Registered Number 00807043

Superdrug Stores plc

Annual Report and Financial Statements

For the 52 Weeks ended 30 December 2017

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Contents

The directors present their Strategic Report for the 52 weeks ended 30 December 2017.

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 had a successful period. Revenue for the period was £1,242 million (2016: £1,214 million), an increase of 2.3%, driven by sales from like for like stores which increased by 2.5% and the benefit of 22 new stores opened in the period. The financial period of 2016 included a 53rd week in the Company's financial period, which was required to maintain alignment of the Company's period end and accounting reference date.

All the main health and beauty categories contributed to the sales performance, led by skincare which grew by 10%, and cosmetics, which continued to gain market share. Healthcare also grew strongly at 8%, supported by strong performances across Wellbeing categories including smoking cessation products and vitamins, 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 30%. Improved website functionality, including a new mobile app, and increased delivery solutions for customers, helped drive this continued growth. The Company also extended its online service to Sweden, Finland and Denmark in October, with encouraging results.

The Company's pharmacy business celebrated its 25th anniversary in 2017, and continues to be an important part of the customer offering, with over 200 pharmacies across the UK. In November, the Company launched its electronic NHS prescription service, allowing customers to collect their prescriptions from any Superdrug store, or have them delivered directly to their homes.

Costs were well controlled during the period which resulted in an operating profit of £99.7 million, an increase of 14.9% over last period's £86.8 million. Inventories have increased by £18 million reflecting the increase in stores and total sales, ensuring consistent stock weeks cover is available. Trade and other receivables have decreased by £25 million, which is primarily driven by the repayment of amounts owed by group undertakings. The reduction in the pension deficit is mainly due to contributions by the Company and the return on plan assets. As at 30 December 2017 total equity was £255.0 million (2016: £225.9 million).

Business Environment

The UK Health & Beauty market in 2017 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. 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 economy provided a tough environment for retailers as increasing inflation and the first interest rate rise for 10 years started to put pressure on customers' disposable income. In addition, retail businesses have had to deal with continued increasing cost pressures including the impact of the business rates revaluation, a new Government imposed Apprenticeship Levy, increases in National Living Wage and the continued uncertainty posed by the result of the UK's European Union Referendum, all of which place pressure on retailers' operating models.

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 2016 and during the period the Company opened 22 new stores, while it closed 10 stores, resulting in a trading estate of 796 stores at the period end.

The Company also continued with the refurbishment programme of its existing estate. The new cosmetics merchandise display units continued to be rolled out, along with similar concepts for skincare and fragrance counters, providing an easier shop for customers as well as facilitating colleague replenishment. The Company also extended its Wellbeing store format to 58 stores by the end of the period.

The Online channel grew significantly ahead of the total market during 2017 and the Company continues to invest in this area. Improved user navigation and up-weighted content have both proved successful in driving additional traffic with online visits increasing by over 25% and over 30% 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 increased from the previous period, supported by benefits such as double points offers throughout the year, improved marketing communication to members, and 'member only' pricing deals. The programme has increased by 25% over the last period and stood at nearly 12 million registered customers at the period end.

The Company continues to invest for the future, benefitting from continued capital expenditure which was £31 million in the period, similar to the prior year. This was primarily driven by the store opening and refit programme.

The Company's 13,000 colleagues across stores, distribution centres and head office are also central to the Company's strategy. Investment in customer service across the business was recognised in the period with the Company recently being voted 4th in the UK Customer Satisfaction Index (UKCSI) in January 2018, above competitors such as John Lewis. The Company's Apprenticeship scheme continues to grow and won two regional awards at the Rate My Apprenticeship Awards in July, and is also placed 21st in their Top 100 employers list.

Cost efficiency remains an important focus of the Company, especially with the increase in costs arising from inflation and 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 0.9 percentage points 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 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 new General Data Protection Regulations, and has been taking steps to 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 has implemented programmes to improve staff retention.

- Brexit: 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 ensure continuity of trade given the possibility of a new customs border in March 2019 and to enable cost pressures to be minimised.

Key Performance Indicators ("KPIs")

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

	At 30 December 2017	**At 31 December 2016**
Revenue	£1,242m	£1,214m
Like for like sales growth	2.5%	7.8%
Operating profit	£99.7m	£86.8m
Operating margin	8.0%	7.1%

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.

c) Foreign exchange risk (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 note 15.

Future Outlook and Prospects

The directors expect the UK retail environment to remain competitive. The continued uncertainty of the impact of the UK's decision to exit the European Union, coupled with inflationary pressures on household budgets, has the potential to subdue consumer sentiment and the Company is planning strategies to mitigate the impact of this and to maintain its strong price perception on the High Street. The robust trading performance in 2017 coupled with a clear future strategy, and cash flows that can support investment, leaves the Company well positioned to grow successfully in 2018 and beyond.

