The ISE Group plc
(formerly Poundland plc)

Directors' report and financial statements

31 December 1997
Registered number 2495645

Directors' report and financial statements

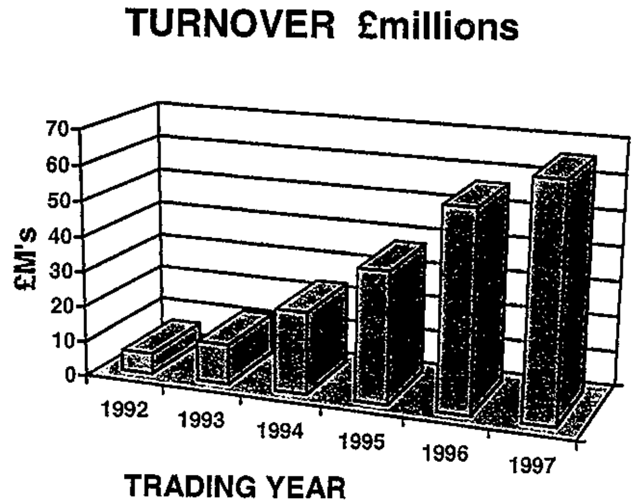
Contents

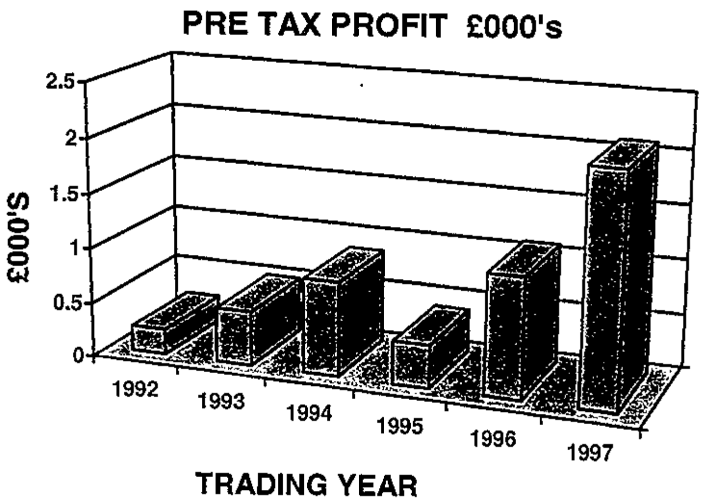
GROUP OVERVIEW 1997.

It is a pleasure to report the conclusion of a year in which our group continued to demonstrate its ability to produce impressive results.

We were particularly pleased to have gained official recognition as one of the fastest growing companies both at home and abroad.

In Europe, "The European Top 500 1997 Honorary Listing" ranked us 5th fastest growing company between 1991 and 1996, and at home, the Virgin Atlantic "Fast Track 100" rankings placed us in the No.1 position for a retailer of homewares and toys.





In financial terms, 1997 provided us with an extremely pleasing result. Whilst turnover increased by 16.3% to £65.9m (1996 £56.6m), supported by an underlying increase in like for like sales of 8.7%, profit before tax increased by 89% to £2.1m (1996 £1.1m).

Gross margin performance of 32.3% was a 2.3 percentage points improvement over 1996, which enhanced gross margin by £1.5m. This was due to an improvement in our buying performance and especially in respect of imported merchandise, where we are particularly enhancing our ongoing relationships with foreign suppliers.

Interest costs increased from £0.17m to £0.23m, however, the increased operating profit means that our interest cover increased to 10.0 times (1996 7.6 times).

The effective rate of taxation was 41.2% (1996 44.0%), the high rate still reflecting the value of capital expenditure for which capital allowances are not available.

Finally, in financial terms, it is pleasing to note that net assets have increased by 65.3% to £3.1m (1996 £1.9m).

Our greatly improved profits were the result of a number of factors.

The latter part of 1997 saw the second phase of works completed at The Meadows, our central distribution facility. Doubling our office space, providing our administration departments with the facilities they require to bring into the business key personnel, operate effectively and provide the scope to grow and meet the demands both present and future, of the business.

