Registered Number 00807043

Superdrug Stores plc

Annual Report and Financial Statements

For the 53 Weeks ended 31 December 2016

Contents

The directors present their strategic report for the 53 weeks ended 31 December 2016.

General Information

The Company is a limited company and is incorporated and domiciled in England, in the United Kingdom. The registered number of the Company is 00807043. The address of its registered office is 51 Sydenham Road, Croydon, Surrey CR0 2EU. This reflects the move of the Company's head office in February 2017. The Company is an indirect wholly-owned subsidiary of A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands, and its principal place of business is Hong Kong.

Principal Activity

The principal activity of the Company is a health and beauty retailer in the United Kingdom.

Results and Business Review

The Company has had a successful period. Revenue for the period was £1,214 million (2015: £1,099 million), an increase of 10.4%, driven by sales from like for like stores which increased by 7.8% and the benefit of 23 new stores opened in the period. Total revenue growth was also bolstered by the inclusion of a 53rd week in the Company's financial period in 2016, which is required to maintain alignment of the Company's period end and accounting reference date. This will revert back to a standard 52-week financial period in 2017.

All the main health and beauty categories contributed to the strong sales performance, led by Cosmetics which grew by 14% and achieved a market share of 30% for the first time, supported by the introduction of new brands and investment into innovative merchandising solutions to drive customer engagement and transactions. Healthcare and Wellbeing also grew strongly at 12%, supported by range extension in diet and fitness plus the continued growth of Online Doctor which dispenses products direct to customers' doors or nearby stores.

The Company saw strong growth in its Online channel with sales increasing by over 60%. Improved website functionality and enhanced delivery solutions for customers, supported by best ever availability levels, underpinned this continued growth.

Costs were well controlled during the period which resulted in an operating profit of £86.8 million, an increase of 40% over last period's £62.2 million. As at 31 December 2016 total equity was £225.9 million (2015: £192.7 million).

Business Environment

The UK Health & Beauty market in 2016 remained very competitive. The market continues to see expansion of general merchandise and clothing retailers into beauty products alongside the growth of pure play online beauty retailers and the supermarkets returning to positive volume growth. Market growth was driven by those retailers who could blend new product development with innovative and exciting in-store environments, partnered by a modern and flexible Online offering.

The UK economy provided a supportive consumer environment for retail as low inflation and interest rates served to increase customers' disposable income, especially during the first half of the period. However, retail businesses had to deal with the impact of the new National Living Wage and the uncertainty posed by the result of the UK's European Union Referendum, both of which place pressure on retailers' operating models.

Strategy

The Company continues to strive to be the best in everyday accessible beauty and health. During the period the Company opened 23 new stores, converted 12 to the fascia of its fellow group company Savers Health and Beauty Limited, and closed a further 9 resulting in a trading estate of 784 stores at the period end. The new store opening programme was the largest for several periods and included a new retail park format in prime locations such as Fosse Park, Leicester and Castlepoint, Bournemouth.

Strategy (continued)

The Company also continued with the refurbishment programme of its existing estate. The new cosmetics merchandise display units were in over 300 stores at the period end, and similar new concepts for skincare and fragrance counters have also been trialled successfully, providing an easier shop for customers as well as facilitating colleague replenishment. The Company also rolled out its Wellbeing store format to a further six stores in the period, with returns exceeding expectations.

The Company's range of own brand and exclusive products continues to be an important part of the Company's strategy. During the period several awards were won, Pure Beauty Gold Award 'Best New Hair Colouring Product' and Silver Pure Beauty Award for 'Best New Retailer's Own Label Product', demonstrating the relevance and success these have amongst customers. New own brand ranges were introduced in all categories, and the Company continued to grow the number of its social media "bloggers and vloggers" who provide exclusive products.

The Online channel grew significantly ahead of the total market during 2016 and the Company continues to invest in this area. Improved user navigation and up-weighted content have both proved successful in driving additional traffic and a 60% growth in sales compared to last period, increasing the proportion of total sales made via this channel.

The Company's customer loyalty programme is also central to its strategy. The proportion of sales from members has increased by over 5% from the previous period, supported by benefits such as double points on all Christmas gifts and 'member only' pricing deals. The programme almost doubled in size over the last two periods and stood at over 9 million registered customers at the period end.

The Company continues to invest for the future, as evidenced by the multi-million pound investment in the southern regional distribution centre, which successfully increased the capacity of the operation without disrupting store service. This was part of a significant increase in capital expenditure to £33m, primarily driven by the increased store opening programme.

