3185938

Paperchase Products Limited

Report and Financial Statements

3 February 2007

Registered No 3185938

Directors
David Bateman
Timothy Melgund
George Mrkonic
Robert Warden
Sharon Horth
Rick Vanzura

Secretary
David Bateman

Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Bankers
Halifax Bank of Scotland
155 Bishopsgate
London
EC2M 3YB

National Westminster Bank Plc
PO Box 8032
3 Upper Street
London
N1 6QF

Registered office
12 Alfred Place
London
WC1E 7EB

Directors' report

The directors present their report and financial statements for the period to 3 February 2007.

Results and dividends

The profit for the period amounted to £4,306,000 The directors do not recommend the payment of any dividends

Principal activities and review of the business

Principal Activity

The company's principal activity during the period was the retail sale of gifts, stationery, greeting cards and art materials

Key Performance Indicators

The Company's key financial performance indicators during the year were as follows.

	2007 *£'000*	*2006* *£'000*	*% Change*
Company turnover	47,112	37,279	+26%
EBITDA	7,871	4,506	+75%
Profit before tax	6,278	3,163	+99%
Gross profit margin	24%	21%	+14%

Developments in the period

The business continued its UK growth by opening standalone stores and concessions in Borders, House of Fraser and Selfridges' stores Additionally sales density in existing stores increased as a result of product, systems and people investment

Other operating income represents monies earned from the sale of product to Borders INC for onward sale in its US stores In that geography several hundred stores now have Paperchase concessions which have replaced the old gifts and stationery departments

Change in accounting policies

During the period the group adopted FRS 20 "share-based payment" This requires the fair value of options and share awards to be charged to the profit and loss account over the vesting or performance period Previously, only the intrinsic value of cost of the potential awards for the long term incentive plans was recognised as an expense The impact of implementing the standard was to reduce profit before tax by £223k although shareholders' funds were unaffected since the charge was offset by a corresponding credit to reserves The restatement of the prior year for this new standard caused a decrease in profit before tax of £103k.

Future developments

The directors aim to maintain the strategic direction which has resulted in the company's recent growth in profitability They consider that 2007 will show further growth both domestically and in the United States

Directors' report

Risks
The risk exposure of the company is monitored by the board The company has established risk and financial management procedures to identify and, where possible, mitigate the risks to the business

The principal risks and uncertainties are broadly grouped as follows

Commercial Risks
The company is exposed to general fluctuations in the consumer retail environment The product offer includes a range of demand elasticities with respect to these fluctuations Any risk to a sales downturn would be managed to minimise profit loss

Currency Risks
The expansion of the Company's operations internationally increases foreign currency exposure The Company aims to manage its assets and liabilities denominated in foreign currency to minimize foreign exchange risk and to ensure sufficient availability of working capital

Disabled Employees
The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job Opportunities are available to disabled employees for training, career development and promotion

When existing employees become disabled, it is the companies policy to provide continuing employment wherever practible in the same or an alternative position and to provide alternative training to achieve this aim

Employee involvement
Paperchase seeks to provide employees systematically with information on matters of concern to them and consults on a regular basis so their views can be taken into account Head office and store management bonuses and incentive schemes are performance related and there is regular communication to encourage awareness of the financial and economic factors affecting the performance of the company

Directors and their interests
The directors serving during the period and their interests in the share capital of the company were as follows

	At 3 February 2007 *AA ordinary shares*	*At 28 January 2006* *AA ordinary shares*
David Bateman	1174	1174
Timothy Melgund	1175	1175
George Mrkonic (Chairman)	–	–
Robert Warden	1175	1175
Sharon Horth	–	–
Rick Vanzura	–	–

There are no other interests to be disclosed under the Companies Act 1985

Donations
During the period, the company made charitable contributions totalling £203,469 (2006 £158,976) in connection with sale of charity greetings cards

Directors' report

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1 Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Auditors

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

By order of the board

11·6·07

Secretary

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 company will continue in business

The directors are responsible for keeping proper accounting records that 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditors' report
to the members of Paperchase Products Limited

We have audited the company's financial statements for the period ended 3 February 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows, and the related notes 1 to 24 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditors' report
to the members of Paperchase Products Limited

Opinion
In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 3 February 2007 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

