Palmer & Harvey McLane (Holdings) Limited

Directors' report and financial statements

Registered number 2274812

3 April 2004

Contents

Directors' report

The directors present their report and audited financial statements for Palmer and Harvey McLane (Holdings) Limited for the 52 week period ended 3 April 2004. The comparative period related to the 52 week period ended 5 April 2003. There is no impact on turnover due to the different accounting reference dates.

Principal activity and business review

The principal activity of the company is that of an intermediate holding company.

Results and dividends

A summary of the company's results for the period is set out in the profit and loss account on page 4.

During the period interim dividends totalling £62,000,000 *(2003: £35,000,000)* were paid, including inter-group dividends paid of £62,000,000 *(2003: £35,000,000).* Inter-group dividends of £52,092,000 were received during the period *(2003: £nil)*. The directors do not recommend the payment of a final dividend *(2003: £nil).*

Directors and directors' interests

The directors' who held office during the period were as follows:

Christopher Adams
Graham McPherson
Christopher Little

These directors were also directors of the ultimate parent undertaking and their beneficial interests in the shares of the company in the group are disclosed in that company's financial statements.

Christopher Adams retires by rotation and, being eligible, offers himself for re-election.

Political and charitable contributions

The company made no political or charitable contributions during the period. *(2003: £nil)*

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

P J Tomlinson

Paula Tomlinson
Secretary

P&H House
Davigdor Road
Hove
East Sussex
BN3 1RE

29 July 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

Independent auditors' report to the members of Palmer & Harvey McLane (Holdings) Limited

We have audited the financial statements on pages 4 to 14.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 3 April 2004 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

29 July 2004

Profit and Loss Account
for the 52 weeks ended 3 April 2004

	Note	3 April 2004		5 April 2003 (as restated) See note 21	
		£000	**£000**	£000	£000
Administration expenses		66		(79)	
Operating profit / (loss)			**66**		(79)
Profit on sale of fixed asset investments			**209**		-
Interest receivable and similar income	*3*		**22**		31
Interest payable and similar charges	*4*		**(3,439)**		(1,538)
Dividend income	*5*		**52,092**		-
Profit / (loss) on ordinary activities before taxation	*6*		**48,950**		(1,586)
Taxation on profit / (loss) on ordinary activities	*8*		**997**		403
Profit / (loss) on ordinary activities after taxation			**49,947**		(1,183)
Dividends paid	*9*		**(62,000)**		(35,000)
Retained loss for the period			**(12,053)**		(36,183)

The company has no recognised gains or losses for the period other than the profit / (losses) shown above.

The results arose solely form continuing activities.

There is no difference between the reported results and those prepared on a historical cost basis.

The notes on page 6 to 14 form part of these financial statements.

Balance Sheet at 3 April 2004

	Note	3 April 2004		5 April 2003 (as restated) See note 21	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	*10*		**42**		83
Investments	*11*		**74,060**		72,286
			74,102		72,369
Current assets					
Debtors	*12*	**6,157**		6,730	
Cash at bank and in hand		**1,842**		1,347	
Creditors: amounts falling due within one year	*13*	**(60,185)**		(46,477)	
Net current liabilities			**(52,186)**		(38,400)
Total assets less current liabilities			**21,916**		33,969
Net assets			**21,916**		33,969
Capital and reserves					
Called up share capital	*14*		**1,701**		1,701
Share premium account	*15*		**2,202**		2,202
Capital redemption reserve	*15*		**79**		79
Profit and loss account	*15*		**17,934**		29,987
Equity shareholders' funds	*16*		**21,916**		33,969

The notes on pages 6 to 14 form part of these financial statements.

The financial statements were approved by the board of directors on 29 July 2004 and were signed on its behalf by:

Christopher Adams
Director

Christopher Little
Director

Notes to the financial statements

1 Accounting policies

These financial statements cover the 52 week period from 6 April 2003 to 3 April 2004 with comparative figures for the 52 weeks ended 5 April 2003. These financial statements include a prior period adjustment, further detail is provided in note 21.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. The company has followed the transitional arrangements of FRS 17 "Retirement benefits" in these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting convention.

