

The ISE Group plc

**Directors' report and consolidated
financial statements**

Registered number 2495645

31 December 1999

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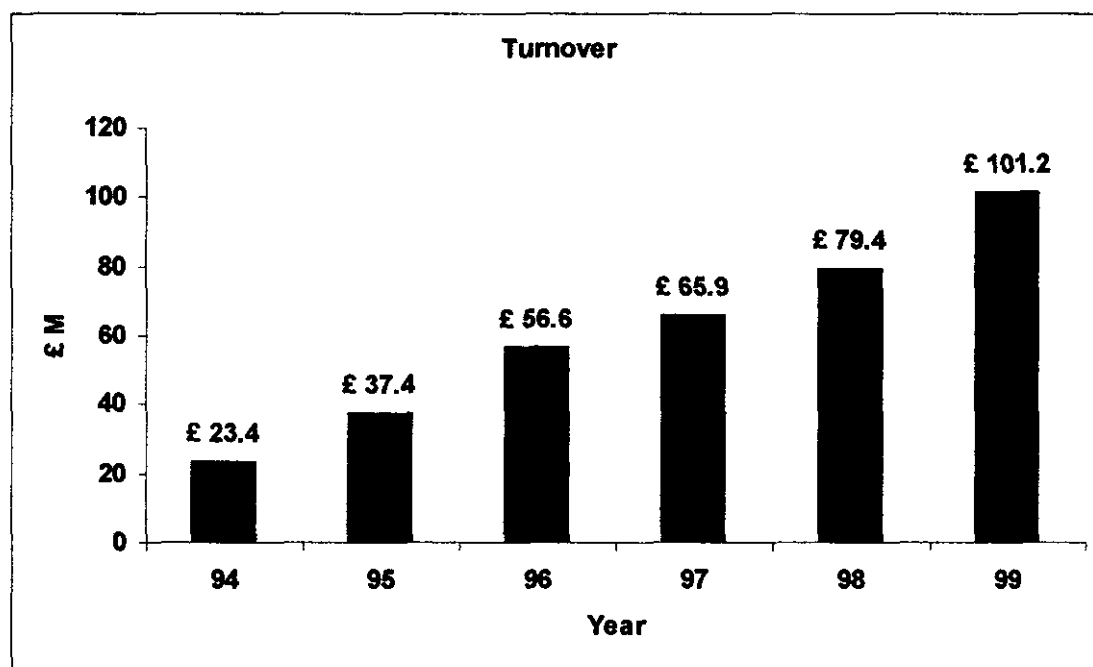
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Group Overview 1999

The Group is pleased to announce another very successful trading performance in the year ended 31 December 1999. A significant milestone was achieved in 1999 with turnover reaching in excess of £100 million for the first time. In fact, turnover for the year reached £101.2 million, from which we earned a profit before tax of £2.4 million. In addition, the strength of our balance sheet continued to improve, with net assets at the end of 1999 of £6.3 million (including a net cash balance of £1.6 million) being 32.9% higher than at the end of the previous year. These excellent results clearly demonstrate the merits of our strategic direction.

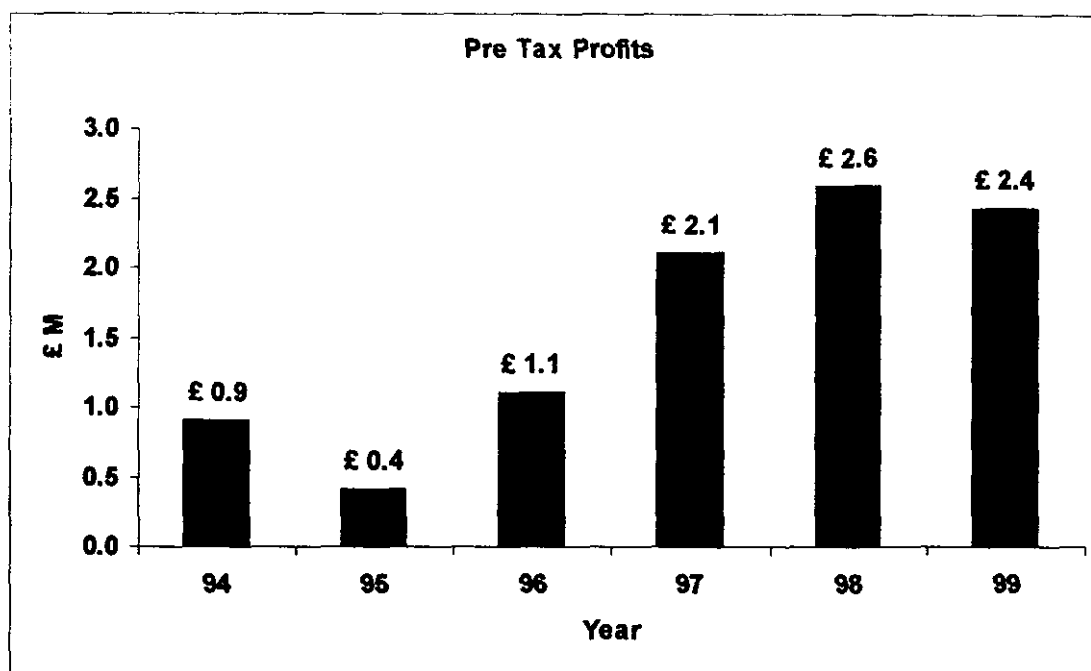
During the year turnover increased by 27.3%, from £79.4 million to £101.2 million. This substantial increase arose from a mixture of like for like gains in the underlying business of 7.4%, supplemented by the number of stores trading during the year increasing by 49 to 55 at the year-end.



