

The ISE Group plc

Annual Report and Accounts 2000



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The ISE Group plc

Contents

Group overview	1
Directors' report	4
Statement of directors' responsibilities	6
Auditor's report	7
Group profit and loss account	8
Group balance sheet	9
Company balance sheet	10
Group cash flow statement	11
Notes to the financial statements	12
Five year trading summary	23

Registered number 2495645

The ISE Group plc

Group overview

This has been a year of significant change and development for the business and for everyone connected with it.

Business description

The Group operates as a retailer of a wide variety of merchandise, trading principally under the 'Poundland' banner. All items of merchandise have a selling price of £1.

Relocation of Group centre

The year has been dominated by the relocation of our distribution centre and head office into a new purpose-built facility.

With the substantial growth of the business in previous years, it became apparent, over two years ago, that the Group needed to consolidate its warehousing and distribution functions into one, substantial facility. To this end we sought and subsequently found a suitable site in Willenhall, West Midlands. A developer was engaged to create the new facility to our specific design, so that it would match the operational requirements of the business as closely as possible. For example, the eaves' height of the new building is sufficiently large to take pallet-racking six high. So, although the actual square footage of space occupied has increased by only 11% from 221,000 square feet for the previous three locations, to 245,000 square feet at Willenhall, the number of available bulk storage locations has increased by 142% from 6,152 to 14,900, and the number of pick faces has increased by 19% from 2,528 to 3,018.

The move from three separate warehouses clustered around the Wolverhampton area to the new building in Willenhall finally took place at the end of September 2000. The vast majority of employees from all sites moved with us to the new location, thus keeping to a minimum the period of disruption that inevitably follows such a major change.

Unfortunately, it became apparent during the early part of the year that the growth of the business had been such that it had outgrown its warehousing capacity earlier than expected, and that a lack of sufficient capacity was beginning to constrict the sales performance of the business severely. Sales were increasingly adversely affected during the year, especially in the third quarter just prior to the move. However, once the initial disruption of the move had been overcome, sales were soon back on track, and we enjoyed an excellent trading performance in the critical period during the run-up to Christmas.

With the benefit of hindsight, it is apparent that the move should have been made much earlier in the year, if this had been possible. However, we are now beginning to gain the substantial benefits for which we had planned.

Results

Turnover, net of VAT, for the year was £116.3 million, 15.0% up on the comparative figure from the previous year. All of this increase has arisen from either the opening of new stores during the year, or the full year effect of new stores opened during last year.

The gross profit earned has suffered as the warehousing problems meant we were unable to manage our mix of products in a satisfactory manner. As a consequence, gross profit as a percentage of sales has reduced by 1.4 percentage points to 33.3% in the year, from 34.7% in 1999.

The ISE Group plc

Group overview (continued)

Results (continued)

Operating costs, excluding exceptional items, have risen by 18.1%, mainly as a result of the increasing size of the business. The exceptional items totalling £1,462,000 all relate to the one-off costs arising as a result of the relocation.

As a consequence of the above, operating profit fell to £248,000 (1999 - £2,546,000) and after taking account of the exceptional items, and a tax credit of £173,000, the Group incurred a retained loss for the year of £1,331,000.

New stores

The growth in the number of stores continued during 2000. Seven new stores were opened during the year, and one store, occupied on a short-term licence, was closed. At the end of the year we traded from 62 stores, located throughout England and Wales, and occupying some 232,000 square feet of retail space.

We have now finalised a new shopfit, which was successfully incorporated within the latest new store opened during the year. The new look gives a brighter, more modern feel at a cost substantially less than before. As part of this the 'Poundland' logo has been redesigned and updated. The new shopfit has been well received by both customers and staff and it will now be incorporated within all future new stores.

Finances

The exceptional costs incurred during the year amounted in total to £1,462,000, but gave rise to a cash cost of only £580,000. The majority of the difference relates to assets which formed part of the old warehouses, which could not be used in the new facility, and were therefore written off.

The new warehouse at Willenhall is a short leasehold property, subject to a 20-year lease on standard institutional terms.

A total of £4.6 million capital expenditure was invested by the business during the year. Of this £1.4 million related to fitting out the new warehouse, and has been funded by way of finance lease. The remaining £3.2 million related to investment in primarily new stores, HGV trailers and computer systems, and was funded from cash flow.

