M & S Toiletries Limited

Annual report
for the year ended 31 December 1998

Directors' report
for the year ended 31 December 1998

1 The directors present herewith their report and the audited financial statements for the year ended 31 December 1998.

Results and dividends

2 Details of the results for the financial year are set out in the profit and loss account on page 8. A final dividend of £5.40p per ordinary share amounting to £1,215,000 is proposed. The profit retained for the year is detailed in note 17 to the financial statements.

Principal activities and review of the business

3 The company's principal activity during the year was the wholesale distribution of toiletries and household products. Both the level of business and the year end financial position remain satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

Directors

4 The directors of the company at 31 December 1998, all of whom have been directors for the whole of the year, except where otherwise stated, were as follows:

W D Barclay	
I A W McBeath	
P D Macnab	(appointed 20 February 1998)
W J Tempany	(appointed 20 February 1998)
M E McDougall	(appointed 5 May 1998)

The following directors resigned during the year:

D McBeath	(resigned 20 February 1998)
D L Taylor	(resigned 20 February 1998)
R C H Vizard	(resigned 20 February 1998)
S M Meister	(resigned 20 February 1998)

Directors' responsibility for preparation of the financial statements

5 The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records that 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 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.

Fixed assets

6 Details of fixed assets are shown in note 10 to the financial statements.

Employees

7 The company's policy is to consult and discuss with employees all matters likely to affect their interests. The company's policy is to recruit disabled workers for those vacancies that they are able to fill as appropriate to their aptitudes and abilities.

Charitable and political donations

8 During the year the company made a charitable donation of £1,200. No political donations were made during the year.

Year 2000

9 The directors have considered the expected and possible impact on the business of the Year 2000 issue which arises from the possible failure of computer systems and micro-processor controlled devices to recognise the abbreviation of the year 2000 to '00.

There is therefore a degree of risk and uncertainty arising from the inter-connectivity of modern accounting and communication systems between suppliers and customers. The company has taken measures for those computer operations within its direct control which are reliant on date recognition procedures, to minimise this uncertainty regarding business interruption.

The company has also benefited from the substantial capital investment made during 1998 to replace the Group's computer system with one which is certified as being Year 2000 compliant. The amount invested as at 31 December 1998 by the Group in the upgraded systems was in excess of £600,000. Other assets and services which require date recognition as part of their operational activity are also being checked with suppliers for compliance and will be replaced if necessary.

It is recognised that even exercising best practice in the management of the year 2000 problem will not entirely eliminate the possibility of year 2000 compliance failure. There can be no total assurance that year 2000 projects will be successful and that therefore the company will not be adversely effected by the date change or by the inability of third parties to manage the year 2000 problem.

It is estimated that the cost of completing the year 2000 compliance exercise will not be material.

Ultimate holding company

10 On 20 February 1998 the company was purchased by M&S Toiletries (Holdings) Limited. The current directors of the company have an equity interest in M&S Toiletries (Holdings) Limited.

Auditors

11 Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the annual general meeting.

By order of the board

P D Macnab
Company secretary

Report of the auditors to the members of M & S Toiletries Limited

We have audited the financial statements on pages 8 to 19 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on page 10 and 11.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 4, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and 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. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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.

Report of the auditors to the members of M & S Toiletries Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers,

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

Edinburgh, 1 June 1999

Profit and loss account for the year ended 31 December 1998

	Notes	1998 £	1997 (as restated) £
Turnover			
Continuing activities	2	**69,932,221**	55,347,014
Cost of sales	3	**60,383,437**	47,385,840
Gross profit	3	**9,548,784**	7,961,174
Net operating expenses	3	**7,513,961**	6,234,052
Exceptional costs: Reorganisation		**-**	130,355
Operating profit			
Continuing operations		**2,034,823**	1,596,767
Interest payable and similar charges	6	**85,150**	420,830
Bank interest receivable		**129,069**	199,543
Profit on ordinary activities before tax		**2,078,742**	1,375,480
Tax on profit on ordinary activities	8	**644,777**	205,350
Profit for the year attributable to shareholders		**1,433,965**	1,170,130
Dividends proposed	9	**1,215,000**	-
Retained profit for the year		**218,965**	1,170,130