Our belief in the importance of recognising people as our most valuable resource, has seen great advances made in the quality of people who have joined our business.

Our philosophy of recruiting top talent and our pledge to provide ongoing training, has proved to us that ability and experience add up to skill.

We have created a culture of challenge where every individual is focused on providing solutions, rather than service.

Whilst we did not open stores aggressively during 1997, we certainly did not stand still. The near doubling of profits over 1996 is testimony to that.

Strong like for like sales growth and increased efficiencies across the company produced a result with which we are very pleased.

An example of these efficiencies is the utilisation of our distribution fleet to carry out "supplier pickups", where our otherwise empty vehicles, collect stock direct from our suppliers on their return journey to the Retail Distribution Centre. This arrangement is financially beneficial for both our suppliers and ourselves in that the revenue generated will significantly help to reduce the cost of running our distribution fleet.

A combination of improved shipping management, quality control and the ever increasing contribution made by our Hong Kong based buying operation Calasca Ltd, generated improved margin, improved quality and improved merchandise ranges. We realistically expect the amount of merchandise sourced via our Hong Kong office to grow by at least 50% during 1998.

We believe that our customers no longer have preconceptions about "where they buy what" and one of our strongest skills is making a success of "re-merchandising" merchandise, which is available as a result of close-out ranges.

We have developed into being very good learners and have grown into the knowledge that the better we understand our core customers, the better our performance will be.

Knowledge of our customers needs, and the effects of serving our core customers better, has shaped our view that organic growth will be based not only on economies of scale, but on relationships with our customer's.

In the home market, greatest efficiency gains have been made, when we work closely with our suppliers and business associates. Our fastest growing accounts are undoubtedly the ones where suppliers understand our business well, and will work closely with us in creating exclusive products. Whilst we have always enjoyed good supplier relationships, the strongest bonds have been forged when we are given consideration for prompt and early payment, offered retrospective discounts which reward loyalty, and a willingness to arrange direct shipment of their merchandise to our warehouse when quantities ordered, are particularly large.

Those who have charted our progress since 1990 will be aware of our commitment to computerised systems. Indeed, many of our retail and distribution systems are the envy of other businesses.

Our passion for constantly improving systems led us into the acquisition of a controlling interest in M&O Business Systems and Software (Oxford) Limited, which had supplied us with bespoke software since our inception. The decision to acquire was based on two main factors. One was that we had already put in place a programming and system support team to develop our software "in house" as we had already purchased the source code from M&O. Secondly that as a result of the sale of the source code to our company, the innovative software that we were creating was our property, and could not be marketed commercially by M&O.

Now, we are able to offer for sale, tailored versions of our systems to organisations requiring similar business system solutions to ourselves.

As a result of the acquisition of M&O, their Managing Director, George Oldridge, a business systems professional with more than 20 years experience in system development, joined our company as IT Director.

During 1997, our growth and development options came more clearly into focus. An association with a retailer operating in France, demonstrated the ability of our "one price" concept to improve turnover by as much as 100% in their established stores, in what is a very difficult marketplace.

Encouraged by our experience in France, we opened discussions during 1997 with existing retailers in Africa, Mainland Europe, The Middle East and South America. The discussions are being held with a view to doing business either on a joint venture, or supply agreement basis.

The trials of our new trading concept, reached an advanced stage during 1997. Our experiences whilst trialing the new concept have proved highly valuable. As a result, a leading design consultancy was commissioned to provide a total design package in readiness of a major launch of our new concept Homes & More, during 1998.

HOMES
& more

Homes & More is targeted at a sector which is currently unexploited.

The revival of the homewares market concentrates on an upscale offer, focusing on occasional purchases.

Homes & More is destined to enjoy volume business, previously associated with "discounters", by catering for lifestyle groups which are currently deprived of what they really want which is; fashionable merchandise in a fashionable, comfortable environment, presented in a way which values customer's time as highly as their currency. We know that value has more than one dimension, and Homes & More is designed to provide the right combination of the facets of value, which create an **Irresistible Shopping Experience**.