Overall the Group generated cash of £5.1 million from operating activities. After funding the capital expenditure noted above and the tax paid in relation to the profits of 1999, this gave rise to a net cash inflow during the year of £1.0 million. Net funds at the year-end were £1.1 million, only slightly below the figure at the beginning of the year.

The Group has an overall facility with Barclays Bank plc which provides adequate headroom for the Group's current anticipated requirements.

The Group uses foreign exchange forward contracts and options only to hedge the cost of unfulfilled orders placed on foreign suppliers for product denominated in foreign currency. The Group does not speculate with foreign currency transactions.

The ISE Group plc

Group overview (continued)

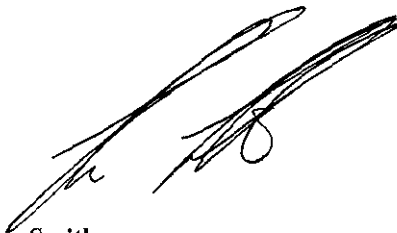
Directors and staff

The top management team has been strengthened during the year with the appointment of Robert Adams as Finance Director and Peter Baker as Supply Chain Director. Both join us with considerable experience in their chosen fields, gained in a number of other businesses considerably larger than our own. Unfortunately Mike Cordell, our non-executive director, had to resign from the Board during the year for personal reasons. We thank him for his advice and guidance during his time with us.

The events of the year have placed extra demands on all our staff and I would personally like to thank everyone concerned for their commitment and hard work.

Outlook

The performance of the Group in the first 11 weeks of 2001 has been encouraging. Sales from like for like stores are 8.5% greater than in the same period last year, gross profit as a percentage of sales is above last year and costs are well controlled. Three new stores (including one relocation) have been opened since the year-end and are performing above expectation. The new warehouse is working well. Accordingly we look forward to the future with confidence.



Steve Smith
Managing Director

21 March 2001

The ISE Group plc

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

Principal activity and business review

The principal activity of the group is that of homeware and toy retailers. The Group overview on pages 1 to 3 gives a full review of the business for the year.

Results and dividends

The results for the year are set out in the Group profit and loss account on page 8.

The directors do not recommend the payment of a dividend (1999: £Nil). The retained loss for the year has been deducted from reserves.

Directors and their interests

The directors of the company at the end of the year and their interests in the share capital of the Company were as follows:

	Ordinary shares	
	31 December 2000	31 December 1999 or date of appointment if later
S K Smith	24,500	24,500
D P Dodd	Nil	Nil
G Oldridge	Nil	Nil
R F Adams (appointed 15 May 2000)	Nil	Nil
P G Baker (appointed 1 October 2000)	Nil	Nil

M Cordell resigned as a director of the Company on 9 September 2000.

D P Dodd has options over 7,500 of the existing ordinary £1 shares of the company.

Since the year-end, and up to the date of this report, there have been no changes in the directors or their interests.

Employees

The group is an equal opportunity employer and makes every effort to ensure disabled people are not discriminated against on the ground of their disabilities. In the event of staff becoming disabled, every effort is made to ensure that their employment continues and that appropriate training is arranged.

Employees are kept informed regarding the group's affairs and are consulted on a regular basis through meetings, wherever feasible and appropriate.

The ISE Group plc

Directors' report (continued)

Supplier payment policy

Provided that a supplier is complying with the relevant terms and conditions, including prompt and complete submission of all specified documentation, payment will be made in accordance with these agreed terms. Group policy is to ensure that suppliers know the terms on which payment will take place at the time of entering a transaction. The Group does not follow any code or standard on payment practice.

Company trade creditors, expressed as the number of days of purchases, represented 43 days (*1999: 29 days*) at the year-end.

Auditors

KPMG have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

By order of the board,



Mrs T Smith
Secretary

Wellmans Road
Willenhall
West Midlands
WV13 2QT

21 March 2001

Statement of directors' responsibilities

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 the Group and of the profit or loss of the Group 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 standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor's report

We have audited the financial statements on pages 8 to 22.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 6, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. 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 group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 Group'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 and the Group as at 31 December 2000 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditor

2 Cornwall Street
BIRMINGHAM
B3 2DL

21 March 2001

The ISE Group plc

Group profit and loss account for the year ended 31 December 2000

	Note	Before exceptional items £'000	Exceptional items (Note 6) £'000	2000 £'000	1999 £'000
Turnover	2	116,313	-	116,313	101,155
Cost of sales		(77,639)	-	(77,639)	(66,068)
Gross profit		38,674		38,674	35,087
Distribution costs		(30,333)	(574)	(30,907)	(25,074)
Administrative expenses		(8,093)	(122)	(8,215)	(7,467)
Operating profit/(loss)	3	248	(696)	(448)	2,546
Loss on disposal of fixed assets		-	(766)	(766)	-
Profit/(loss) before interest and tax		248	(1,462)	(1,214)	2,546
Net interest payable	7	(303)	-	(303)	(131)
(Loss)/profit on ordinary activities before taxation		(55)	(1,462)	(1,517)	2,415
Taxation on (loss)/profit on ordinary activities	8	(8)	181	173	(858)
(Loss)/profit on ordinary activities after taxation		(63)	(1,281)	(1,344)	1,557
Minority interests		13	-	13	(1)
Retained (loss)/profit for the financial year		(50)	(1,281)	(1,331)	1,556

Group statement of total recognised gains and losses for the year ended 31 December 2000

(Loss)/profit for the financial year	(1,331)	1,556
Currency translation differences on foreign currency net investments	15	7
Total gains and losses relating to the year	(1,316)	1,563

The notes on pages 12 to 22 form part of these financial statements.

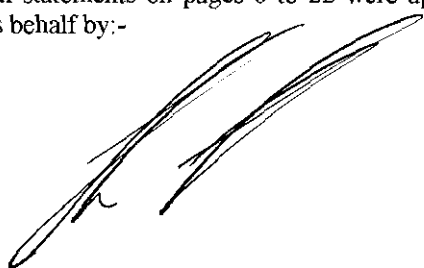
The ISE Group plc

Group balance sheet as at 31 December 2000

	Note	2000 £'000	1999 £'000
Fixed assets			
Tangible assets	9	9,006	7,215
Current assets			
Stocks	11	9,619	7,409
Debtors	12	3,328	3,287
Cash at bank and in hand		2,683	1,624
		15,630	12,320
Creditors: amounts falling due within one year	13	(18,023)	(12,386)
Net current liabilities		(2,393)	(66)
Total assets less current liabilities		6,613	7,149
Creditors: amounts falling due after more than one year	14	(1,464)	(498)
Provisions for liabilities and charges	15	(165)	(338)
Net assets		4,984	6,313
Capital and reserves			
Called up share capital	16	13	13
Profit and loss account	17	4,980	6,296
Equity shareholders' funds	18	4,993	6,309
Minority interests	19	(9)	4
		4,984	6,313

The financial statements on pages 8 to 22 were approved by the Board of Directors on 21 March 2001 and signed on its behalf by:-

S K Smith
Director



The notes of pages 12 to 22 form part of these financial statements.

The ISE Group plc

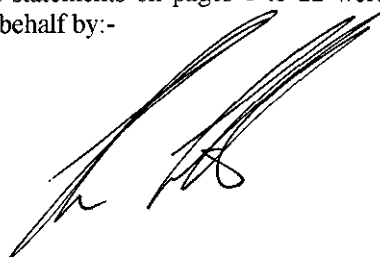
Company balance sheet as at 31 December 2000

	Note	2000 £'000	1999 £'000
Fixed assets			
Tangible assets	9	9,047	7,216
Investments	10	-	-
		<hr/> 9,047	<hr/> 7,216
Current assets			
Stocks	11	9,614	7,402
Debtors	12	3,381	3,475
Cash at bank and in hand		2,618	1,575
		<hr/> 15,613	<hr/> 12,452
Creditors: amounts falling due within one year	13	<hr/> (18,109)	<hr/> (12,739)
Net current liabilities		<hr/> (2,496)	<hr/> (287)
Total assets less current liabilities		<hr/> 6,551	<hr/> 6,929
Creditors: amounts falling due after more than one year	14	(1,544)	(567)
Provisions for liabilities and charges	15	(165)	(338)
Net assets		<hr/> 4,842	<hr/> 6,024
Capital and reserves			
Called up share capital	16	13	13
Profit and loss account	17	4,829	6,011
Equity shareholders' funds	18	<hr/> 4,842	<hr/> 6,024

The parent company made a loss of £1,182,000 for the financial year (1999: profit of £1,485,000).

The financial statements on pages 8 to 22 were approved by the Board of Directors on 21 March 2001 and signed on its behalf by:-

S K Smith
Director



The notes of pages 12 to 22 form part of these financial statements.

The ISE Group plc

Group cash flow statement for the year ended 31 December 2000

	<i>Note</i>	2000 £'000	1999 £'000
Net cash inflow from operating activities	22	5,150	3,928
Returns on investments and servicing of finance	23	(303)	(131)
Taxation		(535)	(1,290)
Capital expenditure	23	(3,182)	(3,985)
Net cash inflow/(outflow) before financing		1,130	(1,478)
Financing	23	(71)	(33)
Increase/(decrease) in cash in the year		1,059	(1,511)

Reconciliation of net cash flow to movement in net funds for the year ended 31 December 2000

Increase/(decrease) in cash in the year	1,059	(1,511)
Cash repaying mortgage	30	23
Increase in finance leases	(1,326)	(20)
Change in net funds resulting from cash flows	(237)	(1,508)
Net funds at 31 December 1999	1,353	2,861
Net funds at 31 December 2000	1,116	1,353

The notes on pages 12 to 22 form part of these financial statements.

The ISE Group plc

Notes to the financial statements for the year ended 31 December 2000

1 Principal accounting policies

The financial statements for the Group and Company have been prepared in accordance with all applicable accounting standards, which have been applied on a consistent basis to the previous year. The most significant accounting policies are described below:-

Basis of accounting

The financial statements have been prepared under the historical cost convention.

Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings made up to 31 December 2000. Subsidiary undertakings acquired are accounted for using the acquisition accounting methods.

Goodwill

Goodwill arising on consolidation represents the excess of the value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is amortised on a straight line basis over its estimated useful life.

Purchased goodwill arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 Goodwill and intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs, related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Investments

Shares in subsidiary undertakings are stated at cost or valuation less amounts written off where in the opinion of the directors there has been a diminution in the value of the investment.

Turnover

Turnover, which excludes value added tax and sales between group companies, represents the invoiced value of goods and services supplied.

Fixed assets and depreciation

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation on fixed assets is calculated on a straight line basis so as to write off the cost less the estimated residual value of each asset over the term of its estimated useful life. The principal annual rates used for this purpose are:

Freehold land and buildings	2%
Short leasehold property	Over the term of the lease
Property improvements	10%-15%
Plant and equipment	15%-33%
Motor vehicles	25%
Fixtures and fittings	15%

The maximum depreciation period for short leasehold properties is 35 years.

Stocks

Stocks are valued at the lower of cost and net realisable value.

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.

Notes to the financial statements (continued)
for the year ended 31 December 2000

1 Principal accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded in sterling using the rate of exchange ruling at the date of the transactions or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date, or if appropriate, at the forward contract rate, and the gains and losses on translation are included in the profit and loss account.

Finance leases and hire purchase contracts

Assets acquired under finance leases and similar hire purchase contracts are recorded in the balance sheet as tangible fixed assets and are depreciated over their estimated useful lives or the terms of the leases, whichever is the shorter. Future instalments under such leases, net of finance charges, are included within creditors as obligations under finance leases. Rentals payable are apportioned between the finance element which is charged to the profit and loss account, and the capital element which reduces the outstanding obligations for future instalments.

Operating leases

All other leases are operating leases. Amounts payable under operating leases are charged to the profit and loss account on a straight line basis over the lives of the leases.

Pensions

The group operates a defined contribution pension scheme for certain of its employees. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

	2000 £'000	1999 £'000
2 Turnover		
(a) By geographical market:		
United Kingdom	116,313	101,052
Rest of the world	-	103
	<hr/>	<hr/>
	116,313	101,155
	<hr/>	<hr/>
(b) By activity:		
Homeware and toy retailing	116,043	100,884
Sale of computer equipment and computer programs	270	271
	<hr/>	<hr/>
	116,313	101,155
	<hr/>	<hr/>

The ISE Group plc

Notes to the financial statements (continued) for the year ended 31 December 2000

	2000 £'000	1999 £'000
3 Operating profit/(loss)		
Operating profit/(loss) is stated after charging:		
Auditors' remuneration:		
Audit work	30	27
Non-audit work	22	85
Payments under operating leases:		
Hire of plant and equipment	719	430
Other	5,683	4,877
Depreciation	1,997	1,438
	<hr/>	<hr/>
4 Remuneration of directors		
Aggregate		
Directors' emoluments	386	424
Company contributions to defined contribution pension schemes	50	35
	<hr/>	<hr/>
	436	459
	<hr/>	<hr/>
Highest paid director		
Director's emoluments	120	181
Company contributions to defined contribution pension scheme	19	18
	<hr/>	<hr/>
	139	199
	<hr/>	<hr/>
In both 1999 and 2000 three directors were members of defined contribution pension schemes.		
5 Employee information		
The average number of persons (including directors) employed by the Group during the year, analysed by category, was as follows:	Number	Number
Administration	117	133
Selling and distribution	1,993	1,644
	<hr/>	<hr/>
	2,110	1,777
	<hr/>	<hr/>
The aggregate payroll costs of these persons were as follows:	£'000	£'000
Wages and salaries	17,826	16,152
Social security costs	1,152	1,165
Other pension costs	191	166
	<hr/>	<hr/>
	19,169	17,483
	<hr/>	<hr/>

Notes to the financial statements (continued)
for the year ended 31 December 2000

6 Exceptional items

The exceptional costs incurred in the year relate to relocating the distribution centre and head office of the Company into a new purpose-built facility.

	2000 £'000	1999 £'000
7 Net interest payable		
Interest payable		
on bank loans and overdrafts	312	160
on finance leases	6	2
	<hr/>	<hr/>
	318	162
Interest receivable	(15)	(31)
	<hr/>	<hr/>
	303	131
	<hr/>	<hr/>

8 Tax on (loss)/profit on ordinary activities

UK corporation tax at 30% (1999: 31%) on the profit for the year	-	849
Over provision in respect of prior years	-	(71)
Deferred taxation movement in respect of		
current year	(168)	65
prior years	(5)	15
	<hr/>	<hr/>
	(173)	858
	<hr/>	<hr/>

The ISE Group plc

Notes to the financial statements (continued)

for the year ended 31 December 2000

	Freehold land and buildings £'000	Short leasehold Property £'000	Fixtures and fittings £'000	Plant and equipment £'000	Motor Vehicles £'000	Total £'000
9 Tangible fixed assets						
Group						
<i>Cost</i>						
At 31 December 1999	499	3,437	3,632	3,748	959	12,275
Reclassification	(6)	6	-	-	-	-
Additions	-	1,540	1,092	1,736	267	4,635
Disposals	-	(1,064)	(270)	(660)	(25)	(2,019)
At 31 December 2000	493	3,919	4,454	4,824	1,201	14,891
<i>Depreciation</i>						
At 31 December 1999	4	927	1,677	2,057	395	5,060
Reclassification	(4)	4	-	-	-	-
Charged in year	10	517	562	670	238	1,997
Disposals	-	(604)	(123)	(426)	(19)	(1,172)
At 31 December 2000	10	844	2,116	2,301	614	5,885
<i>Net book value</i>						
At 31 December 2000	483	3,075	2,338	2,523	587	9,006
At 31 December 1999	495	2,510	1,955	1,691	564	7,215
Company						
<i>Cost</i>						
At 31 December 1999	493	3,421	3,645	3,698	958	12,215
Reclassification	-	15	(15)	-	-	-
Additions	-	1,541	1,092	1,753	267	4,653
Disposals	-	(1,063)	(268)	(641)	(24)	(1,996)
At 31 December 2000	493	3,914	4,454	4,810	1,201	14,872
<i>Depreciation</i>						
At 31 December 1999	-	926	1,677	2,002	394	4,999
Charged in year	10	517	562	651	238	1,978
Disposals	-	(603)	(123)	(408)	(18)	(1,152)
At 31 December 2000	10	840	2,116	2,245	614	5,825
<i>Net book value</i>						
At 31 December 2000	483	3,074	2,338	2,565	587	9,047
At 31 December 1999	493	2,495	1,968	1,696	564	7,216

Notes to the financial statements (continued)

for the year ended 31 December 2000

9 Tangible fixed assets (continued)

The net book value of plant and equipment of the Group and Company includes an amount of £1,335,000 (1999: £Nil) in respect of assets held under finance leases. Depreciation charged during the year in respect of these assets amounted to £37,000 (1999: £Nil).

The net book value of motor vehicles of the Group includes an amount of £15,000 (1999: £22,000) in respect of assets held under finance leases. Depreciation charged during the year in respect of these assets amounted to £7,000 (1999: £7,000).

10 Investments

Company	£000	£000
Shares in subsidiary undertakings, at cost	168	168
Less: impairment provision	(168)	(168)
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

	Principal activity	Country of Incorporation	Proportion of ordinary shares held
The Company's subsidiary undertakings are:			
M & O Business Systems Limited	Sale of computer equipment and computer programs	England	75%
Bargain Limited	Dormant	England	100%
Homes & More Limited	Dormant	England	100%
ISE Far East Limited	Dormant	Hong Kong	100%
Poundland Limited	Dormant	England	100%
Poundland International Limited	Dormant	England	100%
Sheptonview Limited	Dormant	England	100%

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
11 Stocks				
Goods purchased for resale	9,619	7,409	9,614	7,402
	<hr/>	<hr/>	<hr/>	<hr/>

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
12 Debtors				
Trade debtors	424	532	403	472
Other debtors	59	33	41	8
Amounts owed by group undertakings	-	-	92	316
Prepayments and accrued income	2,845	2,722	2,845	2,679
	<hr/>	<hr/>	<hr/>	<hr/>
	3,328	3,287	3,381	3,475
	<hr/>	<hr/>	<hr/>	<hr/>

The ISE Group plc

Notes to the financial statements (continued) for the year ended 31 December 2000

	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
13 Creditors: amounts falling due within one year				
Bank loan	23	23	23	23
Obligations under finance leases	292	9	282	-
Trade creditors	12,816	7,432	12,797	7,416
Corporation tax	(17)	518	(17)	518
Other taxation and social security	1,569	1,355	1,554	1,347
Other creditors	1,015	457	989	430
Amounts owed to group undertakings	-	-	159	415
Accruals and deferred income	2,325	2,592	2,322	2,590
	18,023	12,386	18,109	12,739
14 Creditors: amounts falling due after more than one year				
Bank loan	198	228	198	228
Obligations under finance leases	1,054	11	1,053	-
Amounts owed to group undertakings	-	-	81	80
Accruals and deferred income	212	259	212	259
	1,464	498	1,544	567

The bank loan is secured by a charge on the group's freehold land and buildings.

Analysis of Borrowings

Group	2000		1999	
	Loans £'000	Finance leases £'000	Loans £'000	Finance leases £'000
Amounts payable within 1 year	23	292	23	9
Between 1 and 2 years	23	283	23	9
Between 2 and 5 years	175	771	205	2
	221	1,346	251	20
Company				
Amounts payable within 1 year	23	282	23	-
Between 1 and 2 years	23	282	23	-
Between 2 and 5 years	175	771	205	-
	221	1,335	251	-

Notes to the financial statements (continued)

for the year ended 31 December 2000

15 Provisions for liabilities and charges

Deferred taxation

Full provision has been made under the liability method for taxation deferred by accelerated capital allowances and other timing differences. The amounts involved are as follows:

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
Group			
At 31 December 1999	358	(20)	338
Credit to profit and loss account	(153)	(20)	(173)
At 31 December 2000	205	(40)	165
Company			
At 31 December 1999	358	(20)	338
Credit to profit and loss account	(153)	(20)	(173)
At 31 December 2000	205	(40)	165

16 Called up share capital

	2000 £	1999 £
<i>Authorised</i>		
500,000 ordinary shares of £1 each	500,000	500,000
<i>Allotted and issued</i>		
100 ordinary shares of £1 each, fully paid	100	100
49,900 ordinary shares of £1 each, partly paid	12,475	12,475
	12,575	12,575

The ISE Group plc

Notes to the financial statements (continued)

for the year ended 31 December 2000

17 Reserves	Profit and loss account	
	Group £'000	Company £'000
At 31 December 1999	6,296	6,011
Retained loss for the financial year	(1,331)	(1,182)
Exchange difference	15	-
	<hr/>	<hr/>
At 31 December 2000	4,980	4,829
	<hr/>	<hr/>

The cumulative amount of goodwill written off to reserves is £73,000 (1999: £73,000).

18 Reconciliation of movements in shareholders' funds	Group		Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
(Loss)/profit for the financial year	(1,331)	1,556	(1,182)	1,485
Other recognised gains and losses	15	7	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net (reduction)/increase in shareholders' funds	(1,316)	1,563	(1,182)	1,485
Opening shareholders' funds	6,309	4,746	6,024	4,539
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	4,993	6,309	4,842	6,024
	<hr/>	<hr/>	<hr/>	<hr/>

19 Minority interest	2000 £'000	1999 £'000
Group		
At 31 December 1999	4	3
Retained (loss)/profit for year	(13)	1
	<hr/>	<hr/>
At 31 December 2000	(9)	4
	<hr/>	<hr/>

All minority interests are attributable to equity interests.

Notes to the financial statements (continued)
for the year ended 31 December 2000

20 Operating lease commitments

The Group has annual commitments under non-cancellable operating leases as follows:

Group	Land and buildings		Other	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Operating leases which expire:				
- within one year	-	475	81	54
- between two and five years inclusive	561	569	595	519
- in over five years	5,237	4,128	-	-
	<u>5,798</u>	<u>5,172</u>	<u>676</u>	<u>573</u>
Company				
Operating leases which expire:				
- within one year	-	468	66	54
- between two and five years inclusive	561	561	595	519
- in over five years	5,237	4,128	-	-
	<u>5,798</u>	<u>5,157</u>	<u>661</u>	<u>573</u>

21 Capital commitments

The Group and Company had no contracted capital expenditure (1999: £Nil).

The ISE Group plc

Notes to the financial statements (continued)
for the year ended 31 December 2000

22	Reconciliation of operating profit to net cash	2000	1999
	Inflow from operating activities	£'000	£'000
	Operating profit before exceptional items	243	2,546
	Cash impact of exceptional items	(580)	-
	Depreciation	1,997	1,438
	Increase in stocks	(2,210)	(2,200)
	Increase in debtors	(41)	(410)
	Increase in creditors	5,741	2,554
		<hr/>	<hr/>
	Net cash inflow from operating activities	5,150	3,928
		<hr/>	<hr/>
23	Gross cash flows		
	Returns on investment and servicing of finance		
	Interest received	15	31
	Interest paid	(312)	(161)
	Interest element of finance lease payments	(6)	(1)
		<hr/>	<hr/>
		(303)	(131)
		<hr/>	<hr/>
	Capital expenditure		
	Payments to acquire tangible fixed assets	(3,263)	(4,004)
	Proceeds on disposal of tangible fixed assets	81	19
		<hr/>	<hr/>
		(3,182)	(3,985)
		<hr/>	<hr/>
	Financing		
	Mortgage payments	(30)	(23)
	Capital element of finance lease payments	(41)	(10)
		<hr/>	<hr/>
		(71)	(33)
		<hr/>	<hr/>

		At		Other	At
	31 December	1999	Cash flows	non-cash	31 December
		£'000	£'000	changes	2000
24	Analysis of changes in net funds			£'000	£'000
	Cash at bank and in hand	1,624	1,059	-	2,683
	Mortgage	(251)	30	-	(221)
	Finance leases	(20)	41	(1,367)	(1,346)
		<hr/>	<hr/>	<hr/>	<hr/>
		1,353	1,130	(1,367)	1,116
		<hr/>	<hr/>	<hr/>	<hr/>

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £1,367,000.

The ISE Group plc

Five year trading summary

	2000	1999	1998	1997	1996
Turnover					
£'000	116,313	101,155	79,449	65,882	56,623
Year on year increase %	15.0%	27.3%	20.6%	16.4%	51.5%
Gross profit					
£'000	38,674	35,087	26,608	21,269	16,942
% of turnover	33.3%	34.7%	33.5%	32.3%	29.9%
Operating profit, before exceptional items					
£'000	248	2,546	2,700	2,311	1,268
Net assets					
£'000	4,984	6,313	4,749	3,093	1,871
Number of stores trading at year end	62	55	49	44	42