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Statement of total recognised gains and losses

	1998 £	1997 £
Profit for the financial year	**218,965**	1,170,130
Unrealised deficit on revaluation of freehold property	**-**	(212,500)
Total gains and losses recognised since last annual report	**218,965**	957,630

Balance sheet
at 31 December 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	10	**2,555,072**	2,170,167
Current assets			
Stocks	11	**8,684,784**	7,535,976
Debtors	12	**7,451,946**	7,188,993
Cash at bank and in hand		**4,170,606**	6,818,976
		20,307,336	21,543,945
Creditors:amounts falling due within one year	13	**10,112,258**	18,310,490
Net current assets		**10,195,078**	3,233,455
Total assets less current liabilities		**12,750,150**	5,403,622
Creditors:amounts falling due after more than one year	14	**7,127,563**	-
Net assets		**5,622,587**	5,403,622
Capital and reserves			
Called up share capital	16	**225,000**	225,000
Reserves	17	**5,397,587**	5,178,622
Equity shareholders' funds	18	**5,622,587**	5,403,622

The financial statements on pages 8 to 19 were approved by the board of directors on 28 May 1998 and were signed on its behalf by:

I A W McBeath
Director

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets.

On acquisition of a business, all of the business's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses, that arise after the company has gained control of the business are charged to the post acquisition profit and loss.

Changes in presentation of financial information

The profit and loss account for 1997 has been restated to include gross income associated with ancillary activities of the company in other operating income; previously this income was included within cost of sales.

Turnover

Turnover comprises the sale of goods and services at invoice value, before Value Added Tax.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Tangible fixed assets

Tangible fixed assets are stated at cost which comprises purchase cost together with any incidental expenses of acquisition. Depreciation is calculated by reference to the expected lives of the assets concerned. The following annual rates are applied on a straight line basis:

Freehold buildings	2%
Motor vehicles	20% - 25%
Trailers	20% or 25% reducing balance
Plant and equipment	Varying rates up to 33%

Leasehold land and buildings are amortised over 4/5 years or, if shorter, the period of the lease.
Freehold land is not depreciated.

1 Principal accounting policies (continued)

Pensions

The cost of providing retirement pensions and related benefits for defined benefit schemes is charged to the profit and loss account over the period of members' service. Independent actuarial valuations on a going concern basis are carried out at least every three years. Contributions to defined contribution schemes are charged to the profit and loss account on the basis of the amounts paid during the year. Details of the latest actuarial valuations are included at Note 23.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Leases and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital element of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Operating lease costs are charged against trading profit on a straight line basis over the lease term.

Cash flow statement

A cash flow statement has not been prepared on the grounds that the company is a wholly owned subsidiary whose ultimate parent company presents a consolidated cash flow statement that is publicly available.

2 Turnover

	1998	1997
	£	£
An analysis of turnover by geographical market is as follows:		
- United Kingdom	**69,214,362**	53,758,060
- Other EEC Countries	**701,896**	1,588,954
- Rest of the World	**15,963**	-
	69,932,221	55,347,014

3 Cost of sales and other operating income and expenses

	1998	1997 (as restated)
	£	£
Turnover	**69,932,221**	55,347,014
Cost of sales	**60,383,437**	47,385,840
Gross profit	**9,548,784**	7,961,174
Distribution costs	**6,349,436**	5,587,246
Administrative expenses	**2,423,403**	1,180,958
Reorganisation expenses	**-**	130,355
(Gain) / Loss on sale of fixed assets	**(60,403)**	4,291
	8,712,436	6,902,850
Less: Other operating income	**1,198,475**	538,443
Net operating expenses	**7,513,961**	6,364,407
Operating profit	**2,034,823**	1,596,767

4 Directors' emoluments

	1998	1997
	£	£
Aggregate emoluments	**361,782**	134,841
Highest paid director		
- Total emoluments	**93,082**	69,923
- Accrued pension at end of year	**28,385**	25,682

Retirement benefits are accruing to three directors (1997: two directors) under the AAH group's defined benefit scheme. In addition, retirement benefits are accruing to two directors (1997: one director) under money purchase schemes. Company contributions to money purchase schemes total £12,880.