Our gross margin percentage increased by 1.2 percentage points to 34.7% of turnover, as economies of large scale buying added value to our merchandise.

The year saw substantial investments in a number of different areas being made to ensure that the business continues to grow strongly in the years to come. Our most recent sites have been fitted out to ever higher specifications, our distribution facility has become operational for virtually 24 hours a day and new software has been implemented as we strive to manage our stocks and cash as efficiently as possible. We have replaced our core financial ledger systems and continue to progress towards the attainment of the "Investors in People" award. Unfortunately, accounting rules dictate that a lot of this expenditure must be written off in the year in which it is incurred, and this has given rise to an increase in our costs when expressed as a percentage of turnover. However we firmly believe that the benefits of this expenditure will be reaped over the forthcoming years.

Having accounted for the write off of this investment expenditure, our profit before tax for the year of £2.4 million is an excellent performance.



Our tax charge of 35.5% (1998 - 35.8%) remains higher than the standard rate of corporation tax due to certain expenditure not being allowable for tax purposes.

Our net assets at the year-end have increased substantially and now stand at £6.3 million (1998 - £4.7 million). This sum includes net cash balances of £1.4 million. However, as the cash flows of the Group are seasonal there is a requirement for additional funds at certain times during the year. To satisfy this requirement the Group has short-term facilities of £3.5 million with Barclays Bank plc. Net interest payable during the year was £131,000 (1998 - £119,000)

The prospects for 2000 and beyond look good, with continuing like for like growth from the underlying business, and with a continuing increase in the number and quality of stores planned. We will be moving into a purpose built central distribution centre and head office in the second half of 2000, which will enable us to focus our attention on further improvements in distribution, with increased warehousing capacity and substantially improved systems.

D. P. Dodd
Director

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

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. 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 and 2.

Results and dividends

The results for the year are set out on page 7.

The directors do not recommend the payment of a dividend (1998: £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 the company as recorded in the register of directors' interests were as follows:

	Ordinary shares of £1 each in The ISE Group plc	
	31 December 1999	31 December 1998
SK Smith	24,500	24,500
DP Dodd	Nil	Nil
G Oldridge	Nil	Nil
M Cordell * (appointed 1 April 1999)	Nil	Nil

* Non executive director

On 1 April 1999, DP Dodd was granted options over 7,500 of the existing ordinary £1 shares of the company.

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.

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 annual purchases, represented 41 days (1998: 38 days) at the year end.

Directors' report *(continued)*

Millennium issues

The company conducted a risk-based review of its computer systems and processes to identify those which could be affected and developed an implementation plan to test and remedy any faults. All remedial costs, which are not considered to be significant to the group, were written off as incurred.

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



Mrs T Smith
Secretary

The Meadows
Cannock Road
Wolverhampton
West Midlands
WV10 ORD

25 April 2000

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.



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 7 to 24.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, 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 company is not disclosed.

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 company and the group as at 31 December 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

25 April 2000

Consolidated profit and loss account
for the year ended 31 December 1999

	Note	1999 £'000	1998 £'000
Turnover	2	101,155	79,449
Cost of sales		(66,068)	(52,841)
Gross profit		35,087	26,608
Distribution costs		(25,074)	(18,497)
Administrative expenses		(7,467)	(5,411)
Operating profit	3	2,546	2,700
Interest receivable		31	24
Interest payable	6	(162)	(143)
Profit on ordinary activities before taxation		2,415	2,581
Tax on profit on ordinary activities	7	(858)	(923)
Profit on ordinary activities after taxation		1,557	1,658
Minority interests		(1)	(4)
Dividends		-	-
Retained profit for the financial year		1,556	1,654

The notes on pages 11 to 24 form part of the financial statements.

