

Lillywhites Limited

290939

Annual report for the year ended 31 December 1997

	Pages
Directors' report	1-3
Report of the auditors	4-5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8-17



Lillywhites Limited

Directors' report for the year ended 31 December 1997

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

Principal activity

The principal activity of the Company is the retail sale of sports equipment and clothing.

Review of the business and store developments

During the year the Company opened two new stores and relocated to a new distribution centre as part of its continuing expansion programme. A new management team was appointed in 1997 and has taken steps to improve financial controls which had deteriorated in 1996. This improvement is ongoing and includes all areas of the business.

The profit and loss account for the year is set out on page 6.

Dividends

The directors do not recommend the payment of a dividend (1996: nil).

Directors

The directors during the year ended 31 December 1997 were as follows:

FMC Soares Dos Santos	(Chairman)
PJ Greeves	Appointed 12 March 1997, Resigned 1 May 1998
PR Hird	Appointed 12 March 1997
MJPA Marques	
FO Marra	Resigned 4 June 1997
JMC Vozone	

Directors' interests

No director had a direct interest in the share capital of the Company. Directors' indirect interests through their interests in either the share capital of the immediate parent or the ultimate parent companies are disclosed in the accounts of those companies.

Charitable and political donations

The donations made by the Company during the year for charitable purposes were £305 (1996: £130). There were no political donations during the year.

Lillywhites Limited

Directors' report (continued)

Employees

The Company's policy is to consult and discuss with employees matters likely to affect employees' interests.

Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Company's performance.

The Company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with internal training courses is given. Once employed, a career plan is developed to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Refinement in accounting policy for stock

During the year the Company relocated to a new distribution centre. This increased the overhead cost for holding stock, and the directors consider it appropriate to include a proportion of this overhead as a holding cost for stock. This policy is consistent with normal accounting practice in the retail industry.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that period.

The directors confirm that suitable accounting policies have been used and applied consistently, with the exception of a refinement in the accounting policy relating to the inclusion of warehouse costs in stock and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial support from parent company

The directors confirm that the Company is reliant on the continued financial support of the parent company.

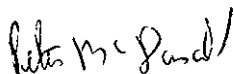
Lillywhites Limited

Directors' report (continued)

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board

A handwritten signature in dark ink, appearing to read 'P McDonald'.

P McDonald
Company Secretary
18 May 1998

Lillywhites Limited

Report of the auditors to the members of Lillywhites Limited

We have audited the financial statements on pages 6 to 17.

Respective responsibilities of directors and auditors

As described on page 2, 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, except that the scope of our work was limited as explained below. 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 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. However the evidence available was limited as a result of the matter referred to below.

As stated in our report on the financial statements for the preceding financial year, during the year ended 31 December 1996, the Company experienced a deterioration of accounting controls and records as a result of the significant expansion of the business. In particular, the Company did not maintain proper records of trade creditors and stock, and a comprehensive stock count was not performed at 31 December 1996. We were unable to satisfy ourselves as to the completeness of trade creditors included in the balance sheet at 31 December 1996 at £7,663,303, and the physical existence and therefore the value of stock at 31 December 1996 included in the balance sheet at £5,679,456. Any error in the amount at which trade creditors and stock was stated in the balance sheet at that date would have a consequential effect on the cost of sales and loss for the year.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

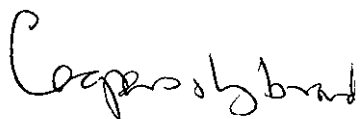
Lillywhites Limited

Report of the auditors to the members of Lillywhites Limited (continued)

Qualified opinion arising from limitation on audit scope

In our opinion the financial statements give a true and fair view of the financial position at 31 December 1997. Because of the possible effect of the limitation of evidence available to us, as stated in the paragraph above, we are unable to form an opinion as to whether the loss for the year ending 31 December 1997 gives a true and fair view. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Act 1985.

