

610095

Report and Financial Statements

Waterstone's Booksellers Limited

12 Months Ended 24 April 1999



Waterstone's Booksellers Limited

Registered No. 610095

DIRECTORS

Mr. B. J. Landers (resigned 4 August 1999)

Mr. A. J. Giles

Mrs. M. Harris

Mr. S. A. Jacobs

Mr. M. C. Lee

Mr. I. K. Newman

Mr. S. W. Warnock

Dr. B. G. Worrall

Mrs. F. A. M. Wood

SECRETARY

Mrs. F. A. M. Wood (resigned 25 April 1999)

Mr M. Smith (appointed 25 April 1999)

AUDITORS

Ernst & Young

Becket House

1 Lambeth Palace Road

London SE1 7EU

REGISTERED OFFICE

Capital Court,

Capital Interchange Way,

Brentford,

Middlesex,

TW8 0EX

Waterstone's Booksellers Limited

The Directors present their annual report and the audited financial statements for the 52 weeks ended 24 April 1999.

RESULTS AND DIVIDENDS

The profit for the period after taxation amounted to £1,753,000 (1998 £13,214,000). The Directors do not recommend the payment of a dividend (1998 £16,800,000).

PRINCIPAL ACTIVITIES 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 opened 15 new outlets, bringing the total number of stores to 126.

In addition, the company acquired 5 outlets and a number of small satellite stores from the receivers of Student Bookshops Limited.

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 Directors' beneficial interests in the shares of the ultimate parent undertaking, HMV Media Group plc, are disclosed in the financial statements of that Company.

OTHER MATTERS

Year 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and 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 our business depends on not only our own computer systems, but also to some degree on those of our suppliers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

Over the last two years action plans have been put in place throughout the Company to correct the systems applications that will be affected as the year changes from 1999 to 2000. The Company believes that all vulnerable systems have been identified and will be rectified prior to January 1, 2000. In addition, the Company is in discussions with its suppliers in each country with a view to addressing Year 2000 issues. The Directors estimate that the additional costs to the Company in total will not be significant.

EMU 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.

For the January 1, 1999 transition, a guide was produced and training undertaken. To date the volume of Euro transactions has been small and the functionality offered is principally the ability to accept Euro denominated cheques and credit cards in store. Of the countries in Phase 1 of the transition, the Company has a presence in Ireland. Less than 4% of the Company's sales are derived from this country. The Company is working towards certification in accordance with the Code of Conduct for Retailers, prepared by the European Commission, for this country. Work on the Phase 1 countries is being incorporated into the planning for the UK businesses. Systems modifications for Phase 1 countries will also be largely applicable to the UK, since similar systems are used in UK markets.

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, 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 negotiates payment terms with its suppliers on an individual basis, with the normal spread being payment at the end of the month following delivery plus 20 to 70 days. It is the Company's policy to settle the terms of payment when agreeing the terms of each transaction, to ensure that the suppliers are made aware of the terms, and to abide by them. The number of days' purchases outstanding at 24 April 1999 is calculated as 59 days.

POLITICAL AND CHARITABLE CONTRIBUTIONS

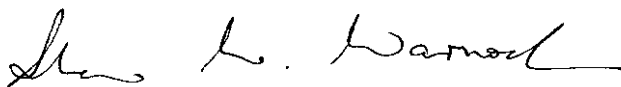
During the period, the Company made charitable contributions of £3,000 in the UK. No political contributions were made in the period.

Waterstone's Booksellers Limited

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their appointment and authorising the directors to determine their remuneration will be put to the members at the Annual General Meeting.

On behalf of the board



18. August. 1999
Shaw Warnock
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements for each financial period 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
- 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.

Waterstone's Booksellers Limited

REPORT OF THE AUDITORS

to the members of Waterstone's Booksellers Limited.

We have audited the financial statements on pages 7 to 19, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on page 5 the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial 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 accounts. 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 24 April 1999 and of its profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