5 Employee information

The average weekly number of persons (including executive directors) employed during the year, was:

	1998	1997
Analysis by function		
Warehousing and distribution	**173**	212
Selling	**22**	20
Administration	**54**	53
	249	285

	£	£
Staff costs (for the above persons) were:		
Wages and salaries	**4,015,492**	3,201,998
Social security costs	**344,922**	272,880
Other pension costs	**115,573**	56,245
	4,475,987	3,531,123

6 Interest Payable and similar charges

	1998 £	1997 £
On bank overdrafts and other loans repayable		
Bank overdraft	**62,430**	420,830
Finance leases and hire purchase contracts	**21,105**	-
Other interest	**1,615**	-
	85,150	420,830

7 Profit on ordinary activities before taxation

	1998 £	1997 £
Profit on ordinary activities before taxation is stated after crediting:		
Profit on sales of fixed assets	**60,403**	-
And after charging:		
Depreciation:-		
- owned assets	**579,167**	431,950
- assets held under finance leases and hire purchase contracts	**14,840**	-
Operating lease rentals - plant,equipment and vehicles	**266,758**	107,501
Operating lease rentals - property	**280,000**	157,500
Auditors remuneration for audit	**42,000**	28,000
Loss on sale of fixed assets	-	4,291

8 Taxation on profit on ordinary activities

	1998	1997
	£	£
United Kingdom Corporation Tax charge at the rate of 31%		
- current year	**745,097**	442,391
- prior years	**(31,013)**	29,506
Deferred taxation (note 15)	**(69,307)**	(266,547)
	644,777	205,350

The taxation charge for the prior year has benefitted from a reduction in the deferred tax provision which was released as there is no intention to dispose of the property (note 15).

9 Dividends

	1998	1997
	£	£
Equity dividends on ordinary:		
Final proposed £5.40p per £1 share	**1,215,000**	-

10 Fixed assets
Tangible

	Land and Buildings Freehold	Land and Buildings Leasehold	Plant and Equipment	Motor Vehicles	Total
	£	£	£	£	£
Cost or valuation					
At 1 January 1998	900,000	76,442	1,321,415	1,449,942	3,747,799
Additions	-	-	650,091	343,355	993,446
Disposals	-	-	(32,404)	(326,769)	(359,173)
At 31 December 1998	**900,000**	**76,442**	**1,939,102**	**1,466,528**	**4,382,072**
Depreciation					
At 1 January 1998	-	19,111	745,499	813,022	1,577,632
Additions	2,250	7,679	318,470	265,608	594,007
Disposals	-	-	(33,232)	(311,407)	(344,639)
At 31 December 1998	**2,250**	**26,790**	**1,030,737**	**767,223**	**1,827,000**
Net Book value					
At 31 December 1998	**897,750**	**49,652**	**908,365**	**699,305**	**2,555,072**
Net Book value					
At 31 December 1997	900,000	57,331	575,916	636,920	2,170,167

10 Fixed assets (continued)

Freehold property was valued at 16 December 1997 on the basis of the property's open market value. The valuation which was carried out by J Trevor & Webster, members of The Royal Institution of Chartered Surveyors, was not in accordance with the company's normal accounting policies but rather commissioned to establish a fair value on acquisition by M&S Toiletries (Holdings) Limited (Note 24). The cost of the freehold property stated at valuation is £194,551. The property is occupied for the company's activities.

