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Report and Accounts

Amazon.co.uk Limited
(formerly Bookpages Limited)

31 December 1998

 ERNST & YOUNG



Amazon.co.uk Limited
(formerly Bookpages Limited)

Registered No. 3223028

DIRECTORS

C Byrum
A Minshull-Beech

SECRETARY

M Miller

AUDITORS

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

BANKERS

National Westminster Bank PLC
33 High Street
High Wycombe
Bucks HP11 2AJ

SOLICITORS

Cameron McKenna
Mitre House
160 Aldergate Street
London EC1A 4DD

REGISTERED OFFICE

86/88 Bestobell Road
Slough
Berkshire SL1 4SZ

DIRECTORS' REPORT

The directors present their report and accounts for the 18 month period ended 31 December 1998.

CHANGE OF NAME

The company changed its name from Bookpages Limited to Amazon.co.uk Limited on 1 October 1998.

RESULTS AND DIVIDENDS

The loss for the year, after taxation amounts to £3,375,336. The company did not declare a dividend during the period.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company was incorporated on 10 July 1996 and commenced trading on 26 September 1996. The company is principally engaged in selling books via the Internet.

On 19 April 1998, the shares in the company were purchased by Amazon.com Inc., a company incorporated in the United States of America, and subsequently changed its name from Bookpages Limited to Amazon.co.uk Limited. On 15 October 1998 the Amazon.co.uk website went live.

The company is poised to take advantage of any opportunities which may arise in the future.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period ended 31 December 1998 were as follows:

C Byrum	(appointed 1 September 1999)
A Minshull-Beech	(appointed 4 November 1999)
S T Murdoch	(resigned 20 September 1999)
V Thompson	(resigned 9 February 1998)
S R Bennetts	(appointed 1 October 1998; resigned 27 September 1999)
R Tahta	(appointed 9 February 1999; resigned 17 April 1999)

YEAR 2000

The directors have embarked upon plans to resolve problems facing the company with regard to the year 2000 issue. The majority of procedures necessary to resolve these problems have now been satisfactorily completed. They do not consider that the company's exposure will result in further material costs.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no year 2000 problems will remain, because at least some level of failure may still occur. However, the directors believes that they will achieve an acceptable state of readiness and have also provided resources to deal promptly with significant subsequent failures that might arise.

DIRECTORS' REPORT

AUDITORS

Nunn Hayward resigned as auditors on 3 December 1998 and Ernst & Young were appointed in their place.

A resolution to reappoint Ernst & Young as auditors will be put to the member at the Annual General Meeting.

On behalf of the board

AT Marshall-Borch

Director

31 January 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, 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 standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 accounts 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.

REPORT OF THE AUDITORS

to the members of Amazon.co.uk Limited (formerly Bookpages Limited)

We have audited the accounts on pages 6 to 13, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8 and 9.

Respective responsibilities of directors and auditors

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

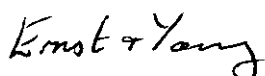
Basis of opinion

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 accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1998 and of its loss for the 18 month period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

1 February 2000

Amazon.co.uk Limited
(formerly Bookpages Limited)

PROFIT AND LOSS ACCOUNT
for the 18 month period ended 31 December 1998

		18 month period ended 31 December 1998	Period from incorpor- ation to 30 June 1997
	Notes	£	£
TURNOVER	2	6,149,370	89,063
Cost of sales		(5,331,091)	(68,520)
Gross profit		818,279	20,543
Administrative expenses		(4,208,545)	(64,429)
OPERATING LOSS	3	(3,390,266)	(43,886)
Bank interest receivable		14,930	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,375,336)	(43,886)
Tax on loss on ordinary activities	4	-	-
LOSS FOR THE PERIOD	13	(3,375,336)	(43,886)

Turnover and operating losses are derived from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the loss of £3,375,336 for the 18 month period ended 31 December 1998 and a loss of £43,886 for the period ended 30 June 1997.

Amazon.co.uk Limited
(formerly Bookpages Limited)

BALANCE SHEET
at 31 December 1998

		31 December 1998	30 June 1997
	Notes	£	£
FIXED ASSETS	7	926,829	—
CURRENT ASSETS			
Stocks	8	1,093,521	—
Debtors	9	1,328,870	5,628
Cash at bank and in hand		2,224,928	3,215
		4,647,319	8,843
CREDITORS: amounts falling due within one year	10	(8,962,710)	(46,729)
NET CURRENT LIABILITIES		(4,315,391)	(37,886)
TOTAL ASSETS LESS CURRENT LIABILITIES		(3,388,562)	(37,886)
PROVISIONS FOR LIABILITIES AND CHARGES			
Dilapidation provision	11	(11,000)	—
		(3,399,562)	(37,886)
CAPITAL AND RESERVES			
Called up share capital	12	19,660	6,000
Profit and loss account	13	(3,419,222)	(43,886)
SHAREHOLDERS' FUNDS	13	(3,399,562)	(37,886)

The accounts were approved by the Board of Directors on

and signed on its behalf by:

W. Minshull-Beech

Director

31 January 2002

NOTES TO THE ACCOUNTS
at 31 December 1998

1. ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting systems.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Warehouse equipment	—	over 4 years
Office and computer equipment	—	over 3 years
Leasehold improvements	—	over 3 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Goods for resale	—	purchase cost on a first-in, first-out-basis
Packing materials	—	purchase cost on a first-in, first-out basis

Net realisable value is based on estimated selling price less any costs of disposal.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

Amazon.co.uk Limited
(formerly Bookpages Limited)

NOTES TO THE ACCOUNTS
at 31 December 1998

1. ACCOUNTING POLICIES (continued)

Leasing and hire purchase commitments (continued)

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties.

Turnover by geographical segment has not been disclosed because in the opinion of the directors it would be seriously prejudicial to the interests of the company to do so.

3. OPERATING LOSS

This is stated after charging:

	<i>18 month period ended 31 December 1998 £</i>	<i>Period from incorporation to 30 June 1997 £</i>
Depreciation of owned fixed assets	191,018	—
Auditors' remuneration	14,000	—
Operating lease rentals – plant and machinery	26,566	7,000
– land and buildings	150,898	—
	<u> </u>	<u> </u>

4. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no corporation tax liability for the period due to losses incurred (30 June 1997 – £nil).

5. DIRECTORS' EMOLUMENTS

	<i>18 month period ended 31 December 1998 £</i>	<i>Period from incorporation to 30 June 1997 £</i>
Emoluments	122,337	—
Company contributions paid to money purchase pension schemes	—	—
	<u> </u>	<u> </u>
	<i>No.</i>	<i>No.</i>
Members of money purchase pension schemes	—	—
	<u> </u>	<u> </u>
The amounts in respect of the highest paid director are as follows:	<i>£</i>	<i>£</i>
Emoluments	61,274	—
Company contributions paid to money purchase pension schemes	—	—
	<u> </u>	<u> </u>

Amazon.co.uk Limited
(formerly Bookpages Limited)

NOTES TO THE ACCOUNTS
at 31 December 1998

6. STAFF COSTS

	<i>18 month period ended 31 December 1998 £</i>	<i>Period from incorporation to 30 June 1997 £</i>
Wages and salaries	835,331	—
Social security costs	—	2,096
Other pension costs	78,816	22,386
	<u>914,147</u>	<u>24,482</u>

The monthly average number of employees during the period were as follows:

	<i>No.</i>	<i>No.</i>
Finance and administration	3	3
Marketing	3	—
Distribution and customer services	22	5
	<u>28</u>	<u>8</u>

7. TANGIBLE FIXED ASSETS

	<i>Leasehold improvements £</i>	<i>Office equipment £</i>	<i>Computer equipment £</i>	<i>Warehouse equipment £</i>	<i>Total £</i>
Cost:					
At 30 June 1997	—	—	—	—	—
Additions	344,157	189,590	432,954	151,136	1,117,837
At 31 December 1998	<u>344,157</u>	<u>189,590</u>	<u>432,954</u>	<u>151,136</u>	<u>1,117,837</u>
Depreciation:					
At 30 June 1997	—	—	—	—	—
Charge during the period	42,250	22,119	112,675	13,964	191,008
At 31 December 1998	<u>42,250</u>	<u>22,119</u>	<u>112,675</u>	<u>13,964</u>	<u>191,008</u>
Net book value:					
At 31 December 1998	<u>301,907</u>	<u>167,471</u>	<u>320,279</u>	<u>137,172</u>	<u>926,829</u>
At 30 June 1997	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Amazon.co.uk Limited
(formerly Bookpages Limited)

NOTES TO THE ACCOUNTS
at 31 December 1998

8. STOCKS

	<i>31 December 1998</i>	<i>30 June 1997</i>
	£	£
Goods for resale	1,034,077	-
Packing materials	59,444	-
	<u>1,093,521</u>	<u>-</u>

9. DEBTORS

	<i>31 December 1998</i>	<i>30 June 1997</i>
	£	£
Trade debtors	315,113	-
Prepayments and other debtors	1,013,757	5,628
	<u>1,328,870</u>	<u>5,628</u>

10. CREDITORS: amounts falling due within one year

	<i>31 December 1998</i>	<i>30 June 1997</i>
	£	£
Trade creditors	3,885,815	39,408
Taxation and social security	75,310	1,514
Accruals and other creditors	1,357,143	5,807
Amounts owing to group undertakings	3,644,442	-
	<u>8,962,710</u>	<u>46,729</u>

11. PROVISIONS FOR LIABILITIES AND CHARGES

The movement in the dilapidation provision during the current year is as follows:

	<i>1998</i>
	£
At 1 January	-
Charge for the period	11,000
	<u>11,000</u>
At 31 December	<u>11,000</u>

Amazon.co.uk Limited
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NOTES TO THE ACCOUNTS
at 31 December 1998

12. SHARE CAPITAL

	1998 No.	Authorised 1997 No.
Ordinary shares of £0.01 (1997 – £1) each	5,000,000	50,000

	1998 No.	1997 No.	Allotted, called up and fully paid 1998 £	1997 £
Ordinary shares of £0.01 (1997 – £1) each	1,965,972	12,000	19,660	6,000

During the year, the authorised share capital was increased from 50,000 £1 shares to 5,000,000 shares with nominal value of £0.01 each.

During the year 765,972 ordinary shares of £0.01 each, with an aggregate nominal value of £7,660, were issued and fully paid for cash.

13. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Profit and loss account £	Total share- holders' funds £
At 1 July 1996	–	–	–
Loss for the year	–	(43,886)	(43,886)
Proceeds from issue of shares	6,000	–	6,000
At 30 June 1997	6,000	(43,886)	(37,886)
Loss for the period	–	(3,375,336)	(3,375,336)
Receipts from shareholders in respect of previously issued shares	6,000	–	6,000
Proceeds from issue of shares	7,660	–	7,660
At 31 December 1998	19,660	(3,419,222)	(3,399,562)

NOTES TO THE ACCOUNTS
at 31 December 1998

14. OTHER FINANCIAL COMMITMENTS

At 31 December 1998 the company had annual commitments under non-cancellable operating leases as set out below:

		<i>Land and buildings</i>		<i>Other</i>
	1998	1997	1998	1997
	£	£	£	£
Operating leases which expire:				
Within one year	-	-	-	-
In two to five years	338,500	-	66,146	-
In over five years	-	-	-	-
	<u>338,500</u>	<u>-</u>	<u>66,146</u>	<u>-</u>

15. CONTINGENT LIABILITY

An individual has commenced an action against the company for defamation in a book sold by the company. Due to the fact that it is early in the proceedings, it is not possible to determine the amount or timing of any payment, should the action be successful.

The company has been advised by Counsel that it is possible, but not probable, the action will succeed and accordingly, no provision for any liability has been made in these accounts.

16. RELATED PARTY TRANSACTIONS

In accordance with the exemption stated in Financial Reporting Standard No. 8 no details are shown of related party transactions with the company's parent and fellow subsidiaries within the Amazon.com. Inc. group, as it holds 90% or more of the voting rights.

17. PARENT UNDERTAKING AND CONTROLLING PARTY

The company's parent undertaking and controlling party is Amazon.com.Inc., a company incorporated in the United States of America. It has included the company in its group accounts, copies of which are available from its registered office, 1516 Second Avenue, Seattle, Washington, 98101 USA.