The Company's 13,500 colleagues across stores, distribution centres and head office are also central to the Company's strategy. Over the past two periods significant investment has been made into customer service across the business which was recognised this period by the winning of the coveted CIPD retail industry award for customer experience.

Cost efficiency remains an important focus of the Company, especially with the increase in costs arising from government legislation. During the period a number of efficiency programmes were delivered, centred on effective procurement and the use of technology, which helped to increase the operating margin by 1.4 percentage point from the previous period.

Principal Risks and Uncertainties

The management of the Company and the execution of the Company's strategy are subject to a number of risks. These are reviewed formally by the board and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects. The key business risks are as follows:

- Competition: The Company operates in a highly competitive market particularly concerning price and product availability and quality. This can result in downward pressures on volumes and margins. In order to mitigate this risk, market research is carried out, prices are monitored on a regular basis, pricing is adjusted accordingly and the Company carries out planned promotional activities.

- Costs: Management focus on rising costs of fuel, rent, rates and wages and seek all possible means to ensure that the effect of price rises are minimised.

- Data and IT security: The Company relies upon its IT infrastructure to deliver its operations and through which it handles significant volumes of data (both corporate and customer). The security, resilience and control of these key assets are of significant importance to and focus of management. Steps have been taken during the period to review, and enhance where appropriate, controls and risk management in this area.

Principal Risks and Uncertainties (continued)

- Employees: The Company's performance depends largely on its staff. The loss of key individuals and the inability to recruit people with the right experience and skills could adversely impact the Company's results. To mitigate these issues, the Company has implemented programmes to improve staff retention.

- The impact of the UK's decision to exit the European Union has created uncertainty regarding future consumer sentiment and demand, and has created upwards pressure on costs arising from the devaluation of sterling. In the longer term, uncertainty will also exist surrounding the access to the single market, taxation regimes and the free movement of labour. Management are reviewing their plans to enable cost pressures to be minimised whilst awaiting future government direction on the economy and Brexit negotiations.

Key Performance Indicators

The directors monitor progress of the Company's performance by reference to the following KPIs:

	At 31 December 2016	At 26 December 2015
Revenue	£1,214m	£1,099m
Like for like sales growth	7.8%	6.6%
Operating profit	£86.8m	£62.2m
Operating margin	7.1%	5.7%

The directors are confident that the Company is well-positioned to meet its short term aspirations and that its longer term prospects are considerable.

Financial Risk Management

The Company is funded by operationally generated cash flow, group loans and external short term bank overdraft facilities if required. The Company sets financial risk management policies in accordance with A.S. Watson Group's policies and procedures. The A.S. Watson Group is part of the CK Hutchison Holdings Limited group. Treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates and to minimise the Company's financial risk.

a) Credit risk

Short-term surplus bank funds are placed with high quality financial institutions. As the Company's retail sales are usually in cash or by credit or debit card, credit risk is to a great extent short-term and limited to the recovery of supplier income.

b) Liquidity risk

The Company's liquidity risk is mitigated by internal funding primarily from the immediate holding company, A.S. Watson (Health & Beauty UK) Limited, in order to meet the Company's funding requirements.

c) Foreign exchange risk

The Company's direct foreign exchange exposure is minimal, with most purchases contracted and paid for in sterling. The Company has a greater exposure to indirect foreign exchange currency risk which it manages through ongoing planning and review with key suppliers.

The Company's financial instruments consist of cash, bank overdrafts, intercompany balances with A.S. Watson group companies, trade receivables and trade payables. The carrying value of these are all recorded at amortised cost. Their contractual maturities are less than one year, with the exception of the group borrowings disclosed in note 15.

Future Outlook and Prospects

The directors expect the UK retail environment to remain competitive. The impact of the UK's decision to exit the European Union is already seeing suppliers increasing cost prices and inflation can be expected to increase during 2017. This has the potential to subdue consumer sentiment and the Company is planning strategies to mitigate the impact of this inflation and to maintain its strong price perception on the High Street. The robust trading performance in 2016 coupled with a clear future strategy and cash flows that can support investment leaves the Company well positioned to grow successfully in 2017 and beyond.

On behalf of the board

R A Fleming
Director
28 June 2017

The directors present their report and the audited Financial Statements of the Company for the 53 weeks ended 31 December 2016.

Future Developments

The directors' opinion on the future outlook and prospects of the Company has been included in the Strategic Report.

Dividends

There have been no dividends paid or declared to be paid on the ordinary shares (2015: nil).

Directors

The directors have access to the advice and services of the company secretary and board members are able to take independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors.

The directors possess an appropriate balance of skills and experience for the requirements of the business. The board and its committees operate within a framework of scheduled meetings, with additional ad hoc meetings being held, as required.