Group financial statements

Group financial statements are not presented by virtue of section 228 of the Companies Act 1985, as the company is itself a wholly owned subsidiary undertaking of a parent undertaking which is established under the law of a member state of the European Community. These financial statements present information about the undertaking as an individual undertaking. A list of the principal subsidiary undertakings appears in note 11 to the financial statements.

Related parties

As the company is a wholly owned subsidiary of Palmer & Harvey (Holdings) Plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Palmer & Harvey (Holdings) Plc, within which this company is included, can be obtained from Companies House.

Cash flow statement

Under FRS 1 (Revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Palmer & Harvey (Holdings) Plc and its cash flows are included within the consolidated cash flow statement of that company.

Goodwill

Goodwill arising on acquisitions, (being the excess of the fair value of the consideration given, including related legal costs over the fair value of the separable net assets acquired) is capitalised. It is amortised to nil by equal instalments over its estimated useful life of five years.

Fixed asset investments

Fixed asset investments are stated at cost less amounts written off.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes to the financial statements *(continued)*

Employee benefit trust

Shares owned by the Employee Benefit Trust are held for the continuing benefit of the business and are included in the company balance sheet as a fixed asset investment at cost. The net result of the Employee Benefit Trust including profits and losses on sale of shares and tax thereon is included in the company's profit and loss account.

Pensions

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested mainly with insurance companies. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. Further details are provided in note 16.

2 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period was as follows:

	2004	2003
Administration and management	**12**	11

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£000	£000
Wages and salaries	**812**	521
Social security costs	**126**	70
Other pension costs	**56**	38
	994	629

The wages and salary costs paid by Palmer & Harvey McLane (Holdings) Limited are recouped via a management charge to other group companies.

3 Interest receivable and similar income

	2004	2003
		(as restated)
	£000	£000
Bank interest	**22**	31

Notes to the financial statements *(continued)*

4 Interest payable and similar charges

	2004	2003
	£000	£000
On Bank loans and overdrafts	**3,439**	1,538

5 Dividend income

	2004	2003
	£000	£000
Inter-group dividends receivable	**52,000**	-
Dividends received in respect of the Employe Benefit Trust	**92**	-
	52,092	-

6 Profit / (loss) on ordinary activities before taxation

Profit / (loss) on ordinary activities before taxation arose solely from the company's principal activity and was stated after charging:

	2004	2003
	£000	£000
Amortisation of goodwill	**41**	41
Auditors' remuneration: -audit	**6**	4
-other services	**-**	-

7 Directors' remuneration

Aggregate directors' remuneration consists of:

	2004	2003
	£000	£000
Directors' emoluments for management services	**639**	310

The emoluments of the chairman (who was also the highest paid director) excluding pension contributions but including benefits in kind were £376,443 *(2003: £309,925)*. Company pension contributions of £31,998 *(2003: £29,376)* were made to the group pension scheme on his behalf.

The accrued pension benefits of the chairman at 3 April 2004 were £113,044 *(2003: £99,605)* per annum and the accrued lump sum payable was £240,394 *(2003: £224,115)* which would result in a reduced pension payable of £93,209 *(2003: £81,473)* per annum.

Notes to the financial statements *(continued)*

7 Directors' remuneration *(continued)*

The emoluments of Christopher Little were charged to Palmer & Harvey McLane (Holdings) Limited in 2004. These were charged to Palmer & Harvey McLane Limited in 2003.

Including the chairman, the three executive directors are currently members of the group pension scheme and as such have benefits accruing to them under this scheme.