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

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

Consolidated balance sheet
at 31 December 1999

	Note	1999 £'000	1998 £'000
Fixed assets			
Tangible assets	8	7,215	4,638
Current assets			
Stocks	10	7,409	5,209
Debtors	11	3,287	2,876
Cash at bank and in hand		1,624	3,135
		<u>12,320</u>	<u>11,220</u>
Creditors: amounts falling due within one year	12	<u>(12,386)</u>	<u>(10,443)</u>
Net current (liabilities)/assets		(66)	777
Total assets less current liabilities		<u>7,149</u>	<u>5,415</u>
Creditors: amounts falling due after more than one year	13	(498)	(408)
Provisions for liabilities and charges	14	(338)	(258)
Net assets		<u>6,313</u>	<u>4,749</u>
Capital and reserves			
Called up share capital	15	13	13
Profit and loss account	16	6,296	4,733
Equity shareholders' funds	17	<u>6,309</u>	<u>4,746</u>
Minority interests	18	4	3
		<u>6,313</u>	<u>4,749</u>

These financial statements were approved by the board of directors on 25 April 2000 and signed on its behalf by:


SK Smith
Director

Company balance sheet
at 31 December 1999

	Note	1999 £000	1998 £000
Fixed assets			
Tangible assets	8	7,216	4,616
Investments	9	-	168
		<u>7,216</u>	<u>4,784</u>
Current assets			
Stocks	10	7,402	5,243
Debtors	11	3,475	2,909
Cash at bank and in hand		1,575	2,934
		<u>12,452</u>	<u>11,086</u>
Creditors: amounts falling due within one year	12	<u>(12,739)</u>	<u>(10,572)</u>
Net current (liabilities)/assets		<u>(287)</u>	<u>514</u>
Total assets less current liabilities		<u>6,929</u>	<u>5,298</u>
Creditors: amounts falling due after more than one year	13	(567)	(488)
Provisions for liabilities and charges	14	(338)	(271)
Net assets		<u>6,024</u>	<u>4,539</u>
Capital and reserves			
Called up share capital	15	13	13
Profit and loss account	16	6,011	4,526
Total equity shareholders' funds	17	<u>6,024</u>	<u>4,539</u>

The parent company made a profit £1,485,000 for the financial year (1998: £1,511,000).

These financial statements were approved by the board of directors on 25 April 2000 and signed on its behalf by:


SK Smith
Director

Consolidated cash flow statement
for the year ended 31 December 1999

	<i>Note</i>	1999 £'000	1998 £'000
Net cash inflow from operating activities	20	3,928	2,355
Returns on investments and servicing of finance	21	(131)	(119)
Corporation tax paid		(1,290)	(769)
Capital expenditure	21	(3,985)	(1,178)
Acquisitions	21	-	(80)
		<u>(1,478)</u>	<u>209</u>
Financing activities	21	(33)	(425)
(Decrease) in cash		<u>(1,511)</u>	<u>(216)</u>

Reconciliation of net cash flow to movement in net funds (note 22)

	1999 £'000	£'000	1998 £'000	£'000
(Decrease) in cash in the period	(1,511)		(216)	
Cash repaying mortgage	23		24	
(Increase)/decrease in finance leases	(20)		144	
Decrease in secured loan	-		257	
	<u> </u>		<u> </u>	
Change in net debt		(1,508)		209
Net funds at beginning of year		2,861		2,652
		<u> </u>		<u> </u>
Net funds at end of year		<u>1,353</u>		<u>2,861</u>

Statement of total recognised gains and losses

	1999 £000	1998 £000
Profit for the financial year	1,556	1,654
Currency translation difference on foreign currency investment	7	(1)
	<hr/>	<hr/>
Total gains and losses relating to the year	<u>1,563</u>	<u>1,653</u>

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 1999. Subsidiary undertakings acquired are accounted for using the acquisition accounting methods.

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.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised within fixed assets and amortised on a straight line basis over its estimated useful economic life.

Investments

In the company's balance sheet investments in subsidiary undertakings are stated at cost less amounts written off.

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.