The directors of the Company during the period and to the date of approving this report were:

D K M Lai
A J Heaton
P W Macnab
R A Fleming

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.

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 of information and ideas about the business.

Employment of 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.

Financial Risk Management

The directors' opinion on financial risk management has been included in the Strategic Report.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, 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 period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law (United Kingdom Generally Accepted Accounting Practice).

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 accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- notify the Company's shareholder in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the Financial Statements; and
- 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 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.

Disclosure of Information to Auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The directors have taken all the relevant steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

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

On behalf of the board

R A Fleming
Director
28 June 2017

Report on the financial statements

Our opinion

In our opinion, Superdrug Stores plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the 53-week period (the "period") 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Statement of Comprehensive Income for the period then ended;
- the Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & 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 member 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.

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Rosemary Shapland

Rosemary Shapland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
28 June 2017

Superdrug Stores plc
Statement of Comprehensive Income
For the 53 Weeks ended 31 December 2016

	Note	53 weeks ended 31 December 2016 £'000	Restated* 52 weeks ended 26 December 2015 £'000
Income Statement			
Revenue		1,213,600	1,099,223
Cost of Sales		(1,086,161)	(994,455)
Gross Profit		**127,439**	**104,768**
Administrative expenses		(51,291)	(55,996)
Other operating income		10,603	13,457
Operating profit	3	**86,751**	**62,229**
Finance income	6	332	1,397
Finance costs	6	(6,698)	(6,784)
Profit before taxation		**80,385**	**56,842**
Income tax expense	7	(13,064)	(13,878)
Profit for the period		**67,321**	**42,964**
Other Comprehensive Expense			
Items that will not be reclassified subsequently to profit and loss			
Actuarial loss recognised in pension scheme	17	(40,549)	(2,101)
Movement on deferred tax relating to pension deficit		6,388	(189)
		(34,161)	**(2,290)**
Total comprehensive income for the period		**33,160**	**40,674**

Revenue and operating profit arise from the Company's continuing operations.

The notes on pages 13 to 29 form part of these financial statements.

*In the 2015 Income Statement, the deferred value of costs relating to the Health & Beauty Card points of £5,779,000 has been reclassified from cost of sales to revenue. There is no impact on gross profit or profit before tax.

Superdrug Stores plc
Balance Sheet
As at 31 December 2016

Registered Number: 00807043

	Note	At 31 December 2016 £'000	At 26 December 2015 £'000
Fixed assets			
Intangible assets	8	139,607	142,589
Property, plant and equipment	9	98,761	81,720
		238,368	**224,309**
Current assets			
Inventory	12	203,798	169,854
Trade and other receivables	13	194,573	158,006
Cash and cash equivalents		108,763	138,759
Total current assets		**507,134**	**466,619**
Creditors – amounts falling due within one year			
Trade and other payables	14	(352,355)	(331,134)
Net current assets		**154,779**	**135,485**
Total assets less current liabilities		**393,147**	**359,794**
Creditors – amounts falling due after more than one year			
Borrowings	15	(85,000)	(125,000)
Retirement benefit obligation	17	(72,175)	(35,147)
Provisions	16	(10,074)	(6,909)
Net assets		**225,898**	**192,738**
Equity			
Called up share capital	18	22,000	22,000
Share premium account		103,400	103,400
Retained earnings		100,498	67,338
Total shareholder's funds		**225,898**	**192,738**

The notes on pages 13 to 29 form part of these financial statements.

These financial statements on pages 10 to 29 were authorised for issue by the board of directors on 28 June 2017 and signed on its behalf by:

R A Fleming
Director

Superdrug Stores plc
Statement of Changes in Equity
For the 53 Weeks ended 31 December 2016

	Ordinary shares £'000	Share premium account £'000	Retained earnings £'000	Total Shareholder's funds £'000
At 27 December 2014	**22,000**	**103,400**	**26,664**	**152,064**
Profit for the period	-	-	42,964	42,964
Other Comprehensive Income for the period				
Actuarial loss on pension scheme	-	-	(2,101)	(2,101)
Movement on deferred tax relating to pension deficit	-	-	(189)	(189)
At 26 December 2015	**22,000**	**103,400**	**67,338**	**192,738**
Profit for the period	-	-	67,321	67,321
Other Comprehensive Income for the period				
Actuarial loss on pension scheme	-	-	(40,549)	(40,549)
Movement on deferred tax relating to pension deficit	-	-	6,388	6,388
At 31 December 2016	**22,000**	**103,400**	**100,498**	**225,898**

The notes on pages 13 to 29 form part of these financial statements.

1. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of Preparation

The financial statements of Superdrug Stores plc have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006, as applicable for companies using FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
  - Paragraph 79(a) (iv) of IAS 1
  - Paragraph 73(e) of IAS 16 Property, plant and equipment
  - Paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period);
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows)
  - 16 (statement of compliance with all IFRS)
  - 38A (requirement for minimum of two primary statements, including cash flow statements)
  - 38B-D (additional comparative information)
  - 111 (cash flow statement information)
  - 134-136 (capital management disclosures);
- IAS 7, 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors';
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation);
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group; and
- Paragraph 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets'.

1. Summary of Significant Accounting Policies (continued)

Going Concern

The Company meets its day-to-day working capital requirements through its cash reserves and group loans. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current cash reserves and group loans. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the Company's borrowings is given in note 15.

Amendments to Published Standards

The following standards and revisions will be effective for future years and are not yet adopted:

- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from contracts with customers'
- IFRS 16 'Leases'

The Company has considered the impact of IFRS 9 and IFRS 15 and has concluded that they will not have a significant impact on the Company's financial statements. The Company is assessing the impact of IFRS 16, which will have a material effect on the Company's financial statements.

Consolidation

The Company is a wholly owned subsidiary of A.S. Watson (Health & Beauty UK) Limited, its immediate parent company. It is included in the consolidated financial statements of A.S. Watson (Health & Beauty UK) Limited which are publically available. The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

Subsidiaries

Subsidiaries are entities in which the Company has the power to govern the financial and operating policies so as to obtain economic benefits from their activities.

Revenue

Revenue represents retail sales to customers and commission income from goods and services provided by third parties in the United Kingdom. It is measured at the fair value of the consideration received or receivable and is recognised on the day that the sale is made. Revenue through internet sites is recognised once an order has been fulfilled and despatched.

Revenue is shown net of returns, the cost of loyalty card points, colleague discounts and sales made on an agency basis, and is stated net of value added tax. Commission income, arising from goods and services provided by third parties, is recognised in revenue based on the terms of the contract.

In respect of loyalty schemes, as points are issued to customers the retail value of those points is deferred. When the points are used by customers they are recorded as revenue. Liabilities are recorded to estimate the proportion of the points issued which are expected to be redeemed by the customers.

In the opinion of the directors there is only one class of business.

Supplier Income

Supplier incentives, promotional funding, volume related rebates and discounts, collectively known as 'supplier income', are deducted from cost of sales and are recognised in accordance with supplier agreements on an accrual basis as they are earned for each relevant supplier contract. Amounts due relating to supplier income are recognised within trade receivables, except in cases where the Company currently has a legally enforceable right to set -off and intends to offset amounts due from suppliers, in which case only the net amount receivable or payable is recognised. Accrued supplier income is recognised within accrued income when earned and not invoice at the balance sheet date.

1. Summary of Significant Accounting Policies (continued)

Foreign Currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Intangible Assets

a) *Pharmacy licences*
An intangible asset arising on the purchase of a pharmacy licence is calculated as the excess of the fair value of consideration given over the fair value of the identifiable asset acquired and is capitalised as an intangible asset. The licences are not amortised, as they are deemed to have an indefinite useful economic life. Impairment reviews are carried out on an annual basis to ensure that the carrying value of each individual licence is still appropriate.

b) *Computer software*
Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of between five to seven years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of between five to seven years. All amortisation is included within administrative expenses within the income statement.

c) *Brands*
Brands and trademarks are recognised at fair value at the acquisition date. They are not amortised as they are deemed to have an indefinite useful life. The assets are tested for impairment on an annual basis and are carried at cost less any provision for impairment.

Property, Plant and Equipment

Tangible 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 the tangible fixed assets less their estimated residual values, using the straight-line method, over the following expected useful economic lives of the assets concerned. Leaseholds with an unexpired term of greater than 50 years are treated as long leaseholds.

Long leasehold improvements	length of the lease
Short leasehold improvements	shorter of 6 ⅔ years or length of the lease
Fixtures, fittings and equipment	5 to 10 years

The useful economic lives of assets are reviewed periodically.

Impairment of Non-Financial Assets

Non-financial assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment. All other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

1. Summary of Significant Accounting Policies (continued)

Inventory

Inventory is valued at the lower of cost and net realisable value, at weighted average cost and consists of finished goods purchased for resale. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provisions are made as appropriate for shrinkage and slow moving items.

Trade and Other Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for impairment. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate. The carrying value of the receivable is reduced and any impairment loss is recognised in the income statement.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is the amount of income tax payable in respect of taxable profit for the period or prior periods. Tax is calculated on the rate relevant to the financial period.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

1. Summary of Significant Accounting Policies (continued)

Employee Benefits

The Company operates both a defined benefit pension scheme and a defined contribution pension scheme for its employees. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution scheme is a pension plan under which the Company pays fixed contributions into a separate entity.

