSELLERS LIMITED**

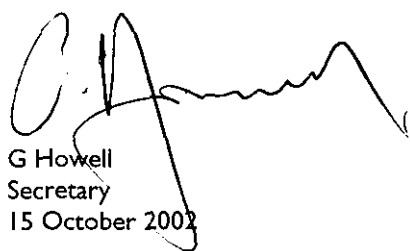
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## **DIRECTORS REPORT continued**

### **Auditors**

On 28 June 2001 Ernst and Young, the Company's auditors, transferred its entire business to Ernst and Young LLP, a Limited Liability Partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst and Young as extending to Ernst and Young LLP with effect from 28 June 2001. A resolution to reappoint Ernst and Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board



G Howell  
Secretary  
15 October 2002

# **WATERSTONE'S BOOKSELLERS LIMITED**

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## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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.

# **WATERSTONE'S BOOKSELLERS LIMITED**

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## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WATERSTONE'S BOOKSELLERS LIMITED**

We have audited the company's financial statements for the 52 weeks ended 27 April 2002, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and 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 misstatements 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 affairs of the company as at 27 April 2002 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
London  
15 October 2002

# WATERSTONE'S BOOKSELLERS LIMITED

## Profit and Loss Account

for the 52 weeks ended:

		27 April 2002	28 April 2001
	Notes	£000	£000
Turnover	2	263,007	(restated) 261,934
Cost of sales	4	(233,939)	(243,813)
Gross profit		29,068	18,121
Administration expenses		(13,777)	(13,341)
Other operating income and expense	4	(653)	(3,585)
Operating profit	2, 3	14,638	1,195
Operating profit before exceptional item		14,638	11,945
Operating exceptional item	4	-	(10,750)
Operating profit		14,638	1,195
Net interest receivable (payable)	7	1,771	(2,212)
Profit (loss) on ordinary activities before taxation		16,409	(1,017)
Tax on profit (loss) on ordinary activities	8	(4,903)	(204)
Profit (loss) on ordinary activities after taxation		11,506	(1,221)
Dividend paid		(18,000)	-
Retained loss for the financial period	17	(6,494)	(1,221)

The profit for the financial period arises solely from continuing operations.

There is no difference between the profit (loss) on ordinary activities before taxation and the retained loss for the period stated above, and their historical cost equivalent.

## Statement of Total Recognised Gains and Losses

for the 52 weeks ended:

	27 April 2002	28 April 2001
	£000	£000
Loss for the financial period	(6,494)	(restated) (1,221)
Currency translation differences	(100)	285
Total recognised gains and losses relating to the period	(6,594)	(936)
Prior period adjustment	21	-
Total gains and losses since last annual report	(6,573)	(936)



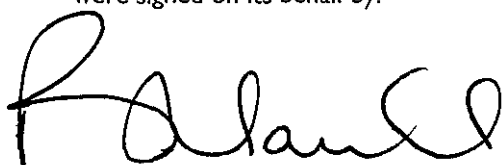
# WATERSTONE'S BOOKSELLERS LIMITED

## Balance Sheet

at period end:

	Notes	27 April 2002 £000	28 April 2001 £000 (restated)
<b>Fixed assets</b>			
Tangible assets	9	43,752	51,559
Investments	10	20,000	20,000
		<b>63,752</b>	<b>71,559</b>
<b>Current assets</b>			
Stock	11	41,159	48,913
Debtors	12	64,846	23,125
Cash at bank and in hand		30,180	34,531
		<b>136,185</b>	<b>106,569</b>
<b>Creditors: amounts falling due within one year</b>	13	<b>(127,411)</b>	<b>(95,452)</b>
<b>Net current assets</b>		<b>8,774</b>	<b>11,117</b>
<b>Total assets less current liabilities</b>		<b>72,526</b>	<b>82,676</b>
Provisions for liabilities and charges	15	(471)	(4,027)
		<b>72,055</b>	<b>78,649</b>
<b>Capital and reserves</b>			
Called up share capital	16	71,014	71,014
Profit and loss reserve	17	1,041	7,635
<b>Equity shareholders' funds</b>	17	<b>72,055</b>	<b>78,649</b>

These financial statements on pages 7 to 19 were approved by the board of Directors on 15 October 2002 and were signed on its behalf by:



B McLaughlin  
Director

# WATERSTONE'S BOOKSELLERS LIMITED

## Notes to the Financial Statements

### I. ACCOUNTING POLICIES

#### Change of accounting policy

The financial statements have been prepared on the same basis as the accounting policies set out in the Company's accounts for the period ended 28 April 2001, other than in respect of Financial Reporting Standard ("FRS") 19 "Deferred Tax".

