Registered Number 00807043

Superdrug Stores plc

Annual Report and Financial Statements

For the 52 Weeks ended 28 December 2019

Contents

The directors present their Strategic Report for the 52 weeks ended 28 December 2019.

General Information

The Company is a private company, limited by shares 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. The Company is an indirect wholly-owned subsidiary of A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands, with its principal place of business in 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 delivered a solid performance in the period. Revenue for the period was £1,304 million (2018: £1,283 million), an increase of 1.6%, driven by sales from like for like stores and the benefit of 30 new stores opened in the period, while 35 stores were also closed during the period.

The Company's market share continued to grow in 2019, including its core categories of cosmetics, fragrance and skincare, on the backdrop of a tough trading environment. Healthcare also grew strongly, supported by a strong performance in Healthcare Services where new services, and nurse clinics, were launched in the year.

The Company saw sustained growth in its Online channel with sales driven by both the core website and the Online Doctor offering, which dispenses products direct to customers' doors or nearby stores. In 2019, the business launched a 30 minute 'click and collect' service, allowing customers to collect products much more quickly than the previous 24-hour turnaround.

The Company's pharmacy is an important part of the customer offering, with 198 NHS pharmacies across the UK. The electronic NHS prescription service continued to grow in 2019, allowing customers to collect their prescriptions from any Superdrug store, or have them delivered directly to their homes.

The Company's own brand mobile phone SIM card offering, a joint venture with Hutchison 3G, grew throughout 2019. This is a contract free proposition to appeal to our health & beauty card holders by offering double points to customers and help drive loyalty. There are now various SIM card options, providing a range of choice, and value, to the consumer.

Profit before tax was £89.4 million, an increase of 1.0% over last period's £88.3 million. Property, plant and equipment increased by £4.4 million from the prior period due to additions relating to store fittings and new store openings. Inventories increased by £23.7 million reflecting the change in mix of store size and total sales, ensuring consistent stock weeks cover year on year. Trade and other receivables decreased slightly to £187.1 million (2018: £197.5 million).

Cash and cash equivalents balance has decreased by £7.4 million which is largely driven by the working capital movements. Trade and other payables have decreased by £9.3 million and trade and other receivables have decreased by £10.3 million, both primarily driven by the adoption of IFRS16. The adoption of IFRS16 introduced £338.9 million of right of use assets, together with £86.6 million of lease liabilities falling due with 1 year and £347.3m of lease liabilities falling due after more than 1 year.

The reduction in the pension deficit is mainly due to contributions by the Company and the increase in return on plan assets. As at 28 December 2019 total equity was £316.9 million (2018: £319.1 million).

Business Environment

The UK retail environment, including the Health & Beauty market, remained challenging in 2019. The market continues to grow for online retailers providing beauty products, with both pure play online retailers and general merchandise and clothing retailers expanding their range. Market growth continued to be 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 retail industry continues to undergo profound structural change and in 2019 this continued to provide a tough environment for retailers. The speed of technological change, coupled with the growth of value retailing, alongside a depressed consumer sentiment has negatively impacted high street demand. In addition, continuing rises in the labour cost base, including the National Living Wage increase, plus inflationary cost rises across property and utilities, has meant retail businesses have had to review their operating models to sustain performance. The uncertainty posed by the delayed conclusion of Brexit also impacted the market across both consumer demand and the wider cost base during the second half.

Strategy

The Company continues to strive to be the best in everyday accessible beauty and health. The new store opening programme continued the momentum from 2018 and during the period the Company opened 30 new stores, while closing 35 stores, resulting in a trading estate of 811 stores at the period end.

The Online channel grew in-line with the total market during 2019 and the Company continues to invest in this area. Improved user navigation on the mobile app, allowing purchases directly from phones, and a new 30 minute 'click and collect' service both proved successful in driving additional traffic with increasing online visits driving growth in sales year on year.

The Company's customer loyalty programme is also central to its strategy. The proportion of sales from members increased again from the previous period, supported by benefits such as double points offers throughout the year, improved marketing communication to members, 'member only' pricing deals, and the double points offered to Superdrug Mobile customers. The programme continues to perform well and by the period end the number of registered members stood at over 15 million.

The Company continues to invest for the future, benefitting from continued capital expenditure used to drive the new store opening and refit programme, including investment in new store technology.