14 June 2007

Profit and loss account

for the Period to 3 February 2007

	Notes	Period to 3 February 2007 £'000	(Restated) Period to 28 January 2006 £'000
Turnover	2	47,112	37,279
Cost of sales		(36,020)	(29,405)
Gross profit		11,092	7,874
Other operating income		2,671	1,096
Distribution costs		(1,653)	(1,353)
Administrative expenses		(5,657)	(4,292)
Operating profit	3	6,453	3,325
Bank interest receivable	6	67	20
Interest payable	7	(242)	(182)
		(175)	(162)
Profit on ordinary activities before taxation		6,278	3,163
Tax on profit on ordinary activities	8	(1,972)	(1,005)
Profit retained for the financial year attributable to members of the parent undertaking		4,306	2,158

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £4,306,000 attributable to the shareholders for the Period to 3 February 2007 (2006 - profit of £2,158,000)

Balance sheet
at 3 February 2007

	Notes	3 February 2007 £'000	28 January 2006 £'000
Fixed assets			
Tangible assets	9	7,467	5,458
Current assets			
Stocks	11	5,773	4,208
Debtors	12	4,871	3,122
Cash at bank		1,902	1,545
		12,546	8,875
Creditors amounts falling due within one year	13	9,065	7,377
Net current assets		3,481	1,498
Total assets less current liabilities		10,948	6,956
Creditors: amounts falling due after more than one year	14	767	1,403
Provisions for liabilities and charges	15	99	–
Net assets		10,082	5,553
Capital and reserves			
Called up share capital	19	100	100
Share premium account	20	2,095	2,095
Other reserves	20	3,342	3,342
Profit and loss account	20	4,545	16
Equity shareholders' funds	20	10,082	5,553

11.6.07

Director

Statement of cash flows
for the Period to 3 February 2007

	Notes	Period to 3 February 2007 £'000	(Restated) Period to 28 January 2006 £'000
Net cash inflow from operating activities	22(a)	5,005	4,479
Returns on investments and servicing of finance	22(b)	(163)	(162)
Taxation	22(c)	(600)	(586)
Capital expenditure	22(d)	(3,406)	(2,883)
Financing	22(e)	(577)	(534)
Increase in cash		259	314

Reconciliation of net cash flow to movement in net funds / (debt)

	Notes	3 February 2007 £'000	(Restated) 28 January 2006 £'000
Increase in cash		259	314
Cash outflow/(inflow) from movement in finance leases		137	(269)
Cash outflow from movement in bank loans		440	390
Change in net debt resulting from cash flows	22(f)	836	435
Movement in net debt		836	435
Opening net debt	22(f)	(447)	(882)
Closing net funds/(debt)	22(f)	389	(447)

Notes to the financial statements
at 3 February 2007

1. Accounting policies
Basis of preparation
The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards

The company is exempt from the requirement to prepare group financial statements by virtue of sections 229(2) and 229(5) of the Companies Act 1985

Fixed assets
All fixed assets are initially recorded at cost.

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

Leasehold improvements	-	Over 20 years for the Manchester outlet and over 6 years for all others
Furniture, fixtures and fittings	-	Over 6 years
Computer hardware and software	-	Over 6 years and 3 years respectively

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

Other operating income
Other income represents amounts receivable in relation to overseas franchising arrangements

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

Goods for resale	-	purchase cost on a weighted average basis

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Notes to the financial statements

at 3 February 2007

1. Accounting policies (continued)

Foreign currencies

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

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

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

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

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

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

Pension costs

The company operates a defined contribution pension scheme Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme

Share based payments

The group has applied the requirements of FRS20 Share Based Payments In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005 Previously, only the intrinsic value of cost of the potential awards for the long term incentive plans was recognised as an expense

The group issues equity-settled share based payments to certain employees They are measured at fair value at the date of grant The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest

Prior year adjustments

The accounting policies used in preparing these financial statements are consistent with those used last year with the exception of the accounting policy relating to Share based payments

The impact of the change is to reduce the profit for the period ending 28 January 2006 by £103,000 For the period ending 3 February 2007 the effect has been to reduce profit by £223,000 The decrease in profit for these two years has been offset by a credit to reserves