In adopting FRS 19 the Company was in a deferred tax asset position as at 28 April 2001. As a result the comparative taxation charge in the profit and loss account for the 52 weeks ended 28 April 2001 and the net assets in the balance sheet as at 28 April 2001 have been adjusted. The adjusted comparative balances for the 52 weeks ended 28 April 2001 are as follows:

	2001	2001
	£000	£000
	Taxation charge	Net assets
As previously reported	93	78,628
Effect of change in accounting policy	111	21
<b>As restated</b>	<b>204</b>	<b>78,649</b>

The impact on reported net assets as at 27 April 2002 of not adopting the new accounting policy would have been to reduce net assets by £2,039,000.

#### Basis of preparation

The financial statements of the Company are made up to the Saturday immediately preceding 30 April each year. Consequently, the financial statements for the current period cover the 52 weeks ended 27 April 2002, whilst the comparative period covered the 52 weeks ended 28 April 2001.

They are prepared under the historical cost convention and in accordance with applicable accounting standards and specifically in accordance with the following accounting policies. The Company is exempt from preparing group financial statements as it is itself a subsidiary undertaking under S228 of the Companies Act 1985. These financial statements present information about the Company as an individual undertaking and not about its group.

#### Turnover

Turnover represents the value of goods and services supplied, less discounts given. Turnover excludes value added tax ("VAT") and similar sales-related taxes.

#### Goodwill

Goodwill in respect of acquisitions made prior to 25 April 1998 has been written off directly against reserves. As allowed by Financial Reporting Standard ('FRS') 10's transitional arrangements, the Company has not applied the new accounting policy to goodwill already written off against reserves in previous years. The goodwill has been eliminated as a matter of accounting policy and would be charged to the profit and loss account on the subsequent disposal of the business to which it relates. No goodwill has arisen since 25 April 1998.

#### Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling either at period end rates or, where there are related foreign exchange contracts, at contract rates. The resulting foreign exchange differences are dealt with in the determination of profit (loss) for the period.

The results of the overseas branch are translated at average exchange rates. The translation differences arising on the conversion of the foreign branches' assets and liabilities are dealt with in the Company's reserves.

# **WATERSTONE'S BOOKSELLERS LIMITED**

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## **Notes to the Financial Statements continued**

### **I. ACCOUNTING POLICIES (continued)**

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#### **Advertising costs**

Advertising costs are expensed as incurred.

#### **Leased assets**

In respect of property operating leases, benefits received and receivable as an incentive to sign a lease are spread on a straight line basis over the shorter of the lease term and the period to the date of the first rent review. All other operating lease payments are charged directly to the profit and loss account in the financial period to which the payments relate.

Assets held under finance (capital) leases are included as tangible fixed assets at their estimated purchase cost and are depreciated over their expected useful lives, or over the primary lease period, whichever is shorter. The obligations relating to finance leases (net of finance charges allocated to future periods) are included under borrowings due within or after one year, as appropriate.

#### **Tangible fixed assets**

The capitalised cost of tangible fixed assets includes only those costs that are directly attributable to bringing an asset to its working condition for its intended use.

Depreciation of tangible fixed assets is calculated on cost, at rates estimated to write off the cost less the estimated residual value of the relevant assets by equal annual amounts over their estimated useful lives.

The annual rates used are:

Short-term leasehold property

Period of the lease

Plant, equipment and vehicles

10 - 33 1/3% or the period of the lease

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### **Stocks**

Stocks, which represents finished goods and goods for resale, are stated at the lower of cost and net realisable value on a first-in, first-out basis.

#### **Deferred taxation**

The charge for taxation is based on the profits for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

The Company follows the requirements of FRS 19 "Deferred Taxation". FRS 19 requires deferred tax to be recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that 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.

# WATERSTONE'S BOOKSELLERS LIMITED

## Notes to the Financial Statements continued

### 1. ACCOUNTING POLICIES (continued)

#### Pensions

HMV Group plc operates both defined benefit and defined contribution schemes.

For the defined benefit scheme, total contributions for HMV Group are assessed by a qualified actuary based on the cost of providing pensions across all participating Group companies. Costs are not determined separately for each participating Company, hence contributions are charged against profits in the period on the basis of amounts payable as recharged from HMV Group.