No depreciation is provided on freehold properties. It is the group's practice to maintain its freehold properties in good condition, costs of repairs and maintenance being charged against revenue in the year in which they are incurred. The directors are of the opinion that, having regard to the estimated residual values (based on prices prevailing at the dates of acquisition) and the estimated useful economic lives, any depreciation involved would not be material. Any permanent diminution in value of such properties is charged to the profit and loss account.

Notes (continued)

1 Principal accounting policies (continued)

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.

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

(a) By geographical market:

	1999 £'000	1998 £'000
United Kingdom	101,052	79,448
Rest of the world	103	1
	<hr/> 101,155 <hr/>	<hr/> 79,449 <hr/>

Notes (continued)

2 Turnover (continued)

(b) By activity

	1999 £'000	1998 £'000
Homecare and toy retailing	100,884	79,347
Preparation and sale of computer programs and sale of computer equipment	271	102
	<u>101,155</u>	<u>79,449</u>

3 Operating profit

1999 £'000	1998 £'000
---------------	---------------

Operating profit of the group is stated after charging

Auditors' remuneration:

Audit work	27	26
Non-audit work	85	32

Payments under operating leases:

Hire of plant and equipment	430	337
Other	4,877	4,089

Depreciation and other amounts written off tangible fixed assets

Amortisation of goodwill	1,438	1,165
	-	73

4 Remuneration of directors

1999 £000	1998 £000
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Directors' emoluments	424	443
Company contributions to money purchase schemes	35	130
	<u>459</u>	<u>573</u>

The emoluments of the highest paid director were £181,000 (1998: £197,000), and company pension contributions of £18,000 (1998: £33,000) were made to a money purchase scheme on his behalf.

Number of directors who are:

Number 1999	1998
----------------	------

Members of money purchase pension schemes	2	2
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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	
	1999	1998
Administration	133	106
Selling and distribution	1,644	1,315
	<u>1,777</u>	<u>1,421</u>

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
	1999	1998
Wages and salaries	16,152	11,756
Social security costs	1,165	877
Other pension costs	166	332
	<u>17,483</u>	<u>12,965</u>

6 Interest payable

	1999	1998
	£'000	£'000
Bank loans and overdrafts	160	133
Finance lease	2	10
	<u>162</u>	<u>143</u>

7 Tax on profit on ordinary activities

	1999	1998
	£'000	£'000
Tax charge based on the profit for the year on ordinary activities:		
Corporation tax on profit at 31% (1998: 31.5%)	849	853
Over provision in previous year	(71)	(82)
Deferred taxation movement:		
- Current year	65	(23)
- Prior year	15	65
Overseas taxation	-	110
	<u>858</u>	<u>923</u>

Notes (continued)

8 Tangible fixed assets

	Freehold land and buildings £'000	Short leasehold property £'000	Fixtures and fittings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Group						
<i>Cost</i>						
At 1 January 1999	499	2,093	2,227	2,969	513	8,301
Additions	-	1,344	1,405	830	455	4,034
Disposals	-	-	-	(51)	(9)	(60)
At 31 December 1999	499	3,437	3,632	3,748	959	12,275
<i>Depreciation</i>						
At 1 January 1999	4	638	1,296	1,501	224	3,663
Charged in year	-	289	381	591	177	1,438
Disposals	-	-	-	(35)	(6)	(41)
At 31 December 1999	4	927	1,677	2,057	395	5,060
<i>Net book value</i>						
At 31 December 1999	495	2,510	1,955	1,691	564	7,215
At 31 December 1998	495	1,455	931	1,468	289	4,638

The net book value of assets held under finance leases at the year end was £22,000 (1998: £Nil) and the depreciation charged for the year on those assets was £7,000 (1998: £35,000).

Notes (continued)

8 Tangible fixed assets (continued)

Company	Freehold land and buildings £'000	Short leasehold property £'000	Fixtures and fittings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 January 1999	493	2,077	2,242	2,881	513	8,206
Additions	-	1,344	1,403	834	454	4,035
Disposals	-	-	-	(17)	(9)	(26)
At 31 December 1999	493	3,421	3,645	3,698	958	12,215
Depreciation						
At 1 January 1999	-	638	1,296	1,432	224	3,590
Charged in year	-	288	381	572	176	1,417
Disposals	-	-	-	(2)	(6)	(8)
At 31 December 1999	-	926	1,677	2,002	394	4,999
Net book value						
At 31 December 1999	493	2,495	1,968	1,696	564	7,216
At 31 December 1998	493	1,439	946	1,449	289	4,616

The net book value of assets held under finance leases at the year end was £Nil (1998: £Nil) and the depreciation charged for the year on those assets was £Nil (1998: £35,000).