The Company's defined benefit pension scheme is closed with employees making no further contributions. The pension scheme deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is actuarially calculated on an annual basis using the projected unit credit method. Plan assets are recorded at fair value.

The income statement charge consists of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses. The financing charge is determined by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets. The cost is included in the income statement.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a discount rate that reflects the risks specific to the liability.

Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. The benefits of lease incentives are taken to the income statement account on a straight line basis over the period of the lease. Contributions received from landlords as an incentive to enter into a lease are treated as deferred income within payables and released over the period of the lease.

2. Critical Accounting Estimates and Judgments

The Company makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events.

The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

Impairment

Financial assets, such as receivables, and non-financial assets, such as brands, pharmacy licences, and computer software and property, plant and equipment are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance.

Retirement benefit obligation

The Company operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on interest rates of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 17. Any changes to assumptions used will impact the carrying value of the retirement benefit obligation. As detailed in note 17, the retirement benefit obligation is most sensitive to changes in the discount rate and inflation.

Provisions

Provisions are made for onerous leases, dilapidations, store exit and other employment costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. The carrying amount of provisions will be impacted by changes in the discount rate. Details of provisions are set out in note 16.

3. Operating Profit

Operating profit is stated after charging/(crediting):

	53 weeks ended 31 December 2016 £'000	52 weeks ended 26 December 2015 £'000
Operating lease charges	98,865	98,141
Rental income	(6,018)	(6,552)
Impairment charge	178	636
Loss on disposal of property, plant and equipment	641	1,226
Depreciation and amortisation	18,460	21,921
Amounts payable to the Company's auditors: audit fees	136	132
: other fees	6	6

4. Employees

The total aggregate remuneration comprises:

	53 weeks ended 31 December 2016 £'000	52 weeks ended 26 December 2015 £'000
Wages and salaries (including directors)	161,080	145,107
Social security costs	10,167	9,080
Other pension costs	5,252	5,076
Total staff costs	176,499	159,263

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

	53 weeks ended 31 December 2016 No.	52 weeks ended 26 December 2015 No.
By activity:		
Selling	11,851	11,484
Administration	521	483
	12,372	**11,967**

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

	53 weeks ended 31 December 2016 No.	52 weeks ended 26 December 2015 No.
By activity:		
Selling	5,721	5,468
Administration	496	458
	6,217	**5,926**

5. Directors

The directors' emoluments were as follows:

	53 weeks ended 31 December 2016 £'000	52 weeks ended 26 December 2015 £'000
Remuneration	1,536	887
Long term incentive plan	210	194
Pension contributions	71	37
	1,817	**1,118**

There are no post-employment benefits accruing under the Company's defined benefit scheme.

D K M Lai and A J Heaton are remunerated by other group entities which do not recharge the Company. These directors do not receive any remuneration for their services to the Company.

The highest paid director's emoluments were as follows:

	53 weeks ended 31 December 2016 £'000	52 weeks ended 26 December 2015 £'000
Remuneration	1,064	728
Long term incentive plan	210	194
Pension contributions	37	37
	1,311	**959**

6. Finance income and costs

	53 weeks ended 31 December 2016 £'000	52 weeks ended 26 December 2015 £'000
Bank interest	327	228
Other	5	1,169
Total finance income	**332**	**1,397**
Bank overdrafts	(6)	(12)
Pension financing charge	(1,904)	(1,911)
Interest payable on loans from group undertakings	(4,784)	(3,693)
Other	(4)	(1,168)
Total finance cost	**(6,698)**	**(6,784)**
Net finance cost	**(6,366)**	**(5,387)**

7. Income tax

Tax expense included in the income statement	**53 weeks ended 31 December 2016 £'000**	**52 weeks ended 26 December 2015 £'000**
UK corporation tax on profits for the period	15,235	13,635
Adjustment in respect of prior periods	(3,093)	570
Total current tax	**12,142**	**14,205**
Origination and reversal of timing differences	681	91
Impact of change in UK tax rate	241	178
Adjustment in respect of prior periods	-	(596)
Total deferred tax	**922**	**(327)**
Tax on profit	**13,064**	**13,878**

Tax (credit)/charge included in Other Comprehensive Expense

Deferred tax:		
Origination and reversal of temporary differences	(6,388)	189
Total tax (credit)/charge included in Other Comprehensive Expense	**(6,388)**	**189**