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 all rising costs including fuel, rent, rates and wages and seek all possible means to ensure that the effects 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. The security, resilience and control of these key assets are of significant importance to and focus of management. The Company has undertaken a comprehensive review of the requirements of the General Data Protection Regulations, and has put in place additional processes and controls to mitigate this risk.

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 continues to run programmes to improve staff retention.

- Brexit: The impact of the UK's decision to exit the European Union created uncertainty regarding future consumer sentiment and demand, and has created upwards pressure on costs. Post period end, the date of the UK leaving the European Union has been agreed, and a transition period entered. Management have plans in place to ensure continuity of trade throughout this period, and beyond, and to enable cost pressures to be minimised.

- Covid-19: The arrival of the global coronavirus pandemic in early 2020 presented significant risks and uncertainties to the retail industry and the UK economy. The Company relies upon established business continuity plans to deal with such business disruption, including the ability for head office staff to work remotely through its IT platform investments, as well as ensuring that supply chains are protected to ensure its stores and the vital NHS pharmacy services the Company provides can continue through the disruption.

Key Performance Indicators ("KPIs")

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

	At 28 December 2019	At 29 December 2018
Revenue	£1,304m	£1,283m
Operating profit	£107.0m	£95.2m
Operating margin	8.2%	7.4%

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.

Financial Risk Management (continued)

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 notes 15 and 16.

Covid-19

In the first quarter of the Company's 2020 accounting period the worldwide Coronavirus pandemic, Covid-19, took effect in the UK. The UK government responded with a three month lockdown of significant parts of society, retail and the wider economy. As an essential retailer, the Company was able to continue trading in approximately 70% of its locations. However, footfall declined by up to 75% during that time placing significant pressure on the Company's cashflow and profitability, notwithstanding a considerable upturn in Online trade.

The Company put in place a series of measures to reduce costs, capital expenditure and preserve cashflow. At the end of July 2020 the Company re-opened all but its airport located stores and continues to focus on re-building trade as footfall remains significantly below last year on the High Street and shopping centres. The Company would also like to put on record its appreciation to all colleagues across the business who worked so tirelessly during the Covid-19 period in ensuring our customers' needs could be delivered.

The proactive steps the Company took have ensured the financial position of the Company remains robust. The directors have stress tested future cashflows for a "second wave" and lockdown event and other downside scenarios. The combination of the Company's current financial position and liquidity, plus resources that would be available to it from the A.S. Watson Group, has enabled the directors to conclude that the Company remains a going concern for the foreseeable future and accordingly draw up the accounts on that basis.

Future Outlook and Prospects

The directors expect the UK retail environment to remain challenging for the remainder of 2020. Navigating the Covid-19 situation whilst at the same time preparing for the UK's departure from the EU are the Company's immediate focus. At the same time the Company is planning strategies to mitigate the impact of these events and to maintain its strong price perception on the High Street and attract footfall with an increasing beauty and healthcare services offering, both in-store and online.. The strong trading performance in 2019 coupled with a clear future strategy, and cash flows that can support investment, leaves the Company well positioned to withstand the turbulence of 2020 and to deliver further growth in 2021.

On behalf of the board

R A Fleming
Director

28 September 2020

The directors present their report and the audited Financial Statements of the Company for the 52 weeks ended 28 December 2019.

Future Developments

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

Dividends

On 25 November 2019 a dividend of 15.9 pence (2018: 9.1 pence) per share totalling £35.0million (2018: £20.0 million) was paid.

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 up 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. The qualifying third party indemnity provision was in force during the financial period and also at the date of approval of the financial statements.

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 Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 the Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for 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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the 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.

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 September 2020

Report on the audit of the financial statements

Opinion

In our opinion, Superdrug Stores plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 28 December 2019 and of its profit and cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 28 December 2019; the Statement of Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Reporting on other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 28 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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

We have no exceptions to report arising from this responsibility.