9 Investments

	Shares in subsidiaries undertakings £
At 1 January 1999	167,829
Less: impairment provision	(167,829)
At 31 December 1999	-

Notes (continued)

9 Investments (continued)

The principal subsidiary undertakings are:

	Nature of business	Percentage of ordinary shares held
Poundland Limited, a company registered in Great Britain, which ceased to trade on 31 July 1993	Homeware and toy retailer	100%
ISE Far East Limited (formerly Calasca Limited), a company registered in Hong Kong, which was incorporated on 11 December 1996.	Homeware and toy distributor	100%
Sheptonview Limited, a company registered in Great Britain, which ceased to trade on 31 December 1994.	Dormant	100%
M&O Business Systems Limited (formerly M&O Business Systems & Software (Oxford) Limited), a company registered in Great Britain	Sale of computer equipment and computer programmes	75%

10 Stocks

	Group		Company
	1999 £'000	1998 £'000	1999 £'000
Goods purchased for resale	7,409	5,209	7,402
	<u>7,409</u>	<u>5,209</u>	<u>7,402</u>

11 Debtors

	Group		Company
	1999 £'000	1998 £'000	1999 £'000
Trade debtors	532	745	472
Amounts owed by group undertakings	-	-	316
Other debtors	33	128	8
Prepayments and accrued income	2,722	2,003	2,679
	<u>3,287</u>	<u>2,876</u>	<u>3,475</u>

Notes (continued)

12 Creditors: amounts falling due within one year

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Bank loan	23	23	23	23
Obligations under finance leases	9	-	-	-
Trade creditors	7,432	5,773	7,416	5,597
Amounts owed to group undertakings	-	-	415	468
Corporation tax	518	1,030	518	917
Other taxation and social security	1,355	1,741	1,347	1,726
Other creditors	457	197	430	164
Accruals and deferred income	2,592	1,679	2,590	1,677
	<u>12,386</u>	<u>10,443</u>	<u>12,739</u>	<u>10,572</u>

13 Creditors: amounts falling due after more than one year

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Bank loan	228	251	228	251
Obligations under finance leases	11	-	-	-
Amounts owed to group companies	-	-	80	80
Accruals and deferred income	259	157	259	157
	<u>498</u>	<u>408</u>	<u>567</u>	<u>488</u>

The bank loan is secured by a charge on the group's freehold property located in Hull.

Analysis of Borrowings

Group

	1999		1998	
	Loans £000	Finance leases £000	Loans £000	Finance leases £000
Amounts payable within 1 year	23	9	23	-
Between 1 and 2 years	23	9	23	-
Between 2 and 5 years	205	2	228	-
	<u>251</u>	<u>20</u>	<u>274</u>	<u>-</u>

Notes (continued)

13 Creditors: amounts falling due after more than one year

Company

	1999		1998	
	Loans £000	Finance leases £000	Loans	Finance leases £000
Amounts payable within 1 year	23	-	23	-
Between 1 and 2 years	23	-	23	-
Between 2 and 5 years	205	-	228	-
	<u>251</u>	<u>-</u>	<u>274</u>	<u>-</u>

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 £'000	Other timing differences £'000	Total £'000
At 1 January 1999	269	(11)	258
Transfer from profit and loss account	89	(9)	80
	<u>358</u>	<u>(20)</u>	<u>338</u>

Company

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 1999	269	2	271
Transfer from profit and loss account	89	(22)	67
	<u>358</u>	<u>(20)</u>	<u>338</u>

Notes (continued)

15 Called up share capital

	1999 £	1998 £
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
	<u>12,575</u>	<u>12,575</u>

16 Reserves

	Profit and loss account Group 1999 £'000	Company 1999 £'000
At 1 January 1999	4,733	4,526
Retained profit for the financial year	1,556	1,485
Exchange difference	7	-
	<u>6,296</u>	<u>6,011</u>
At 31 December 1999	6,296	6,011

The cumulative amount of goodwill written off to reserves at 31 December 1999 was £73,000 (1998: £73,000).