In respect alone of the limitation on our work relating to trade creditors and stock at 31 December 1996, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit and we were unable to determine whether proper accounting records had been maintained throughout the year.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
18 May 1998

Lillywhites Limited

Profit and loss account for the year ended 31 December 1997

	Notes	1997 £	1996 £
Turnover - continuing operations	2	38,483,755	23,318,921
Cost of sales - continuing operations		(22,422,962)	(14,716,895)
Gross profit		16,060,793	8,602,026
Net operating expenses - continuing operations	3	(18,107,173)	(14,014,275)
Operating loss - continuing operations		(2,046,380)	(5,412,249)
Interest receivable	6	5,849	31,805
		(2,040,531)	(5,380,444)
Interest payable	7	(725,707)	(330,370)
Loss on ordinary activities before taxation	8	(2,766,238)	(5,710,814)
Tax on loss on ordinary activities	9	-	-
Retained loss for the financial year	17	(2,766,238)	(5,710,814)

The Company has no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalent.

Lillywhites Limited

Balance sheet at 31 December 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	10	<u>22,927,620</u>	<u>20,124,467</u>
Current assets			
Stock	11	9,266,874	5,679,456
Debtors	12	1,745,661	1,932,740
Cash at bank and in hand		24,958	47,529
		<u>11,037,493</u>	<u>7,659,725</u>
Creditors: amounts falling due within one year	13	<u>(17,752,111)</u>	<u>(19,566,304)</u>
Net current liabilities		<u>(6,714,618)</u>	<u>(11,906,579)</u>
Total assets less current liabilities		<u>16,213,002</u>	<u>8,217,888</u>
Creditors: amounts falling due after more than one year	14	(23,557,958)	(11,994,456)
Provision for liabilities and charges	15	-	(802,150)
		<u>(23,557,958)</u>	<u>(12,796,606)</u>
Net assets		<u>(7,344,956)</u>	<u>(4,578,718)</u>
Capital and reserves			
Called up share capital (including non-equity interests)	16	416,995	416,995
Profit and loss account	17	(7,761,951)	(4,995,713)
Total shareholders' funds	18	<u>(7,344,956)</u>	<u>(4,578,718)</u>

The financial statements on pages 6 to 17 were approved by the board of directors on 18 May 1998 and were signed on its behalf by:

PR Hird
Director



Lillywhites Limited

Notes to the financial statements for the year ended 31 December 1997

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been consistently applied, is set out below.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods sold.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. Furniture and equipment are depreciated over 4 to 15 years. Leasehold land and buildings are amortised over 50 years or, if shorter, the period of the lease.

Stock

Stock is stated at the lower of cost and net realisable value. In general cost is determined on a first in first out basis and includes transport and handling costs. During the year there was a refinement in the accounting policy to include a proportion of warehouse costs in to stock. Where necessary, provision is made for obsolete, slow moving and defective stock.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Lillywhites Limited

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Pension costs

Contributions to the Company's defined contribution scheme are charged to the profit and loss account on an accruals basis.

Cash flow statement

As permitted by FRS 1 (revised) 'Cash flow statements' the Company has not prepared a cash flow statement as it is a wholly owned subsidiary of Jeronimo Martins, SGPS, S.A., and the cash flows of the company are included in the consolidated cash flow statement of that company.

2 Turnover

Turnover consists entirely of sales made in the United Kingdom.

3 Net operating expenses

	1997	1996
	£	£
Continuing operations		
Administrative expenses:		
Wages and salaries	5,816,994	4,334,168
Other external charges	11,557,695	8,181,275
Depreciation	732,484	1,498,832
	<u>18,107,173</u>	<u>14,014,275</u>

Lillywhites Limited

4 Directors' emoluments

	1997	1996
	£	£
Aggregate emoluments	222,697	857,363
Pension contributions to money purchase schemes	59,741	17,118
	<u>282,438</u>	<u>874,481</u>

Retirement benefits are accruing to one of the directors under the company's defined contribution scheme, and one director under an external money purchase scheme.