David Beer (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

28 September 2020

Superdrug Stores plc
Statement of Comprehensive Income
For the 52 Weeks ended 28 December 2019

	Note	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
Income Statement			
Revenue		1,303,797	1,283,161
Cost of Sales		(1,142,915)	(1,142,783)
Gross Profit		**160,882**	**140,378**
Administrative expenses		(62,585)	(55,827)
Other operating income		8,730	10,637
Operating profit	3	**107,027**	**95,188**
Finance income	6	536	343
Finance costs	6	(18,165)	(7,192)
Profit before taxation		**89,398**	**88,339**
Income tax expense	7	(19,648)	(15,939)
Profit for the financial period		**69,750**	**72,400**
Other Comprehensive (Expense)/Income			
Items that will not be reclassified subsequently to profit and loss			
Actuarial (losses)/gains recognised in pension scheme	17	(6,030)	14,232
Movement on deferred tax relating to pension deficit		1,025	(2,570)
		(5,005)	**11,662**
Total comprehensive income for the period		**64,745**	**84,062**

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

The notes on pages 15 to 36 form part of these financial statements.

Superdrug Stores plc **Registered Number: 00807043**
Balance Sheet
As at 28 December 2019

	Note	At 28 December 2019 £'000	At 29 December 2018 £'000
Fixed assets			
Intangible assets	8	140,732	140,527
Property, plant and equipment	9	127,709	123,186
Right of use assets	10	398,942	-
		667,383	**263,713**
Current assets			
Inventories	13	252,559	228,882
Trade and other receivables	14	187,149	197,498
Cash and cash equivalents		69,879	77,298
Total current assets		**509,587**	**503,678**
Creditors – amounts falling due within one year			
Trade and other payables	15	(323,093)	(332,414)
Lease liabilities		(86,610)	-
		(409,703)	**(332,414)**
Net current assets		**99,884**	**171,264**
Total assets less current liabilities		**767,267**	**434,977**
Creditors – amounts falling due after more than one year			
Borrowings	16	(85,000)	(85,000)
Lease liabilities		(347,321)	-
Retirement benefit obligation	17	(15,186)	(28,246)
Provisions for liabilities	18	(2,849)	(2,679)
Net assets		**316,911**	**319,052**
Equity			
Called up share capital	20	22,000	22,000
Share premium account		103,400	103,400
Retained earnings		191,511	193,652
Total shareholder's funds		**316,911**	**319,052**

The notes on pages 15 to 36 form part of these financial statements.

These financial statements on pages 11 to 36 were authorised for issue by the board of directors on 28 September 2020 and signed on its behalf by:

R A Fleming
Director

Superdrug Stores plc
Statement of Changes in Equity
For the 52 Weeks ended 28 December 2019

	Called up Share Capital £'000	Share premium account £'000	Retained earnings £'000	Total Shareholder's funds £'000
At 31 December 2017	**22,000**	**103,400**	**129,590**	**254,990**
Profit for the financial period	-	-	72,400	72,400
Other Comprehensive Income for the period				
Actuarial gains on pension scheme	-	-	14,232	14,232
Movement on deferred tax relating to pension deficit	-	-	(2,570)	(2,570)
Transactions with shareholders				
Dividends	-	-	(20,000)	(20,000)
At 29 December 2018	**22,000**	**103,400**	**193,652**	**319,052**
Impact of adoption of IFRS 16	-	-	(31,886)	(31,886)
At 29 December 2018 restated	**22,000**	**103,400**	**161,766**	**287,166**
Profit for the financial period	-	-	69,750	69,750
Other Comprehensive Expense for the period				
Actuarial losses on pension scheme	-	-	(6,030)	(6,030)
Movement on deferred tax relating to pension deficit	-	-	1,025	1,025
Transactions with shareholders				
Dividends	-	-	(35,000)	(35,000)
At 28 December 2019	**22,000**	**103,400**	**191,511**	**316,911**

The notes on pages 15 to 36 form part of these financial statements.

Superdrug Stores plc
Cash Flow Statement
For the 52 Weeks ended 28 December 2019

	Note	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
Cash flow from operating activities			
Company operating profit		107,027	95,188
Adjustments for:			
Depreciation, amortisation and impairment charge		114,952	21,776
Loss on disposal of intangible assets	8	20	80
Loss on disposal of tangible assets	9	1,708	944
Gain on completion of leases		(465)	-
Defined benefit pension past service cost	17	-	319
Defined benefit pension contributions	17	(20,500)	(16,000)
Operating cash flow before movement in working capital		**202,742**	**102,307**
Increase in inventory	13	(23,677)	(7,092)
Decrease/(increase) in trade and other receivables	14	33,062	(35,411)
Decrease in trade and other payables	15	(34,236)	(19,586)
Operational cash flow after movement in working capital		**177,891**	**40,218**
Interest paid	6	(16,781)	(36,439)
Taxation paid	7	(12,253)	(23,560)
Net cash inflow/(outflow) from operating activities		**148,857**	**(19,781)**
Cash flow from investing activities			
Purchase of property, plant and equipment		(28,714)	(28,320)
Purchase of intangible fixed assets	8	(872)	(1,095)
Interest received	6	536	343
Net cash outflow from investing activities		**(29,050)**	**(29,072)**
Cash flow from financing activities			
Lease payments		(92,226)	-
Increase in borrowings		-	32,036
Dividends paid	19	(35,000)	(20,000)
Net cash (outflow)/inflow from financing activities		**(127,226)**	**12,036**
Net decrease in cash and cash equivalents		**(7,419)**	**(36,817)**
Cash and cash equivalents at beginning of period		77,298	114,115
Cash and cash equivalents at end of period		**69,879**	**77,298**

The notes on pages 15 to 36 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
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information); and
  - 134-136 (capital management disclosures)
- 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;
- Paragraph 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets'; and
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' were adopted by the Company during the previous financial period and the adoption did not have significant impact on the Company's financial statements for the period.

Changes in accounting policies: IFRS 16 Leases

The Company has applied the modified retrospective approach to adopt IFRS 16. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening equity at 30 December 2018, and with no restatement of the comparative period. The comparative information continues to be reported under the accounting policies prevailing prior to 30 December 2018. The adoption has resulted in a £31.9 million decrease in the opening balance of total equity on 30 December 2018. The new accounting policies are disclosed on page 20.

1. Summary of Significant Accounting Policies (continued)

Changes in accounting policies: IFRS 16 Leases (continued)

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 30 December 2018. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 30 December 2018 was 2.31%.

In applying IFRS 16 for the first time, the Company has used the following exemptions and practical expedients permitted by the standard:

- grandfather the definition of a lease for existing contracts at the date of initial application
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the use of recognition exemption to leases for which the underlying asset is of low value
- the use of hindsight in determining the lease term at the date of initial application
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application

The Company has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 in determining whether an arrangement contains a lease.

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, including stress testing future cashflows for a "second wave" and lockdown event, 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 and 16.

Consolidation

The Company is a wholly owned subsidiary of A.S. Watson (Health & Beauty UK) Limited, its immediate parent company. The smallest group into which the results of the Company are consolidated is A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands with its principal place of business in Hong Kong. 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 and Europe. 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.

1. Summary of Significant Accounting Policies (continued)

Cost of Sales

Cost of sales consists of expenses incurred in bringing products to a saleable position and condition. Such costs principally include purchasing of products from suppliers, packaging and distribution costs, direct staff costs and store costs.

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.

Other Operating Income

Other operating income relates to rental income receivable and logistics backhaul income. The income is recognised on an accruals basis.

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 recognised at cost 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, and any impairment that is identified is recognised in the income statement.

The non-amortisation of intangible assets diverges from paragraph 22 of Schedule 1 to "The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008" (S1 2008/410), which requires intangible assets to be written off over their useful economic life. As such, the non-amortisation of the pharmacy licences and the Brands is a departure, for the purposes of giving a true and fair view, from the requirements of paragraph 22 of Schedule 1 to the Regulations. It is not possible to quantify the effect of the departure because the pharmacy licences and he Brand is deemed to have an indefinite useful life.

1. Summary of Significant Accounting Policies (continued)

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 annually.

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 are reviewed for possible reversal at each reporting date.

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. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

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.

1. Summary of Significant Accounting Policies (continued)

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 at 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.

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. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all provisions. To measure the expected credit losses, provisions have been grouped based on shared credit risk characteristics and the days past due.

1. Summary of Significant Accounting Policies (continued)

Leases

As explained on page 16, the Company has changed its accounting policy for leases where the Company is the lessee. The new policy is described below and the impact of the change has been described in note 23.

Until 29 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease.

From 30 December 2018, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Contracts may contain both lease and non-lease components. However, the Company has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Extension and termination options are included in a number of leases across the Company. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term and measurement of the liability if the lease is reasonably certain to be extended (or not terminated).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- uses recent third party financing received by the Company as a starting point, adjusted to reflect changes in financing conditions since third party financing were received.
- makes adjustments specific to the lease (e.g. lease term, country, currency and security).

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs

1. Summary of Significant Accounting Policies (continued)

Leases (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Company is a lessor is recognised in income on a straight line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature. The Company did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

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.

Significant estimates and assumptions

a) 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.

b) Impairment

Financial assets 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. Trade receivables are impaired on expected credit loss basis.

c) 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.

d) Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

2. Critical Accounting Estimates and Judgments (continued)

d) Determination of the lease term (continued)

For leases of retail stores, office and warehouse, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate)
- If any leasehold improvements are expected to have a significant remaining value or the stores is profit making, the Company is typically reasonably certain to extend (or not terminate)
- Otherwise, the Company considers other factors including historical lease durations and costs and business disruption required to replace the leased asset

Most extension options in retail stores have been included in the lease liability because majority of them are profitable and replacing in other locations will cause business disruption.

As at 28 December 2019, potential future cash outflows of £3.1m (undiscounted) have not been included in the lease liability because it is not reasonably certain that the lease will be extended.

Significant judgements

In order to assess whether it is appropriate for the Company to be reported as a going concern, the directors apply judgement having undertaken appropriate enquiries and having considered the business activities and the Company's principal risks and uncertainties as set out on page 3.

3. Operating Profit

Operating profit is stated after (crediting)/charging:

	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
Operating lease (credit)/charges	-	97,902
Expense relating to variable lease payments not included in lease liabilities	1,590	-
Income relating to short-term leases	(280)	-
Rental income	(5,596)	(5,863)
Loss on disposal of intangible assets	20	80
Loss on disposal of property, plant and equipment	1,708	944
Depreciation and amortisation of property, plant and equipment, and intangibles	24,474	21,776
Impairment of right-of-use assets	1,889	-
Right-of-use asset depreciation	88,588	-
Amounts payable to the Company's auditors:		
- audit fees	190	178
-audit related assurance services	14	12
-non-audit related assurance services	29	12

4. Employees

The total aggregate remuneration comprises:

	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
Wages and salaries (including directors)	193,077	182,937
Social security costs	12,973	12,040
Other pension costs	6,203	6,262
Total staff costs	212,253	201,239

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

	52 weeks ended 28 December 2019 No.	52 weeks ended 29 December 2018 No.
By activity:		
Selling	12,605	12,436
Administration	652	600
	13,257	**13,036**

5. Directors

The directors' emoluments were as follows:

	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
Remuneration	2,039	2,009
Long term incentive plan	314	269
	2,353	**2,278**

The company has no share based schemes and all remuneration is settled in cash.

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:

	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
Remuneration	1,531	1,478
Long term incentive plan	290	259
	1,821	**1,737**

6. Finance income and costs

	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
Bank interest	536	343
Total finance income	**536**	**343**
Pension financing charge	(1,410)	(2,042)
Interest payable on loans from group undertakings	(6,792)	(5,150)
Interest expense on lease liabilities	(9,963)	-
Total finance costs	**(18,165)**	**(7,192)**
Net finance costs	**(17,629)**	**(6,849)**

7. Income tax expense

Tax expense included in the income statement	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
UK corporation tax on profits for the period	13,859	12,851
Adjustment in respect of prior periods	2,259	(364)
Total current tax	**16,118**	**12,487**
Origination and reversal of timing differences	4,697	2,872
Adjustment in respect of prior periods	(1,167)	580
Total deferred tax	**3,530**	**3,452**
Tax on profit	**19,648**	**15,939**

Tax (credit)/charge included in Other Comprehensive (Expense)/Income

Deferred tax:		
Origination and reversal of temporary differences	(1,025)	2,570
Total tax (credit)/charge included in Other Comprehensive (Expense)/Income	**(1,025)**	**2,570**

7. Income tax expense (continued)

The effective rate of 22.0% (2018: 18.0%) is higher than (2018: lower than) the standard UK corporation tax rate of 19%. The differences are:

	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
Profit before taxation	89,398	88,339
Income tax at standard UK corporation tax rate of 19% (2018: 19%)	**16,986**	**16,784**
Effects of:		
Non-deductible expenses/(exempt income)	1,570	(1,061)
Adjustment in respect of prior periods	1,092	216
Tax on profit	**19,648**	**15,939**

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

8. Intangible assets

	Brands £'000	Pharmacy licences £'000	Computer software £'000	Total £'000
Cost				
At 30 December 2018	125,000	19,410	3,260	147,670
Additions	-	-	872	872
Disposals	-	-	(421)	(421)
At 28 December 2019	**125,000**	**19,410**	**3,711**	**148,121**
Accumulated amortisation and impairment				
At 30 December 2018	-	5,788	1,355	7,143
Amortisation	-	-	647	647
Disposals	-	-	(401)	(401)
At 28 December 2019	**-**	**5,788**	**1,601**	**7,389**
Net book value				
At 28 December 2019	**125,000**	**13,622**	**2,110**	**140,732**
At 29 December 2018	125,000	13,622	1,905	140,527

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 30 December 2018	12,434	73,355	141,834	227,623
Additions	-	8,625	21,433	30,058
Disposals	-	(2,415)	(14,116)	(16,531)
At 28 December 2019	**12,434**	**79,565**	**149,151**	**241,150**
Accumulated depreciation				
At 30 December 2018	11,640	35,590	57,207	104,437
Charge for the period	21	7,781	16,025	23,827
Eliminated on disposals	-	(2,008)	(12,815)	(14,823)
At 28 December 2019	**11,661**	**41,363**	**60,417**	**113,441**
Net book value				
At 28 December 2019	**773**	**38,202**	**88,734**	**127,709**
At 29 December 2018	794	37,765	84,627	123,186

10. Right-of-use assets

	Retail Stores £'000	Warehouse £'000	Offices £'000	Others £'000	Total £'000
At 30 December 2018	-	-	-	-	-
Effect on adoption of IFRS 16	329,941	45,393	12,962	4,763	393,059
Additions	90,595	-	-	4,538	95,133
Remeasurements	1,546	-	-	(319)	1,227
Impairment	(1,889)	-	-	-	(1,889)
Depreciation	(81,999)	(3,919)	(1,011)	(1,659)	(88,588)
At 28 December 2019	**338,194**	**41,474**	**11,951**	**7,323**	**398,942**

During the period, an impairment charge of £1,889,000 (2018: £nil) was charged to the income statement, recorded in administrative expenses.

11. Deferred tax asset

	Depreciation in excess of capital allowances £'000	Lease Accounting IFRS16 £'000	Temporary differences £'000	Retirement benefit obligation £'000	Total £'000
At **31 December 2017**	1,576	-	(1,002)	10,088	10,662
Charge to income statement	(680)	-	(452)	(2,320)	(3,452)
Charge to other comprehensive income	-	-	-	(2,570)	(2,570)
At 29 December 2018	**896**	**-**	**(1,454)**	**5,198**	**4,640**
Impact of adoption of IFRS 16	-	6,635	-	-	6,635
At 29 December 2018 (restated)	**896**	6,635	**(1,454)**	**5,198**	11,275
(Charge)/credit to income statement	(393)	(655)	1,159	(3,641)	(3,530)
Credit to other comprehensive expense	-	-	-	1,025	1,025
At 28 December 2019	**503**	**5,980**	**(295)**	**2,582**	**8,770**

12. Investments

The net book value of investments at 28 December 2019 was £nil (2018: £nil).

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

Subsidiary	**Registered address**	
Superdrug Pension Trustee Limited	51 Sydenham Road, Croydon, Surrey, CR0 2EU	Dormant

13. Inventories

	At 28 December 2019 £'000	At 29 December 2018 £'000
Finished goods and goods for resale	**252,559**	**228,882**

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks ended 28 December 2019 was £983,130,000 (2018: £972,226,000). Inventories are stated after provisions for impairment of £11,748,000 (2018: £11,841,000). There is no material difference between carrying amount and replacement cost of the inventory.

14. Trade and other receivables

	At 28 December 2019 £'000	At 29 December 2018 £'000
Trade receivables	76,641	63,772
Amounts owed by group undertakings	48,068	50,211
Other receivables	25,730	25,680
Prepayments	27,940	53,195
Deferred tax asset (note 11)	8,770	4,640
	187,149	**197,498**

Trade receivables are stated after provisions for impairment of £2,916,000 (2018: £2,531,000). Amounts owed by group undertakings are unsecured, repayable on demand and are non-interest bearing.