On behalf of the board

R A Fleming
Director
27 JUNE 2018

The directors present their report and the audited Financial Statements of the Company for the 52 weeks ended 30 December 2017.

Future Developments

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

Dividends

On 15 May 2017 a dividend totalling £50.0 million (2016: £nil) 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 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 year 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 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 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 these 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 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
27 June 2018

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 30 December 2017 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 30 December 2017; the Statement of Comprehensive Income, the Statement of Changes in Equity, and the Cash Flow Statement for the 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 when:

- 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 30 December 2017 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.

Rosemary Shapland

Rosemary Shapland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
27 June 2018

Superdrug Stores plc
Statement of Comprehensive Income
For the 52 Weeks ended 30 December 2017

	Note	52 weeks ended 30 December 2017 £'000	53 weeks ended 31 December 2016 £'000
Income Statement			
Revenue		1,241,783	1,213,600
Cost of Sales		(1,102,625)	(1,086,161)
Gross Profit		**139,158**	**127,439**
Administrative expenses		(50,603)	(51,291)
Other operating income		11,137	10,603
Operating profit	3	**99,692**	**86,751**
Finance income	6	120	332
Finance costs	6	(6,878)	(6,698)
Profit before taxation		**92,934**	**80,385**
Income tax expense	7	(20,110)	(13,064)
Profit for the financial period		**72,824**	**67,321**
Other Comprehensive Income/(Expense)			
Items that will not be reclassified subsequently to profit and loss			
Actuarial gains/(losses) recognised in pension scheme	17	7,350	(40,549)
Movement on deferred tax relating to pension deficit		(1,082)	6,388
		6,268	**(34,161)**
Total comprehensive income for the period		**79,092**	**33,160**

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

The notes on pages 15 to 31 form part of these financial statements.

	Note	At 30 December 2017 £'000	At 31 December 2016 £'000
Fixed assets			
Intangible assets	8	139,694	139,607
Property, plant and equipment	9	109,514	98,761
		249,208	**238,368**
Current assets			
Inventories	12	221,790	203,798
Trade and other receivables	13	168,109	194,573
Cash and cash equivalents		114,115	108,763
Total current assets		**504,014**	**507,134**
Creditors – amounts falling due within one year			
Trade and other payables	14	(353,188)	(352,355)
Net current assets		**150,826**	**154,779**
Total assets less current liabilities		**400,034**	**393,147**
Creditors – amounts falling due after more than one year			
Borrowings	15	(85,000)	(85,000)
Retirement benefit obligation	17	(56,117)	(72,175)
Provisions for liabilities	16	(3,927)	(10,074)
Net assets		**254,990**	**225,898**
Equity			
Called up share capital	18	22,000	22,000
Share premium account		103,400	103,400
Retained earnings		129,590	100,498
Total shareholder's funds		**254,990**	**225,898**

The notes on pages 15 to 31 form part of these financial statements.

These financial statements on pages 11 to 31 were authorised for issue by the board of directors on 27 JUNE 2018 and signed on its behalf by:

R A Fleming
Director

Superdrug Stores plc
Statement of Changes in Equity
For the 52 Weeks ended 30 December 2017

	Called up Share Capital £'000	Share premium account £'000	Retained earnings £'000	Total Shareholder's funds £'000
At 27 December 2015	**22,000**	**103,400**	**67,338**	**192,738**
Profit for the financial period	-	-	67,321	67,321
Other Comprehensive Expense for the period				
Actuarial losses 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**
Profit for the financial period	-	-	72,824	72,824
Other Comprehensive Income for the period				
Actuarial gains on pension scheme	-	-	7,350	7,350
Movement on deferred tax relating to pension deficit	-	-	(1,082)	(1,082)
Transactions with shareholders				
Dividends	-	-	(50,000)	(50,000)
At 30 December 2017	**22,000**	**103,400**	**129,590**	**254,990**

The notes on pages 15 to 31 form part of these financial statements.