Highest paid director

	1997	1996
	£	£
Aggregate emoluments	70,943	227,710
Pension contributions to external money purchase scheme	10,692	10,759
	<u>81,635</u>	<u>238,469</u>

5 Employee information

The average number of persons (including executive directors) employed by the Company during the period was:

	1997	1996
	Number	Number
United Kingdom		
Full time	330	206
Part time	225	75
	<u>555</u>	<u>281</u>
Staff costs	£	£
Wages and salaries	5,253,797	3,878,432
Social security costs	417,915	321,154
Other pension costs	145,282	134,582
	<u>5,816,994</u>	<u>4,334,168</u>

Lillywhites Limited

6 Interest receivable

	1997	1996
	£	£
Bank interest	<u>5,849</u>	<u>31,805</u>

7 Interest payable

	1997	1996
	£	£
On bank loans and overdrafts	721,545	330,370
Other	4,162	-
	<u>725,707</u>	<u>330,370</u>

8 Loss on ordinary activities before taxation

	1997	1996
	£	£
Loss on ordinary activities before taxation is stated after crediting:		
Rent receivable	<u>(242,802)</u>	<u>(377,504)</u>
And after charging:		
Depreciation charge for the year	732,484	1,498,832
Auditors' remuneration for:		
Audit	40,000	40,000
Other services to the company	16,700	61,000
Hire of plant and machinery - operating leases	34,811	35,469
Rent payable under operating leases	<u>3,194,370</u>	<u>1,278,215</u>

9 Tax on loss on ordinary activities

There is no corporation tax charge owing to the losses arising in the year. No deferred tax asset has been recognised in respect of these losses.

Lillywhites Limited

10 Tangible fixed assets

	Land & buildings		Fixtures and equipment	Total
	Long lease	Short leases		
	£	£	£	£
Cost				
At 1 January 1997	13,799,287	408,795	8,285,670	22,493,752
Additions	-	66,066	3,783,058	3,849,124
Disposals	-	(36,087)	(529,395)	(565,482)
At 31 December 1997	<u>13,799,287</u>	<u>438,774</u>	<u>11,539,333</u>	<u>25,777,394</u>
Depreciation				
At 1 January 1997	708,115	10,089	1,651,081	2,369,285
Charge for the period	277,390	25,118	429,976	732,484
Disposals	-	-	(251,995)	(251,995)
At 31 December 1997	<u>985,505</u>	<u>35,207</u>	<u>1,829,062</u>	<u>2,849,774</u>
Net book value				
At 31 December 1997	<u>12,813,782</u>	<u>403,567</u>	<u>9,710,271</u>	<u>22,927,620</u>
At 1 January 1997	<u>13,091,172</u>	<u>398,706</u>	<u>6,634,589</u>	<u>20,124,467</u>

Fixed asset investments

The Company owns all the issued share capital of James Lillywhites Limited. The subsidiary is registered in England and is dormant. The cost of the investment was £495, which has been fully provided.

11 Stock

The stock of the Company consists entirely of finished goods purchased for resale. During the year the Company relocated to a new distribution centre, and the directors consider it appropriate to refine its accounting policy for valuing stock to include a proportion of warehouse costs. The impact of this refinement is an uplift in the value of stock as at 31 December 1997 of £964,000. No adjustment has been made to the comparative. The impact on the loss for the year relating to the change is a reduction in the loss of £964,000.

Lillywhites Limited

12 Debtors

	1997	1996
	£	£
Amounts falling due within one year		
Trade debtors	422,590	561,409
Other debtors	411,777	732,223
Prepayments and accrued income	911,294	371,073
VAT recoverable	-	268,035
	<u>1,745,661</u>	<u>1,932,740</u>

13 Creditors: amounts falling due within one year

		1997	1996
	Notes	£	£
Bank overdraft	(a)	928,745	1,280,472
Bank loan	(b)	10,000,000	7,000,000
Trade creditors		2,454,322	7,663,303
Other taxation and social security		469,321	266,759
Sundry creditors and accruals		3,899,723	3,355,770
		<u>17,752,111</u>	<u>19,566,304</u>

- (a) The overdraft is secured by a guarantee of £2,000,000 from Jeronimo Martins, SGPS, S.A.
- (b) The bank loan is unsecured, and is rolled-over on a 3 monthly basis. The interest rate payable is LIBOR plus 15 basis points.

