

W & G Foyle Limited

REPORT AND FINANCIAL STATEMENTS

for the 18 month period ended
30 June 2001



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 period ended 30 June 2001.

PRINCIPAL ACTIVITIES

The principal activity of the company during the period 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.

As noted on last year's Directors' report many operational changes have been implemented since new management was appointed in late 1999. These have included significant changes in employment policies which have greatly increased the motivation of staff; a new telephone system; a computerised stock control and EPOS system; and a website with full e-commerce facilities.

Staff turnover is significantly lower than it has been for many years and the Board would like to note its appreciation of the dedication and hard work of the staff.

The EPOS system first installed in early 2000, although widely used in the book trade, proved inadequate for our needs and towards the end of the period the decision was taken to replace it. The new system was installed at the end of July 2001 and early indications are that it will greatly enhance the quality of information available to management and staff and enable us to provide a better overall level of service to our customers.

During the past year we have seen a number of bookselling websites fail either because too much money was spent on them and sales were low or because orders exceeded the fulfilment capacity. Our website became operational in October 2000, and our mail order business is now seeing the benefit of this. Our site has been set up at minimal cost and we have deliberately kept promotion low-key. However both the number of visitors to the site and the sales generated by it are growing rapidly. During the first 9 months of 2000 visitor numbers grew at more than 20% per month and sales were made to more than 60 different countries. We are confident that mail order generated by the site will eventually become an important part of our business.

As a result of these and other improvements, sales, which had been in decline for many years, are now growing very much faster than those of the industry as a whole. However we know that we have the potential to achieve considerably higher sales from our premises and during the coming year we will be starting a major programme to renovate and upgrade our buildings.

Although the company is not yet trading profitably, higher sales, improving margins and new financial controls have resulted in a reduced monthly loss (excluding exceptional items involving legal and other costs associated with the detection and clearing up of the major fraud perpetrated on the company over many years) compared to the previous period and the trend is continuing. The Board is confident that with all the improvements made so far, the company will be close to break-even by the end of the current year and that it will return to profit by the following year.

Stock has been adjusted to agree with the results of the complete physical stock count made on 30 June 2001; this has resulted in a profit and loss account adjustment to the previous year of £836,926.

W & G Foyle Limited

DIRECTORS' REPORT

DIVIDENDS

The directors do not recommend the payment of a dividend.

DIRECTORS

The following directors have held office since 1 January 2000 unless otherwise stated:

WRC Foyle
WEF Samuel
AGE Foyle (resigned 8 March 2001)
Dalmeny Investments Limited

DIRECTORS' INTERESTS IN SHARES

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

	30/06/01	Ordinary shares of 5p each 01/01/00
WRC Foyle	1,893	1,893
WEF Samuel	50	50
AGE Foyle	1,892	1,892
Dalmeny Investments Limited *	7,213	7,213

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

AUDITORS

HLB Kidsons, Chartered Accountants, resigned as auditors during the period and Baker Tilly, Chartered Accountants, were appointed in their place. 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

26 November 2001

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 period. 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 15.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except that the scope of our audit was limited as explained below. 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. However, the evidence available to us was limited in relation to the comparatives in the current period's financial statements which are derived from the financial statements for the year ended 31 December 1999. In the report on those financial statements, the previous auditors stated that although the year end stock included in the balance sheet at 31 December 1999 was counted and valued by management, there were no satisfactory audit procedures that could be adopted to confirm the valuation and cut off. Any adjustment to this stock figure would have a consequential effect on the loss for the year ended 31 December 1999. The auditors were unable to form an opinion on the financial statements for the year ended 31 December 1999 because of the limitation in audit scope and they were unable to determine whether proper accounting records were maintained. Accordingly, the amounts shown as cost of sales and loss for the year ended 31 December 1999 may not be comparable with the figures for the current period.

Qualified opinion arising from limitation in audit evidence about comparatives

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 2001 and of its loss for the period then ended and, except for any adjustments to the comparatives which might have been found to be necessary had the previous auditors been able to obtain sufficient evidence concerning the valuation and cut off of stock at 31 December 1999, have been properly prepared in accordance with the Companies Act 1985.



