

REGISTERED NUMBER: 807043

**SUPERDRUG STORES PLC**

ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE 52 WEEKS ENDED 26 DECEMBER 2009



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# **Superdrug Stores plc**

## **Annual Report and Financial Statements for the 52 weeks ended 26 December 2009**

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# **Superdrug Stores plc**

## **Directors' report for the 52 weeks ended 26 December 2009**

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The directors present their annual report together with the audited financial statements of the Company (Company No 807043) for the 52 weeks ended 26 December 2009

### **PRINCIPAL ACTIVITY**

The Company trades as a beauty and health retailer in the United Kingdom

### **RESULTS AND BUSINESS REVIEW**

Turnover for the year was £1,075k (2008 £1,075k) The Company achieved improved margins and reduced operating costs which resulted in an improved operating profit for 2009 of £6,033k (2008 loss £2,419k) Profit after taxation of £90k (2008 loss £6,502k)

At 26 December 2009, shareholders' funds totalled £136,635k (2008 £145,175k)

The Company had a net pension liability at 26 December 2009 of £19,903k (2008 £11,911k) in respect of the defined benefit section of its pension scheme With effect from 28 February 2010 the defined benefit section was closed to future accrual and its existing members offered membership of the defined contribution section

### **DIVIDEND**

No dividend was declared or paid during the financial year (2008 £nil)

### **BUSINESS ENVIRONMENT**

The UK health & beauty market (excluding cosmetics and fragrances) grew by 4.6% in 2009 to £13,173m

2009 has seen the weakest players in the retail sector disappear from the High Street, a halt or slow down in new shopping centre construction and an increase in vacant property which has impacted footfall in certain locations Supermarket expansion has continued which puts pressure on the specialist retailers At the same time consumers are responding to the recession by reining back on their spending and are looking for value Value operators have seized this opportunity to expand their operations and reposition their offer as a way to maintain the same standard of living at a lower cost With the difficult economic climate in 2009, retailers and manufacturers are continuing to use price based promotions to drive higher volumes and the customer has come to expect value at lower prices

### **STRATEGY**

Against this challenging business environment, Superdrug has maintained its store base during 2009 especially in local High Street locations The Company took a prudent approach in 2009 by reviewing cost saving initiatives, carrying less stock and liquidating slow moving stock more quickly and delivering improved results

The business is now looking to put customer needs at the heart of everything it does in order to win locally in beauty and health sector The business will become more flexible in its approach to local store needs through segmentation The business will continue to focus on value through working with suppliers on attractive pricing and promotions but also by remaining loyal to its heritage of great own brand products offering quality and value The business also recognises the shifting customer behaviour on discretionary spend and will be upskilling customer facing staff to refocus on customer service excellence

The Directors are confident that Superdrug's proposition will remain attractive, continue to excite the high street customer and continue to improve on the current level of performance

## **Superdrug Stores plc**

### **Directors' report for the 52 weeks ended 26 December 2009 (continued)**

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Directors of the Company's parent company, A S Watson (Health & Beauty UK) Limited, manage the group's risks at a group level, rather than at an individual business unit level. For this reason, the Company's Directors believe that a discussion of the group's risks would not be appropriate for an understanding of the development, performance or position of the Superdrug Stores plc business. The principal risks and uncertainties of A S Watson (Health & Beauty UK) Limited, which include those of the Company, are discussed in the group's annual report which does not form part of this report.

#### **KEY PERFORMANCE INDICATORS ("KPIs")**

The Directors monitor progress on the Company's performance by reference to the following KPIs

	<b>52 weeks ended 26 December 2009 £'000</b>	<b>52 weeks ended 27 December 2008 £'000</b>
• Turnover	<b>£1,074,832</b>	£1,074,863
• Gross margin (%)	<b>38.3%</b>	37.7%
• Operating profit /(loss) before exceptionals, interest and tax	<b>£6,033</b>	(£2,419)
• Net debt at year end	<b>£150,177</b>	£159,200
• Total shareholders' funds	<b>£136,635</b>	£145,175

#### **DIRECTORS**

The directors who held office during the year and up to the date of signing these financial statements, unless where stated, were

D K M Lai

J P Seigal

K T M Ying (resigned 1 February 2009)

A J Heaton (appointed 1 February 2009)

G G Smith

As permitted by s234(2) of the Companies Act 2006, the Company maintains Directors' and officers' liability insurance which provides insurance cover against liabilities which Directors and other officers of the Company may incur personally as a consequence of claims made against them alleging breach of duty or other unlawful acts or omissions in their capacity as Directors and officers.