8 Tax on loss on ordinary activities

The tax credit based on the loss for the period comprises:

	2004	2003
	£000	£000
Corporation tax at 30% *(2003: 30%)*	**(997)**	(403)

Reconciliation of current year tax charge

The standard rate of corporation tax for the year is 30% *(2003: 30%)*. The current year tax credit is higher *(2003: lower)* than 30% for the reason stated below:

	2004	2003 (as restated)
	£000	£000
Loss on ordinary activities before tax (excluding dividends)	**(3,142)**	(1,586)
Tax on loss on ordinary activities at standard rate	**(943)**	(476)
Factors affecting credit:		
Disallowed expenses (primarily goodwill amortisation)	**15**	73
Non taxable income	**(69)**	-
Current tax credit for the year	**(997)**	(403)

9 Dividends paid

	2004	2003
	£000	£000
Inter-group dividends paid	**62,000**	35,000

Notes to the financial statements *(continued)*

10 Intangible fixed assets

	2004	2003
Goodwill	**£000**	£000
Cost		
At beginning and end of period	**207**	207
Amortisation		
At beginning of period	**(124)**	(83)
Charge for the period	**(41)**	(41)
At the end of the period	**(165)**	(124)
Net book value		
At the end of the period	**42**	83

The goodwill represents legal fees capitalised on the acquisition of KP McVities Snacksdirect.

Goodwill arising on acquisitions is amortised on a straight line basis over their economic life, having regard to the nature of the business. The economical life of KP McVities Snacksdirect is estimated by the directors to be 5 years.

11 Fixed asset investments

	Shares in Group Undertakings	Shares in Palmer & Harvey (Holdings) Plc
	£000	£000
At 6 April 2003 (as previously reported)	**71,870**	-
Prior period adjustment	-	416
At 6 April 2003 (as restated)	**71,870**	416
Additions	-	2,176
Disposals	-	(402)
At 3 April 2004	**71,870**	2,190

Notes to the financial statements *(continued)*

The principal subsidiary undertakings which are wholly owned and registered in England, together with their principal activities were as follows:

Name	**Nature of Business**	**Percentage of Ordinary Shares Held**
Palmer & Harvey McLane Limited	Distribution and delivered wholesaling of tobacco, confectionery, soft drinks, crisps and snacks, phone cards, ambient and chilled and frozen groceries, alcohol and related products	100%
P & H (1925) Limited	Property management	100%
Winerite Limited	Wine shippers and agents, importers, bonded-warehouse keepers and wholesale wine and spirit merchants	(indirectly held) 100%
YP Electronics Limited	Supply and support of electronic point of sale computer systems	(indirectly held) 100%
P & H Snacksdirect Limited	Distribution and delivered sale of snacks products	(indirectly held) 100%
P & H Symbol Limited	Symbol development and promotional and marketing services for retailers and wholesalers	(indirectly held) 100%
P & H International Limited	Holding company	100%
P & H Retail Services Limited	Holding company	100%
P & H Direct Limited	Holding company	100%
P & H Trustees Limited	Dormant	100%
Liquor Leaders Limited	Dormant	(indirectly held) 100%
Snowking Limited	Dormant	(indirectly held) 100%
Craven Supply Limited	Dormant	(indirectly held) 100%

In the opinion of the directors, a statement of the information required to be disclosed in respect of investments indirectly held by the company in accordance with Schedule 5 of the Companies Act 1985, where all the companies concerned are dormant and are registered in England and Wales would be excessively long and therefore this information is not provided.

In addition to the subsidiary undertakings listed above, the company also indirectly holds a 50% share in Mace Marketing Services Limited, a dormant company which is registered in England, the net assets of which are not material.