By making certain that our purchasing and business management skills remain central to any other business activities that we develop or become associated with, we remain in control. Whether we choose to grow into joint ventures overseas or at home, supply agreements, software sale or exporting, every activity is firmly locked into our core skills.

Our systems and merchandise transport very well internationally, and our purchasing which is now on a truly global scale, provides us with the ability to enter new retail markets both at home and abroad.

In order that each of the businesses that have either joined or been created during 1997 develop identities of their own, we decided to change the name of Poundland plc to THE ISE GROUP plc

We look forward to 1998 and the approaching new millennium as an open window of opportunity, through which THE ISE GROUP plc will evolve the vibrant Poundland "one price" trading format, to meet new challenges and with the assistance of external funding, will establish Homes & More as a major new force in UK retailing and develop our business interests overseas.

We intend to build on our strengths of operational excellence, product leadership and customer intimacy, and make THE ISE GROUP plc a truly global organisation.

What is certain, is that we will make sure that the experience of growing our business is never boring, for either our customers or ourselves.

D. P. Dodd
Director

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Principal activity and business review

The principal activity of the group was that of homeware and toy retailers. Future developments are likely to be in the same field. During the year, the group set up Calasca Limited, a buying operation located in Hong Kong, to source stock from the Far East. Other information in respect of the development of the business during the year and of the position of the group at the year end can be found in the Group Overview on pages 1 to 4.

Change of name

On 9 March 1998 the company's name was changed to The ISE Group plc

Results and dividends

The results for the year are set out on page 9.

The directors do not recommend the payment of a dividend (1996: £Nil). All retained profits are transferred to reserves.

Directors and directors' interests

The directors of the company during the year and their interests in the shares of group undertakings as recorded in the register of directors' interests were as follows:

	Ordinary shares of £1 each in The ISE Group plc	
	31 December 1997	31 December 1996 or at date of appointment
SK Smith	**24,500**	24,500
DP Dodd	**Nil**	Nil
PL Roberts (resigned 6 August 1997)	**Nil**	Nil
G Oldridge (appointed 1 October 1997)	**Nil**	Nil

Employees

The company has developed and maintained arrangements whereby employees are consulted and provided with information about current activities and progress within the company and with training to improve the operational efficiency of the company.

The company supports the employment of disabled people wherever possible, through recruitment, by retention of those who become disabled during their employment and generally through training, career development and promotion, having regard to their particular aptitudes and abilities. It is company policy to provide equal employment opportunities without regard to race, religion, sex, national origin or age.

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. Company policy is to ensure that suppliers know the terms on which payment will take place at the time of entering a transaction.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

TMSmith

Mrs T Smith
Secretary

The Meadows
Cannock Road
Wolverhampton
West Midlands
WV10 ORD

11 May 1998

Directors' report *(continued)*

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 of the profit or loss 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 a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

KPMG
2 Cornwall Street
Birmingham B3 2DL

Report of the auditors to the members of The ISE Group plc

We have audited the financial statements on pages 9 to 23.

Respective responsibilities of directors and auditors

As described on page 7, 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. 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 mis-statement, 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 group as at 31 December 1997 and of the profit of the company and group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

11 May 1998

Consolidated profit and loss account

for the year ended 31 December 1997

	Note	Continuing operations 1997 £'000	1996 £'000
Turnover	2	**65,882**	56,623
Cost of sales		**(44,613)**	(39,681)
Gross profit		**21,269**	16,942
Distribution costs		**(15,209)**	(13,137)
Administrative expenses		**(3,749)**	(2,537)
Operating profit	3	**2,311**	1,268
Interest receivable		**38**	13
Interest payable	6	**(270)**	(180)
Profit on ordinary activities before taxation		**2,079**	1,101
Tax on profit on ordinary activities	7	**(857)**	(485)
Retained profit for the financial year	16	**1,222**	616

The notes on pages 13 to 23 form part of the financial statements.