#### **DISABLED PERSONS**

It is the Company's policy to give full consideration to the possibility of employing disabled persons wherever suitable opportunities exist. Employees who have become disabled are given every opportunity and assistance to continue in their employment or to be trained for other suitable positions. It is the policy of the Company that the training, career development and promotion of disabled persons should be identical to that of other employees.

## **Superdrug Stores plc**

### **Directors' report for the 52 weeks ended 26 December 2009 (continued)**

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#### **EMPLOYEE INVOLVEMENT**

The Board regards employee involvement and effective communication as being essential to foster good employee relations, to achieve improved performance and productivity, to enhance the quality of working life, and to gain commitment to the Company's business objectives

Consultation with employees has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. There are regular newsletters, regional meetings, management meetings and a conference to ensure that there is a regular flow and exchange information and ideas about the business

#### **CHARITABLE AND POLITICAL DONATIONS**

The Company made charitable donations and organised and contributed to fund-raising activities that in total raised £490k (2008 £975k) during the year

No political donations were made during the year (2008 £nil)

#### **SUPPLIER PAYMENT POLICY**

The Company does not impose standard payment terms on its suppliers but agrees specific terms with each one. It is the Company's policy to pay its suppliers in accordance with the terms that have been agreed. The Company's average creditor payment period at 26 December 2009 was 25 days (2008 33 days)

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Directors' 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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 judgements 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, in which case there should be supporting assumptions or qualifications as necessary

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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

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**Superdrug Stores plc**  
**Directors' report for the 52 weeks ended 26 December 2009 (continued)**


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**AUDITORS AND PROVISION OF INFORMATION TO AUDITORS**

Each director, as at the date of this report has confirmed that in so far as they are aware there is no relevant audit information (this is information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and they have taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in the office and a resolution concerning their reappointment will be proposed at the annual general meeting

On behalf of the Board

A handwritten signature in black ink, appearing to be 'JP Seigal', with a long horizontal flourish extending to the right.

J P Seigal  
Director

# **Superdrug Stores plc**

## **Independent auditors' report to the members of Superdrug Stores plc**

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We have audited the financial statements of Superdrug Stores plc for the 52 weeks ended 26 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 26 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Superdrug Stores plc**

### **Independent auditors' report to the members of Superdrug Stores plc (continued)**

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#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Christopher Maidment (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Gatwick

28 June 2010



## Superdrug Stores plc

### Profit and loss account for the 52 weeks ended 26 December 2009

		52 weeks ended 26 December 2009	52 weeks ended 27 December 2008
	Note	£'000	£'000
<b>Turnover</b>	1(b)	1,074,832	1,074,863
Cost of sales		(662,778)	(669,697)
Gross profit		412,054	405,166
Distribution costs		(362,667)	(373,962)
Administrative expenses		(57,365)	(53,566)
Other operating income		14,011	19,943
<b>Operating profit/(loss)</b>	2	6,033	(2,419)
Interest receivable and similar income	5	243	1,297
Interest payable and similar charges	6	(6,790)	(8,567)
Other finance income		280	2,293
<b>Loss on ordinary activities before taxation</b>		(234)	(7,396)
Tax credit on loss on ordinary activities	7	324	894
<b>Profit/(loss) for the financial year</b>		90	(6,502)

All of the above results relate to continuing operations

There is no material difference between the loss on ordinary activities and profit/(loss) for the year stated above and their historical cost equivalents

## **Superdrug Stores plc**

### **Statement of total recognised gains and losses for the 52 weeks ended 26 December 2009**

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	Note	52 weeks ended 26 December 2009	52 weeks ended 27 December 2008
		£'000	£'000
Profit/(loss) for the financial year		90	(6,502)
Actuarial loss recognised in pension scheme	17	(11,986)	(21,014)
Movement on deferred tax relating to pension liability	16	3,356	6,117
Total losses recognised since last annual report		<u>(8,540)</u>	<u>(21,399)</u>