12 Debtors

	2004	2003
	£000	£000
Amounts owed by subsidiary undertakings	**6,156**	6,730
Others debtors	**1**	-
	6,157	6,730

Notes to the financial statements *(continued)*

13 Creditors: amounts falling due within one year

	2004	2003 (as restated)
	£000	£000
Bank loans and overdrafts	**119**	16,281
Amounts owed to subsidiary undertakings	**59,442**	29,456
Others creditors including taxation and social security	**624**	740
	60,185	46,477

Other creditors including taxation and social security comprise:

	2004	2003
	£000	£000
Other creditors	**624**	740

14 Share capital

	2004	2003
	£000	£000
Authorised		
50,000,000 ordinary shares of 5p each	**2,500**	2,500
Allotted, issued and fully paid		
34,020,400 ordinary shares of 5p each	**1,701**	1,701

15 Reserves

	Share Premium Account	Capital Redemption Reserve	Profit and Loss Account
	£000	£000	£000
At the beginning of the period (as previously stated)	2,202	79	28,298
Prior period adjustment (see note 21)	-	-	1,689
At the beginning of period (as restated)	2,202	79	29,987
Retained loss for period	-	-	(12,053)
At the end of the period	**2,202**	**79**	**17,934**

The cumulative retained profit at 5 April 2003 has been restated to reflect the inclusion of the Employee Benefit Trust in the sponsoring company as set out in note 21.

Notes to the financial statements *(continued)*

16 Reconciliation of movements in shareholders' funds

	2004	2003
	£000	£000 (as restated)
Opening shareholders funds (as previously reported)	**33,969**	68,494
Prior period adjustment (see note 21)	-	1,658
Opening shareholders funds (as restated)	**33,969**	70,152
Loss for financial period	**(2,145)**	(1,183)
Dividends paid	**(62,000)**	(35,000)
Dividends received	**52,092**	-
Closing shareholders' funds	**21,916**	33,969

17 Pension costs

As explained in note 1, the company is a member of a group pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group mainly being invested with insurance companies.

The pension charge for the period represents contributions payable by the company to the fund and amounts to £55,670 (2003: £34,397).

Contributions to the scheme are based on pension costs across the group as a whole and are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. The contributions are determined by a qualified actuary on the basis of triennial valuations. The most recent valuation was at 31 March 2002 which was updated by the actuary to 31 March 2004 and concluded that the scheme was in deficit.

Further details relating to the actuarial valuation are disclosed in the financial statements of Palmer and Harvey (Holdings) Plc.

Under transitional arrangements relating to the introduction of FRS 17, the group is required to disclose certain information about the scheme and the figures that would have been shown under FRS 17 in the current balance sheet. These details are disclosed in the financial statements of Palmer & Harvey (Holdings) Plc.

18 Contingencies

Guarantees and indemnities have been given by the company to a number of suppliers in connection with trade liabilities incurred by Palmer & Harvey McLane Limited, a fellow group undertaking, which at 3 April 2004, amounted to £452,945,000 *(2003: £585,382,000).*

The company and its principal subsidiaries are jointly and severally liable for the indebtedness of the group to its bankers, Barclays Bank Plc and are subject to a fixed and floating charge over the company's assets, with the exception of the bank accounts which support a bank guarantee to the 'A' Loan stock and 'A' Preference share holders. There is right of set off between all other bank accounts. At 3 April 2004 the company's contingent liability amounted to £22,293,000 *(2003: £10,050,000).*

Notes to the financial statements *(continued)*

20 Ultimate parent undertaking and parent company of a larger group

The company's ultimate parent undertaking is Palmer & Harvey (Holdings) Plc, which is incorporated in the United Kingdom and registered in England and Wales.

The directors consider Palmer & Harvey (Holdings) Plc to be the company's ultimate controlling party.

The largest group in which the results of the company are consolidated is that headed by Palmer & Harvey (Holdings) Plc. The consolidated financial statements of Palmer & Harvey (Holdings) Plc are available to the public and may be obtained from Companies House.

21 Prior period adjustment

	As previously stated	**Adjustment**	**Restated**
	£000	£000	£000
Profit and loss account			
Interest receivable	-	31	31
Balance sheet			
Net assets	32,280	1,689	33,969

The prior period adjustment represents a change in the treatment of the Employee Benefit Trust. As the shares owned by the Employee Benefit Trust are held for the continuing benefit of the business, they should be included in the sponsoring company's balance sheet.