14 Creditors: amounts falling due after more than one year

	1997	1996
	£	£
Loan from immediate parent company, Jeronimo Martins Holdings (UK) Ltd	<u>23,557,958</u>	<u>11,994,456</u>

The loan is interest free and has no fixed date of repayment.

Lillywhites Limited

15 Provision for liabilities and charges

	Provision for reorganisation £
At 1 January 1997	802,150
Utilised in the year	(767,150)
Released to profit and loss account	(35,000)
At 31 December 1997	<u>-</u>

The reorganisation provision relating to the reorganisation of office, warehouse and IT facilities was substantially utilised in the year, except for an amount of £ 35,000 that was released to the profit and loss account.

At 31 December 1996, there was a potential deferred tax liability not provided amounting to £263,000. This was not provided as the Company's medium term plans showed that the tax allowances in respect of new capital expenditure exceeded the charge for depreciation on existing assets.

At 31 December 1997, there was an unprovided deferred tax asset of £698,000 relating to the estimated taxable losses in excess of accelerated capital allowances. No asset has been recognised in respect of this amount.

Lillywhites Limited

16 Called up share capital

	1997	1996
	£	£
Authorised:		
3,500,000 ordinary shares (equity shares) of 10p each	350,000	350,000
200,000 cumulative 6% preference shares (non-equity shares) of 50p each	100,000	100,000
	<u>450,000</u>	<u>450,000</u>
	1997	1996
	£	£
Allotted, called up and fully paid:		
3,169,950 ordinary shares (equity shares) of 10p each	316,995	316,995
200,000 cumulative 6% preference shares (non-equity shares) of 50p each	100,000	100,000
	<u>416,995</u>	<u>416,995</u>

The preference shares have no voting rights and are not redeemable. They have priority over ordinary shares in the event of a winding up of the Company.

The current and previous holders of the cumulative 6% preference shares have waived their rights to dividends, and the current holder has indicated that it is not its present intention to seek payment of future dividends.

17 Profit and loss account

	1997	1996
	£	£
At 1 January 1997	(4,995,713)	715,101
Retained loss for the financial year	(2,766,238)	(5,710,814)
At 31 December 1997	<u>(7,761,951)</u>	<u>(4,995,713)</u>

Lillywhites Limited

18 Reconciliation of movements in shareholders' funds

	1997	1996
	£	£
Opening shareholders' funds	(4,578,718)	1,132,096
Loss for the financial period	(2,766,238)	(5,710,814)
Closing shareholders' funds	<u>(7,344,956)</u>	<u>(4,578,718)</u>
Split as follows:		
Equity shareholders' funds	(7,444,956)	(4,678,718)
Non Equity shareholders' funds	100,000	100,000
	<u>(7,344,956)</u>	<u>(4,578,718)</u>

19 Capital commitments

	1997	1996
	£	£
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>232,109</u>	<u>583,000</u>

20 Financial commitments

At 31 December 1997 the company had annual commitments under non-cancellable operating leases as follows:

	31 December 1997		31 December 1996	
	Land and buildings	Other	Land and buildings	Other
	£	£	£	£
Expiring within one year	101,865	2,580	-	-
Expiring between two and five years inclusive	190,000	28,654	-	-
Expiring over five years	3,390,850	3,724	3,390,850	-
	<u>3,682,715</u>	<u>34,958</u>	<u>3,390,850</u>	<u>-</u>

Lillywhites Limited

21 Controlling party

The directors regard Jeronimo Martins, SGPS, S.A., a listed company incorporated in Portugal, to be the ultimate parent company. Shares representing 58.5% of the voting rights of that company are held with Sociedade Francisco Manuel Dos Santos, S.A. which, for the purpose of Financial Reporting Standard No.8, is regarded by the directors as the ultimate controlling party.

Copies of the group accounts can be obtained from Jeronimo Martins, SGPS, S.A., Rua Tierno Galvan, Torre 3, 9 Piso - 1070 LISBOA, Portugal.