Movements on reserves are shown in note 16 to the financial statements.

Statement of total consolidated recognised gains and losses

There were no recognised gains or losses in either the current or preceding year other than those disclosed in the consolidated profit and loss account.

The reconciliation of movements in shareholders' funds is shown in note 17 to the financial statements.

Note of historical cost profits and losses

There is no difference between the profit as disclosed in the profit and loss account and the profit on an unmodified historical cost basis in either the current or preceding financial year.

Consolidated balance sheet
at 31 December 1997

	Note		1997		1996
		£'000	**£'000**	£'000	£'000
Fixed assets					
Tangible assets	*8*		**4,604**		4,469
Current assets					
Stocks	*10*	**4,943**		4,378	
Debtors	*11*	**1,752**		2,261	
Cash at bank and in hand		**3,351**		1,906	
		10,046		8,545	
Creditors: amounts falling due within one year	*12*	**(10,621)**		(9,807)	
Net current liabilities			**(575)**		(1,262)
Total assets less current liabilities			**4,029**		3,207
Creditors: amounts falling due after more than one year	*13*		**(720)**		(1,046)
Provisions for liabilities and charges	*14*		**(216)**		(290)
Net assets			**3,093**		1,871
Capital and reserves					
Called up share capital	*15*		**13**		13
Profit and loss account	*16*		**3,080**		1,858
Total equity shareholders' funds	*17*		**3,093**		1,871

These financial statements were approved by the board of directors on 11 May 1998 and signed on its behalf by:

SK Smith
Director

Company balance sheet
at 31 December 1997

	Note		1997		1996
		£'000	**£'000**	£'000	£'000
Fixed assets					
Tangible assets	*8*		**4,591**		4,469
Current assets					
Stocks	*10*	**4,974**		4,378	
Debtors	*11*	**1,805**		2,261	
Cash at bank and in hand		**3,207**		1,906	
		9,986		8,545	
Creditors: amounts falling due within one year	*12*	**(10,603)**		(9,807)	
Net current liabilities			**(617)**		(1,262)
Total assets less current liabilities			**3,974**		3,207
Creditors: amounts falling due after more than one year	*13*		**(720)**		(1,046)
Provisions for liabilities and charges	*14*		**(226)**		(290)
Net assets			**3,028**		1,871
Capital and reserves					
Called up share capital	*15*		**13**		13
Profit and loss account	*16*		**3,015**		1,858
Total equity shareholders' funds	*17*		**3,028**		1,871

These financial statements were approved by the board of directors on 11 May 1998 and signed on its behalf by:

SK Smith
Director

Consolidated cash flow statement
for the year ended 31 December 1997

	Note	1997 £'000	1996 £'000
Net cash inflow from operating activities	*19*	**3,587**	2,701
Returns on investments and servicing of finance	*20*	**(232)**	(182)
Corporation tax paid		**(489)**	(89)
Capital expenditure	*20*	**(1,080)**	(957)
		1,786	1,473
Financing activities	*20*	**(341)**	(447)
Increase in cash		**1,445**	1,026

Reconciliation of net cash flow to movement in net funds (note 21)

	£'000	1997 £'000	£'000	1996 £'000
Increase in cash in the period	**1,445**		1,026	
Cash repaying mortgage	**23**		23	
Decrease/(increase) in finance leases	**211**		(99)	
Decrease/(increase) in secured loan	**107**		(40)	
Change in net debt		**1,786**		910
Net funds/(debt) at beginning of year		**866**		(44)
Net cash at end of year		**2,652**		866

Notes

(forming part of the financial statements)

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements:

Basis of accounting

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

Basis of consolidation

The group financial statements consolidate those of the company and its subsidiary undertakings made up to 31 December 1997.

In accordance with Section 230 (4) of the Companies Act 1985 The ISE Group plc is exempt from the requirement to present its own profit and loss account.

Turnover

Turnover represents the invoiced amounts of goods sold, excluding VAT.

Fixed assets and depreciation

Depreciation on fixed assets is calculated so as to write off the cost less the estimated residual value of all fixed assets over their estimated useful lives as follows:

Leasehold property	Over the term of the lease
Property improvements	10-15% straight line
Plant and equipment	15-33% straight line
Motor vehicles	25% straight line
Fixtures and fittings	15% straight line

All leasehold properties are held on short term leases of between two and thirty five years.

It is the company's policy to maintain its freehold properties in a state of good repair. Because of this, such properties maintain residual disposal values, based on prices prevailing at the date of purchase, at least equal to their book values and accordingly no provision for depreciation is made. Where there is a permanent diminution in the value of a freehold property a charge is made to the profit and loss account.

Stocks

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

Notes *(continued)*

1 **Principal accounting policies** *(continued)*

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.

Foreign currencies

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

The overseas subsidiary undertaking's profit and loss account and balance sheet is translated using the rate of exchange ruling at the balance sheet date.

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.

2 **Turnover**

An analysis of turnover by geographical market is as follows:

	1997	1996
	£'000	£'000
United Kingdom	**65,880**	56,623
Rest of the world	**2**	-
	65,882	56,623

Notes *(continued)*

3 Operating profit

	1997 £'000	1996 £'000
Operating profit is stated after charging		
Auditors' remuneration:		
Audit work	16	14
Non-audit work	28	11
Payments under operating leases:		
Hire of plant and equipment	383	180
Other	3,761	3,477
Depreciation and other amounts written off tangible fixed assets	951	730

4 Remuneration of directors

	1997 £'000	1996 £'000
Directors' emoluments	204	167
Company contributions to money purchase schemes	23	19
	227	186

The emoluments of the highest paid director were £80,000 (1996: £60,000), and company pension contributions of £13,000 (1996: £13,000) were made to a money purchase scheme on his behalf.

Number of directors who are:

	Number 1997 £000	1996 £000
Members of money purchase pension schemes	2	2

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1997	1996
Administration	**79**	59
Selling and distribution	**1,099**	974
	1,178	1,033

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	**8,863**	7,016
Social security costs	**621**	464
Other pension costs	**81**	22
	9,565	7,502

6 Interest payable

	1997 **£'000**	1996 £'000
On bank overdrafts	**59**	83
Secured loan interest	**36**	42
Finance lease interest	**23**	24
Other interest payable	**152**	31
	270	180

7 Taxation

	1997 **£'000**	1996 £'000
Corporation tax on profit on ordinary activities at 31.5% *(1996: 33%)*	**857**	457
Under/(over) provision in previous year	**58**	(33)
Deferred taxation movement:		
- Current year	**(50)**	12
- Prior year	**(24)**	49
Overseas taxation	**16**	-
	857	485

Notes *(continued)*

8 Tangible fixed assets

Group	Motor vehicles £'000	Plant and equipment £'000	Fixtures and fittings £'000	Short leasehold property £'000	Freehold land and buildings £'000	Total £'000
Cost						
At 1 January 1997	305	2,485	1,208	1,535	493	6,026
Additions	179	647	19	268	-	1,113
Disposals	(43)	-	-	-	-	(43)
At 31 December 1997	441	3,132	1,227	1,803	493	7,096
Depreciation						
At 1 January 1997	90	636	581	250	-	1,557
Charged in year	87	507	182	175	-	951
Disposals	(16)	-	-	-	-	(16)
At 31 December 1997	161	1,143	763	425	-	2,492
Net book value						
At 31 December 1997	**280**	**1,989**	**464**	**1,378**	**493**	**4,604**
At 31 December 1996	215	1,849	627	1,285	493	4,469

The net book value of assets held under finance leases was £784,000 (1996: £257,000) and the depreciation charged for the year on those assets was £151,000 (1996: £67,000).

Notes *(continued)*

8 **Tangible fixed assets** *(continued)*

Company	**Motor vehicles £'000**	**Plant and equipment £'000**	**Fixtures and fittings £'000**	**Short leasehold property £'000**	**Freehold land and buildings £'000**	**Total £'000**
Cost						
At 1 January 1997	305	2,485	1,208	1,535	493	6,026
Additions	179	631	19	268	-	1,097
Disposals	(43)	-	-	-	-	(43)
At 31 December 1997	441	3,116	1,227	1,803	493	7,080
Depreciation						
At 1 January 1997	90	636	581	250	-	1,557
Charged in year	87	504	182	175	-	948
Disposals	(16)	-	-	-	-	(16)
At 31 December 1997	161	1,140	763	425	-	2,489
Net book value						
At 31 December 1997	**280**	**1,976**	**464**	**1,378**	**493**	**4,591**
At 31 December 1996	215	1,849	627	1,285	493	4,469

The net book value of assets held under finance leases was £784,000 (1996: £257,000) and the depreciation charged for the year on those assets was £151,000 (1996: £67,000).

9 **Fixed asset investments**

		Company
	1997 £	1996 £
Shares in subsidiary undertakings	**178**	100
Less: provision against investment	**(100)**	(100)
	78	-

The increase in fixed asset investments represents the value of the investment in Calasca Limited.

Notes *(continued)*

9 Fixed asset investments *(continued)*

The subsidiary undertakings are:

	Nature of business	Percentage of ordinary shares held
Poundland Limited (formerly Poundworld Limited), a company registered in England and Wales, which ceased to trade on 31 July 1993	Homeware and toy retailer	100%
Calasca Limited, a company registered in Hong Kong, which was incorporated on 11 December 1996.	Homeware and toy distributor	100%

10 Stocks

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Goods purchased for resale	4,943	4,378	4,974	4,378

11 Debtors

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Trade debtors	133	179	133	179
Amounts owed by group undertakings	-	-	55	-
Other debtors	31	186	31	186
Prepayments and accrued income	1,588	1,896	1,586	1,896
	1,752	2,261	1,805	2,261

12 Creditors: amounts falling due within one year

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Mortgage	23	23	23	23
Obligations under finance leases	144	329	144	329
Trade creditors	7,068	6,212	7,068	6,212
Corporation tax	917	475	901	475
Other taxation and social security	1,276	1,449	1,276	1,449
Other creditors	109	92	109	92
Accruals and deferred income	1,084	1,227	1,082	1,227
	10,621	9,807	10,603	9,807

Notes *(continued)*

13 Creditors: amounts falling due after more than one year

	Group		Company	
	1997	1996	**1997**	1996
	£'000	£'000	**£'000**	£'000
Mortgage	**275**	298	**275**	298
Secured loan	**257**	364	**257**	364
Obligations under finance leases	**-**	26	**-**	26
Accruals and deferred income	**188**	358	**188**	358
	720	1,046	**720**	1,046

The loan is secured by a fixed charge over the company's assets. The loan has no fixed terms of repayment. Interest is payable on the loan at 9.75% (1996: 9.75%) per annum.

Analysis of Borrowings

Group and Company

	1998	1997
	£'000	£'000
Amounts payable within 1 year	**167**	352
Between 1 and 2 years	**23**	23
Between 2 and 5 years	**509**	665
	699	1,040

14 Provisions for liabilities and charges

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:

Group

	Accelerated capital allowances	**Other timing differences**	**Total**
	£'000	**£'000**	**£'000**
At 1 January 1997	297	(7)	290
Transfer from profit and loss account	(37)	(37)	(74)
At 31 December 1997	260	(44)	216

Notes *(continued)*

14 Provisions for liabilities and charges *(continued)*

Company

	Accelerated capital allowances	Other timing differences	Total
	£'000	£'000	£'000
At 1 January 1997	297	(7)	290
Transfer from profit and loss account	(37)	(27)	(54)
At 31 December 1997	260	(34)	226

15 Called up share capital

	1997	1996
	£	£
Authorised:		
500,000 ordinary shares of £1 each	**500,000**	500,000
Allotted:		
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

16 Reserves

	Profit and loss account	
	Group 1997	Company 1997
	£'000	£'000
At 1 January 1997	1,858	1,858
Retained profit for the financial year	1,222	1,157
At 31 December 1997	3,080	3,015

17 Reconciliation of movements in shareholders' funds

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Profit for the financial year	**1,222**	616	**1,157**	616
Opening shareholders' funds	**1,871**	1,255	**1,871**	1,255
Closing shareholders' funds	**3,093**	1,871	**3,028**	1,871

Notes *(continued)*

18 Commitments

Commitments in respect of non-cancellable operating lease rentals to be paid during the next year are:

Group

	Land and buildings		Other	
	1997	1996	**1997**	1996
	£'000	£'000	**£'000**	£'000
Operating leases which expire:				
- within one year	**127**	-	**23**	-
- within two to five years	**488**	578	**265**	188
- after five years	**1,819**	1,714	**-**	-
	2,434	2,292	**288**	188

Company

	Land and buildings		Other	
	1997	1996	**1997**	1996
	£'000	£'000	**£'000**	£'000
Operating leases which expire:				
- within one year	**127**	-	**23**	280
- within two to five years	**475**	578	**265**	188
- after five years	**1,819**	1,714	**-**	-
	2,421	2,292	**288**	468

At 31 December 1997, contracted capital expenditure for which no provision has been made in the financial statements amounted to £Nil (1996: £Nil).

19 Reconciliation of operating profit to net cash inflow from operating activities

Group

	1997	1996
	£'000	£'000
Operating profit	**2,311**	1,268
Depreciation charge	**951**	730
Profit on disposal of fixed assets	**(6)**	(15)
(Increase) in stocks	**(565)**	(1,003)
Decrease/(increase) in debtors	**509**	(584)
Increase in creditors	**387**	2,305
Net cash inflow from operating activities	**3,587**	2,701

Notes *(continued)*

20 Gross cash flows

	£'000	1997 £'000	£'000	1996 £'000
Returns on investment and servicing of finance				
Interest received	38		13	
Interest paid	(247)		(170)	
Interest element of finance lease payments	(23)		(25)	
		(232)		(182)
Capital expenditure				
Payments to acquire tangible fixed assets	(1,113)		(995)	
Proceeds on disposal of tangible fixed assets	33		38	
		(1,080)		(957)
Financing				
Mortgage payments	(23)		(23)	
Decrease/(increase) in loan	(107)		39	
Capital element of finance lease payments	(211)		(463)	
		(341)		(447)

21 Analysis of changes in net funds

	At 1 January 1996 £'000	Cash flows £'000	At 1 January 1997 £'000	Cash flows £'000	At 31 December 1997 £'000
Cash at bank and in hand	880	1,026	1,906	1,445	3,351
Mortgage	(344)	23	(321)	23	(298)
Finance leases	(256)	(99)	(355)	211	(144)
Secured loan	(324)	(40)	(364)	107	(257)
	(44)	910	866	1,786	2,652

22 Related party transactions

In an arm's length transaction, the company incurred fees during the year in respect of consultancy services provided by Mr K Smith, the majority shareholder, amounting to £32,000 (1996: £40,000). At the year end, the balance outstanding in respect of such fees was £56,000 (1996: £24,000).

In addition, Mr K Smith has provided a loan to the company, which at 31 December 1997 amounted to £257,000 (1996: £358,000). Interest is payable on this loan at a rate of 9.75% per annum.

Three year trading summary of The ISE Group plc

	1997	1996	1995
	£'000	£'000	£'000
Turnover	**65,882**	56,623	37,364
Year on year increase %	**16.35%**	51.54%	59.43%
Gross profit	**21,269**	16,942	10,983
%	**32.28%**	29.92%	29.39%
Operating profit	**2,311**	1,268	494
Interest	**232**	167	90
Interest cover	**10.0**	7.6	5.5
Pre tax profit	**2,079**	1,101	404
%	**3.16%**	1.94%	1.08%
Net assets	**3,093**	1,871	1,255
Year on year increase %	**65.31%**	49.08%	22.92%
Number of stores trading at year end	**44**	42	33