**Superdrug Stores plc**  
**Balance sheet as at 26 December 2009**

		<b>26</b>	<b>27</b>
		<b>December</b>	<b>December</b>
		<b>2009</b>	<b>2008</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>FIXED ASSETS</b>			
Intangible fixed assets	8	14,320	14,485
Tangible fixed assets	10	116,170	133,193
		<u>130,490</u>	<u>147,678</u>
<b>CURRENT ASSETS</b>			
Stock		182,748	198,267
Debtors	11	218,601	178,540
Cash		30,672	17,174
		<u>432,021</u>	<u>393,981</u>
<b>CREDITORS</b>			
Amounts falling due within one year	12	<u>(403,724)</u>	<u>(383,367)</u>
<b>NET CURRENT ASSETS</b>		<u>28,297</u>	<u>10,614</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>158,787</b>	<b>158,292</b>
<b>CREDITORS:</b>			
Provisions for liability and charges	13	(2,249)	(1,206)
Pension liability	17	(19,903)	(11,911)
<b>NET ASSETS</b>		<u><b>136,635</b></u>	<u><b>145,175</b></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	22,000	22,000
Share premium account	15	103,400	103,400
Profit and loss account	15	11,235	19,775
<b>TOTAL SHAREHOLDERS' FUNDS</b>	16	<u><b>136,635</b></u>	<u><b>145,175</b></u>

The financial statements on pages 7 to 22 were approved by the Board of Directors and signed on its behalf by



J P Seigal  
 Director

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 26 December 2009

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### 1 ACCOUNTING POLICIES

#### a) Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the UK. The principal accounting policies which are consistently applied are set out below.

The Company is exempt from the following-

- publication of a cash flow statement under FRS 1, 'Cash Flow Statements' (revised 1996),
- publication of consolidated accounts under Section 400 of the Companies Act, and
- requirement to disclose related party transactions with A S Watson (Health & Beauty UK) Limited owned group undertakings, under FRS 8, 'Related Party Disclosures'

These exemptions have been claimed as the Company was a wholly owned subsidiary undertakings of A S Watson (Health & Beauty UK) Limited, a company registered in England and Wales, which publishes consolidated accounts that are publicly available.

#### b) Turnover

Turnover represents retail sales to customers and is measured at the fair value of the consideration received or receivable and is recognised on the day that the sale is made based on the store till receipts and automatic uploads of retail information. It represents amounts receivable for goods sold in the normal course of business, net of returns, and is stated net of value added tax. The company regularly operates a variety of sales promotions that give rise to goods being sold at a discount to standard retail price. Turnover reflects retail sales net of all related discounts. Retail sales are usually in cash or by credit or debit card. It is the Company's policy to sell its products to the customer with a right of return. Based on accumulated experience no provision is made for such returns at the time of sale.

#### c) Goodwill

Purchased goodwill arising on the purchase of pharmacy licences is calculated as the excess of the fair value of consideration given over the fair value of the identifiable assets acquired, and is capitalised as an intangible asset.

Following an investigation by the UK government of the regulatory environment governing pharmacies in 2005, the Directors reviewed the carrying value of the purchased goodwill on the pharmacy licences held by the Company and concluded that a policy of amortising these licences was no longer appropriate. Accordingly, amortisation of the pharmacy licences ceased with effect from 1st January 2005.

Where a business or pharmacy licence is sold, or where goodwill has been impaired, the net book value of goodwill or the amount of impaired goodwill, as applicable, is charged through the profit and loss account in the year of disposal or impairment. The Company has taken advantage of the transitional rules of FRS 10 to leave purchased goodwill acquired prior to 30th January 1999 eliminated against reserves, see note 16. This goodwill will be charged to the profit and loss account on the subsequent disposal of the related business.

#### d) Impairment of intangible and tangible fixed assets

Intangible and tangible fixed assets are subject to review for impairment in accordance with FRS11 "Impairment of Fixed Assets and Goodwill". Any impairment is recognised in the profit and loss account in the year in which it occurs.

## **Superdrug Stores plc**

### **Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)**

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#### **e) Tangible fixed assets**

Tangible fixed assets are stated at historic cost, net of accumulated depreciation. The cost of fixed assets is their historic purchase price, 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, over the following expected useful economic lives of the assets concerned:

Leasehold land and buildings	terms of the lease
Fixtures, fittings and equipment	5 to 10 years
Assets in the course of construction	not depreciated

Useful economic lives are reassessed periodically.

#### **f) Valuation of investment in subsidiaries**

Investments in subsidiary undertakings are stated at the book value of the net assets of each subsidiary undertaking with the movement being dealt with through the revaluation reserve. Investments are revalued annually.

#### **g) Stock**

Stock is stated at the lower of cost and net realisable value, at weighted average cost and consists of finished goods purchased for resale. Provisions are made as appropriate for shrinkage and slow-moving items.

#### **h) Operating leases**

Rentals payable under operating leases are charged to the profit and loss account as incurred. Where an incentive to sign the lease has been taken, this is spread on a straight line basis over the lease term.

#### **i) Pension costs**

The Company operates a defined benefit scheme for employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)

### j) 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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

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

2 OPERATING PROFIT/(LOSS)	52 weeks ended 26 December 2009 £'000	52 weeks ended 27 December 2008 £'000
Operating profit/(loss) is stated after (crediting)/charging		
Rental income	(3,895)	(4,311)
Auditors' remuneration - audit services	118	118
- tax services	286	140
Operating leases – land and buildings	108,109	108,876
Operating leases – other	3,325	4,327
Charitable donations	490	975
Loss /(profit) on disposal of tangible fixed assets	19	(1,477)
Movement in goodwill impairment provision (note 8)	165	-
Decrease in idle and investment property impairment provision (note 13)	(126)	(557)
Depreciation (note 10)	27,590	28,318

### 3 EMPLOYEES

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

	Number	Number
Selling	6,293	6,468
Distribution	610	645
Administration	427	382
	7,330	7,495

Their aggregate remuneration comprised

	52 weeks ended 26 December 2009 £'000	52 weeks ended 27 December 2008 £'000
Wages and salaries	147,888	150,089
Social security costs	9,520	9,899
Other pension costs (note 17)	1,585	3,033
	158,993	163,021

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)

<b>4 DIRECTORS' EMOLUMENTS</b>	<b>52 weeks ended 26 December 2009 £'000</b>	<b>52 weeks ended 27 December 2008 £'000</b>
Aggregate emoluments	<u>1,402</u>	<u>510</u>

Pension contributions of £104,644 (2008 £nil) were paid to defined contribution pension schemes on behalf of 2 directors (2008 nil)

Included in the above emoluments, £512,896 (2008 £55,209) was accrued in respect of a long term incentive plan

	<b>52 weeks ended 26 December 2009 £'000</b>	<b>52 weeks ended 27 December 2008 £'000</b>
Highest paid Director		
Remuneration	946	193
Pension contributions	<u>79</u>	<u>-</u>
	<u>1,025</u>	<u>193</u>

Included in the directors emoluments, £329,243 (2008 £55,209) was accrued in respect of a long term incentive plan

<b>5 INTEREST RECEIVABLE AND SIMILAR INCOME</b>	<b>52 weeks ended 26 December 2009 £'000</b>	<b>52 weeks ended 27 December 2008 £'000</b>
Bank deposits	139	1,087
Other	<u>104</u>	<u>210</u>
	<u>243</u>	<u>1,297</u>

<b>6 INTEREST PAYABLE AND SIMILAR CHARGES</b>	<b>52 weeks ended 26 December 2009 £'000</b>	<b>52 weeks ended 27 December 2008 £'000</b>
Group undertakings	6,736	8,233
Bank overdrafts	8	215
Other	<u>46</u>	<u>119</u>
	<u>6,790</u>	<u>8,567</u>

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)

### 7 TAX ON LOSS ON ORDINARY ACTIVITIES

	52 weeks ended 26 December 2009 £'000	52 weeks ended 27 December 2008 £'000
<b>a) Analysis of credit in the year</b>		
<b>Current tax:</b>		
Tax charge on loss on ordinary activities at 28%	1,277	4,813
Adjustment to tax charge in respect of prior period	(2,767)	2,230
Total current tax (credit)/charge	(1,490)	7,043
<b>Deferred tax</b>		
Origination and reversal of timing differences	(1,340)	(7,937)
Adjustment to deferred tax in prior periods	2,506	-
Total deferred tax charge/(credit)	1,166	(7,937)
Total tax credit	(324)	(894)

Included within the deferred tax charge for the year is an amount of £249,000 in relation to timing differences in the Company's pension scheme which is reflected in the movement on the pension scheme liability as detailed in note 17

#### b) Factors affecting tax (credit)/charge for the period

The tax (credit)/charge for the period is lower (2008 lower) than the standard rate of corporation tax in the UK at 28%. The differences are explained below

Loss on ordinary activities before taxation	(234)	(7,396)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008 28.5%)	(66)	(2,108)
Effects of		
Expenses not taxable	215	262
Expenses taxable provided in prior years	-	(517)
Short term timing differences	237	
Depreciation in excess of capital allowances	1,967	7,517
Capitalised repairs	(461)	-
Tax on capital gains	-	669
Pension cost charge less pension cost relief	(615)	(1,010)
Adjustment to tax charge in respect of prior period	(2,767)	2,230
Total current tax (credit)/charge	(1,490)	7,043

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's profits for the accounting period are taxed at an effective rate of 28% and will be taxed at 28% in the future



# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)

### 8 INTANGIBLE FIXED ASSETS

	Purchased goodwill £'000
<b>Cost</b>	
At 26 December 2009 and 27 December 2008	<u>20,601</u>
<b>Accumulated amortisation and impairment</b>	
At 27 December 2008	6,116
Movement on impairment	<u>165</u>
At 26 December 2009	<u>6,281</u>
<b>Net book value</b>	
At 26 December 2009	<u>14,320</u>
At 27 December 2008	<u>14,485</u>

Impairment reviews are carried out on an annual basis to ensure that the carrying value of each individual pharmacy licence is still appropriate. As at 26 December 2009, the impairment provision against the carrying value of pharmacy licences was increased by £165,000 (2008 nil).

### 9 FIXED ASSET INVESTMENTS

Shares in subsidiary undertakings are carried at nil value, having been written down to reflect the underlying value, are all 100% owned and incorporated in England and Wales.

<u>Name</u>	<u>Class</u>	<u>Nature of business</u>
A S Watson Card Services (UK) Limited	Ordinary	Dormant
Superdrug Pension Trustee Limited	Ordinary	Dormant
Tip Top Drugstores plc	Ordinary	Dormant

The Directors believe that the carrying value of the investments is supported by the underlying net assets.

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)

### 10 TANGIBLE FIXED ASSETS

	Land and buildings £'000	Fixtures, fittings and equipment £'000	Payments on account and assets in the course of construction £'000	Total £'000
<b>COST</b>				
At 28 December 2008	12,230	356,607	1,105	369,942
Additions	-	8,199	2,580	10,779
Disposals	(67)	(1,469)	-	(1,536)
<b>At 26 December 2009</b>	<b>12,163</b>	<b>363,337</b>	<b>3,685</b>	<b>379,185</b>
<b>ACCUMULATED DEPRECIATION</b>				
At 28 December 2008	8,477	228,272	-	236,749
Charge for year	565	27,025	-	27,590
Disposals	(67)	(1,155)	-	(1,222)
Movement in impairment provision	(102)	-	-	(102)
<b>At 26 December 2009</b>	<b>8,873</b>	<b>254,142</b>	<b>-</b>	<b>263,015</b>
<b>NET BOOK VALUE</b>				
<b>At 26 December 2009</b>	<b>3,290</b>	<b>109,195</b>	<b>3,685</b>	<b>116,170</b>
At 27 December 2008	3,753	128,335	1,105	133,193

£1 9m of cost (2008 £1 9m) and £1 7m of accumulated depreciation (2008 £1 6m) of tangible fixed assets are held under operating leases to third parties

No provision is made for tax on capital gains that might arise on the disposal of the Company's properties at the balance sheet amounts

Land and buildings are further analysed as follows

	Long leasehold £'000	Short leasehold £'000	Total at 26 December 2009 £'000	Total at 27 December 2008 £'000
At cost	1,126	11,037	12,163	12,230
Aggregate depreciation	(331)	(8,330)	(8,661)	(8,163)
Net book value before provision	795	2,707	3,502	4,067
Impairment provision	-	(212)	(212)	(314)
Net book value				
<b>At 26 December 2009</b>	<b>795</b>	<b>2,495</b>	<b>3,290</b>	
At 27 December 2008	822	2,931		3,753

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)

<b>11 DEBTORS: amounts falling due within one year</b>	<b>52 weeks ended 26 December 2009 £'000</b>	<b>52 weeks ended 27 December 2008 £'000</b>
Trade debtors	49,696	45,902
Amounts owed by group undertakings	117,226	88,344
Other debtors	16,163	11,090
Prepayments and accrued income	35,516	33,204
	<b>218,601</b>	<b>178,540</b>

Amounts owed by group undertakings are interest free and repayable on demand

<b>12 CREDITORS: amounts falling due within one year</b>	<b>52 weeks ended 26 December 2009 £'000</b>	<b>52 weeks ended 27 December 2008 £'000</b>
Bank overdraft	-	15,088
Trade creditors	64,188	76,210
Amounts owed to group undertakings	266,205	229,089
Corporation tax	10,079	11,134
Other creditors	15,814	7,431
Other taxation and social security	12,985	15,714
Accruals and deferred income	34,453	28,701
	<b>403,724</b>	<b>383,367</b>

The bank overdraft is provided under a facility from National Westminster Bank plc and is unsecured and repayable on demand. Interest is payable at National Westminster Bank plc base rate plus 1.25%. The company's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of its immediate parent company and fellow subsidiary undertakings.

Amounts owed to group undertakings include the following loans repayable on demand

<b>Group undertaking</b>	<b>Interest rate</b>	<b>52 weeks ended 26 December 2009 £'000</b>	<b>52 weeks ended 27 December 2008 £'000</b>
Kruidvat UK Limited	6.21%	24,328	24,328
A S Watson (Health & Beauty UK) Limited	4.40%	98,520	95,811
Merchant Retail Group plc	BoE base rate + 0.5%	41,000	18,000
		<b>163,848</b>	<b>138,139</b>

All other amounts owed to group undertakings are interest free and repayable on demand

The Company entered into an additional credit agreement with A S Watson (Health & Beauty UK) Limited, the parent company, with effect from 19 March 2008. Under the agreement, the parent company has agreed to make available to Superdrug Stores plc a loan credit facility of up to £85,000,000, charging interest at 6 months Libor + 4.5625%, for the period from 19 March 2008 maturing on 30 June 2012.

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)

### 13 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax provision £'000	Idle property provision £'000	Total £'000
At 28 December 2008	(313)	1,519	1,206
Charge to the profit and loss account	917	126	1,043
At 26 December 2009	<u>604</u>	<u>1,645</u>	<u>2,249</u>

The idle property provision is in respect of the disposal of properties no longer required in the portfolio, consists of property costs and dilapidations and is expected to be utilised within 8 years, the lease commitment element discounted by 10%

The deferred tax provision is in respect of timing differences

### 14 CALLED UP SHARE CAPITAL

	Authorised		Allotted and Fully Paid	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Ordinary shares of 10 p each	<u>30,000</u>	<u>30,000</u>	<u>22,000</u>	<u>22,000</u>

### 15 RESERVES

	Share premium account £'000	Profit and loss account £'000
At 28 December 2008	103,400	19,775
Profit for the year	-	90
Actuarial loss on pension scheme	-	(11,986)
Movement on deferred tax relating to pension scheme	-	3,356
At 26 December 2009	<u>103,400</u>	<u>11,235</u>

### 16 RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS

	52 weeks ended 26 December 2009 £'000	52 weeks ended 27 December 2008 £'000
Profit/(loss) for the financial year	90	(6,502)
Actuarial loss on pension scheme (note 17)	(11,986)	(21,014)
Movement on deferred tax relating to pension scheme	3,356	6,117
Net movement in shareholders' funds	<u>(8,540)</u>	<u>(21,399)</u>
Opening shareholders' funds	<u>145,175</u>	<u>166,574</u>
Closing shareholders' funds	<u>136,635</u>	<u>145,175</u>

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)

### 17 PENSIONS

The Company operates a hybrid pension scheme, the A S Watson (Health & Beauty UK) Pension Plan, with defined contribution and benefit sections, the latter closed to new entrants. The plan commenced on 1 April 2002, when assets and liabilities were transferred to the defined benefit section from another scheme. On 26 July 2007, the scheme actuary, Chris Norden, a Fellow of the Institute of Actuaries, of Hewitt Bacon & Woodrow Limited certified the actuarial valuation as at 31 March 2006 of the defined benefit section of the scheme. The financial assumptions adopted for the valuation were:

#### Financial assumptions

Pre-retirement discount rate	6.30%
Post-retirement discount rate	4.70%
Retail price index	3.00%
Salary increases	3.25%-4.25%
Pension increases	3.00%
Life expectancy for a 60 year old male pensioner	84.8 years
Life expectancy for a 60 year old female pensioner	87.7 years

The assets in the defined benefit section of the scheme totalled £83.0m and on the above assumptions adopted using the projected unit method, these represented approximately 90% overall of the benefits that have accrued to members after allowing for expected future increases in earnings. The sponsoring employer, Superdrug Stores plc, made a cash injection of £6.0m on 30 June 2007 towards the shortfall being corrected within three years. The Company's contribution rate with effect from 1 October 2007 has been changed to 12.2% in respect of members accruing future benefits at the accrual rate of 80ths and 15.3% in respect of members accruing future benefits at the accrual rate of 60ths. The Company defined benefit contributions during the year were £2,192,000 (2008 £2,846,000).

The above defined benefit section was closed to new members from inception. All new employees are given the opportunity to join the defined contribution section of the scheme. The company makes a contribution, the level of which depends on the seniority of the employee.

With effect from 28 February 2010 the defined benefit pension section was closed to future accrual, with accrued benefits no longer linked to salaries but instead to increase in line with inflation. All existing members have been offered membership of the defined contribution section.

Actuarial valuations of the defined benefit section using the projected unit basis were carried out for accounts disclosure purposes under FRS17 for Superdrug Stores plc in December 2009 and 2008 by KPMG LLP and for previous years by Watson Wyatt & Co, consulting actuaries. The major assumptions used by the actuaries were:

Financial assumptions	26 December 2009	27 December 2008	29 December 2007	30 December 2006
Discount rate	5.70%	6.40%	6.00%	5.25%
Retail price index	3.60%	3.30%	3.35%	2.75%
Salary increases	4.65%	4.30%	4.35%	3.75%
Pension increases	3.45%	3.30%	3.35%	2.75%

# Superdrug Stores plc

## Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)

### 17 PENSIONS (continued)

The assets in the Scheme and the expected rates of return were

	26 December 2009		27 December 2008		29 December 2007		30 December 2006	
	Expected rate of return	Value £'000	Expected rate of return	Value £'000	Expected rate of return	Value £'000	Expected rate of return	Value £'000
Equity	9.15%	59,696	8.80%	45,908	8.85%	63,830	8.25%	62,308
Property	8.15%	6,741	7.80%	6,280	7.45%	8,049	6.75%	7,326
Bonds (including gilts)	5.80%	11,700	6.40%	8,581	6.00%	8,680	5.25%	6,782
Cash	0.61%	1,155	2.80%	610	4.35%	69	3.75%	270
Other	9.15%	3,672	8.80%	5,632	8.85%	7,000	0.00%	-
Total		82,964		67,011		87,628		76,686

The following amounts at 26 December 2009 and 27 December 2008 were measured in accordance with the requirements of FRS17

Balance Sheet	26 December 2009 £'000	27 December 2008 £'000	29 December 2007 £'000
Total market value of assets	82,964	67,011	87,628
Actuarial liabilities	(110,607)	(83,555)	(85,264)
(Deficit)/surplus	(27,643)	(16,544)	2,364
Deferred tax asset/(liability)	7,740	4,633	(709)
Net balance sheet (liability)/asset at the end of the period	(19,903)	(11,911)	1,655
		52 weeks ended 26 December 2009 £'000	52 weeks ended 27 December 2008 £'000
Components of pension cost for the period:			
Current service cost charged to operating profit		1,585	3,033
Expected return on assets		5,628	7,482
Interest cost		(5,348)	(5,189)
Net return		280	2,293
Amounts recognised in STRGL:			
Actual return less than expected return on scheme assets		9,690	(30,386)
Experience gains		363	-
Changes in actuarial assumptions		(22,039)	9,372
Actuarial loss in STRGL		(11,986)	(21,014)
Movement in deficit during the period:			
Deficit at the start of the period		(16,544)	2,364
Total operating charge (note 3)		(1,585)	(3,033)
Contributions		2,192	2,846
Other financing income		280	2,293
Actuarial loss (note 15)		(11,986)	(21,014)
Deficit at end of the period		(27,643)	(16,544)

# Superdrug Stores plc

## Notes to the financial statements for the year ended 31 December 2009 (continued)

### 17 PENSIONS (continued)

History of experience gains and losses for the last five years:

	26 December 2009 Total £'000	27 December 2008 Total £'000	29 December 2007 Total £'000	30 December 2006 Total £'000	31 December 2005 Total £'000
<b>Difference between the expected and actual return on scheme assets</b>					
Amount	9,690	(30,386)	(3,324)	4,247	7,413
Percentage of scheme assets	11.68%	45.3%	3.79%	5.54%	11.51%
<b>Experience gains and losses on scheme liabilities</b>					
Gains/(losses)	363	-	194	2,456	(2,529)
Percentage of the present value of scheme liabilities	0.33%	-	0.23%	3.00%	3.08%
<b>Total amount recognised in STRGL</b>					
(Losses)/gains	(11,986)	(21,014)	(383)	11,701	279
Percentage of the present value of scheme liabilities	10.84%	25.15%	0.45%	14.29%	0.34%

### 18 COMMITMENTS

The Company has the following annual commitments as at 26 December 2009

a) A duty deferment guarantee in favour of HM Customs & Excise to the value of £2.0 million (2008 £2.0 million)

b) Capital commitments

	26 December 2009 £'000	27 December 2008 £'000
Contracted but not provided	706	160

## Superdrug Stores plc

### Notes to the financial statements for the 52 weeks ended 26 December 2009 (continued)

#### 18 COMMITMENTS (continued)

##### c) Lease commitments

The following payments are due in respect of operating leases and hire agreements that expire in the following periods from the balance sheet date

	Land and Buildings		Other	
	26 December 2009 £'000	27 December 2008 £'000	26 December 2009 £'000	27 December 2008 £'000
Less than one year	12,595	6,639	326	436
Two to five years	31,623	33,422	82	272
More than five years	66,944	63,401	-	-
	<b>111,162</b>	<b>103,462</b>	<b>408</b>	<b>708</b>

#### 19 CONTINGENT LIABILITIES

The Company has issued guarantees in respect of property lease rentals for a fellow group undertaking, Kruidvat Real Estate (UK) Limited, to the annual value of £4,335,000 (2008 £nil)

#### 20 POST BALANCE SHEET EVENT

With effect from 28 February 2010 the defined benefit pension section was closed to future accrual, with accrued benefits no longer linked to salaries but instead to increase in line with inflation. The closure to future accrual has given rise to a curtailment gain, based on assumptions at that date, of £7.4m for which credit will be taken in the 2010 statutory accounts.

#### 21 ULTIMATE PARENT UNDERTAKING

The Company's parent undertaking is Kruidvat UK Limited, a company registered in England. The consolidated accounts of that company can be obtained from Hutchison House, 5 Hester Road, Battersea, London SW11 4AN. A S Watson (Health & Beauty UK) Limited represents the smallest group into which the results of the Company are consolidated.

The Company's ultimate parent undertaking and controlling party is Hutchison Whampoa Limited, a company incorporated in Hong Kong which is the largest group into which the results of the Company are consolidated. The financial statements of Hutchison Whampoa Limited can be obtained from 22<sup>nd</sup> Floor, Hutchison House, 10 Harcourt Road, Hong Kong.