19/08/99

Ernst & Young
Registered Auditor
London

Waterstone's Booksellers Limited

PROFIT AND LOSS ACCOUNT for the 52 weeks ended 24 April 1999

| | Notes | 52 weeks to 24 April 1999 £000 | 47 weeks to 25 April 1998 £000 |
|--|-------|---|---|
| TURNOVER | 2 | 235,091 | 100,707 |
| Cost of sales | | (199,588) | (83,906) |
| GROSS PROFIT | | <u>35,503</u> | <u>16,801</u> |
| Administration expenses | | (9,462) | (6,070) |
| Other operating expenses | | (16,159) | (8,431) |
| Other operating income | | 601 | 8,100 |
| OPERATING PROFIT | 3 | <u>10,483</u> | <u>10,400</u> |
| Income from shares in subsidiary undertaking | | - | 6,621 |
| Interest receivable | 6 | - | 2,838 |
| Interest payable and similar charges | 7 | (1,030) | - |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | <u>9,453</u> | <u>19,859</u> |
| Tax on profit on ordinary activities | 8 | (7,700) | (6,645) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | <u>1,753</u> | <u>13,214</u> |
| Dividend paid | | - | (16,800) |
| RETAINED PROFIT/(LOSS) FOR THE FINANCIAL PERIOD | 18 | <u><u>1,753</u></u> | <u><u>(3,586)</u></u> |

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE 52 WEEKS ENDED 24 APRIL 1999

| | 1999 £000 | 1998 £000 |
|---|---------------------|----------------------|
| Profit for the Financial Period | 1,753 | 13,214 |
| Currency translation differences on foreign currency net investment in Irish branch | 232 | 115 |
| | <u><u>1,985</u></u> | <u><u>13,329</u></u> |

Waterstone's Booksellers Limited

BALANCE SHEET

as at 24 April 1999

| | Notes | 24 April 1999 £000 | 25 April 1998 £000 |
|--|-------|--------------------------|--------------------------|
| FIXED ASSETS | | | |
| Tangible assets | 9 | 46,870 | 39,435 |
| Investments | 10 | 20,000 | 20,000 |
| | | <u>66,870</u> | <u>59,435</u> |
| CURRENT ASSETS | | | |
| Stock | 11 | 52,977 | 50,505 |
| Debtors | 12 | 45,143 | 15,597 |
| Cash at bank and in hand | | 7,968 | 6,863 |
| | | <u>106,088</u> | <u>72,965</u> |
| CREDITORS: amounts falling due within one year | 13 | (40,592) | (39,004) |
| NET CURRENT ASSETS | | <u>65,496</u> | <u>33,961</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>132,366</u> | <u>93,396</u> |
| CREDITORS: amounts falling due after more than one year | 14 | (19,931) | (20,000) |
| Deferred taxation | 15 | - | 817 |
| Provisions for liabilities and charges | 16 | (679) | (3,759) |
| Loans | | (39,317) | - |
| | | <u>(59,927)</u> | <u>(22,942)</u> |
| NET ASSETS | | <u><u>72,439</u></u> | <u><u>70,454</u></u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 17 | 250,000 | 250,000 |
| Profit and loss account (deficit) | 18 | (177,561) | (179,546) |
| EQUITY SHAREHOLDERS' FUNDS | 18 | <u><u>72,439</u></u> | <u><u>70,454</u></u> |

These financial statements on pages 7 to 19 were approved by the board of directors on 18 August 1999 and were signed on its behalf by:

S Warnock
Director



Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 April 1999

1. ACCOUNTING POLICIES

Accounting convention

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

These financial statements present information about the Company as an individual undertaking and not as a group. The Company is exempt from preparing group accounts under section 228 of the Companies Act 1985, as the Group's results are included in the results of HMV Media Group plc.

Depreciation of tangible fixed assets

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:

Long and short-term leasehold property Period of lease

Fixtures and fittings, equipment and vehicles 10-33 1/3 %

The Directors consider that, in the case of the freehold property occupied by the Company, the estimated residual value at the end of its useful economic life, based on the prices prevailing at the time of acquisition is not materially different from its current carrying value. The life of the property and its residual value is such that no provision for depreciation is considered necessary.

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.

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 year-end rates, or where there are related foreign exchange contracts, at contract rates. These resulting foreign exchange differences are dealt with in determination of profit (loss) for the financial year.

On consolidation, average exchange rates have been used to translate the results of overseas companies and businesses, and the assets and liabilities of overseas companies and businesses are translated into sterling at period-end rates.

Exchange differences arising from retranslation at year-end exchange rates of the results of overseas companies and businesses are dealt with in Group reserves.

Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 April 1999

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 year to which the payments relate.

Advertising costs

Advertising costs are expensed as incurred.

Stock

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

Store pre-opening costs

Store pre-opening costs which relate to non-property costs incurred before the opening of a store are written off as incurred. Property related pre-opening costs are capitalised and depreciated over the period to the first rent review or break in the lease.

Pensions

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

For the defined benefit scheme, total contributions for HMV Media 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 Media 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.