For the defined contribution schemes, contributions are charged in the profit and loss account as they become payable in accordance with the scheme rules.

Relevant additional details are disclosed in the financial statements of HMV Group plc.

#### Cash flow statement

Under FRS 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking and a consolidated cash flow statement is prepared by the ultimate parent undertaking.

#### Related party transactions

The Company has taken advantage of the exemption under FRS 8 not to disclose related party transactions between wholly owned Group undertakings.

### 2. SEGMENTAL ANALYSES

Geographical analysis of turnover and operating profit::

	Turnover		Operating Profit	
	2002	2001	2002	2001
	£000	£000	£000	£000
United Kingdom	254,826	254,114	13,695	620
Rest of Europe	8,181	7,820	943	575
	263,007	261,934	14,638	1,195

The operating exceptional item (see note 4) arose by geographical segment as follows:  
United Kingdom £Nil (2001: £10,750,000).

In the opinion of the Directors the Company only operates in one business segment - retailing.

### 3. OPERATING PROFIT

	2002	2001
	£000	£000
Operating profit is stated after charging:		
Auditors' remuneration:		
Fees as auditors	39	34
Fees for non-audit services	15	3
Depreciation and other amounts written off owned fixed assets	8,547	8,252
Operating lease rentals (land and buildings)	23,223	23,123
Operating exceptional item (see note 4)	-	10,750

# WATERSTONE'S BOOKSELLERS LIMITED

## Notes to the Financial Statements continued

### 4. OPERATING EXCEPTIONAL ITEM

	2002	2001
	£000	£000
Included within:		
Cost of goods sold	-	6,779
Other operating expenses	-	3,971
Total operating exceptional item	-	10,750

The operating exceptional item in the prior year reflected a review of the business undertaken and included principally, stock-related provisions, the cost of closure of nine stores and the restructuring of the Waterstone's Online business. The cost of store closures and the restructuring of the Waterstone's Online business was included in other operating expenses.

### 5. DIRECTORS' EMOLUMENTS

	2002	2001
	£000	£000
Emoluments	570	511
Pension contributions	60	75
	630	586

One Director did not receive any emoluments for services as a Director of the Company.

All Directors, were members of the HMV Group plc defined benefit pension scheme.

An amount of £266,804 (2001: £389,000) was paid in the year in respect of compensation to past Directors for loss of office.

The amounts in respect of the highest paid Director were as follows:

	2002	2001
	£000	£000
Aggregate emoluments	150	129

The pension entitlements of the highest paid Director were as follows:

	2002	2001
	£000	£000
Accumulated total accrued pension	8	-

### 6. EMPLOYEE COSTS

The aggregate payroll costs, including Director's emoluments, were as follows:

	2002	2001
	£000	£000
Wages and salaries	32,818	32,117
Social security costs	3,406	2,280
Other pension costs	759	1,006
	36,983	35,403

The average number of persons employed by the Company (including Directors) during the period was 2,944 (2001: 3,038). All staff were engaged in retailing.

# WATERSTONE'S BOOKSELLERS LIMITED

## Notes to the Financial Statements continued

### 7. NET INTEREST RECEIVABLE (PAYABLE)

	2002	2001
	£000	£000
<b>Interest payable:</b>		
On bank overdrafts and loans repayable within five years	(7)	(15)
To parent and fellow subsidiary undertakings	-	(4,158)
	(7)	(4,173)
<b>Interest receivable:</b>		
On bank deposits	12	8
From parent and fellow subsidiary undertakings	1,766	1,953
	1,778	1,961
	1,771	(2,212)

### 8. TAX ON PROFIT (LOSS) ON ORDINARY ACTIVITIES

	2002	2001
	£000	£000
		(restated)
<b>Taxation</b>		
UK Corporation tax, current year at 30.0% (2001: 30.0%)	6,103	465
UK Corporation tax, prior year	825	(275)
Double taxation relief	(123)	(58)
	6,805	132
Overseas tax, current year	123	58
Overseas tax, prior year	(7)	(97)
Total current tax	6,921	93
Deferred tax	(2,018)	111
Tax on profit (loss) on ordinary activities	4,903	204

The taxation charge for the period was £4,903,000 (2001: £204,000 as restated). This reflects a tax rate on ordinary activities before exceptional items of 29.9% (2001: 28.4% as restated, 27.2% as previously reported). The operating exceptional item charged in 2001 generated a tax credit of £664,000 in the current financial period (2001: £2,559,000). There were no exceptional items in the current period.

