

W & G Foyle Limited

REPORT AND FINANCIAL STATEMENTS

for the year ended
30 June 2002



W & G Foyle Limited

DIRECTORS AND OFFICERS

DIRECTORS

WRC Foyle
WEF Samuel
Dalmeny Investments Limited

SECRETARY

J Browne

REGISTERED OFFICE

113-119 Charing Cross Road
London WC2H 0EB

AUDITORS

Baker Tilly
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

W & G Foyle Limited

DIRECTORS' REPORT

The directors submit their report and the financial statements of W & G Foyle Limited for the year ended 30 June 2002.

PRINCIPAL ACTIVITIES

The principal activity of the company during the year was bookselling and related activities.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

W & G Foyle Limited operates as a bookseller. With the exception of rental and investment income which is disclosed separately, the company's revenue is derived from bookselling and related activities.

During the year the company continued with the programme of modernisation started in 2000. Building on the changes in employment practices, operational procedures and systems, we embarked on a complete refit of the premises. Phase one of this programme, which commenced in February 2002 and is due for completion in October 2002, included the complete refit and air-conditioning of the basement and ground floors and the refurbishment of the Art Gallery and most of the rooms facing directly onto Charing Cross Road. Phase two is scheduled for mid-2003 and will see the remaining sales areas refurbished. In spite of the very considerable disruption to business caused by the refurbishment, sales for the year were almost exactly the same as those for the previous 12 months and, as phase one comes to an end, early indications are that sales in the coming year will be considerably higher.

In November 2001, the company acquired the goodwill and trade marks of Silver Moon Women's Bookshop, which had operated from Charing Cross Road for 18 years. Silver Moon was Europe's leading bookshop specialising in books by, for and about women and was forced to close down by steeply-increasing rents. In May 2002, we opened the new Silver Moon at Foyles, a shop within a shop; sales in the first few weeks of trading have been higher than we budgeted and the department is making a valuable contribution to our sales growth.

The company also acquired the goodwill, trade marks and stock of Ray's Jazz Shop, which had operated on its site on the corner of Shaftesbury Avenue and Monmouth Street for nearly 20 years and, like Silver Moon, was forced to close due to the huge rent increases that are affecting independent shops throughout the area. It was one of the last true jazz record shops in Central London, stocking a wide range of new and second hand jazz, blues and folk recordings. It will re-open in Foyles late in 2002 as the heart of our new Jazz Café.

During the year, we established a programme of literary events to complement the Foyles Literary Luncheons. These have proved so popular that most are held at outside venues as the numbers attracted are often too great for them to be hosted in the shop. However, with the refurbishment of the shop and gallery, we now have several options for holding small, specialist events in the appropriate departments.

During the year, we developed our programme of staff training, the effects of which have seen much positive comment from customers and a virtual elimination of customer complaints. Our pay and conditions are now the best of any major London bookshop and staff turnover continues to decline. The Board would like to note its appreciation of the dedication and hard work of the staff and very particularly thank them for their forbearance throughout the disruption of the refit.

In the second half of the year, we restructured our mail order business to cope with the anticipated increase in customer orders. Although during the year mail order only accounted for some 2.5% of total turnover, this percentage is increasing almost every month and after the restructuring of our web site in October 2002, we expect mail order to make a significant contribution to new business. The website is also used increasingly to promote our literary events and is a useful medium for staff advertising.

W & G Foyle Limited

DIRECTORS' REPORT

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS *(continued)*

Next year sees the Centenary of the business when we plan to embark on a major promotional programme. This is intended to make our existing and potential customer base, both in the UK and abroad, aware of the great changes and improvements that Foyles has introduced, without impairing its unique advantage over its competitors, namely its enormous range of titles on every subject in one location. Our objective is to make Foyles the best bookshop in Britain, if not the world, where customers will find it a pleasant, easy and informative experience to shop or browse and where our trained staff will radiate knowledge, cheerfulness and courtesy.

During the first quarter of the current year, there has been a gratifyingly large increase in sales which, if continued, will result in the business turning into profit early in 2003.

Further opportunities regarding business expansion and development are being and will be actively explored.

DIVIDENDS

The directors do not recommend the payment of a dividend.

DIRECTORS

The following directors have held office since 1 July 2001 unless otherwise stated:

WRC Foyle
WEF Samuel
Dalmeny Investments Limited

DIRECTORS' INTERESTS IN SHARES

Directors' interests in the shares of the company, including family interests, were as follows:

	30/06/02	Ordinary shares of 5p each 01/07/01
WRC Foyle	1,893	1,893
WEF Samuel	252	50
Dalmeny Investments Limited *	7,213	7,213

* as representatives of the Executors of The Estate of Christina Foyle

AUDITORS

A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

By order of the board



J Browne
Secretary

13 November 2002

W & G Foyle Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF 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 year. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- d. 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 requirements of 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.