15. Trade and other payables

	At 28 December 2019 £'000	At 29 December 2018 £'000
Trade creditors	61,714	51,034
Amounts owed to group undertakings	135,467	130,559
Corporation tax	14,898	11,095
Other taxation and social security	21,005	36,666
Accruals	64,586	74,524
Deferred income	5,674	6,403
Other creditors	19,749	22,133
	323,093	**332,414**

Amounts owed to group undertakings includes an unsecured loan from A.S. Watson (Health & Beauty UK) Limited totalling £110,000,000 (2018: £110,000,000). The interest rate on this loan is 12-month GBP LIBOR + 2.5% per annum since 1 October 2018. The effective interest rate in 2019 is 3.4% (2018: 3.5%) and the loan is repayable on demand.

The Company has a bank overdraft facility of £20,000,000, 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 (2018: £nil) on this facility.

The Company has recognised the following liabilities related to contracts with customers for eGift card and loyalty points These are included within other creditors.

	At 28 December 2019 £'000	At 29 December 2018 £'000
Contract liabilities	**11,088**	**10,774**

16. Borrowings

	At 28 December 2019 £'000	At 29 December 2018 £'000
Amounts owed to group undertakings	**85,000**	**85,000**

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.

At the period end, the amount borrowed on this credit facility was £85,000,000. No repayments were made during the financial period ended 28 December 2019 (2018: £nil).

The Company has a separate £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 (2018: £nil) on this facility.

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 2018, carried out by Barnett Waddingham on the projected unit basis. The results of this valuation were finalised in September 2018 and a recovery plan agreed, under which the Company would pay annual contributions from 1 January 2019 of £18.5m until 31 December 2020 (which includes funding for Scheme expenses), and a further one off contribution of £2.7m in 2021. The next valuation effective date is 31 March 2021.

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 2018 for known events and changes in market conditions as allowed under IAS 19 Revised.

17. Retirement benefit obligation (continued)

The amounts recognised in the balance sheet are as follows:

	At 28 December 2019 £'000	At 29 December 2018 £'000
Present value of funded obligation	(232,563)	(208,525)
Fair value of plan assets	217,377	180,279
Retirement benefit obligation	(15,186)	(28,246)
Deferred income tax asset (note 11)	2,582	5,198
Net retirement benefit obligation	**(12,604)**	**(23,048)**

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) cost totalling £1,410,000 (2018: £2,361,000), included within finance costs.

a) Other comprehensive (expense)/income

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

	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
Return on plan assets, excluding amounts in interest	19,685	(16,182)
Actuarial gains/(losses) arising from changes in:		
Demographic assumptions	4,287	(228)
Financial assumptions	(29,441)	17,490
Experience	(561)	13,152
Total actuarial (losses)/gains	**(25,715)**	**30,414**
Total re-measurement (losses)/gains	**(6,030)**	**14,232**

17. Retirement benefit obligation (continued)

b) Valuations

The movements in the retirement benefit obligation are as follows:

	52 weeks ended 28 December 2019 £'000	52 weeks ended 29 December 2018 £'000
Changes in the present value of retirement benefit obligation:		
At start of financial period	208,525	237,111
Past service cost - scheme amendments	-	319
Interest cost on the defined benefit obligation	5,831	5,874
Actuarial losses/(gains)	25,715	(30,414)
Net transfer out liability	(2,637)	(1,723)
Benefits paid	(4,871)	(2,642)
At end of financial period	**232,563**	**208,525**
Changes in the fair value of plan assets:		
At start of financial period	180,279	180,994
Investment return on plan assets	19,685	(16,182)
Interest income on plan assets	5,280	4,654
Contributions by Company	20,500	16,000
Pension scheme expenses	(859)	(822)
Net transfer out liability	(2,637)	(1,723)
Benefits paid	(4,871)	(2,642)
At end of financial period	**217,377**	**180,279**

The Company's expected contributions (including expenses) to the defined benefit section for the next financial period ending 26 December 2020 are £18,500,000 (2019: £20,500,000).

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

	At 28 December 2019 %	At 29 December 2018 %
Equities	23.4	23.4
Bonds	34.1	26.6
LDI Derivatives/Other	37.5	48.3
Cash	5.0	1.7
	100.0	**100.0**

17. Retirement benefit obligation (continued)

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

	At 28 December 2019	At 29 December 2018
Discount rate	2.80%	2.85%
Retail price index	2.85%	3.15%
Pension increases	2.80%	3.00%
Life expectancy at balance sheet date for a pensioner at normal retirement age (now 65 years):		
Male pensioner	20.7 years	21.2 years
Female pensioner	22.7 years	23.1 years
Life expectancy at balance sheet date for a future pensioner at normal retirement age:		
Male pensioner	22.1 years	22.6 years
Female pensioner	24.2 years	24.7 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 S2 tables, with future improvements based on the CMI 2017 projections with a smoothing factor of 7.0 and 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 22 years (2018: 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 £13.3 million.

An increase of 0.25% in the inflation rate would increase the retirement benefit obligation by £13.0 million. A decrease of 0.25% in the inflation rate would decrease the retirement benefit obligation by £10.7 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. Provisions for liabilities

	At 28 December 2019 £'000
Provisions	
At 29 December 2018	2,679
Utilised during the period	170
At 28 December 2019	**2,849**

Provisions comprise estimates for onerous leases, dilapidations and store exit costs. Provisions are used within 12 months of the store closure date.

19. Dividends paid

	At 28 December 2019 £'000	At 29 December 2018 £'000
15.9p per ordinary share of 10p each (2018: 9.1p per ordinary share of 10p each)	35,000	20,000

20. Called up share capital

	At 28 December 2019	At 29 December 2018
Allotted and fully paid ordinary shares of 10p each (£'000)	22,000	22,000
Number of shares ('000 shares)	220,000	220,000

21. 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 £1,472,350 (2018: £3,456,425).

22. Capital and other commitments

At 28 December 2019 the Company had the following commitments:

a) A duty deferment guarantee in favour of HM Customs & Excise to the value of £1,500,000 (2018: £1,500,000).

b) Capital commitments

The Company has no capital commitments (2018: £nil).

23. Lease commitments

As set out in Note 1, the Company has applied the modified retrospective approach to adopt IFRS 16. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening equity at 30 December 2018, and with no re-statement of the comparative period.

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 28 December 2019 £'000	At 29 December 2018 £'000
Buildings		
Under one year	250	91,549
Between one to five years	-	238,832
More than five years	-	141,716
	250	**472,097**
Plant and machinery		
Under one year	-	2,021
Between one to five years	-	5,132
More than five years	-	170
	-	**7,323**

Measurement of lease liabilities

	£'000
Operating lease commitment as at 29 December 2018	479,420
Add: adjustments as a result of a different treatment of contractual and expected lease periods including extension options	(2,171)
Less: discounting impact	(46,714)
Less: short term leases	(8)
Less: contract signed but not commenced	(265)
Lease liabilities recognised as at 30 December 2018 discounted	**430,262**
Of which are:	
Current lease liabilities	86,908
Non-current lease liabilities	343,354
At 30 December 2018	**430,262**

Measurement of right-of-use assets

The right-of-use assets were measured either on a retrospective basis as if the new rules had always been applied or were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 December 2018. The measurement is determined on a lease-by-lease basis.

Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

23. *Lease commitments (continued)*

Effect of adoption of IFRS16 to the balance sheet

IFRS 16 was adopted without re-stating comparative information. The resulting reclassifications and adjustments arising from the new accounting policies for leases are therefore not reflected in the comparative balances, but are recognised in the opening balance sheet on 30 December 2018.

	At 30 December 2018 £'000
Fixed assets	
Right of use assets	393,059
Deferred tax assets	6,635
	399,694
Current assets	
Trade and other receivables	(19,963)
Total current assets	**(19,963)**
Creditors – amounts falling due within one year	
Trade and other payables	18,645
Lease liabilities	(86,908)
	(68,263)
Net current liabilities	**(88,226)**
Total assets less current liabilities	**311,468**
Creditors – amounts falling due after more than one year	
Lease liabilities	(343,354)
Net liabilities	**(31,886)**
Equity	
Accumulated losses	(31,886)
Total shareholder's deficit	**(31,886)**

24. Controlling parties

The Company's immediate parent undertaking is A.S. Watson (Health & Beauty UK) Limited, a company registered in England. The smallest group into which the results of the Company are consolidated is A.S. Watson Holdings Limited, a company incorporated in the Cayman Islands with its principal place of business in Hong Kong. The registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The financial statements of A.S. Watson Holdings Limited are not publicly available.

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 48th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

25. Post balance sheet event

Since 28 December 2019, the Covid 19 pandemic has severely impacted the UK economy. The Company has concluded this a non-adjusting post balance sheet event. Accordingly, the financial position and results for the year ended 28 December have not been adjusted to reflect any impact of this event.