The effective rate of 16.3% (2015: 24.4%) is lower than (2015: higher than) the standard rate of corporation tax in the United Kingdom. The differences are:

	53 weeks ended 31 December 2016 £'000	**52 weeks ended 26 December 2015 £'000**
Profit before taxation	80,385	56,842
Income tax at UK corporation tax rate of 20% (2015: 20.25%)	**16,077**	**11,511**
Effects of:		
(Income)/ expenses not subject to tax	(161)	2,215
Adjustment to tax charge in respect of prior periods	(3,093)	(26)
Re-measurement of deferred tax due to change in UK tax rate	241	178
Tax on profit	**13,064**	**13,878**

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation tax rate which decreased from 21% to 20% from 1 April 2015.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

8. Intangible assets

	Brands £'000	Pharmacy licences £'000	Computer software £'000	Total £'000
Cost				
At 27 December 2015	125,000	19,500	8,865	153,365
Additions	-	27	748	775
Disposals	-	-	(70)	(70)
At 31 December 2016	**125,000**	**19,527**	**9,543**	**154,070**
Accumulated amortisation and impairment				
At 27 December 2015	-	5,645	5,131	10,776
Amortisation	-	-	184	184
Disposals	-	-	(23)	(23)
Reclassification	-	-	3,348	3,348
Impairment	-	178	-	178
At 31 December 2016	**-**	**5,823**	**8,640**	**14,463**
Net book value				
At 31 December 2016	**125,000**	**13,704**	**903**	**139,607**
At 26 December 2015	**125,000**	**13,855**	**3,734**	**142,589**

In the period an impairment charge of £177,962 (2015: £138,828) was made to the income statement, recorded within administrative expenses.

In the period a reclassification of accumulated depreciation was made between computer software and fixtures, fittings and equipment of £3,348,000 (2015: £nil).

Intangible assets amortisation is recorded in administrative expenses in the income statement.

9. Property, plant and equipment

	Long leasehold improvements £'000	Short leasehold improvements £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
At 27 December 2015	12,434	175,413	258,630	446,477
Additions	-	14,663	17,947	32,610
Disposals	-	(88,514)	(114,851)	(203,365)
At 31 December 2016	**12,434**	**101,562**	**161,726**	**275,722**
Accumulated depreciation				
At 27 December 2015	11,577	154,754	198,426	364,757
Charge for the period	21	5,767	12,488	18,276
Reclassification	-	-	(3,348)	(3,348)
Eliminated on disposals	-	(88,071)	(114,653)	(202,724)
At 31 December 2016	**11,598**	**72,450**	**92,913**	**176,961**
Net book value				
At 31 December 2016	**836**	**29,112**	**68,813**	**98,761**
At 26 December 2015	**857**	**20,659**	**60,204**	**81,720**

In the period an impairment charge of £nil (2015: £497,176) was made to the income statement. In the period a review of fully depreciated assets was undertaken. This resulted in a reduction of £198,689,000 of cost and accumulated depreciation, recorded within disposals.

10. Deferred tax asset (recoverable in more than one year)

	Depreciation in excess of capital allowances £'000	Timing differences £'000	Retirement benefit obligation £'000	Total £'000
At 27 December 2014	**1,433**	**2,646**	**6,971**	**11,050**
Credit/(charge) to income statement	701	(12)	(362)	327
Charge to other comprehensive expense	-	-	(189)	(189)
At 26 December 2015	**2,134**	**2,634**	**6,420**	**11,188**
Charge to income statement	(169)	(682)	(71)	(922)
Credit to other comprehensive expense	-	-	6,388	6,388
At 31 December 2016	**1,965**	**1,952**	**12,737**	**16,654**

11. Investments

	At 31 December 2016 £'000	At 26 December 2015 £'000
Net book value	-	-

The subsidiaries, all of which are incorporated in the United Kingdom and are wholly owned, are as follows:

Subsidiary	**Registered address**	
Tip Top Drugstores Limited	5 Hester Road, London, SW11 4AN	Dormant
Superdrug Pension Trustee Limited	51 Sydenham Road, Surrey, CR0 2EU	Dormant

12. Inventory

	At 31 December 2016 £'000	At 26 December 2015 £'000
Finished goods and goods for resale	**203,798**	**169,854**

The amount of inventories recognised as an expense and charged to cost of sales for the 53 weeks ended 31 December 2016 was £931,381,000 (2015: £836,350,000).

Inventories are stated after provisions for impairment of £8,110,000 (2015: £7,936,000).