17 Reconciliation of movements in shareholders' funds

	Group 1999 £'000	1998 £'000	Company 1999 £'000	1998 £'000
Profit for the financial year	1,556	1,654	1,485	1,511
Other recognised gains/(losses) relating to the year	7	(1)	-	-
Opening shareholders' funds	4,746	3,093	4,539	3,028
	<u>6,309</u>	<u>4,746</u>	<u>6,024</u>	<u>4,539</u>
Closing shareholders' funds	6,309	4,746	6,024	4,539

Notes (continued)

18 Minority interests

	Group 1999 £000	Group 1998 £000
At beginning of year	3	-
Acquisition of subsidiary undertakings	-	(1)
Retained profit for year	1	4
	<hr/>	<hr/>
At end of year	4	3
	<hr/>	<hr/>

All minority interests are attributable to equity interests.

19 Commitments

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

Group	Land and buildings		Other	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Operating leases which expire:				
- within one year	475	260	54	163
- within two to five years	569	261	519	262
- after five years	4,128	3,580	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	5,172	4,101	573	425
	<hr/>	<hr/>	<hr/>	<hr/>

Company	Land and buildings		Other	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Operating leases which expire:				
- within one year	468	260	54	163
- within two to five years	561	261	519	262
- after five years	4,128	3,572	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	5,157	4,093	573	425
	<hr/>	<hr/>	<hr/>	<hr/>

At 31 December 1999, contracted capital expenditure for which no provision has been made in the financial statements amounted to £Nil (1998: £Nil).

Notes (continued)

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

Group

	1999 £'000	1998 £'000
Operating profit	2,546	2,700
Depreciation charge	1,438	1,165
Amortisation of goodwill	-	73
Profit on disposal of fixed assets	-	(3)
(Increase) in stocks	(2,200)	(260)
(Increase) in debtors	(410)	(1,043)
Increase/(decrease) in creditors	2,554	(277)
	<hr/>	<hr/>
Net cash inflow from operating activities	3,928	2,355
	<hr/> <hr/>	<hr/> <hr/>

21 Gross cash flows

	1999 £'000	1998 £'000	1998 £'000
Returns on investment and servicing of finance			
Interest received	31		24
Interest paid	(161)		(133)
Interest element of finance lease payments	(1)		(10)
	<hr/>		<hr/>
		(131)	(119)
		<hr/> <hr/>	<hr/> <hr/>
Capital expenditure			
Payments to acquire tangible fixed assets	(4,004)		(1,214)
Proceeds on disposal of tangible fixed assets	19		36
	<hr/>		<hr/>
		(3,985)	(1,178)
		<hr/> <hr/>	<hr/> <hr/>
Acquisitions			
Purchase of subsidiary undertakings	-		(168)
Cash acquired with subsidiaries	-		88
	<hr/>		<hr/>
		-	(80)
		<hr/> <hr/>	<hr/> <hr/>
Financing			
Mortgage payments	(23)		(24)
Decrease in loan	-		(257)
Capital element of finance lease payments	(10)		(144)
	<hr/>		<hr/>
		(33)	(425)
		<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

22 Analysis of changes in net funds

	At 1 January 1999 £'000	Cash flows £'000	Other non-cash changes £'000	At 31 December 1999 £'000
Cash at bank and in hand	3,135	(1,511)	-	1,624
Mortgage	(274)	23	-	(251)
Finance leases	-	10	(30)	(20)
	<u>2,861</u>	<u>(1,478)</u>	<u>(30)</u>	<u>1,353</u>

23 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 £Nil (1998: £32,000). At the year end, the balance outstanding in respect of such fees was £Nil (1998: £56,000).

During the year a loan was advanced by the Company to Mr SK Smith. This loan was fully repaid prior to the year end. The maximum amount owed by Mr SK Smith during the year was £11,000.

During the year the Company loaned a trust set up by the Directors to purchase the freehold of a shop for £93,000. The freehold was subsequently sold to a third party at nil profit and loss to the company, during the financial year.

Five year trading summary of The ISE Group plc

	1999 £'000	1998 £'000	1997 £'000	1996 £'000	1995 £'000
Turnover	101,155	79,449	65,882	56,623	37,364
Year on year increase %	27.32%	20.59%	16.35%	51.54%	59.43%
Gross profit	35,087	26,608	21,269	16,942	10,983
%	34.69%	33.49%	32.28%	29.92%	29.39%
Operating profit	2,546	2,700	2,311	1,268	494
Interest	(131)	(119)	(232)	(167)	(90)
Interest cover	19.44	22.69	10.0	7.6	5.5
Pre tax profit	2,415	2,581	2,079	1,101	404
%	2.39%	3.25%	3.16%	1.94%	1.08%
Net assets	6,313	4,749	3,093	1,871	1,255
Number of stores trading at year end	55	49	44	42	33