BAKER TILLY

Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

26 November 2001

W & G Foyle Limited
PROFIT AND LOSS ACCOUNT
for the period ended 30 June 2001

	Notes	18 months to 30/6/01 £	12 months to 31/12/99 £
TURNOVER	1	14,203,711	9,556,511
Cost of sales		(11,119,350)	(8,493,094)
Gross profit		<u>3,084,361</u>	<u>1,063,417</u>
Exceptional item	6	(320,088)	-
Other operating expenses (net)	2	(3,879,797)	(1,929,152)
OPERATING LOSS		<u>(1,115,524)</u>	<u>(865,735)</u>
Investment income	3	214,708	250,738
Interest payable	4	-	(5,737)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	<u>(900,816)</u>	<u>(620,734)</u>
Taxation	8	36,391	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	16	<u>(864,425)</u>	<u>(620,734)</u>

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2001 £	1999 £
Loss for the financial period	(864,425)	(620,734)
Total recognised losses relating to the period	<u>(864,425)</u>	<u>(620,734)</u>
Prior period adjustments (note 15)	1,052,686	
Total recognised gains and losses since last accounts	<u>188,261</u>	

W & G Foyle Limited

BALANCE SHEET

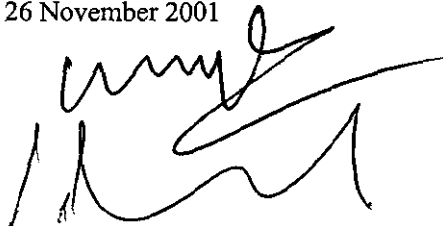
30 June 2001

	Notes	2001 £	Restated 1999 £
FIXED ASSETS			
Tangible assets	9	434,136	391,913
CURRENT ASSETS			
Stocks	10	5,332,007	5,816,563
Debtors	11	393,639	123,658
Cash at bank and in hand		2,144,465	3,223,278
		<u>7,870,111</u>	<u>9,163,499</u>
CREDITORS: Amounts falling due within one year	12	(1,032,820)	(1,379,560)
NET CURRENT ASSETS		<u>6,837,291</u>	<u>7,783,939</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,271,427</u>	<u>8,175,852</u>
PROVISION FOR LIABILITIES AND CHARGES	13	-	(40,000)
NET ASSETS		<u><u>7,271,427</u></u>	<u><u>8,135,852</u></u>
CAPITAL AND RESERVES			
Called up share capital	14	600	600
Profit and loss account	16	7,270,827	8,135,252
SHAREHOLDERS' FUNDS	17	<u><u>7,271,427</u></u>	<u><u>8,135,852</u></u>

Approved by the board on 26 November 2001

W & G FOYLE Director

W & G SAMUEL Director



W & G Foyle Limited
CASH FLOW STATEMENT
for the period ended 30 June 2001

	Notes	18 months to 30/6/01 £	12 months to 31/12/99 £
Net cash outflow from operating activities	18a	(918,442)	(701,718)
Returns on investments and servicing of finance	18b	214,708	245,001
Taxation		46,919	(45,454)
Capital expenditure and financial investment	18b	(421,998)	(135,118)
DECREASE IN CASH IN THE PERIOD		<u>(1,078,813)</u>	<u>(637,289)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH

	£	£
Decrease in cash in the period	(1,078,813)	(637,289)
Change in net cash resulting from cash flows	<u>(1,078,813)</u>	<u>(637,289)</u>
MOVEMENT IN NET CASH IN PERIOD	<u>(1,078,813)</u>	<u>(637,289)</u>
NET CASH AT 1 JANUARY 2000	3,223,278	3,860,567
NET CASH AT 30 JUNE 2001	<u>2,144,465</u>	<u>3,223,278</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.

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:-

Fixtures, fittings and equipment	20% per annum on cost
Motor vehicles	25% per annum on cost
Leasehold improvements	10% per annum on cost

The method of providing depreciation on fixtures, fittings and equipment has been changed in the period from 10% to 20% per annum on cost. The directors believe that the new method is a more appropriate basis for the depreciation of fixtures, fittings and equipment and gives a fairer presentation of the results for the period and of the financial position of the company at the balance sheet date.

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

Provision is made for taxation deferred or accelerated by the effect of timing differences, to the extent that it is probable that a liability will crystallise, at the rate expected to be ruling at that date.

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 12 month period from 1 January 1999 to 31 December 1999.

W & G Foyle Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 30 June 2001

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)

18 months to 30/6/01	12 months to 31/12/99
£	£

Distribution costs	108,344	69,569
Administration expenses	3,771,453	1,859,583
	<u>3,879,797</u>	<u>1,929,152</u>

3 INVESTMENT INCOME

18 months to 30/6/01	12 months to 31/12/99
£	£

Interest receivable	199,328	230,927
Rent receivable	15,380	19,811
	<u>214,708</u>	<u>250,738</u>

4 INTEREST PAYABLE

18 months to 30/6/01	12 months to 31/12/99
£	£

Bank interest	-	118
Other interest	-	5,619
	<u>-</u>	<u>5,737</u>

5 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

18 months to 30/6/01	12 months to 31/12/99
£	£

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	379,775	57,198
Operating lease rentals:		
Land and buildings	840,000	380,000
Plant and machinery	9,641	-
Auditors' remuneration - audit	14,000	9,000
- non-audit	3,000	36,411
Exceptional item (see note 6)	<u>320,088</u>	<u>-</u>

W & G Foyle Limited
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 30 June 2001

6 EXCEPTIONAL ITEM

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.

7 EMPLOYEES

	18 months to 30/6/01 No.	12 months to 31/12/99 No.
The average monthly number of persons (including directors) employed by the company during the year was	97	67

	18 months to 30/6/01 £	12 months to 31/12/99 £
Staff costs for above persons:		
Wages and salaries	2,113,935	879,116
Social security costs	169,317	71,210
Pension costs	4,472	-
	<u>2,287,724</u>	<u>950,326</u>

DIRECTORS' REMUNERATION

	18 months to 30/6/01 £	12 months to 31/12/99 £
Emoluments	78,333	29,166

8 TAXATION

	18 months to 30/6/01 £	12 months to 31/12/99 £
UK corporation tax	50,528	-
Deferred taxation	(40,000)	-
	<u>10,528</u>	<u>-</u>
Over provided in earlier years	(46,919)	-
	<u>(36,391)</u>	<u>-</u>

W & G Foyle Limited
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 30 June 2001

9 TANGIBLE FIXED ASSETS

	Leasehold improve- ments £	Office furniture & equipment £	Fixtures & fittings £	Motor vehicles £	Total £
Cost					
1 January 2000	-	283,065	750,538	28,467	1,062,070
Additions	174,622	247,376	-	-	421,998
Disposals	-	-	-	(28,467)	(28,467)
30 June 2001	174,622	530,441	750,538	-	1,455,601
Depreciation					
1 January 2000	-	94,332	547,857	27,968	670,157
Charged in the period	17,462	159,133	202,681	499	379,775
Disposals	-	-	-	(28,467)	(28,467)
30 June 2001	17,462	253,465	750,538	-	1,021,465
Net book value 30 June 2001	157,160	276,976	-	-	434,136
31 December 1999	-	188,733	202,681	499	391,913

10 STOCKS

	2001 £	Restated 1999 £
Books	5,332,007	5,816,563

11 DEBTORS

	2001 £	1999 £
Due within one year:		
Trade debtors	8,151	3,614
Other debtors	17,629	56,433
Prepayments and accrued income	367,859	63,611
	393,639	123,658

W & G Foyle Limited
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 30 June 2001

12	CREDITORS: Amounts falling due within one year	2001 £	Restated 1999 £
	Trade creditors	803,835	1,277,678
	Corporation tax	50,528	-
	Other taxation and social security costs	41,291	22,319
	Other creditors	49,920	27,598
	Accruals and deferred income	87,246	51,965
		<u>1,032,820</u>	<u>1,379,560</u>

13	PROVISION FOR LIABILITIES AND CHARGES		Deferred taxation £
	Balance at 1 January 2000		40,000
	Transfer to profit and loss account		(40,000)
	Balance at 30 June 2001		<u>-</u>

14	SHARE CAPITAL	2001 £	1999 £
	Authorised: 14,000 ordinary shares of 5p each	700	700
	Allotted, issued and fully paid: 12,007 ordinary shares of 5p each	<u>600</u>	<u>600</u>

15 PRIOR YEAR ADJUSTMENTS

The prior year adjustments represent:

- The company instructed a professional firm of stocktakers to count and value all book stocks at the period end. This stocktake revealed that the carrying value of stock in previous years had been materially understated. It was not possible to attribute the correction of this fundamental accounting error to any specific previous year and accordingly, the opening stock at 1 January 2000 has been increased by £836,926.
- The correction of a fundamental accounting error relating to the release of a provision for rent payable on the Charing Cross Road book store of £215,760 which should not have been accrued in previous years.

The effect of these adjustments net of tax are:

	£
Increase in stock	836,926
Decrease in creditors	215,760
Increase in accumulated retained profits and net assets	<u>1,052,686</u>

W & G Foyle Limited

NOTES TO THE FINANCIAL STATEMENTS for the period ended 30 June 2001

16	PROFIT AND LOSS ACCOUNT	2001 £	1999 £
	1 January 2000 as previously stated	7,082,566	7,703,300
	Prior year adjustments	1,052,686	-
	1 January 2000 as restated	8,135,252	7,703,300
	Loss for the financial period	(864,425)	(620,734)
	30 June 2001	7,270,827	7,082,566
17	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2001 £	Restated 1999 £
	Loss for the financial period	(864,425)	(620,734)
	Opening shareholders' funds (originally £7,083,166 before adding prior year adjustments of £1,052,686)	8,135,852	8,756,586
	Closing shareholders' funds	7,271,427	8,135,852
18	CASH FLOWS	2001 £	1999 £
a	Reconciliation of operating loss to net cash outflow from operating activities		
	Operating loss	(1,115,524)	(841,715)
	Depreciation	379,775	57,198
	Decrease in stocks	484,556	494,784
	Increase in debtors	(270,081)	(45,129)
	Decrease in creditors	(397,168)	(366,856)
	Net cash outflow from operating activities	(918,442)	(701,718)
		2001 £	1999 £
b	Analysis of cash flows for headings netted in the cash flow		
	Returns on investments and servicing of finance		
	Interest received	199,328	230,927
	Interest paid	-	(5,737)
	Rent received	15,380	19,811
	Net cash inflow from returns on investments and servicing of finance	214,708	245,001
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	(421,998)	(135,118)
	Net cash outflow from capital expenditure and financial investment	(421,998)	(135,118)

W & G Foyle Limited
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 30 June 2001

18	CASH FLOWS (<i>continued</i>)	At 1 January 2000 £	Cash flow £	At 30 June 2001 £
c	Analysis of net cash			
	Cash at bank and in hand	3,223,278	(1,078,813)	2,144,465

19 COMMITMENTS UNDER OPERATING LEASES

At 30 June 2001 the company had annual commitments under non-cancellable operating leases as follows:

	2001 £	Restated 1999 £
Plant and machinery		
expiring in the first year	491	-
expiring in the second to fifth year	9,598	-
Land and buildings		
expiring after five years	560,000	560,000
	<u>570,089</u>	<u>560,000</u>

20 RELATED PARTY DISCLOSURES

The company rents its bookshop premises from Noved Investment Company, a company under common ownership, at a rental charge during the period of £840,000 (1999: £380,000).

At 30 June 2001 the company owed Noved Investment Company £19,900 (1999: £235,760).

During the period 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 2001 the company was owed £3,525 by Air Foyle Limited (1999: £Nil).

During the period WRC Foyle made payments to the company of £137,100 in respect of book stock purchased at arms length.