13. Trade and other receivables

	At 31 December 2016 £'000	Restated* At 26 December 2015 £'000
Trade receivables	48,432	48,825
Amounts owed by group undertakings	57,922	35,842
Other receivables	12,003	9,068
Prepayments and accrued income	59,562	53,083
Deferred tax asset (note 10)	16,654	11,188
	194,573	**158,006**

Trade receivables are stated after provisions for impairment of £2,195,000 (2015: £1,336,000).

Amounts owed by group undertakings are unsecured, repayable on demand and are non interest bearing.

*Unvoiced supplier income of £15,672,000 has been reclassified from trade receivables to accrued income.

14. Trade and other payables

	At 31 December 2016 £'000	Restated* At 26 December 2015 £'000
Trade creditors	64,920	64,758
Amounts owed to group undertakings	131,541	135,092
Corporation tax	27,879	24,711
Other taxation and social security	24,596	20,073
Accruals and deferred income	74,970	63,668
Other creditors	28,449	22,832
	352,355	**331,134**

Amounts owed to group undertakings includes a loan from A.S. Watson (Health & Beauty UK) Limited totalling £77,963,949 (2015: £77,963,949). The interest rate on this loan is 2.19% (2015: 2.19%) and the loan is repayable on demand.

The Company has a bank overdraft facility of a variable size between £15,000,000 and £35,000,000, which is provided by National Westminster Bank plc and which is unsecured and repayable on demand. Interest is payable at National Westminster Bank plc base rate plus 1.25%. During the period there were no drawings (2015: £nil) on this facility.

15. Borrowings

	At 31 December 2016 £'000	At 26 December 2015 £'000
Amounts owed to group undertakings	**85,000**	**125,000**

Borrowings relate to a credit agreement with A. S. Watson Group (HK) Limited. Under the agreement, A. S. Watson Group (HK) Limited has agreed to make available a credit facility of £125,000,000, charging interest at 3.5%, maturing on 15 June 2025. The full value of the credit agreement was drawn down by the Company on 13 July 2015. £40,000,000 was repaid from operational cashflows in January 2016.

The Company has a £85,000,000 loan credit facility provided by A.S. Watson (Health & Beauty UK) Limited, its immediate parent company, with interest charged at 3.5%. The loan credit facility matures on 30 June 2020. During the period there were no drawings (2015: nil) on this facility.

16. Provisions

	At 31 December 2016 £'000
At start of period	6,909
Utilised during the period	(630)
Added during the period	3,795
At end of period	**10,074**

Provisions comprise estimates for onerous leases, dilapidations, store exit and other employment costs.

17. Retirement benefit obligation

The retirement benefit obligation relates to a defined benefit scheme, the A.S. Watson (Health & Beauty UK) Pension Plan (the "Scheme"). The Scheme is governed by a Trustee board, and the assets of the Scheme are held separately from the Company's assets. The Scheme is closed, with employees making no further contributions, and members accruing no further defined benefits.

The Scheme was subject to a triennial actuarial valuation as at 31 March 2015, carried out by Barnett Waddingham on the projected unit basis. The result of this valuation was finalised in August 2016 and a recovery plan agreed, under which the Company would pay annual deficit contributions of £5,500,000 until December 2023. The next valuation effective date is 31 March 2018.

The retirement benefit obligation at the year-end has been calculated by KPMG LLP, as actuarial advisers to the Company, using the projected unit credit method and based on adjusting the position at 31 March 2015 for known events and changes in market conditions as allowed under IAS 19 Revised.

The amounts recognised in the balance sheet are as follows:

	53 weeks ended 31 December 2016 £'000	52 weeks ended 26 December 2015 £'000
Present value of funded obligation	(234,401)	(176,910)
Fair value of plan assets	162,226	141,763
Retirement benefit obligation	(72,175)	(35,147)
Deferred income tax asset	12,737	6,420
Net retirement benefit obligation	**(59,438)**	**(28,727)**

The retirement benefit obligation and the associated deferred income tax asset are shown within different line items on the face of the balance sheet.

The only amount recognised in the income statement is the pension financing charge (including expenses) of £1,904,000 (2015: £1,911,000), included within finance costs.

a) Other comprehensive income

Re-measurement of the retirement benefit obligation has been recognised as follows:

	53 weeks ended 31 December 2016 £'000	52 weeks ended 26 December 2015 £'000
Return on plan assets, excluding amounts in interest	(13,454)	(3,737)
Actuarial losses/(gains) arising from changes in:		
Demographic assumptions	24	7,060
Financial assumptions	70,613	(3,245)
Experience	(16,634)	2,023
Total actuarial losses	**54,003**	**5,838**
Total re-measurement losses	**40,549**	**2,101**

17. Retirement benefit obligation (continued)

b) Valuations

The movements in the retirement benefit obligation are as follows:

	53 weeks ended 31 December 2016 £'000	52 weeks ended 26 December 2015 £'000
Changes in the present value of retirement benefit obligation:		
At 27 December 2015/28 December 2014	176,910	168,340
Interest cost on the defined benefit obligation	6,911	6,329
Re-measurement losses	54,515	5,838
Net transfer out liability	(802)	(475)
Benefits paid	(3,133)	(3,122)
At 31 December 2016/27 December 2015	**234,401**	**176,910**
Changes in the fair value of plan assets:		
At 27 December 2015/28 December 2014	141,763	133,505
Interest income on plan assets	5,607	5,062
Pension scheme expenses	(600)	(644)
Re-measurement gains	13,966	3,737
Contributions by Company	5,425	3,700
Net transfer out liability	(802)	(475)
Benefits paid	(3,133)	(3,122)
At 31 December 2016/27 December 2015	**162,226**	**141,763**

The Company's expected contributions (including expenses) to the defined benefit section for the next financial period beginning 1 January 2017 are £6,000,000 (2015: £5,425,000).

The major categories of plan assets as a percentage of total plan assets are as follows:

	53 weeks ended 31 December 2016 %	52 weeks ended 26 December 2015 %
Equities	41.6	40.9
Property	3.3	2.4
Bonds	12.4	11.9
LDI Derivatives/Other	30.3	41.7
Cash	12.4	3.1
	100.0	**100.0**

17. Retirement benefit obligation (continued)

c) The principal actuarial assumptions used at the balance sheet date are as follows:

	At 31 December 2016	At 26 December 2015
Discount rate	2.65%	3.95%
Retail price index	3.20%	3.20%
Pension increases	3.05%	3.05%
Life expectancy at balance sheet date for a pensioner at normal retirement age (now 65 years):		
Male pensioner	21.4 years	21.4 years
Female pensioner	23.6 years	23.6 years
Life expectancy at balance sheet date for a future pensioner at normal retirement age:		
Male pensioner	22.7 years	22.7 years
Female pensioner	25.2 years	25.1 years

The discount rate is based on the yield of AA-rated sterling corporate bonds appropriate to the term of the Scheme's liabilities. The base mortality assumptions are based on the SAPS tables, with future improvements based on the CMI 2011 projection with a long-term rate of improvement of 1.25% per annum.

The weighted average duration of the defined benefit obligation at the end of the period is 23 years (2015: 22 years).

d) Sensitivities

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, with changes in more than one assumption more likely as these may be correlated.

An increase of 0.25% in the discount rate would decrease the retirement benefit obligation by £12.4 million. A decrease of 0.25% in the discount rate would increase the retirement benefit obligation by £13.2 million.

An increase of 0.25% in the inflation rate would increase the retirement benefit obligation by £11.4 million. A decrease of 0.25% in the inflation rate would decrease the retirement benefit obligation by £10.8 million.

The sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

e) Other disclosures

The Scheme exposes the Company to actuarial risks such as longevity risk, currency risk, inflation risk, interest rate risk and market (investment) risk. The Company is not exposed to any unusual entity specific or Scheme specific risks. The Trustee's investment strategy mitigates some of these risks. Market (investment) risk is addressed by diversification across asset classes and investment managers. The Trustee keeps investment performance under review and the Company is consulted before changes are made to the investment policy.

18. Called up share capital

	At 31 December 2016 £'000	At 26 December 2015 £'000
Allotted and fully paid ordinary shares of 10p each	**22,000**	**22,000**
Number of shares ('000 shares)	**220,000**	**220,000**

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 an annual value of £7,632,500 (2015: £7,632,500).

20. Capital and other commitments

At 31 December 2016 the Company had the following commitments:

a) A duty deferment guarantee in favour of HM Customs & Excise to the value of £2,000,000 (2015: £2,000,000).

b) Lease commitments:

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

Aggregate future minimum lease payments:	At 31 December 2016 £'000	At 26 December 2015 £'000
Buildings		
Under one year	104,753	94,644
Between one to five years	238,311	255,777
More than five years	157,747	179,471
	500,811	**529,892**
Plant and machinery		
Under one year	651	518
Between one to five years	891	905
	1,542	**1,423**

c) Capital commitments

The Company has no capital commitments (2015: £nil).

21. Controlling parties

The Company's immediate parent undertaking is A.S. Watson (Health & Beauty UK) Limited, a company registered in England. The consolidated financial statements 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 and the largest group to consolidate these financial statements is CK Hutchison Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited and incorporated in the Cayman Islands. The financial statements of CK Hutchison Holdings Limited can be obtained from 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong.