Registered Number 00807043

Superdrug Stores plc

Annual Report and Financial Statements

For the 52 Weeks ended 29 December 2018

Contents

The directors present their Strategic Report for the 52 weeks ended 29 December 2018.

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 £1,283 million (2017: £1,242 million), an increase of 3.3%, driven by sales from like for like stores and the benefit of 23 new stores opened in the period. 13 stores were also closed during the period.

The Company's market share grew in 2018 in its core categories including cosmetics, fragrance and skincare, on the backdrop of a tough trading environment. Healthcare also grew strongly, supported by 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. In addition, the Company launched its new skin renew service in one store in central London which has been attracting new customers.

The Company saw sustained growth in its Online channel with sales driven by both the core website and the Online Doctor offering. The business continues to improve website functionality to enhance the user experience.

The Company's pharmacy is an important part of the customer offering, with over 200 pharmacies across the UK. The electronic NHS prescription service launched in 2017 continued to grow in 2018. This allows customers to collect their prescriptions from any Superdrug store, or have them delivered directly to their homes.

In 2018 the Company launched a venture with Hutchison 3G to launch an own brand mobile phone SIM card offering. This is a contract free proposition to appeal to our health & beauty card holders by offering double points to customers, and help drive loyalty.

Costs were well controlled during the period, however inflationary pressures meant that operating profit of £95.2 million was a decrease of 4.5% over last period's £99.7 million. Property, plant and equipment have increased by £13.6 million from the prior period due to additions relating to store fittings and new store openings. Inventories have increased by £7.1 million reflecting the increase in stores and total sales, ensuring consistent stock weeks cover is comparable year on year. Trade and other receivables have increased to £197.5 million (2017: £168.1 million) driven by the growth in the business and an element of phasing around year end cashflows. The cash and cash equivalents balance has decreased by £36.8 million which is largely driven by the working capital movements. Trade and other payables have decreased by £20.8 million which is primarily driven by a reduction of inventory purchases around the period end compared to previous years. The reduction in the pension deficit is mainly due to contributions by the Company and the increase in return on plan assets. As at 29 December 2018 total equity was £319.1 million (2017: £255.0 million).

Business Environment

The UK Health & Beauty market remained challenging in 2018. The market continues to grow for online retailers providing beauty products, 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 economy continued to provide a tough environment for retailers as increasing inflation and rising interest rates 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, the Government imposed Apprenticeship Levy, increases in National Living Wage and the 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 2018 and during the period the Company opened 23 new stores, while it closed 13 stores, resulting in a trading estate of 806 stores at the period end.

The Online channel grew in-line with the total market during 2018 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 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 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 continues to perform well and by the period end the number of registered members stood at over 14 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 new General Data Protection Regulations, and has put in place additional processes and controls to mitigate this risk.
- 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.

Principal Risks and Uncertainties (continued)

- 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. Uncertainty continues to exist surrounding the exact nature of Brexit and when it might occur. Management have plans in place to ensure continuity of trade once final decisions have been agreed, 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 29 December 2018	At 30 December 2017
Revenue	£1,283m	£1,242m
Operating profit	£95.2m	£99.7m
Operating margin	7.4%	8.0%

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

Financial Risk Management

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

a) Credit risk

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

b) Liquidity risk

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

c) Foreign exchange risk

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

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

Future Outlook and Prospects

The directors expect the UK retail environment to remain challenging. The uncertainty of the final Brexit negotiations and how this will impact the UK, coupled with inflationary pressures on household budgets, is likely to see consumer sentiment remain subdued. The Company is planning strategies to mitigate the impact of this and to maintain its strong price perception on the High Street and attract footfall with an increasing beauty and healthcare services offering. The solid trading performance in 2018 coupled with a clear future strategy, and cash flows that can support investment, leaves the Company well positioned to grow successfully in 2019 and beyond.

On behalf of the board

R A Fleming
Director
11 June 2019

The directors present their report and the audited Financial Statements of the Company for the 52 weeks ended 29 December 2018.

Future Developments

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

Dividends

On 10 December 2018 a dividend of 9.1 pence (2017: 22.7 pence) per share totalling £20.0 million (2017: £50.0 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 52 week 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 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 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
11 June 2019

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 29 December 2018 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 29 December 2018; 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

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.

We have nothing to report on these matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

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 29 December 2018 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
11 / 6 / 2019

Superdrug Stores plc
Statement of Comprehensive Income
For the 52 Weeks ended 29 December 2018

	Note	52 weeks ended 29 December 2018 £'000	52 weeks ended 30 December 2017 £'000
Income Statement			
Revenue		1,283,161	1,241,783
Cost of Sales		(1,142,783)	(1,102,625)
Gross Profit		**140,378**	**139,158**
Administrative expenses		(55,827)	(50,603)
Other operating income		10,637	11,137
Operating profit	3	**95,188**	**99,692**
Finance income	6	343	120
Finance costs	6	(7,192)	(6,878)
Profit before taxation		**88,339**	**92,934**
Income tax expense	7	(15,939)	(20,110)
Profit for the financial period		**72,400**	**72,824**
Other Comprehensive Income			
Items that will not be reclassified subsequently to profit and loss			
Actuarial gains recognised in pension scheme	16	14,232	7,350
Movement on deferred tax relating to pension deficit		(2,570)	(1,082)
		11,662	**6,268**
Total comprehensive income for the period		**84,062**	**79,092**

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 29 December 2018 £'000	At 30 December 2017 £'000
Fixed assets			
Intangible assets	8	140,527	139,694
Property, plant and equipment	9	123,186	109,514
		263,713	**249,208**
Current assets			
Inventories	12	228,882	221,790
Trade and other receivables	13	197,498	168,109
Cash and cash equivalents		77,298	114,115
Total current assets		**503,678**	**504,014**
Creditors – amounts falling due within one year			
Trade and other payables	14	(332,414)	(353,188)
Net current assets		**171,264**	**150,826**
Total assets less current liabilities		**434,977**	**400,034**
Creditors – amounts falling due after more than one year			
Borrowings	15	(85,000)	(85,000)
Retirement benefit obligation	16	(28,246)	(56,117)
Provisions for liabilities	17	(2,679)	(3,927)
Net assets		**319,052**	**254,990**
Equity			
Called up share capital	19	22,000	22,000
Share premium account		103,400	103,400
Retained earnings		193,652	129,590
Total shareholder's funds		**319,052**	**254,990**

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 11 June 2019 and signed on its behalf by:

R A Fleming
Director

Superdrug Stores plc
Statement of Changes in Equity
For the 52 Weeks ended 29 December 2018

	Called up Share Capital £'000	Share premium account £'000	Retained earnings £'000	Total Shareholder's funds £'000
At 1 January 2017	**22,000**	**103,400**	**100,498**	**225,898**
Profit for the financial period	-	-	72,824	72,824
Other Comprehensive Income/(expense) 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**
Profit for the financial period	-	-	72,400	72,400
Other Comprehensive Income/(expense) 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**

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

Superdrug Stores plc
Cash Flow Statement
For the 52 Weeks ended 29 December 2018

	Note	52 weeks ended 29 December 2018 £'000	52 weeks ended 30 December 2017 £'000
Cash flow from operating activities			
Company operating profit		95,188	99,692
Adjustments for:			
Depreciation, amortisation and impairment charge		21,776	20,038
Loss on disposal of intangible assets	8	80	-
Loss on disposal of tangible assets	9	944	466
Defined benefit pension past service cost	16	319	-
Defined benefit pension contributions	16	(16,000)	(11,500)
Operating cash flow before movement in working capital		**102,307**	**108,696**
Increase in inventory	12	(7,092)	(17,992)
(Increase)/decrease in trade and other receivables	13	(35,411)	25,178
Decrease in trade and other payables	14	(19,586)	(596)
Operational cash flow after movement in working capital		**40,218**	**115,286**
Interest paid	6	(36,439)	(6,626)
Taxation paid	7	(23,560)	(20,958)
Net cash inflow from operating activities		**(19,781)**	**87,702**
Cash flow from investing activities			
Purchase of property, plant and equipment		(28,320)	(32,021)
Purchase of intangible fixed assets	8	(1,095)	(449)
Interest received	6	343	120
Net cash outflow from investing activities		**(29,072)**	**(32,350)**
Cash flow from financing activities			
Increase in borrowings		32,036	-
Dividends paid	18	(20,000)	(50,000)
Net cash outflow from financing activities		**12,036**	**(50,000)**
Net (decrease)/increase in cash and cash equivalents		**(36,817)**	**5,352**
Cash and cash equivalents at beginning of period		114,115	108,763
Cash and cash equivalents at end of period		**77,298**	**114,115**

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
- 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 financial period and the adoption did not have significant impact on the Company's financial statements for the period.

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. 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.

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)

Other Operating Income

Other operating income relates to rental income receivable and haul back 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.

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. 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

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.

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.

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 charging/(crediting):

	52 weeks ended 29 December 2018 £'000	52 weeks ended 30 December 2017 £'000
Operating lease charges	97,902	102,128
Rental income	(5,863)	(6,027)
Loss on disposal of intangible assets	80	-
Loss on disposal of property, plant and equipment	944	466
Depreciation and amortization	21,776	20,038
Amounts payable to the Company's auditors:		
- audit fees	178	141
-audit related assurance services	12	6
-non-audit related assurance services	12	27

4. Employees

The total aggregate remuneration comprises:

	52 weeks ended 29 December 2018 £'000	52 weeks ended 30 December 2017 £'000
Wages and salaries (including directors)	182,937	172,362
Social security costs	12,040	11,250
Other pension costs	6,262	5,568
Total staff costs	201,239	189,180

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

	52 weeks ended 29 December 2018 No.	52 weeks ended 30 December 2017 No.
By activity:		
Selling	12,436	12,513
Administration	600	574
	13,036	**13,087**

5. Directors

The directors' emoluments were as follows:

	52 weeks ended 29 December 2018 £'000	52 weeks ended 30 December 2017 £'000
Remuneration	2,009	1,958
Long term incentive plan	269	262
	2,278	**2,220**

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 29 December 2018 £'000	52 weeks ended 30 December 2017 £'000
Remuneration	1,478	1,417
Long term incentive plan	259	262
	1,737	**1,679**

6. Finance income and costs

	52 weeks ended 29 December 2018 £'000	52 weeks ended 30 December 2017 £'000
Bank interest	343	120
Total finance income	**343**	**120**
Pension financing charge	(2,042)	(2,281)
Interest payable on loans from group undertakings	(5,150)	(4,597)
Total finance cost	**(7,192)**	**(6,878)**
Net finance cost	**(6,849)**	**(6,758)**

7. Income tax expense

Tax expense included in the income statement	**52 weeks ended 29 December 2018 £'000**	**52 weeks ended 30 December 2017 £'000**
UK corporation tax on profits for the period	12,851	15,765
Adjustment in respect of prior periods	(364)	(565)
Total current tax	**12,487**	**15,200**
Origination and reversal of timing differences	2,872	2,167
Adjustment in respect of prior periods	580	2,707
Impact of change in UK tax rate	-	36
Total deferred tax	**3,452**	**4,910**
Tax on profit	**15,939**	**20,110**

Tax charge included in Other Comprehensive Income

Deferred tax:		
Origination and reversal of temporary differences	2,570	1,082
Total tax charge included in Other Comprehensive Income	**2,570**	**1,082**

The effective rate of 18.0% (2017: 21.6%) is lower than (2017: higher than) the standard rate of corporation tax in the United Kingdom of 19.0% between 1 January 2018 and 29 December 2018. The differences are:

	52 weeks ended 29 December 2018 £'000	**52 weeks ended 30 December 2017 £'000**
Profit before taxation	88,339	92,934
Income tax at standard UK corporation tax rate of 19.0% between 1 January 2018 and 29 December 2018 (2017: 19.25%)	**16,784**	**17,890**
Effects of:		
(Income)/expenses not subject to tax	(1,061)	42
Adjustment in respect of prior periods	216	2,142
Re-measurement of deferred tax due to change in UK tax rate	-	36
Tax on profit	**15,939**	**20,110**

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 2017 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxed at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

8. Intangible assets

	Brands £'000	Pharmacy licences £'000	Computer software £'000	Total £'000
Cost				
At 1 January 2018	125,000	19,527	9,990	154,517
Additions	-	-	1,092	1,092
Disposals	-	(117)	(7,822)	(7,939)
At 29 December 2018	**125,000**	**19,410**	**3,260**	**147,670**
Accumulated amortisation and impairment				
At 1 January 2018	-	5,823	9,000	14,823
Amortisation	-	-	179	179
Disposals	-	(35)	(7,824)	(7,859)
At 29 December 2018	**-**	**5,788**	**1,355**	**7,143**
Net book value				
At 29 December 2018	**125,000**	**13,622**	**1,905**	**140,527**
At 30 December 2017	125,000	13,704	990	139,694

In the period there was no impairment charge (2017: £nil) made to the income statement.

In the period a review of fully depreciated assets was undertaken. This resulted in a reduction of £7,498,000 (2017: £nil) of cost and accumulated depreciation, recorded within disposals.

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 2018	12,434	87,652	173,068	273,154
Additions	-	11,733	24,480	36,213
Disposals	-	(26,030)	(55,714)	(81,744)
At 29 December 2018	**12,434**	**73,355**	**141,834**	**227,623**
Accumulated depreciation				
At 1 January 2018	11,619	54,389	97,632	163,640
Charge for the period	21	6,916	14,660	21,597
Eliminated on disposals	-	(25,715)	(55,085)	(80,800)
At 29 December 2018	**11,640**	**35,590**	**57,207**	**104,437**
Net book value				
At 29 December 2018	**794**	**37,765**	**84,627**	**123,186**
At 30 December 2017	815	33,263	75,436	109,514

In the period a review of fully depreciated assets was undertaken. This resulted in a reduction of £73,235,000 (2017: £26,647,000) of cost and accumulated depreciation, recorded within disposals.

10. Deferred tax asset

	Depreciation in excess of capital allowances £'000	Temporary differences £'000	Retirement benefit obligation £'000	Total £'000
At 31 December 2016	1,965	1,952	12,737	16,654
Charge to income statement	(389)	(2,954)	(1,567)	(4,910)
Credit to other comprehensive expense	-	-	(1,082)	(1,082)
At 30 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**

11. Investments

The net book value of investments at 29 December 2018 was £nil (2017: £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	Dissolved
Superdrug Pension Trustee Limited	51 Sydenham Road, Croydon, Surrey, CR0 2EU	Dormant

Tip Top Drugstores Limited was dissolved on 18 July 2018.

12. Inventory

	At 29 December 2018 £'000	At 30 December 2017 £'000
Finished goods and goods for resale	**228,882**	**221,790**

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks ended 29 December 2018 was £972,226,000 (2017: £949,440,000). Inventories are stated after provisions for impairment of £8,936,000 (2017: £8,024,000). There is no material difference between carrying amount and replacement cost of the inventory.

13. Trade and other receivables

	At 29 December 2018 £'000	At 30 December 2017 £'000
Trade receivables	63,772	45,719
Amounts owed by group undertakings	50,211	40,811
Other receivables	25,680	14,861
Prepayments	53,195	56,056
Deferred tax asset (note 10)	4,640	10,662
	197,498	**168,109**

Trade receivables are stated after provisions for impairment of £2,531,000 (2017: £1,993,000). Amounts owed by group undertakings are unsecured, repayable on demand and are non-interest bearing.

14. Trade and other payables

	At 29 December 2018 £'000	At 30 December 2017 £'000
Trade creditors	51,034	72,696
Amounts owed to group undertakings	130,559	128,951
Corporation tax	11,095	22,197
Other taxation and social security	36,666	29,586
Accruals	74,524	61,393
Deferred income	6,403	9,293
Other creditors	22,133	29,072
	332,414	**353,188**

Amounts owed to group undertakings includes an unsecured loan from A.S. Watson (Health & Beauty UK) Limited totalling £110,000,000 (2017: £77,963,949). The interest rate on this loan is 12-month GBP LIBOR + 2.5% per annum since 1 October 2018. The effective interest rate in 2018 is 3.5% (2017: 2.12%) and the loan is repayable on demand.

The Company has a bank overdraft facility of a variable size between £15,000,000 and £35,000,000, which is provided by National Westminster Bank plc and which is unsecured and repayable on demand. Interest is payable at National Westminster Bank plc base rate plus 1.25%. During the period there were no drawings (2017: £nil) on this facility.

The Company has recognised the following liabilities related to contracts with customers.

	At 29 December 2018 £'000	At 30 December 2017 £'000
Contract liabilities	**10,774**	**11,250**

15. Borrowings

	At 29 December 2018 £'000	At 30 December 2017 £'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 29 December 2018 (2017: £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%. During the period there were no drawings (2017: £nil) on this facility.

16. 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.

On 26 October 2018, the High Court handed down a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension ("GMP") benefits. The judgement has implications for many defined benefit schemes, including Scheme.

We have recorded a £319,000 pre-tax expense, which reflects our best estimate of the effect of equalising GMP benefits on our reported pension liabilities. The directors have made the judgement that this should be treated as a past service cost that should be reflected through the consolidated income statement and that any subsequent change in the estimate of that should be recognised in other comprehensive income. This judgement is based on the fact that the reported pension liabilities for the Scheme as at 30 December 2017 did not include any amount in respect of GMP equalisation.

It should be noted that this estimate involves estimation uncertainty. The directors will continue to monitor any further clarifications or court hearings arising from the Lloyds case and consider the impact on pension liabilities accordingly.

Based on the scale of the estimated impact, we do not expect GMP equalisation to cause a material change to the level of contributions that the Company will need to pay in future in respect of the Scheme.

The amounts recognised in the balance sheet are as follows:

	52 weeks ended 29 December 2018 £'000	**52 weeks ended 30 December 2017 £'000**
Present value of funded obligation	(208,525)	(237,111)
Fair value of plan assets	180,279	180,994
Retirement benefit obligation	(28,246)	(56,117)
Deferred income tax asset	5,198	10,088
Net retirement benefit obligation	**(23,048)**	**(46,029)**

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) and the GMP past service cost totalling £2,361,000 (2017: £2,281,000), included within finance costs.

16. Retirement benefit obligation (continued)

a) Other comprehensive income

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

	52 weeks ended 29 December 2018 £'000	52 weeks ended 30 December 2017 £'000
Return on plan assets, excluding amounts in interest	(16,182)	9,117
Actuarial gains/(losses) arising from changes in:		
Demographic assumptions	(228)	3,894
Financial assumptions	17,490	(5,661)
Experience	13,152	-
Total actuarial gains/(losses)	**30,414**	**(1,767)**
Total re-measurement gains	**14,232**	**7,350**

b) Valuations

The movements in the retirement benefit obligation are as follows:

	52 weeks ended 29 December 2018 £'000	52 weeks ended 30 December 2017 £'000
Changes in the present value of retirement benefit obligation:		
At start of financial period	237,111	234,401
Past service cost - scheme amendments	319	-
Interest cost on the defined benefit obligation	5,874	6,143
Actuarial (gains)/losses	(30,414)	1,767
Net transfer out liability	(1,723)	(2,119)
Benefits paid	(2,642)	(3,081)
At end of financial period	**208,525**	**237,111**
Changes in the fair value of plan assets:		
At start of financial period	180,994	162,226
Investment return on plan assets	(16,182)	8,606
Interest income on plan assets	4,654	4,399
Contributions by Company	16,000	11,500
Pension scheme expenses	(822)	(537)
Net transfer out liability	(1,723)	(2,119)
Benefits paid	(2,642)	(3,081)
At end of financial period	**180,279**	**180,994**

The Company's expected contributions (including expenses) to the defined benefit section for the next financial period ending 28 December 2019 are £18,500,000 (2018: £16,000,000).

16. Retirement benefit obligation (continued)

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

	At 29 December 2018 %	At 30 December 2017 %
Equities	23.4	33.1
Bonds	26.6	25.2
LDI Derivatives/Other	48.3	39.5
Cash	1.7	2.2
	100.0	**100.0**

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

	At 29 December 2018	At 30 December 2017
Discount rate	2.85%	2.50%
Retail price index	3.15%	3.15%
Pension increases	3.00%	3.00%
Life expectancy at balance sheet date for a pensioner at normal retirement age (now 65 years):		
Male pensioner	21.2 years	21.3 years
Female pensioner	23.1 years	23.2 years
Life expectancy at balance sheet date for a future pensioner at normal retirement age:		
Male pensioner	22.6 years	22.4 years
Female pensioner	24.7 years	24.4 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 7.5 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 22 years (2017: 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 £10.6 million. A decrease of 0.25% in the discount rate would increase the retirement benefit obligation by £11.4 million.

An increase of 0.25% in the inflation rate would increase the retirement benefit obligation by £9.7 million. A decrease of 0.25% in the inflation rate would decrease the retirement benefit obligation by £9.2 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.

16. Retirement benefit obligation (continued)

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.

17. Provisions for liabilities

	At 29 December 2018 £'000
Provisions	
At 1 January 2018	3,927
Utilised during the period	(554)
Credited to the income statement	(694)
At 29 December 2018	**2,679**

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

18. Dividends paid

	At 29 December 2018 £'000	At 30 December 2017 £'000
9.1p per ordinary share of 10p each (2017: 22.7p per ordinary share of 10p each)	20,000	50,000

19. Called up share capital

	At 29 December 2018	At 30 December 2017
Allotted and fully paid ordinary shares of 10p each (£'000)	22,000	22,000
Number of shares ('000 shares)	220,000	220,000

20. 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 £3,456,425 (2017: £7,632,500).

21. Capital and other commitments

At 29 December 2018 the Company had the following commitments:

a) *A duty deferment guarantee in favour of* HM *Customs & Excise to the value of* £1,500,000 (2017: £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 29 December 2018 £'000**	**At 30 December 2017 £'000**
Buildings		
Under one year	91,549	99,146
Between one to five years	238,832	258,664
More than five years	141,716	162,021
	472,097	**519,831**
Plant and machinery		
Under one year	2,021	549
Between one to five years	5,132	503
More than five years	170	-
	7,323	**1,052**

c) Capital commitments

The Company has no capital commitments (2017: £nil).

22. 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.