The cashflow for the period ending 28 January 2006 has been restated to correctly reflect a loan repayment previously misclassfied

Notes to the financial statements
at 3 February 2007

2. Turnover
Turnover, which is stated net of value added tax, represents amounts received and receivable from the company's continuing principal activity, the sale of stationery and art materials

An analysis of turnover by geographical market is given below

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
United Kingdom	47,112	36,415
Rest of the World	–	864
	47,112	37,279

3. Operating profit
This is stated after charging

		Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Auditors' remuneration	- audit services	30	30
	- turnover rent certification	2	2
	- taxation advice	5	10
Depreciation of owned fixed assets		1,279	1,080
Depreciation of assets held under finance leases		139	101
		1,418	1,181
Operating lease rentals	- land and buildings	5,082	4,107
	- plant and machinery	47	56
Loss on disposal of fixed assets		21	16

Notes to the financial statements
at 3 February 2007

4. Staff costs

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Wages and salaries	8,688	7,591
Social security costs	584	564
Staff pension contributions	190	173
	9,462	8,328

The monthly average number of employees during the period was as follows

	Period to 3 February 2007 No	*Period to 28 January 2006 No*
Purchasing and stock control	58	31
Administration and finance	41	30
Sales and display	815	734
	914	795

5. Directors' emoluments

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Emoluments	647	566
Value of company pension contributions to money purchase schemes	109	80

Notes to the financial statements
at 3 February 2007

5. Directors' emoluments (continued)

	Period to 3 February 2007 No	*Period to 28 January 2006 No*
Members of money purchase pension schemes	4	4

The amounts in respect of the highest paid director are as follows

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Emoluments	221	178
Value of company pension contributions to money purchase schemes	29	26

The highest paid director received no payments under a long term incentive plan and has not been issued with any share options during the current or previous period

6. Interest receivable

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Bank interest receivable	67	20

7. Interest payable

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Bank interest payable	220	153
Finance charges payable under finance leases	22	29
	242	182

Notes to the financial statements
at 3 February 2007

8. Tax
(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Current tax		
UK corporation tax	1,867	938
Total current tax (note 8(b))	1,867	938
Deferred tax		
Origination and reversal of timing differences	105	67
Tax on profit on ordinary activities	1,972	1,005

(b) Factors affecting current tax charge

The differences are reconciled below

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Profit on ordinary activities before tax	6,278	3,163
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	1,883	949
Expenses not deductible for tax purposes	71	86
Depreciation for the period in arrears of capital allowances	(165)	(127)
Other short term timing differences	78	30
Total current tax (note 8(a))	1,867	938

Notes to the financial statements

at 3 February 2007

8. Tax (continued)

(c) Deferred tax

The deferred tax included in the Balance Sheet is as follows

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Included in (provision for liabilities)/debtors (note 15/12)	(99)	4

	3 February 2007 £'000	*28 January 2006 £'000*
Depreciation in arrears of capital allowances	(255)	(75)
Other timing differences	156	79
Deferred tax (liability)/asset	(99)	4

	£'000
Deferred tax asset at 24 January 2006	4
Profit and loss account movement arising during the period	(105)
Deferred tax liability at 3 February 2007	(99)

Deferred tax is recognised in line with FRS 19 on the basis that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Notes to the financial statements
at 3 February 2007

9. Tangible fixed assets

	Leasehold improvements £'000	*Furniture, fixtures and fittings £'000*	*Computer hardware and software £'000*	*Total £'000*
Cost				
At 28 January 2006	1,611	8,923	730	11,264
Additions	705	2,387	356	3,448
Disposals	–	(33)	–	(33)
At 3 February 2007	2,316	11,277	1,086	14,679
Depreciation				
At 28 January 2006	681	4,772	353	5,806
Provided during the period	186	1,111	121	1,418
Disposals	-	(12)	–	(12)
At 3 February 2007	867	5,871	474	7,212
Net book value				
At 3 February 2007	1,449	5,406	612	7,467
At 28 January 2006	930	4,151	377	5,458

The net book value of assets above includes an amount of £195,000 (2006 - £404,000) in respect of assets held under finance leases

10. Investments

At 28 January 2006 and 3 February 2007 the company held investments in the following principal dormant subsidiary undertakings

Company	*Principal activity*	*Class of shares*	*Percentage held*
Paperchase Limited	Dormant	£1 ordinary	100%
Paperchase Designs Ltd	Dormant	£1 ordinary	100%

11. Stocks

	3 February 2007 £'000	*28 January 2006 £'000*
Consumables	94	94
Finished goods	5,679	4,114
	5,773	4,208

Notes to the financial statements
at 3 February 2007

12. Debtors

	3 February 2007 £'000	28 January 2006 £'000
Trade debtors	1,902	911
Amounts owed by group undertakings	1,170	681
Other debtors	263	266
Prepayments and accrued income	1,159	964
Payments on account	377	296
Deferred taxation (note 8)	–	4
	4,871	3,122

13. Creditors: amounts falling due within one year

	3 February 2007 £'000	28 January 2006 £'000
Bank overdraft	107	9
Current instalment due on bank loan (note 16)	490	440
Obligations under finance leases (note 17)	149	140
Trade creditors	3,313	2,675
Corporation tax	1,869	588
Other taxation and social security	275	1,283
Other creditors	39	62
Accruals and deferred income	2,801	2,157
	22	23
	9,065	7,377

14. Creditors: amounts falling due after more than one year

	3 February 2007 £'000	28 January 2006 £'000
Loans (note 16)	740	1,230
Obligations under finance leases (note 17)	27	173
	767	1,403

15. Provisions for liabilities

	3 February 2007 £'000	28 January 2006 £'000
Deferred taxation (note 8)	99	-

Notes to the financial statements
at 3 February 2007

16. Loans

	3 February 2007 £'000	28 January 2006 £'000
Amounts repayable		
In one year or less or on demand	490	440
In more than one year but not more than two years	540	490
In more than two years but not more than five years	200	740
	1,230	1,670

	3 February 2007 £'000	28 January 2006 £'000
Wholly repayable within five years		
Bank loans and other loans	1,230	1,670
Less included in creditors amounts falling due within one year (note 13)	(490)	(440)
	740	1,230

The loans from HBOS are secured by an unscheduled mortgage debenture incorporating a fixed and floating charge over all current and future assets of the company

17. Obligations under finance leases

The maturity of these amounts is as follows

	3 February 2007 £'000	28 January 2006 £'000
Amounts payable		
Within one year	149	140
In two to five years	27	173
	176	313

18. Commitments under operating leases

At 3 February 2007 the company had annual commitments under non-cancellable operating leases as set out below

	3 February 2007		28 January 2006	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire				
Within one year	32	8	84	4
In two to five years	547	29	139	33
In over five years	4,272	–	3,989	9
	4,851	37	4,212	46

Notes to the financial statements
at 3 February 2007

19. Share capital

		Authorised
	3 February 2007	*28 January 2006*
	£'000	*£'000*
Class A ordınary shares of £0 10 each	63	63
Class B ordınary shares of £0 10 each	143	143
Class C ordınary shares of £0 10 each	62	62
Preferred ordınary shares of £0 10 each	40	40
Class A preference shares of £1 each	550	550
Class B preference shares of £1 each	710	710
Class BB ordınary shares of £1 each	3,430	3,430
Class CC ordınary shares of £1 each	282	282
Class AA ordınary shares of £1 each	288	288
	5,568	5,568

			Allotted, called up and fully paıd	
	3 February 2007		*28 January 2006*	
	No	*£'000*	*No*	*£'000*
Class BB ordınary shares of £1 each	96,476	96	96,476	96
Class AA ordınary shares of £1 each	3,524	4	3,524	4
		100		100

The 'A' ordınary shares, the 'B' ordınary shares, the 'C' ordınary shares and the preferred ordınary shares shall rank parı passu

The 'AA' ordınary shares and the 'A' ordınary shares shall rank parı passu and the 'AA' ordınary shares shall have all the rıghts, prıvıleges and restrıctıons attachıng to the 'A' ordınary shares The 'BB' ordınary shares and the 'B' ordınary shares shall rank parı passu and the 'BB' ordınary shares shall have all the rıghts, prıvıleges and restrıctıons attachıng to the 'B' ordınary shares and the 'C' ordınary shares shall rank parı passu and the 'CC' ordınary shares shall have all the rıghts, prıvıleges and restrıctıons attachıng to the 'C' ordınary shares