The total current tax charge is reconciled with the standard rate of UK corporation tax as follows:

	2002	2001
	£000	£000
		(restated)
Profit (loss) before tax	16,409	(1,017)
Corporation tax at UK statutory rate of 30%	4,923	(305)
Effects of:		
Permanent disallowables	123	840
Timing differences	1,057	(70)
Prior period under (over) provision	818	(372)
Total current tax charge	6,921	93

There are no significant factors which are expected to materially affect future tax charges.

# WATERSTONE'S BOOKSELLERS LIMITED

## Notes to the Financial Statements continued

### 9. FIXED ASSETS

	Plant, equipment and vehicles £000
<b>Cost:</b>	
At 28 April 2001	99,849
Additions	2,646
Disposals	(5,374)
Currency translation	(9)
<b>At 27 April 2002</b>	<b>97,112</b>
<b>Depreciation:</b>	
At 28 April 2001	48,290
Provided during the period	8,547
Disposals	(3,476)
Currency translation	(1)
<b>At 27 April 2002</b>	<b>53,360</b>
<b>Net Book Value:</b>	
<b>At 27 April 2002</b>	<b>43,752</b>
At 28 April 2001	51,559

### 10. FIXED ASSET INVESTMENTS

	Shares in Subsidiary Undertaking £000
At 28 April 2001 and 27 April 2002	20,000

The Company's principal subsidiary undertaking, which is 100% directly owned, is as follows:

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Principal activity</i>
Fine Recordings Club Limited	England	Non-trading

In the opinion of the Directors, the aggregate value of the assets of the Company, consisting of shares in the Company's subsidiary, is not less than the aggregate of the amounts at which those assets are stated in the balance sheet.

# WATERSTONE'S BOOKSELLERS LIMITED

## Notes to the Financial Statements continued

### 11. STOCK

	2002	2001
	£000	£000
Finished goods and good for resale	41,159	48,913

There is no material difference between the replacement costs of stocks and their balance sheet amounts.

### 12. DEBTORS

	2002	2001
	£000	£000
		(restated)
Trade debtors	1,599	1,929
Amounts owed by parent and fellow subsidiary undertakings	46,364	7,455
Deferred taxation	2,039	21
Other debtors	4,139	3,266
Prepayments and accrued income	10,705	10,454
	64,846	23,125

Although amounts owed by parent and fellow subsidiary undertakings are repayable on demand and hence are included in debtors falling due within one year, in the ordinary course of business repayment within this timescale is not anticipated.

### 13. CREDITORS: amounts falling due within one year

	2002	2001
	£000	£000
Trade creditors	25,414	21,704
Amounts owed to parent and fellow subsidiary undertakings	63,590	34,596
Amounts owed to subsidiary undertakings	19,875	19,893
Corporation tax	1,264	1,080
Other creditors, including taxation and social security	10,616	11,855
Accruals and deferred income	6,652	6,324
	127,411	95,452

Although amounts due to parent and fellow subsidiary undertakings are repayable on demand and hence are included in creditors falling due within one year, in the ordinary course of business repayment within this timescale is not anticipated.



# WATERSTONE'S BOOKSELLERS LIMITED

## Notes to the Financial Statements continued

### 14. DEFERRED TAXATION

	2002	2001
	£000	£000
		(restated)
Excess of accumulated taxation allowances over depreciation provided against tangible fixed assets as restated	(957)	(45)
Other timing differences as restated	(1,082)	24
	(2,039)	(21)
Movements during the year:		
At start of period	(21)	(132)
(Credited) charged to taxation on ordinary activities as restated	(2,018)	111
At end of period	(2,039)	(21)

There are no unprovided deferred tax liabilities as at 27 April 2002 or 28 April 2001.

### 15. PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring and store closures £000
At 28 April 2001	4,027
Provisions utilised	(3,556)
<b>At 27 April 2002</b>	<b>471</b>

### 16. SHARE CAPITAL

	2002	2001
	No. & £000	No. & £000
Authorised:		
Ordinary shares of £1 each	121,014	121,014
Allotted, called up and fully paid:		
Ordinary shares of £1	71,014	71,014

# WATERSTONE'S BOOKSELLERS LIMITED

## Notes to the Financial Statements continued

### 17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share Capital	Profit & Loss Account	Total Shareholders' Funds
	£000	£000	£000
At 28 April 2001, as previously reported	71,014	7,614	78,628
Prior period adjustment	-	21	21
At 28 April 2001, as restated	71,014	7,635	78,649
Loss for the period	-	(6,494)	(6,494)
Currency retranslation	-	(100)	(100)
<b>At 27 April 2002</b>	<b>71,014</b>	<b>1,041</b>	<b>72,055</b>

### 18. COMMITMENTS

The amount of capital commitments at the end of the financial year for which no provision has been made was £180,000 (2001: £Nil).

The Company has annual commitments under non-cancellable operating leases that expire as follows:

	Land and Buildings	
	2002	2001
	£000	£000
Within one year	257	690
Between two and five years inclusive	1,816	2,344
Over five years	19,149	18,977
	<b>21,222</b>	<b>22,011</b>

# **WATERSTONE'S BOOKSELLERS LIMITED**

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## **Notes to the Financial Statements continued**

### **19. CONTINGENT LIABILITIES**

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There were the following contingent liabilities at 27 April 2002:

- (i) As part of the acquisition of the businesses of HMV Group, Dillons and Waterstone's, HMV Group plc entered into a Senior Facility Agreement (the 'Agreement') to secure various bank facilities (the 'Senior Facilities') totalling £392.0 million. The full details of the Agreement are disclosed in the financial statements of HMV Group plc. However, its effect on Waterstone's Booksellers Limited is as follows:

Waterstone's Booksellers Limited has granted security over its assets, including English law fixed charges over certain specified properties and bank accounts, assignment of rights in respect of certain specified properties, insurance, debts, bank accounts, specified agreements and shares and a floating charge over all its other undertakings and assets.

HMV Group plc has further entered into an agreement with EMI whereby EMI has made available to HMV Group plc a £50.0 million working capital facility (the 'EMI Facility'). The EMI Facility ranks *pari passu* with the Senior Facilities. In addition, Senior Subordinated Notes were issued by HMV Group plc on 22 May 1998 and are secured under the same terms as the Senior Facilities and the EMI Facility but are subordinated to those facilities.

The Senior Facility Agreement and Senior Subordinated Notes were repaid on 15 May 2002 on the flotation of HMV Group plc on the London Stock Exchange. The EMI Facility was cancelled on 15 May 2002. A new Senior Facility Agreement was consisting of £275 million term debt and £150 million working capital facility was entered into on 24 April 2002, conditional upon the Group's flotation. The borrowings under this new Senior Facility Agreement are secured by the Guarantors, which include Waterstone's Booksellers Limited.

Full details of the post balance sheet event are disclosed in the financial statements of HMV Group plc.

- (ii) As principal in an agency relationship with certain subsidiary and fellow subsidiary undertakings, the Company has agreed to indemnify each of these undertakings against liabilities that may arise under the agency agreements.

### **20. PENSIONS**

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Waterstone's employees are members of a number of pension schemes. The main schemes are the HMV Group Pension Scheme (the "Scheme" – established with effect from July 1998) and the EMI Group Pension Fund (the "Fund").

The majority of employees are members of the Scheme which is based in the UK and has both defined benefit and defined contribution sections – the Pensions Benefit Section and the Pension Saver Section. However, the defined benefit section of the Scheme was largely closed to new joiners from 1 January 2002 and subsequent joiners may join the defined contribution section of the Scheme.

Relevant additional details of the Scheme are disclosed in the financial statements of HMV Group plc. Relevant additional details of the Fund are disclosed in the financial statements of EMI Group plc.

# **WATERSTONE'S BOOKSELLERS LIMITED**

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## **Notes to the Financial Statements continued**

### **21. ULTIMATE PARENT UNDERTAKING**

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The smallest and largest group of undertakings into which these financial statements are consolidated is HMV Group plc (formerly HMV Media Group plc), registered in England & Wales. A copy of this company's financial statements can be obtained from:

Company Secretary  
HMV Group plc  
Shelley House  
2-4 York Road  
Maidenhead  
Berkshire  
SL6 1SR

### **22. POST BALANCE SHEET EVENT**

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The Senior Facility Agreement and Senior Subordinated Notes were repaid on 15 May 2002 on the flotation of HMV Group plc on the London Stock Exchange. The EMI Facility was cancelled on 15 May 2002. Full details of the post balance sheet event are disclosed in the financial statements of HMV Group plc.