Superdrug Stores plc
Cash Flow Statement
For the 52 Weeks ended 31 December 2017

	Notes	52 weeks ended 30 December 2017 £'000	53 weeks ended 31 December 2016 £'000
Cash flow from operating activities			
Company operating profit		99,692	86,751
Adjustments for:			
Depreciation, amortisation and impairment charge		20,038	18,638
Loss on disposal of intangible assets	8	-	47
Loss on disposal of tangible assets	9	466	641
Defined benefit pension contributions	17	(11,500)	(5,425)
Operating cash flow before movement in working capital		**108,696**	**100,652**
Increase in inventory	12	(17,992)	(33,944)
Decrease/(increase) in trade and other receivables	13	25,178	(36,567)
(Decrease)/increase in trade and other payables	14	(596)	14,669
Operational cash flow after movement in working capital		**115,286**	**44,810**
Interest paid		(6,626)	(10)
Taxation paid		(20,958)	(8,981)
Net cash inflow from operating activities		**87,702**	**35,819**
Cash flow from investing activities			
Purchase of property, plant and equipment		(32,021)	(25,372)
Purchase of intangible fixed assets	8	(449)	(775)
Interest received		120	332
Net cash outflow from investing activities		**(32,350)**	**(25,815)**
Cash flow from financing activities			
Repayment of existing borrowings	15	-	(40,000)
Dividends paid		(50,000)	-
Net cash outflow from financing activities		**(50,000)**	**(40,000)**
Net increase/(decrease) in cash and cash equivalents		**5,352**	**(29,996)**
Cash and cash equivalents at beginning of period		108,763	138,759
Cash and cash equivalents at end of period		**114,115**	**108,763**

The notes on pages 15 to 31 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':
  - 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 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;
- 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).

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.

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 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.

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.

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, 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 Brands is a departure, for the purposes of giving a true and fair view, from the requirements of paragraph 22 of Scehdule 1 to the Regulations. It is not possible to quantify the effect of the departure because the Brand is deemed to have an indefinite useful life.

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.

1. Summary of Significant Accounting Policies (continued)

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.

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.

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 employement 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):

	52 weeks ended 30 December 2017 £'000	53 weeks ended 31 December 2016 £'000
Operating lease charges	102,128	98,865
Rental income	(6,027)	(6,018)
Impairment charge	-	178
Loss on disposal of property, plant and equipment	466	641
Depreciation and amortisation	20,038	18,460
Amounts payable to the Company's auditors: audit fees	141	136
: other fees	27	6

4. Employees

The total aggregate remuneration comprises:

	52 weeks ended 30 December 2017 £'000	53 weeks ended 31 December 2016 £'000
Wages and salaries (including directors)	172,362	161,080
Social security costs	11,250	10,167
Other pension costs	5,568	5,252
Total staff costs	189,180	176,499

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

	52 weeks ended 30 December 2017 No.	53 weeks ended 31 December 2016 No.
By activity:		
Selling	12,513	11,851
Administration	574	521
	13,087	**12,372**

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

	52 weeks ended 30 December 2017 No.	53 weeks ended 31 December 2016 No.
By activity:		
Selling	6,098	5,721
Administration	546	496
	6,644	**6,217**

5. Directors

The directors' emoluments were as follows:

	52 weeks ended 30 December 2017 £'000	53 weeks ended 31 December 2016 £'000
Remuneration	1,914	1,570
Long term incentive plan	262	210
Pension contributions	44	37
	2,220	**1,817**

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 30 December 2017 £'000	53 weeks ended 31 December 2016 £'000
Remuneration	1,373	1,064
Long term incentive plan	262	210
Pension contributions	44	37
	1,679	**1,311**

6. Finance income and costs

	52 weeks ended 30 December 2017 £'000	53 weeks ended 31 December 2016 £'000
Bank interest	120	327
Other	-	5
Total finance income	**120**	**332**
Bank overdrafts	-	(6)
Pension financing charge	(2,281)	(1,904)
Interest payable on loans from group undertakings	(4,596)	(4,784)
Other	(1)	(4)
Total finance cost	**(6,878)**	**(6,698)**
Net finance cost	**(6,758)**	**(6,366)**

7. Income tax expense

Tax expense included in the income statement	**52 weeks ended 30 December 2017 £'000**	**53 weeks ended 31 December 2016 £'000**
UK corporation tax on profits for the period	15,765	15,235
Adjustment in respect of prior periods	(565)	(3,093)
Total current tax	**15,200**	**12,142**
Origination and reversal of timing differences	2,167	681
Adjustment in respect of prior periods	2,707	-
Impact of change in UK tax rate	36	241
Total deferred tax	**4,910**	**922**
Tax on profit	**20,110**	**13,064**

Tax charge/(credit) included in Other Comprehensive Income/(Expense)		
Deferred tax:		
Origination and reversal of temporary differences	1,082	(6,388)
Total tax charge/(credit) included in Other Comprehensive Income/(Expense)	**1,082**	**(6,388)**

The effective rate of 21.6% (2016: 16.3%) is higher than (2016: lower than) the standard rate of corporation tax in the United Kingdom of 19.25% between 1 January 2017 and 30 December 2017. The differences are:

	52 weeks ended 30 December 2017 £'000	**53 weeks ended 31 December 2016 £'000**
Profit before taxation	92,934	80,385
Income tax at standard UK corporation tax rate of 19.25% between 1 January 2017 and 30 December 2017 (2016: 20%)	**17,890**	**16,077**
Effects of:		
Expenses/(income) not subject to tax	42	(161)
Adjustment in respect of prior periods	2,142	(3,093)
Re-measurement of deferred tax due to change in UK tax rate	36	241
Tax on profit	**20,110**	**13,064**

The tax rate for the current period is lower than the prior period due to changes in the UK Corporation tax rate which decreased from 20% to 19% from 1 April 2017.

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

8. Intangible assets

	Brands £'000	Pharmacy licences £'000	Computer software £'000	Total £'000
Cost				
At 1 January 2017	125,000	19,527	9,543	154,070
Additions	-	-	447	447
At 30 December 2017	**125,000**	**19,527**	**9,990**	**154,517**
Accumulated amortisation and impairment				
At 1 January 2017	-	5,823	8,640	14,463
Amortisation	-	-	360	360
At 30 December 2017	**-**	**5,823**	**9,000**	**14,823**
Net book value				
At 30 December 2017	**125,000**	**13,704**	**990**	**139,694**
At 31 December 2016	**125,000**	**13,704**	**903**	**139,607**

In the period there was no impairment charge (2016: £177,962) made to the income statement.

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 1 January 2017	12,434	101,562	161,726	275,722
Additions	-	10,627	20,270	30,897
Disposals	-	(24,537)	(8,928)	(33,465)
At 30 December 2017	**12,434**	**87,652**	**173,068**	**273,154**
Accumulated depreciation				
At 1 January 2017	11,598	72,450	92,913	176,961
Charge for the period	21	6,373	13,284	19,678
Eliminated on disposals	-	(24,434)	(8,565)	(32,999)
At 30 December 2017	**11,619**	**54,389**	**97,632**	**163,640**
Net book value				
At 30 December 2017	**815**	**33,263**	**75,436**	**109,514**
At 31 December 2016	**836**	**29,112**	**68,813**	**98,761**

In the period a review of fully depreciated assets was undertaken. This resulted in a reduction of £26,647,000 of cost and accumulated depreciation, recorded within disposals.

10. Deferred tax asset

	Depreciation in excess of capital allowances £'000	Timing differences £'000	Retirement benefit obligation £'000	Total £'000
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**
Charge to income statement	(389)	(2,954)	(1,567)	(4,910)
Charge to other comprehensive income	-	-	(1,082)	(1,082)
At 30 December 2017	**1,576**	**(1,002)**	**10,088**	**10,662**

11. Investments

The net book value of investments at 30 December 2017 was £nil (2016: £nil).

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	15 Canada Square, London, E14 5GL	Dormant
Superdrug Pension Trustee Limited	51 Sydenham Road, Surrey, CR0 2EU	Dormant

Tip Top Drugstores Limited commenced liquidation on 24 August 2017.

12. Inventory

	At 30 December 2017 £'000	At 31 December 2016 £'000
Finished goods and goods for resale	**221,790**	**203,798**

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks ended 30 December 2017 was £949,440,000 (2016: £931,381,000). Inventories are stated after provisions for impairment of £8,024,000 (2016: £8,110,000).

13. Trade and other receivables

	At 30 December 2017 £'000	At 31 December 2016 £'000
Trade receivables	45,719	48,432
Amounts owed by group undertakings	40,811	57,922
Other receivables	14,861	12,003
Prepayments and accrued income	56,056	59,562
Deferred tax asset (note 10)	10,662	16,654
	168,109	**194,573**

Trade receivables are stated after provisions for impairment of £1,993,000 (2016: £2,195,000). Amounts owed by group undertakings are unsecured, repayable on demand and are non-interest bearing.

14. Trade and other payables

	At 30 December 2017 £'000	At 31 December 2016 £'000
Trade creditors	72,696	64,920
Amounts owed to group undertakings	128,951	131,541
Corporation tax	22,197	27,879
Other taxation and social security	29,586	24,596
Accruals and deferred income	70,686	74,970
Other creditors	29,072	28,449
	353,188	**352,355**

Amounts owed to group undertakings includes loans from A.S. Watson (Health & Beauty UK) Limited totalling £77,963,949 (2016: £77,963,949). The interest rate on these loans is 2.12% (2016: 2.12%) and the loans are 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 (2016: £nil) on this facility.

15. Borrowings

	At 30 December 2017 £'000	At 31 December 2016 £'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. No repayments were made during the financial period ended 30 December 2017 (2016: £40,000,000 repayment).

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 (2016: £nil) on this facility.

16. Provisions for liabilities

	At 30 December 2017 £'000
Provisions	
At 1 January 2017	10,074
Utilised during the period	(115)
Credited to the income statement	(6,032)
At 30 December 2017	**3,927**

Provisions comprise estimates for onerous leases, dilapidation, 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:

	52 weeks ended 30 December 2017 £'000	53 weeks ended 31 December 2016 £'000
Present value of funded obligation	(237,111)	(234,401)
Fair value of plan assets	180,994	162,226
Retirement benefit obligation	(56,117)	(72,175)
Deferred income tax asset	10,088	12,737
Net retirement benefit obligation	**(46,029)**	**(59,438)**

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 £2,281,000 (2016: £1,904,000), included within finance costs.

a) Other comprehensive income

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

	52 weeks ended 30 December 2017 £'000	53 weeks ended 31 December 2016 £'000
Return on plan assets, excluding amounts in interest	(9,117)	(13,454)
Actuarial losses arising from changes in:		
Demographic assumptions	(3,894)	24
Financial assumptions	5,661	70,613
Experience	-	(16,634)
Total actuarial losses	**1,767**	**54,003**
Total re-measurement (gains) / losses	**(7,350)**	**40,549**

17. Retirement benefit obligation (continued)

b) Valuations

The movements in the retirement benefit obligation are as follows:

	52 weeks ended 30 December 2017 £'000	53 weeks ended 31 December 2016 £'000
Changes in the present value of retirement benefit obligation:		
At start of financial period	234,401	176,910
Interest cost on the defined benefit obligation	6,143	6,911
Actuarial losses	1,767	54,515
Net transfer out liability	(2,119)	(802)
Benefits paid	(3,081)	(3,133)
At end of financial period	**237,111**	**234,401**
Changes in the fair value of plan assets:		
At start of financial period	162,226	141,763
Investment return on plan assets	8,606	13,966
Interest income on plan assets	4,399	5,607
Contributions by Company	11,500	5,425
Pension scheme expenses	(537)	(600)
Net transfer out liability	(2,119)	(802)
Benefits paid	(3,081)	(3,133)
At end of financial period	**180,994**	**162,226**

The Company's expected contributions (including expenses) to the defined benefit section for the next financial period ending 29 December 2018 are £11,500,000 (2017: £11,500,000).

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

	At 30 December 2017 %	At 31 December 2016 %
Equities	33.1	41.6
Property	2.7	3.3
Bonds	25.2	12.4
LDI Derivatives/Other	36.8	30.3
Cash	2.2	12.4
	100.0	**100.0**

17. Retirement benefit obligation (continued)

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

	At 30 December 2017	At 31 December 2016
Discount rate	2.50%	2.65%
Retail price index	3.15%	3.20%
Pension increases	3.00%	3.05%
Life expectancy at balance sheet date for a pensioner at normal retirement age (now 65 years):		
Male pensioner	21.3 years	21.4 years
Female pensioner	23.2 years	23.6 years
Life expectancy at balance sheet date for a future pensioner at normal retirement age:		
Male pensioner	22.4 years	22.7 years
Female pensioner	24.4 years	25.2 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 2016 projections with a smoothing factor of 7.5 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 23 years (2016: 23 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 £12.5 million. A decrease of 0.25% in the discount rate would increase the retirement benefit obligation by £13.4 million.

An increase of 0.25% in the inflation rate would increase the retirement benefit obligation by £11.5 million. A decrease of 0.25% in the inflation rate would decrease the retirement benefit obligation by £9.6 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 30 December 2017	At 31 December 2016
Allotted and fully paid ordinary shares of 10p each (£'000)	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 (2016: £7,632,500).

20. Capital and other commitments

At 30 December 2017 the Company had the following commitments:

a) A duty deferment guarantee in favour of HM Customs & Excise to the value of £1,500,000 (2016: £1,500,000).

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 30 December 2017 £'000**	**At 31 December 2016 Restated* £'000**
Buildings		
Under one year	99,146	94,539
Between one to five years	258,664	238,311
More than five years	162,021	157,747
	519,831	**490,597**
Plant and machinery		
Under one year	549	651
Between one to five years	503	891
	1,052	**1,542**

*Prior period figures have been restated following a review of the expected commitment due on leases near expiry and expired leases currently under negotiation. The restatement has reduced commitments for buildings less than one year by £10,214,000.

c) Capital commitments

The Company has no capital commitments (2016: £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.