

Report and Financial Statements

Waterstone's Booksellers Limited

(Formerly Fine Recordings Club Limited)

11 Months Ended 25 April 1998



Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

Registered No. 610095

DIRECTORS

Mr. B. J. Landers (appointed 28 March 1998)
Mr. K Hamill (appointed 1 June 1997, resigned 28 March 1998)
Mr. S Anderson (appointed 1 June 1997, resigned 28 March 1998)
Mr. A. J. Giles (appointed 1 June 1997)
Mr. C. A. White (resigned 1 June 1997)
Mr. C. S. Rule (resigned 1 June 1997)
Mr. G. M Hughes (resigned 1 June 1997)
Ms. M. Croome (appointed 28 March 1998)
Mr. S. A. Jacobs (appointed 28 March 1998)
Mr. M. C. Lee (appointed 28 March 1998)
Mr. I. K. Newman (appointed 28 March 1998)
Mr. S. W. Warnock (appointed 28 March 1998)
Dr. B. G. Worrall (appointed 28 March 1998)
Mrs. F. A. M. Wood (appointed 28 March 1998)

SECRETARY

Mr. C. S. Rule (resigned 28 March 1998)
Mrs. F. A. M. Wood (appointed 28 March 1998)

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 **(Formerly Fine Recordings Club Limited)**

The Directors present their annual report and the audited financial statements for the 47 weeks ended 25 April 1998.

RESULTS AND DIVIDENDS

The loss for the period, after taxation and dividends amounted to £3,586,000.

The Directors do not recommend the payment of a final dividend.

Dividends during the period amounting to £16,800,000 were paid on the basis of interim accounts. (1997: £nil)

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 10 new outlets and closed 2, bringing the total number of stores to 111.

As part of an internal Group reorganisation the Company purchased the Waterstone's bookselling business from Fine Recordings Club Limited, Company no. 2368576 (formerly Waterstone's Booksellers Limited), at the close of business on 31 May 1997. The market value consideration paid for the purchase of the Waterstone's business and business assets amounted to £250m. Consideration was settled in cash derived from the issue of 249,999,000 ordinary shares of £1 each at par to the Company's immediate parent, WH Smith Limited.

The Company subsequently entered into a second agreement on 31 May 1997 to sell the business assets of the Waterstone's business to its immediate parent undertaking, WH Smith Limited, to facilitate the divisional reporting requirements of the Group and focus on statutory reporting of fixed assets in the parent undertaking. The assets were sold for book value, consideration was settled in cash. Under the agreement to sell the business assets WH Smith Limited agreed to enter into an agency agreement to authorise the Company to carry on the Waterstone's bookselling business as undisclosed agent of WH Smith Limited.

Under this second agreement the Company retained all rights over the Waterstone's name and other know-how and intellectual property associated with the operation of the bookselling business that it purchased from Fine Recordings Club Limited (formerly Waterstone's Booksellers Limited). It continued to exploit these intangible assets for its own account, and charged a licence fee to WH Smith in this regard.

WH Smith Limited and the Company terminated the second agreement on 30 November 1997. The Company repurchased the assets of the Waterstone's business for book value on 1 December 1997. Consideration was settled in cash.

On 28 March 1998 the Company was sold by WH Smith Limited to HMV Media Group plc.

FUTURE DEVELOPMENTS

The Company continues to trade successfully and has opened a further 10 stores since 25 April 1998.

CHANGE OF NAME

On 1 June 1997 the Company changed its name from Fine Recordings Club Limited to Waterstone's Booksellers Limited.

Waterstone's Booksellers Limited **(Formerly Fine Recordings Club Limited)**

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 cost - Action plans have been put in place throughout the Company to correct the systems application that will be affected as the year changes for 1999 to 2000. The Company believes that all vulnerable systems have been identified and will be rectified ahead of time.

We estimate that the additional costs to the Company will not be material and, in accordance with UITF 20, these are being written off as incurred or capitalised where the costs are value enhancing to the systems concerned.

EMU Programme - The gradual implementation of the single currency unit (Euro) is likely to incur considerable costs both in training and in systems application.

We currently intend to charge these costs to the profit and loss account as incurred. Costs to date have not been significant.

There still remain a number of issues to be resolved with European Monetary Union and, for this reason, the Company has decided to become a late adopter. The issue and process of possible implementation will be monitored through steering committees and progress will be included in subsequent annual reports.

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.

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 supplier's are made aware of the terms, and to abide by them. The number of days' purchase outstanding at 25 April 1998 is calculated as 39 days.

Waterstone's Booksellers Limited
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POLITICAL AND CHARITABLE CONTRIBUTIONS

During the period, the Company made charitable contributions of £32,000 in the UK. No political contributions were made in the period.

AUDITORS

Ernst & Young were appointed as auditors on 28 March 1998.

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



Fiona Wood
Director

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

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
- state whether applicable accounting policies 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.

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

REPORT OF THE AUDITORS

to the members of Waterstone's Booksellers Limited (formerly Fine Recordings Club Limited)

We have audited the financial statements on pages 7 to 18, 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.

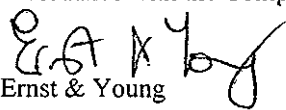
Basis of opinion

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 25 April 1998 and of its profit for the 47 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Registered Auditor
London

26th November 1998

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

PROFIT AND LOSS ACCOUNT
for the 47 weeks ended 25 April 1998

		<i>47 weeks to 25 April 1998 £000</i>	<i>52 weeks to 31 May 1997 £000</i>
	<i>Notes</i>		
TURNOVER	2	100,707	-
Cost of sales		(83,906)	-
GROSS PROFIT		<u>16,801</u>	<u>-</u>
Administration expenses		(6,070)	-
Other operating expenses		(8,431)	-
Other operating income		8,100	-
OPERATING PROFIT		<u>10,400</u>	<u>-</u>
Income from shares in subsidiary undertaking		6,621	-
Interest received	6	2,838	-
		<u> </u>	<u> </u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	19,859	-
Tax on profit on ordinary activities	7	(6,645)	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>13,214</u>	<u>-</u>
Dividend paid		(16,800)	-
		<u> </u>	<u> </u>
RETAINED LOSS FOR THE FINANCIAL PERIOD	18	<u>(3,586)</u>	<u>-</u>

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

All turnover and operating profit relate to a business acquired on 1 December 1997, except for £8,100,000 of other operating income which relates to a discontinued activity.

**STATEMENT OF TOTAL RECOGNISABLE GAINS AND LOSSES FOR THE 47 WEEKS
ENDED 25 APRIL 1998**

	<i>1998 £000</i>	<i>1997 £000</i>
Profit for the Financial Period	13,214	-
Currency Translation differences on foreign currency net investment in Irish branch	115	-
	<u>13,329</u>	<u>-</u>

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

BALANCE SHEET

for the 47 weeks ended 25 April 1998

		25 April 1998 £000	as restated 31 May 1997 £000
	Notes		
FIXED ASSETS			
Tangible assets	9	39,435	-
Investments	10	20,000	-
		<u>59,435</u>	<u>-</u>
CURRENT ASSETS			
Stock	11	50,505	-
Debtors	12	15,597	-
Cash at bank and in hand		6,863	72,325
		<u>72,965</u>	<u>72,325</u>
CREDITORS: amounts falling due within one year	13	39,004	-
NET CURRENT ASSETS		<u>33,961</u>	<u>72,325</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>93,396</u>	<u>72,325</u>
CREDITORS: amounts falling due after more than one year	14	(20,000)	-
Deferred tax	15	817	-
Provisions for liabilities and charges	16	(3,759)	-
		<u>(22,942)</u>	<u>-</u>
NET ASSETS		<u>70,454</u>	<u>72,325</u>
CAPITAL AND RESERVES			
Called up share capital	17	250,000	250,000
Profit and loss account (deficit)	18	(179,546)	(177,675)
EQUITY SHAREHOLDERS' FUNDS	18	<u>70,454</u>	<u>72,325</u>

These financial statements on pages 7 to 18 were approved by the board of directors on 26 November 1998 and were signed on its behalf by:

B. Landers
Director



Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

NOTES TO THE FINANCIAL STATEMENTS
for the 47 weeks ended 25 April 1998

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.

Intangible fixed assets

Intangible fixed assets are amortised on a straight line basis over the useful economic life of the asset. Due to the planned investment in the development and maintenance of the Waterstone's brand it is not considered possible at the present time to accurately determine the useful economic life of the intangible asset.

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 Group, 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.

Foreign currencies

Transactions denominated into foreign currencies are recorded at the rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated into 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 result of overseas companies and business are dealt with in Group reserves.

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

NOTES TO THE FINANCIAL STATEMENTS
for the 47 weeks ended 25 April 1998

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

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 qualified actuary based on the cost of providing pensions across all participating WH Smith Group plc 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.

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.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise 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 excluded value added tax (VAT) and similar sales-related taxes.

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

NOTES TO THE FINANCIAL STATEMENTS
for the 47 weeks ended 25 April 1998

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.

Goodwill

Goodwill being the excess of the consideration paid over the fair value of the separable net tangible assets acquired, is set off against shareholders' funds in the year of acquisition.

2. ANALYSIS OF TURNOVER & OPERATING PROFIT

By geographical market:

	<i>Turnover</i>		<i>Operating profit</i>	
	<i>47 weeks to 25 April 1998 £000</i>	<i>52 weeks to 31 May 1997 £000</i>	<i>47 weeks to 25 April 1998 £000</i>	<i>52 weeks to 31 May 1997 £000</i>
United Kingdom	100,038	-	10,346	-
Rest of Europe	669	-	54	-
	<u>100,707</u>	<u>-</u>	<u>10,400</u>	<u>-</u>

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

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	<i>47 weeks to 25 April 1998 £000</i>	<i>52 weeks to 31 May 1997 £000</i>
Auditors' remuneration:		
- audit fees	33	-
- other fees	-	-
Depreciation and other amounts written off tangible fixed assets		
Owned	2,336	-
Operating leases (land and buildings)	6,297	-
	<u>8,666</u>	<u>-</u>

Auditors' remuneration for the year ended 31 May 1997 was met by its parent undertaking.

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

NOTES TO THE FINANCIAL STATEMENTS
for the 47 weeks ended 25 April 1998

The following exceptional items have also been recognised in other operating expenses in arriving at operating profit:

	<i>47 weeks to 25 April 1998 £000</i>	<i>52 weeks to 31 May 1997 £000</i>
Expenses incurred in respect of store closures and redundancy	3,047	-
Costs incurred in respect of developing Ulysses EPOS system	2,207	-
Permanent diminution in the value of leasehold properties	2,151	-
	<u>7,405</u>	<u>-</u>

4. DIRECTORS' EMOLUMENTS

	<i>47 weeks to 25 April 1998 £000</i>	<i>52 weeks to 31 May 1997 £000</i>
Emoluments	477	-
Pension Contributions	129	-
	<u>606</u>	<u>-</u>

All Directors were members of the WH Smith Limited defined benefit scheme

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

Emoluments	397	-
Pension contributions	124	-
	<u>521</u>	<u>-</u>

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

<i>Increase excluding inflation in accrued pension during the year £000</i>	<i>Transfer value of Increase £000</i>	<i>Accumulated total accrued pension at 25 April £000</i>
<u>9</u>	<u>107</u>	<u>53</u>

During the period the highest paid Director exercised share options in a former parent undertaking.

The highest paid Director is a member of the WH Smith Limited long term incentive plan running to October 2000. The amount of his entitlement cannot be established at this stage.

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

NOTES TO THE FINANCIAL STATEMENTS
for the 47 weeks ended 25 April 1998

5. STAFF COSTS

The aggregate payroll costs were as follows:

	<i>47 weeks to 25 April 1998 £000</i>	<i>52 weeks to 31 May 1997 £000</i>
Wages and salaries	11,152	-
Social security costs	867	-
Other pension costs	24	-
	<u>12,043</u>	<u>-</u>

The average number of persons employed by the Company (including Directors) during the period, was 2,321 (1997-Nil). All staff were engaged in retailing.

6. INTEREST RECEIVED

	<i>47 weeks to 25 April 1998 £000</i>	<i>52 weeks to 31 May 1997 £000</i>
From former parent undertaking	<u>2,838</u>	<u>-</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>47 weeks to 25 April 1998 £000</i>	<i>52 weeks to 31 May 1997 £000</i>
UK corporation tax at 31% (1997 - Nil)	7,462	-
Deferred taxation	(817)	-
	<u>6,645</u>	<u>-</u>

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

NOTES TO THE FINANCIAL STATEMENTS
for the 47 weeks ended 25 April 1998

8. ACQUISITION OF BUSINESS ASSETS

On 1 December 1997 Waterstone's Booksellers Limited acquired the business assets of the Waterstone's business from WH Smith Limited.

The fair value to the Company was:

	<i>Book value and fair value £000</i>
Tangible Fixed Assets	44,417
Stocks	51,474
Debtors	3,484
Creditors	(18,716)
Net assets	80,659
Goodwill arising on acquisition	(1,600)
	<u>79,059</u>
Net cash consideration	<u>79,059</u>

9. FIXED ASSETS

	<i>Freehold buildings</i>	<i>Buildings Short term leasehold</i>	<i>Long term leasehold</i>	<i>Plant and machinery</i>	<i>Total</i>
Cost:					
At 1 June 1997	-	-	-	-	-
Transfers in	1,600	32,379	716	37,867	72,562
Additions	-	1,286	209	718	2,213
Disposals	-	(835)	-	(2,171)	(3,006)
Amounts written off	-	(2,151)	-	-	(2,151)
Transfers out	-	-	-	(416)	(416)
Exchange difference	-	-	-	(86)	(86)
At 25 April 1998	<u>1,600</u>	<u>30,679</u>	<u>925</u>	<u>35,912</u>	<u>69,116</u>
Depreciation:					
At 1 June 1997	-	-	-	-	-
Transfers in from other Group undertakings	-	8,049	245	19,851	28,145
Provided during the year	-	663	19	1,654	2,336
Disposals	-	-	-	(399)	(399)
Transfers out to other Group undertakings	-	-	-	(200)	(200)
Exchange difference	-	-	-	(201)	(201)
At 25 April 1998	<u>-</u>	<u>8,712</u>	<u>264</u>	<u>20,705</u>	<u>29,681</u>
Net book value:					
At 25 April 1998	<u>1,600</u>	<u>21,967</u>	<u>661</u>	<u>15,207</u>	<u>39,435</u>
At 1 June 1997	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

NOTES TO THE FINANCIAL STATEMENTS
for the 47 weeks ended 25 April 1998

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 Ritbaltt 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

*Shares in
subsidiary
undertaking
£000*

At 1 June 1997 & 25 April 1998

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	Dormant

The Directors do not believe there has been a permanent diminution in the value of this investment.

11. STOCKS

	<i>25 April 1998 £000</i>	<i>31 May 1997 £000</i>
Finished goods and goods for resale	50,505	-

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

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

NOTES TO THE FINANCIAL STATEMENTS
for the 47 weeks ended 25 April 1998

12. DEBTORS

	25 April 1998 £000	31 May 1997 £000
Trade debtors	1,737	-
Amounts owed by parent and fellow subsidiary undertakings	381	-
Other debtors	9,902	-
Prepayments and accrued income	3,577	-
	<u>15,597</u>	<u>-</u>

13. CREDITORS: amounts falling due within one year

	25 April 1998 £000	31 May 1997 £000
Trade creditors	9,606	-
Amounts owed to parent and fellow subsidiary undertakings	5,626	-
Corporation tax	6,837	-
Other taxation and social security	15	-
Other creditors	13,582	-
Accruals and deferred income	3,338	-
	<u>39,004</u>	<u>-</u>

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

	1998 £000	1997 £000
Amounts owed to subsidiary undertaking	20,000	-

15. DEFERRED TAXATION

	1998 £000	1997 £000
Other timing differences	817	-
Movements during the year:		
1 June 1997	-	-
Credited to profit on ordinary activities	817	-
25 April 1998	<u>817</u>	<u>-</u>

There is no unprovided deferred tax liability as at 25 April 1998

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

NOTES TO THE FINANCIAL STATEMENTS
for the 47 weeks ended 25 April 1998

16. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Reorganisation Provisions £000</i>
At 1 June 1997	-
Charge for the year in the profit and loss account	3,863
Utilised	(104)
Realised	-
At 25 April 1998	<u>3,759</u>

17. SHARE CAPITAL

	<i>25 April 1998 £000</i>	<i>31 May 1997 £000</i>
Authorised:		
250,000,000 Ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>
Allotted, called up and fully paid:		
250,000,000 Ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>

18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share capital £000</i>	<i>Profit and loss reserve £000</i>	<i>Goodwill Reserve £000</i>	<i>Retained deficit £000</i>	<i>Total Shareholders' funds £000</i>
At 1 June 1996	-	-	-	-	-
Issued during the period	250,000	-	-	-	250,000
Result for the period	-	-	-	-	-
At 1 June 1997					
previously stated	250,000	-	-	-	250,000
Prior period adjustment	-	-	(177,675)	(177,675)	(177,675)
At 1 June 1997 as restated	<u>250,000</u>		<u>(177,675)</u>	<u>(177,675)</u>	<u>72,325</u>
Goodwill arising on acquisition	-	-	1,600	1,600	1,600
Retained loss for the period	-	(3,586)	-	(3,586)	(3,586)
Currency Translation differences on foreign currency net investments in Irish branch	-	115	-	115	115
At 25 April 1998	<u>250,000</u>	<u>(3,471)</u>	<u>(176,075)</u>	<u>(179,546)</u>	<u>70,454</u>

The Company's parent undertaking, HMV Media Group PLC does not recognise "brand related" assets and accordingly the Company's accounting policies were changed on acquisition to align them with HMV Media Group. This resulted in a prior period adjustment to reflect the write off of the intangible asset directly to reserves as goodwill in the year ended 31 May 1997.

Waterstone's Booksellers Limited
(Formerly Fine Recordings Club Limited)

NOTES TO THE FINANCIAL STATEMENTS
for the 47 weeks ended 25 April 1998

19. COMMITMENTS

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

	25 April 1998 £000	31 May 1997 £000
Contracts not provided	1,217	-

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

	<i>Land and Buildings</i>	
	25 April 1998 £000	31 May 1997 £000
Within one year	143	-
Between two and five years inclusive	818	-
Over five years	12,950	-
	13,911	-

20. PENSION COMMITMENTS

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 qualified 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 on the period on the basis of amounts payable.

WH Smith Group plc also operates a defined contribution scheme, WH Smith Pension Builder, introduced on April 1, 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.

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.

21. 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
Riley House
Riley Road
Marlow
Buckinghamshire
SL7 2PH