Deferred taxation

Deferred taxation is calculated using the liability method in respect of timing differences arising primarily from the difference between the accounting and tax treatments of depreciation. Provision is made where timing differences are expected to reverse without replacement in the foreseeable future. Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Turnover

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

Cash flow statement

Under Financial Reporting Standard 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 Financial Reporting Standard 8 - Related party disclosures (FRS 8) not to disclose related party transactions between wholly owned Group undertakings.

Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 April 1999

Goodwill

Goodwill in respect of acquisitions made prior to 26 April 1998 has been written off directly against reserves. As allowed by FRS10's transitional arrangements, the Company has not applied the new accounting policy to goodwill already written off against reserves in previous years. This 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 26 April 1998.

2. ANALYSIS OF TURNOVER & OPERATING PROFIT

By geographical market:

| | <i>Turnover</i> | | <i>Operating profit</i> | |
|----------------|---|---|---|---|
| | <i>52 weeks to 24 April 1999 £000</i> | <i>47 weeks to 25 April 1998 £000</i> | <i>52 weeks to 24 April 1999 £000</i> | <i>47 weeks to 25 April 1998 £000</i> |
| United Kingdom | 227,341 | 100,038 | 8,884 | 10,346 |
| Rest of Europe | 7,750 | 669 | 1,599 | 54 |
| | <u>235,091</u> | <u>100,707</u> | <u>10,483</u> | <u>10,400</u> |

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

3. OPERATING PROFIT

| | <i>52 weeks to 24 April 1999 £000</i> | <i>47 weeks to 25 April 1998 £000</i> |
|--|---|---|
| Operating profit | | |
| Auditors' remuneration: | | |
| - audit fees | 31 | 33 |
| - other fees | 10 | - |
| Depreciation and other amounts written off owned fixed assets | 5,774 | 2,336 |
| Operating lease rentals (land and buildings) | 17,133 | 6,297 |
| Operating exceptional items: | | |
| - restructuring and integration costs | <u>15,863</u> | <u>7,405</u> |

Operating exceptional items in 1999 consist of some adjustments made as part of the hindsight review of the fair value of the assets acquired by HMV Media Group plc on or about 28 March 1998 and other restructuring and integration costs. In 1998 these items consisted of restructuring and integration costs following the acquisition of the Waterstone's business by HMV Media Group plc on 28 March 1998.

Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS for the 52 weeks ended 24 April 1999

4. DIRECTORS' EMOLUMENTS

| | <i>52 weeks to 24 April 1999 £000</i> | <i>47 weeks to 25 April 1998 £000</i> |
|-----------------------|---|---|
| Emoluments | 627 | 477 |
| Pension contributions | 19 | 129 |
| | <u>646</u> | <u>606</u> |

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

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

| | | |
|-----------------------|------------|------------|
| Emoluments | 164 | 397 |
| Pension contributions | 5 | 124 |
| | <u>169</u> | <u>521</u> |

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

| <i>Accumulated total accrued pension at 24 April 1999 £000</i> | <i>Accumulated total accrued pension at 25 April 1998 £000</i> |
|--|--|
| 65 | 53 |

5. STAFF COSTS

The aggregate payroll costs were as follows:

| | <i>52 weeks to 24 April 1999 £000</i> | <i>47 weeks to 25 April 1998 £000</i> |
|-----------------------|---|---|
| Wages and salaries | 26,156 | 11,152 |
| Social security costs | 1,910 | 867 |
| Other pension costs | 1,177 | 24 |
| | <u>29,243</u> | <u>12,043</u> |

The average number of persons employed by the Company (including Directors) during the period, was 2,766 (1998-2,321). All staff were engaged in retailing.

Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 April 1999

6. INTEREST RECEIVABLE

| | <i>52 weeks to 24 April 1999 £000</i> | <i>47 weeks to 25 April 1998 £000</i> |
|--------------------------------|---|---|
| From former parent undertaking | - | 2,838 |

7. INTEREST PAYABLE AND SIMILAR CHARGES

| | <i>52 weeks to 24 April 1999 £000</i> | <i>47 weeks to 25 April 1998 £000</i> |
|--|---|---|
| Bank loans and overdrafts | 696 | - |
| Group interest payable and similar charges | 334 | - |
| | <u>1,030</u> | <u>-</u> |

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | <i>52 weeks to 24 April 1999 £000</i> | <i>47 weeks to 25 April 1998 £000</i> |
|--|---|---|
| UK corporation tax at 30.9% (1998 – 31%) | 6,295 | 7,306 |
| Deferred taxation | <u>817</u> | <u>(817)</u> |
| | 7,112 | 6,489 |
| Overseas taxation | 588 | 156 |
| | <u>7,700</u> | <u>6,645</u> |

The taxation charge for the year includes group relief of £6,354,000. The tax losses to which this relief relates have been surrendered at an effective tax rate of 30.9% for a consideration of £6,354,000.

Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 April 1999

9. FIXED ASSETS

| | <i>Freehold buildings £000</i> | <i>Plant, other Fixtures & Fittings £000</i> | <i>Total £000</i> |
|--------------------------|--|--|-----------------------|
| Cost: | | | |
| At 25 April 1998 | 1,600 | 67,516 | 69,116 |
| Additions | - | 14,347 | 14,347 |
| Disposals | - | (1,981) | (1,981) |
| Exchange difference | - | 174 | 174 |
| At 24 April 1999 | 1,600 | 80,056 | 81,656 |
| Depreciation: | | | |
| At 25 April 1998 | - | 29,681 | 29,681 |
| Provided during the year | - | 5,774 | 5,774 |
| Disposals | - | (749) | (749) |
| Exchange difference | - | 80 | 80 |
| At 24 April 1999 | - | 34,786 | 34,786 |
| Net book value: | | | |
| At 24 April 1999 | 1,600 | 45,270 | 46,870 |
| At 25 April 1998 | 1,600 | 37,835 | 39,435 |

The freehold building has been charged by way of a legal mortgage to Swiss Bank Corporation in connection with the Senior Facility Agreement entered into by the parent undertaking HMV Media Group plc.

The freehold building which the Company occupies was valued independently as of 17th February 1998 by Conrad Ritblatt Chartered Surveyors on the basis of the open market value. There was no significant difference between this valuation and the carrying value of the freehold building.

10. FIXED ASSET INVESTMENTS

| | <i>Shares in subsidiary undertaking £000</i> |
|------------------------------------|--|
| At 25 April 1998 and 24 April 1999 | 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 |

Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 April 1999

10. FIXED ASSET INVESTMENTS (CONTINUED)

In the opinion of the Directors of the Company, 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.

11. STOCK

| | <i>24 April 1999 £000</i> | <i>25 April 1998 £000</i> |
|-------------------------------------|-----------------------------------|-----------------------------------|
| Finished goods and goods for resale | 52,977 | 50,505 |

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

12. DEBTORS

| | <i>24 April 1999 £000</i> | <i>25 April 1998 £000</i> |
|---|-----------------------------------|-----------------------------------|
| Trade debtors | 2,193 | 1,737 |
| Amounts owed by parent and fellow subsidiary undertakings | 32,620 | 381 |
| Other debtors | 4,965 | 9,902 |
| Prepayments and accrued income | 5,365 | 3,577 |
| | <u>45,143</u> | <u>15,597</u> |

13. CREDITORS: amounts falling due within one year

| | <i>24 April 1999 £000</i> | <i>25 April 1998 £000</i> |
|---|-----------------------------------|-----------------------------------|
| Trade creditors | 18,437 | 9,606 |
| Amounts owed to parent and fellow subsidiary undertakings | 6,354 | 5,626 |
| Corporation tax | 1,551 | 6,837 |
| Other taxation and social security | - | 15 |
| Other creditors | 10,874 | 13,582 |
| Accruals and deferred income | 3,376 | 3,338 |
| | <u>40,592</u> | <u>39,004</u> |

14. CREDITORS: amounts falling due after more than one year

| | <i>24 April 1999 £000</i> | <i>25 April 1998 £000</i> |
|--|-----------------------------------|-----------------------------------|
| Amounts owed to subsidiary undertaking | 19,931 | 20,000 |

Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS For the 52 weeks ended 24 April 1999

15. DEFERRED TAXATION

| | <i>24 April 1999 £000</i> | <i>25 April 1998 £000</i> |
|---|-----------------------------------|-----------------------------------|
| Other timing differences | - | 817 |
| | <u> </u> | <u> </u> |
| Movements during the year: | | |
| 25 April 1998 | 817 | - |
| (Debited)/Credited to profit on ordinary activities | (817) | 817 |
| | <u> </u> | <u> </u> |
| 24 April 1999 | - | 817 |
| | <u> </u> | <u> </u> |

16. PROVISIONS FOR LIABILITIES AND CHARGES

| | <i>Reorganisation Provisions £000</i> |
|--|---|
| At 25 April 1998 | 3,759 |
| Charge for the year in the profit and loss account | 633 |
| Utilised | (3,610) |
| Released | (103) |
| | <u> </u> |
| At 24 April 1999 | 679 |
| | <u> </u> |

17. SHARE CAPITAL

| | <i>24 April 1999 £000</i> | <i>25 April 1998 £000</i> |
|--|-----------------------------------|-----------------------------------|
| Authorised: | | |
| 300,000,000 Ordinary shares of £1 each | 300,000 | 300,000 |
| | <u> </u> | <u> </u> |
| Allotted, called up and fully paid: | | |
| 250,000,000 Ordinary shares of £1 each | 250,000 | 250,000 |
| | <u> </u> | <u> </u> |

Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 April 1999

18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

| | <i>Share Capital £000</i> | <i>Retained deficit £000</i> | <i>Total Shareholders' funds £000</i> |
|--|-----------------------------------|--------------------------------------|---|
| At 25 April 1998 | 250,000 | (179,546) | 70,454 |
| Result for the period | - | 1,753 | 1,753 |
| Currency translation differences on foreign currency net investments in Irish branch | - | 232 | 232 |
| At 24 April 1999 | <u>250,000</u> | <u>(177,561)</u> | <u>72,439</u> |

19. COMMITMENTS

Capital commitments at the end of the financial year for which no provision has been made:

| | <i>24 April 1999 £000</i> | <i>25 April 1998 £000</i> |
|-------------------------|-----------------------------------|-----------------------------------|
| Contracted not provided | 2,176 | 1,217 |

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

| | <i>Land and Buildings</i> | |
|--------------------------------------|-----------------------------------|-----------------------------------|
| | <i>24 April 1999 £000</i> | <i>25 April 1998 £000</i> |
| Within one year | 325 | 143 |
| Between two and five years inclusive | 3,569 | 818 |
| Over five years | 17,187 | 12,950 |
| | <u>21,081</u> | <u>13,911</u> |

20. POST BALANCE SHEET EVENTS

Capital Reduction

At an Extraordinary General Meeting of the Company held on 15 March 1999, shareholders approved a reduction in the authorised and issued share capital of the Company by the cancellation of 178,986,000 ordinary shares, thereby reducing the authorised share capital to 121,014,000 divided into 121,014,000 ordinary shares of £1 each, of which 71,014,000 ordinary shares had been issued and were deemed to have been fully paid up.

Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 April 1999

20. POST BALANCE SHEET EVENTS (CONTINUED)

An application was made to the High Court on 16 March 1999 for approval to the capital reduction. The Court issued an Order on 21 April 1999 granting such approval and such Order was registered with the Registrar of Companies on 26 April 1999. The reduction in the Company's share capital therefore became effective on that latter date.

21. PENSION COMMITMENTS

Employees of Waterstone's Booksellers Limited who were members of the WH Smith Pension Trust at 28 March 1998 transferred their accrued pension rights into the HMV Media Group Pension Scheme (Pension Benefit Section) on 30 June 1998.

Relevant additional details are disclosed in the accounts of HMV Media Group plc.

WH Smith Group plc operates two group schemes which are administered on a WH Smith Group plc group basis. The principal scheme is a defined benefit pension scheme, WH Smith Pension Trust and total contributions are assessed by a qualifying actuary based on the cost of providing pensions across all participating WH Smith Group plc 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.

WH Smith Group plc also operates a defined contribution scheme, WH Smith Pension Builder, introduced on 1 April 1996. Contributions for this scheme are charged against profits as they accrue.

Full details of these schemes are contained in the 1997 report and accounts of WH Smith Group plc.

22. CONTINGENT LIABILITIES

There were the following contingent liabilities at April 24, 1999:

- (i) As part of the acquisition of the businesses of HMV Group, Dillons and Waterstone's, HMV Media Group plc entered into the Senior Facility Agreement to secure various senior bank facilities totalling £433.7m. The full details of this agreement are disclosed in the accounts of HMV Media 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. The facilities provided by EMI rank pari passu with the Senior Facilities.

The Senior Subordinated Notes issued by HMV Media Group plc on May 22, 1998 are secured under the same terms as the Senior Facility Agreement and EMI Facilities but are subordinated to those facilities.

- (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 which may arise under the agency agreements.

Waterstone's Booksellers Limited

NOTES TO THE FINANCIAL STATEMENTS

For the 52 weeks ended 24 April 1999

23. ULTIMATE PARENT UNDERTAKING

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

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