AUDITORS' REPORT TO THE MEMBERS OF W & G FOYLE LIMITED

We have audited the financial statements on pages 6 to 16.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


BAKER TILLY

Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

13 November 2002

W & G Foyle Limited
PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2002

	Notes	2002 £	18 month period 2001 £
TURNOVER	1	10,116,107	14,203,711
Cost of sales		(7,959,404)	(11,119,350)
Gross profit		<u>2,156,703</u>	<u>3,084,361</u>
Exceptional item	5	(1,078,019)	(320,088)
Other operating expenses (net)	2	(2,685,889)	(3,879,797)
OPERATING LOSS		<u>(1,607,205)</u>	<u>(1,115,524)</u>
Investment income	3	110,253	214,708
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	4	<u>(1,496,952)</u>	<u>(900,816)</u>
Taxation	7	37,252	36,391
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	14	<u>(1,459,700)</u>	<u>(864,425)</u>

The operating loss for the year arises from the company's continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2002 £	2001 £
Loss for the financial year	(1,459,700)	(864,425)
Total recognised losses relating to the year	<u>(1,459,700)</u>	<u>(864,425)</u>
Prior year adjustments	-	1,052,686
Total recognised gains and losses since last accounts	<u>(1,459,700)</u>	<u>188,261</u>

W & G Foyle Limited

BALANCE SHEET

30 June 2002

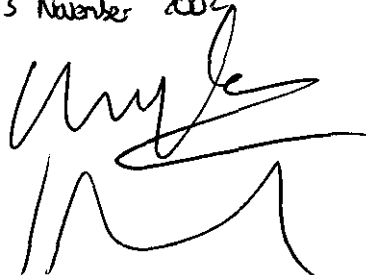
	Notes	2002 £	2001 £
FIXED ASSETS			
Intangible fixed assets	8	24,086	-
Tangible assets	9	392,023	434,136
		<u>416,109</u>	<u>434,136</u>
CURRENT ASSETS			
Stocks	10	5,233,856	5,332,007
Debtors	11	633,805	393,639
Cash at bank and in hand		967,459	2,144,465
		<u>6,835,120</u>	<u>7,870,111</u>
CREDITORS: Amounts falling due within one year	12	(1,439,502)	(1,032,820)
NET CURRENT ASSETS		<u>5,395,618</u>	<u>6,837,291</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,811,727</u>	<u>7,271,427</u>
CAPITAL AND RESERVES			
Called up share capital	13	600	600
Profit and loss account	14	5,811,127	7,270,827
SHAREHOLDERS' FUNDS	15	<u>5,811,727</u>	<u>7,271,427</u>

Approved by the board on

13 November 2002

WRC Foyle Director

WEF Samuel Director



W & G Foyle Limited

CASH FLOW STATEMENT

for the year ended 30 June 2002

	<i>Notes</i>	2002 £	2001 £
Net cash outflow from operating activities	16a	(1,160,685)	(918,442)
Returns on investments and servicing of finance	16b	110,253	214,708
Taxation		(13,276)	46,919
Capital expenditure and financial investment	16b	(113,298)	(421,998)
DECREASE IN CASH IN THE YEAR		<u>(1,177,006)</u>	<u>(1,078,813)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH

	£	£
Decrease in cash in the year	(1,177,006)	(1,078,813)
Change in net cash resulting from cash flows	<u>(1,177,006)</u>	<u>(1,078,813)</u>
MOVEMENT IN NET CASH IN YEAR	<u>(1,177,006)</u>	<u>(1,078,813)</u>
NET CASH AT 1 JULY 2001	2,144,465	3,223,278
NET CASH AT 30 JUNE 2002	<u>967,459</u>	<u>2,144,465</u>

W & G Foyle Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

INTANGIBLE FIXED ASSETS

The cost of acquiring intellectual property rights including goodwill, trade marks and trade names is capitalised and written off evenly over 10 years as, in the opinion of the directors, this represents the useful economic life of such intangible fixed assets.

TANGIBLE FIXED ASSETS

Fixed assets are stated at historical cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:-

Leasehold improvements	over the unexpired lease term
Fixtures, fittings and equipment	20% per annum on cost

STOCKS

Stocks are valued at the lower of cost and net realisable value. Net realisable value is based upon estimated selling prices. Provision is made for obsolete and slow moving items.

DEFERRED TAXATION

Deferred tax is 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 tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

OPERATING LEASES

Annual rentals are charged to the profit and loss account on a straight line basis over the lease term.

PENSION CONTRIBUTIONS

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

FOREIGN CURRENCIES

Transactions expressed in foreign currencies have been translated into sterling at the rates of exchange approximating to those ruling at the dates of the transactions. Assets and liabilities have been translated at rates ruling at the balance sheet date. Exchange differences have been included in the profit and loss account.

TURNOVER

Turnover represents the invoiced value, net of Value Added Tax, of goods sold and services provided to customers.

COMPARATIVES

The comparative results cover the 18 month period from 1 January 2000 to 30 June 2001.

W & G Foyle Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

1 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The company's turnover and loss before taxation were all derived from its principal activity. All sales were made in the United Kingdom

2 OTHER OPERATING EXPENSES (NET)

	2002	18 month period 2001
	£	£
Distribution costs	95,841	108,344
Administration expenses	2,590,048	3,771,453
	<u>2,685,889</u>	<u>3,879,797</u>

3 INVESTMENT INCOME

	2002	18 month period 2001
	£	£
Interest receivable	90,535	199,328
Rent receivable	19,718	15,380
	<u>110,253</u>	<u>214,708</u>

4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2002	18 month period 2001
	£	£
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and amounts written off tangible fixed assets:		
Charge for the year		
owned assets	130,411	379,775
Operating lease rentals:		
Land and buildings	560,000	840,000
Plant and machinery	26,694	22,559
Auditors' remuneration - audit	15,000	14,000
- non-audit	4,000	3,000
Exceptional items (see note 5)	<u>1,078,019</u>	<u>320,088</u>

W & G Foyle Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

5	EXCEPTIONAL ITEM	2002 £	18 month period 2001 £
	Refurbishment costs	1,078,019	-
	Fraud investigation costs	-	320,088
		<u>1,078,019</u>	<u>320,088</u>

Refurbishment costs

Refurbishment costs represent the cost of phase one of the refurbishment of the property as more fully detailed in the Directors' Report.

Fraud investigation costs

In January 2000 the Board uncovered several large scale systematic frauds which had been perpetrated on the company over many years. Steps were immediately taken to thoroughly investigate and eliminate these frauds and institute legal action against the people involved. The exceptional item represents legal costs relating to this investigation net of income recovered.

6	EMPLOYEES	2002 No	18 month period 2001 No
	The average monthly number of persons (including directors) employed by the company during the year was	112	97

	2002 £	18 month period 2001 £
Staff costs for above persons:		
Wages and salaries	1,644,547	2,113,935
Social security costs	126,616	169,317
Pension costs	4,125	4,472
	<u>1,775,288</u>	<u>2,287,724</u>

	2002 £	18 month period 2001 £
DIRECTORS' REMUNERATION		
Emoluments	60,000	78,333

W & G Foyle Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2002

7	TAXATION	2002 £	18 month period 2001 £
	Current tax:		
	UK corporation tax on profits of the period	-	50,528
	Adjustments in respect of previous periods	(37,252)	(46,919)
	Total current tax	(37,252)	3,609
	Deferred taxation:		
	Origination and reversal of timing differences	-	(40,000)
	Total deferred tax	-	(40,000)
	Tax on profit on ordinary activities	(37,252)	(36,391)
	Factors affecting tax charge for period:	2002 £	18 month period 2001 £
	The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:		
	Loss on ordinary activities before tax	(1,496,952)	(900,816)
	Loss on ordinary activities multiplied by standard rate of corporation tax in the UK 30% (2001: 30%)	(449,086)	(270,245)
	Effects of:		
	Expenses not deductible for tax purposes	105,369	319,020
	Capital allowances in excess of depreciation	202,948	36,054
	Utilisation of tax losses	140,769	(25,242)
	Benefit of small companies starting rate	-	(9,059)
	Adjustment to tax charge in respect of previous periods	(37,252)	(46,919)
	Current tax charge for period	(37,252)	3,609

The company has tax losses of approximately £730,000 which, subject to agreement with the Inland Revenue, are available to carry forward and offset future profits of the same trade.

A deferred tax asset of approximately £400,000 in respect of both these losses and accelerated capital allowances has not been recognised on the grounds that it is expected that it will take some time for the full effects of the store refurbishment programme to translate into taxable profits and allow this deferred tax asset to be utilised.

