Palmer & Harvey McLane (Holdings) Limited

Directors' report and financial statements

Registered number 2274812

5 April 2003

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 5 April 2003. The comparative period related to the 52 week period ended 6 April 2002.

Principal activities 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 5. During the period interim dividends totalling £35,000,000 (2002: £15,954,000) were paid, including inter-group dividends paid of £35,000,000 (2002: £10,000,000). No inter-group dividends were received during the period (2002: £nil). The directors do not recommend the payment of a final dividend (2002: £nil).

Directors

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

Employees

The company's policy is that wherever possible full consideration is given to the employment, training, career development and promotion of disabled persons. In addition, it is the policy of the company to provide information to, consult with and involve all employees wherever practicable to help make them aware of any factors affecting the company.

Political and charitable contributions

The company made no political or charitable contributions during the period. (2002: £ 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

Paula Smith
Secretary

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

31 July 2003

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 and Harvey McLane (Holdings) Limited

We have audited the financial statements on pages 5 to 16.

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 3, 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 5 April 2003 and of its results for the 52 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

31 July 2003

Profit and Loss Account
for the 52 weeks ended 5 April 2003

	Note	5 April 2003		6 April 2002	
		£000	£000	£000	£000
Administration expenses		(79)		(1,117)	
Operating loss			(79)		(1,117)
Interest receivable and similar income	3		-		229
Interest payable and similar charges	4		(1,538)		-
Loss on ordinary activities before taxation	5		(1,617)		(888)
Taxation on loss on ordinary activities	7		403		252
Loss for the financial period			(1,214)		(636)
Dividends paid	8		(35,000)		(15,954)
Retained loss for the period			(36,214)		(16,590)

The company had no recognised gains or losses for the period other than the profits shown above.

The notes on page 7 to 16 form part of these financial statements.

Balance Sheet at 5 April 2003

	Note	**5 April 2003**		6 April 2002	
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	*9*		**83**		124
Tangible assets	*11*		**-**		-
Investments	*10*		**71,870**		71,870
			71,953		71,994
Current assets					
Debtors	*12*	**6,730**		12,565	
Creditors: amounts falling due within one year	*13*	**(46,403)**		(16,065)	
Net current liabilities			**(39,673)**		(3,500)
Total assets less current liabilities			**32,280**		68,494
Net assets			**32,280**		68,494
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*		**28,298**		64,512
Equity shareholders' funds	*16*		**32,280**		68,494

The notes on pages 7 to 16 form part of these financial statements.

The financial statements were approved by the board of directors on 31 July 2003 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 7 April 2002 to 5 April 2003 with comparative figures for the 52 weeks ended 6 April 2002.

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 10 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 between two and twenty years.

Fixed assets and depreciation

Tangible fixed assets are depreciated to their residual value over their useful lives as follows:

Motor vehicles	20% per half year on written down value or over 6 years on a straight line basis

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*

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 17.

2 Staff numbers and costs

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

	2003	2002
	£000	£000
Administration and management	**11**	8

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	**493**	343
Social security costs	**60**	52
Other pension costs	**34**	33
Share option waiver charge	**-**	206
	587	634

The share option waiver charge of £ nil (2002: £206,000) related to a provision for compensation payable to employee share optionholders who wished to waive their option entitlement instead of exercising their options.

Notes to the financial statements *continued*

3 Interest receivable and similar income

	2003	2002
	£000	£000
Bank interest	-	229

4 Interest payable and similar charges

	2003	2002
	£000	£000
Bank interest	1,538	-

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation arose solely from the company's principal activity and was stated after charging:

	2003	2002
	£000	£000
Amortisation of goodwill	41	43
Depreciation	-	10
Auditors' remuneration: -audit	4	8
-other services	-	80

6 Directors' remuneration

Aggregate directors' remuneration consists of:

	2003	2002
	£000	£000
Directors' emoluments for management services	767	597
Payment for waiver of share options	-	1,091
Exercise of share options	-	548
	767	2,236

The emoluments of the chairman (who was also the highest paid director) excluding pension contributions but including benefits in kind were £309,925 (2002: £248,809). Company pension contributions of £29,443 (2002: £23,637) were made to the group pension scheme on his behalf.

The accrued pension benefits of the chairman at 5 April 2003 were £ 99,605 (2002: £97,345) per annum and the accrued lump sum payable was £224,115 (2002: £219,026) which would result in a reduced pension payable of £81,473 (2002: £85,230) per annum.

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.

Notes to the financial statements *continued*

7 Tax on loss on ordinary activities

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

	2003	2002
	£000	£000
Corporation tax at 30% (2002: 30%)	(403)	(399)
Deferred taxation	-	147
	(403)	(252)

Reconciliation of current year tax charge

The standard rate of corporation tax for the year is 30%. The current year tax credit is lower (2001:lower) than 30% for the reasons stated below:

	2003	2002
	£000	£000
Loss on ordinary activities before tax (excluding dividends)	(1,617)	(888)
Tax on profit on ordinary activities at standard rate	(485)	(266)
Factors affecting charge:		
Disallowed expenses	82	25
Capital allowances in advance of depreciation	-	(11)
Other short term timing differences	-	(147)
	(403)	(399)

8 Dividends paid

	2003	2002
	£000	£000
Interim dividend paid on 6 June 2001 at 7. 5p per share	-	2,552
Interim dividend paid on 12 November 2001 at 10p per share	-	3,402
Inter-group dividends paid	35,000	10,000
	35,000	15,954

Notes to the financial statements *continued*

9 Intangible fixed assets

	2003	2002
Goodwill	**£000**	£000
Cost		
At beginning and end of period	**207**	207
Amortisation		
At beginning of period	**(83)**	(40)
Charge for the period	**(41)**	(43)
At the end of the period	**(124)**	(83)
Net book value		
At the end of the period	**83**	124

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.

10 Fixed asset investments

	2003	2002
Shares in group undertakings	**£000**	£000
Cost and Net book value		
At 6 April 2002	**71,870**	67,370
Additions	-	4,500
At 5 April 2003	**71,870**	71,870

Notes to the financial statements *continued*

10 Fixed asset investments *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%
Liquor Leaders Limited (formerly Wineways Limited)	Retailer of wines, spirits, beers and tobacco	(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%
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.

Notes to the financial statements *continued*

11 Tangible fixed assets

	Motor Vehicles 2003	Motor Vehicles 2002
Cost	**£000**	£000
At beginning of period	-	82
Disposals	-	(82)
At end of period	-	-
Depreciation		
At beginning of period	-	52
Charge for the period	-	10
Disposals	-	(62)
At end of period	-	-
Net book value		
At end of period	-	-

12 Debtors

	2003	2002
	£000	£000
Due for payment within one year		
Amounts owed by subsidiary undertakings	**6,730**	12,460
Others debtors	-	105
	6,730	12,565

Notes to the financial statements *continued*

13 Creditors: amounts falling due within one year

	2003	2002
	£000	£000
Bank loans and overdrafts	**16,281**	15,374
Amounts owed to subsidiary undertakings	**29,456**	207
Others creditors including taxation and social security	**666**	484
	46,403	16,065

Other creditors including taxation and social security comprise:

	2003	2002
	£000	£000
Other creditors	**666**	484

14 Share capital

	2003	2002
	£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

Notes to the financial statements *continued*

15 Reserves

	Share Premium Account	**Capital Redemption Reserve**	**Profit and Loss Account**
	£000	£000	£000
At the beginning of the period	2,202	79	64,512
Retained loss for the period	-	-	(36,214)
At the end of the period	**2,202**	**79**	**28,298**

16 Reconciliation of movements in shareholders' funds

	2003	2002
	£000	£000
Loss for the financial period	**(1,214)**	(636)
Dividends	**(35,000)**	(15,954)
	(36,214)	(16,590)
Opening shareholders' funds	**68,494**	85,084
Closing shareholders' funds	**32,280**	68,494

Notes to the financial statements *continued*

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 £ 34,397 (2002: £33,159).

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 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 also 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 5 April 2003, amounted to £585,382,000 (2002: £387,149,000).

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 5 April 2003 the company's contingent liability amounted to £10,050,000 (2002: £51,869,000).

19 Related parties

The company has not entered into any transactions which are required to be disclosed under FRS 8.

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

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 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.

No other group financial statements include the results of the company.