Notes to the financial statements
at 3 February 2007

20. Reconciliation of shareholders' funds and movement on reserves

	Share capital £'000	*Share premium account £'000*	*Capital redemption reserve £'000*	*Capital reserve £'000*	*(Restated) Profit and loss account £'000*	*(Restated) Total share-holders' funds £'000*
At 23 January 2005	100	2,095	3,268	74	(2,245)	3,292
Profit for the period *(as previously stated)*	–	–	–	–	2,261	2,261
Prior year adjustment	–	–	–	–	(103)	(103)
Profit for the period *(as restated)*	100	2,095	3,268	74	(87)	5,450
Share based payments *(as restated)*	–	–	–	–	103	103
At 28 January 2006	100	2,095	3,268	74	16	5,553
Profit for the period	–	–	–	–	4,306	4,306
Share based payments	–	–	–	–	223	223
At 3 February 2007	100	2,095	3,268	74	4,545	10,082

21. Share based payments

Equity settled share option plan

Share based payments are made to Directors of Paperchase Products Limited under the Borders Group Inc 2004 Long Term Incentive Plan There are two types of award made under this scheme

Restricted Shares

Restricted shares awarded to participants confer the right to vote and receive dividends on the shares The Restricted shares are granted without being subject to performance objectives

Restricted Share Units

Restricted share units do not confer the right to vote and receive dividends on the shares until the point of vesting Upon vesting the RSUs are converted to Borders Inc Common Stock The quantity of Common Stock received by member of the plan is determined in relation to the compound annual growth in Profit before tax for Paperchase Products Limited

The vesting period for both instruments is 3 years There are no cash settlement alternatives

The expense recognised relating to the share based payments is measured with reference to the fair value of the share based payments at grant date The fair value at this date is considered to be the prevailing midpoint share price at close on the day of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Notes to the financial statements
at 3 February 2007

22. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Period to 3 February 2007 £'000	*(Restated) Period to 28 January 2006 £'000*
Operating profit	6,453	3,325
Depreciation	1,418	1,197
Share based payments	223	103
Loss on disposal of fixed assets	(21)	(18)
Increase in stocks	(1,565)	(18)
Increase in debtors	(1,753)	(852)
Increase in creditors	250	740
Net cash inflow from operating activities	5,005	4,479

(b) Returns on investments and servicing of finance

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Interest received	67	20
Interest paid	(208)	(153)
Interest element of finance leases rentals payments	(22)	(29)
	(163)	(162)

(c) Taxation

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Corporation tax paid	(600)	(586)

(d) Capital expenditure

	Period to 3 February 2007 £'000	*Period to 28 January 2006 £'000*
Payments to acquire tangible fixed assets	(3,406)	(2,883)

Notes to the financial statements
at 3 February 2007

22. Notes to the statement of cash flows (continued)

(e) Financing

	Period to 3 February 2007 £'000	(Restated) Period to 28 January 2006 £'000
Movement in bank loans	(440)	(390)
Repayment of capital element of finance leases	(137)	(144)
	(577)	(534)

(f) Analysis of changes in net (debt)/funds

	At 28 January 2006 £'000	Cash flows £'000	At 3 February 2007 £'000
Cash at bank and in hand	1,545	357	1,902
Overdrafts	(9)	(98)	(107)
Debt due within one year	(440)	(50)	(490)
Debt due after one year	(1,230)	490	(740)
Finance leases	(313)	137	(176)
	(447)	836	389

23. Related party transactions
The company has taken advantage of the exemption available under FRS8 not to disclose transactions with other members of the Borders Group Inc

24. Parent undertaking and controlling party

The company's immediate parent undertaking is BGP (UK) Ltd This is the parent undertaking of the smallest group for which group financial statements are prepared

The directors consider the ultimate parent undertaking and the ultimate controlling party to be Borders Group Inc , a company incorporated in the United States and whose shares are listed on the New York Stock Exchange This is the parent undertaking of the largest group for which group financial statements are prepared

Financial statements can be obtained from Borders Group Inc , 180 Phoenix Drive, Ann Arbor, Michigan, USA 48108