W & G Foyle Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

8	INTANGIBLE FIXED ASSETS	Intellectual property £
	Cost	
	Additions	25,000
	30 June 2002	<u>25,000</u>
	Amortisation:	
	Charge for the year	914
	30 June 2002	<u>914</u>
	Net book value	
	30 June 2002	<u>24,086</u>

9	TANGIBLE FIXED ASSETS	Leasehold improve- ments £	Office furniture & equipment £	Fixtures & fittings £	Total £
	Cost				
	1 July 2001	174,622	530,441	750,538	1,455,601
	Additions	-	88,298	-	88,298
	30 June 2002	<u>174,622</u>	<u>618,739</u>	<u>750,538</u>	<u>1,543,899</u>
	Depreciation				
	1 July 2001	17,462	253,465	750,538	1,021,465
	Charged in the year	17,462	112,949	-	130,411
	30 June 2002	<u>34,924</u>	<u>366,414</u>	<u>750,538</u>	<u>1,151,876</u>
	Net book value				
	30 June 2002	<u>139,698</u>	<u>252,325</u>	<u>-</u>	<u>392,023</u>
	30 June 2001	<u>157,160</u>	<u>276,976</u>	<u>-</u>	<u>434,136</u>

10	STOCKS	2002 £	2001 £
	Books	<u>5,233,856</u>	<u>5,332,007</u>

W & G Foyle Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2002

11	DEBTORS	2002 £	2001 £
	Due within one year:		
	Trade debtors	8,508	8,151
	Other debtors	160,570	17,629
	Prepayments and accrued income	464,727	367,859
		<u>633,805</u>	<u>393,639</u>
12	CREDITORS: Amounts falling due within one year	2002 £	2001 £
	Trade creditors	1,305,450	803,835
	Corporation tax	-	50,528
	Other taxation and social security costs	40,976	41,291
	Other creditors	52,886	49,920
	Accruals and deferred income	40,190	87,246
		<u>1,439,502</u>	<u>1,032,820</u>
13	SHARE CAPITAL	2002 £	2001 £
	Authorised:		
	14,000 ordinary shares of 5p each	700	700
		<u>700</u>	<u>700</u>
	Allotted, issued and fully paid:		
	12,007 ordinary shares of 5p each	600	600
		<u>600</u>	<u>600</u>
14	PROFIT AND LOSS ACCOUNT	2002 £	2001 £
	1 July 2001	7,270,827	7,082,566
	Prior year adjustments	-	1,052,686
		<u>7,270,827</u>	<u>8,135,252</u>
	1 July 2001	7,270,827	8,135,252
	Loss for the financial year	(1,459,700)	(864,425)
		<u>5,811,127</u>	<u>7,270,827</u>
15	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2002 £	2001 £
	Loss for the financial year	(1,459,700)	(864,425)
	Opening shareholders' funds	7,271,427	8,135,852
		<u>5,811,727</u>	<u>7,271,427</u>
	Closing shareholders' funds	<u>5,811,727</u>	<u>7,271,427</u>

W & G Foyle Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2002

16	CASH FLOWS	2002 £	2001 £
a	Reconciliation of operating loss to net cash outflow from operating activities		
	Operating loss	(1,607,205)	(1,115,524)
	Depreciation	130,411	379,775
	Amortisation	914	-
	Decrease in stocks	98,151	484,556
	Increase in debtors	(240,166)	(270,081)
	Increase/(decrease) in creditors	457,210	(397,168)
	Net cash outflow from operating activities	(1,160,685)	(918,442)
		2002 £	2001 £
b	Analysis of cash flows for headings netted in the cash flow		
	Returns on investments and servicing of finance		
	Interest received	90,535	199,328
	Rent received	19,718	15,380
	Net cash inflow from returns on investments and servicing of finance	110,253	214,708
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	(88,298)	(421,998)
	Purchase of intangible fixed assets	(25,000)	-
	Net cash outflow from capital expenditure and financial investment	(113,298)	(421,998)
		At 1 July 2001 £	At 30 June 2002 £
c	Analysis of net cash		
	Cash at bank and in hand	2,144,465	(1,177,006)

W & G Foyle Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2002

17 COMMITMENTS UNDER OPERATING LEASES

At 30 June 2002 the company had annual commitments under non-cancellable operating leases as follows:

	2002 £	2001 £
Plant and machinery		
expiring in the first year	-	491
expiring in the second to fifth year	25,379	9,598
Land and buildings		
expiring after five years	560,000	560,000
	<u>585,379</u>	<u>570,089</u>

18 RELATED PARTY DISCLOSURES

The company rents its bookshop premises from Noved Investment Company, a company in which the directors, WRC Foyle and WEF Samuel, have an interest, at a rental charge during the year of £560,000 (2001: 18 month period £840,000).

At 30 June 2002 the company owed Noved Investment Company £182,039 (2001: £19,900).

During the year the company made payments to Air Foyle Limited, a company of which Mr WRC Foyle is a director, in respect of administration expenses recharged to W & G Foyle Limited. At 30 June 2002 the company owed £1,094 to Air Foyle Limited (2001: Debtor £3,525).