If freehold land and buildings had not been revalued they would have been included at the following amounts:

	1998	1997
	£	£
Cost	194,551	194,551
Aggregate depreciation	5,449	5,057
Net book value based on cost	189,102	189,494

Assets held under finance leases or hire purchase contracts and capitalised in plant and machinery:-

	1998	1997
	£	£
Cost	833,447	-
Aggregate depreciation	14,840	-
Net book value	818,607	-

11 Stocks

	1998	1997
	£	£
Stocks held for resale	8,684,784	7,535,976

12 Debtors

	1998	1997
	£	£
Trade debtors	6,821,548	5,973,035
Amounts owed by parent and fellow subsidiary undertakings	-	752,552
Prepayments and accrued income	538,865	441,180
Deferred tax (note 15)	91,533	22,226
	7,451,946	7,188,993

13 Creditors: amounts falling due within one year

	1998	1997
	£	£
Trade creditors	7,160,237	4,480,623
Amounts owed to parent and fellow subsidiary undertakings	527,732	12,046,740
Corporation tax	382,015	449,721
Other taxation and social security	773,614	790,749
Finance leases and hire purchase contracts (note 19)	165,604	23,644
Other accruals and deferred income	1,103,056	519,013
	10,112,258	18,310,490

14 Creditors: amounts falling after more than one year

	1998	1997
	£	£
Amounts owed to parent and fellow subsidiary undertakings	5,341,592	-
Dividends payable	1,215,000	-
Finance leases and hire purchase contracts (note 19)	570,971	-
	7,127,563	-

15 Deferred taxation

The movements in the year are as follows:

	Deferred tax asset
	£
Balance at 1 January 1998	22,226
Transfer to profit and loss account (note 8)	69,307
At 31 December 1998	91,533

The amount recognised in respect of taxation accelerated/(deferred) in the financial statements, and the amount not recognised of the total potential asset/(liability), are as follows:

	Amount recognised		Amount not recognised	
	1998	1997	1998	1997
	£	£	£	£
Accelerated capital allowances	45,772	(11,169)	-	-
Other timing differences	45,761	-	-	-
Revaluation surplus	-	33,395	(148,335)	(151,353)
At 31 December 1998	91,533	22,226	(148,335)	(151,353)

The deferred tax liability not recognised relates to the revaluation of freehold property. This is not recognised as the property is not expected to be sold in the foreseeable future and the liability is therefore not expected to crystallise.

16 Called up share capital

	1998	1997
	£	£
Authorised, allotted, called up and fully paid		
225,000 ordinary shares of £1 each	**225,000**	225,000

17 Movement on reserves

	Revaluation reserve	Profit and loss account	Total
	£	£	£
At 1 January 1998	742,947	4,435,675	5,178,622
Retained profit for the year	-	218,965	218,965
At 31 December 1998	742,947	4,654,640	5,397,587

18 Reconciliation of movements in shareholders' funds

	1998	1997
	£	£
Profit for the financial year	**1,433,965**	1,170,130
Dividends	**(1,215,000)**	-
Revaluation of property	-	(212,500)
Equity shareholders' funds at beginning of year	**5,403,622**	4,445,992
Equity shareholders' funds at end of year	**5,622,587**	5,403,622

19 Maturity of debt repayable by instalments

Finance leases and hire purchase contracts

	1998	1997
	£	£
Within 1 year	**165,604**	-
Between 1 and 2 years	**165,320**	-
Between 2 and 5 years	**405,651**	-
	736,575	-

20 Operating lease commitments

At 31 December the company has lease agreements in respect of properties, vehicles, plant & equipment, for which the payments extend over a number of years.
Annual commitments under non-cancellable operating leases expiring:

	1998	1997
	£	£
Within one year - property	**50,000**	-
Within one year - other	**9,087**	18,711
In the second to fifth years inclusive - property	**230,000**	280,000
In the second to fifth years inclusive - other	**254,432**	21,115
	543,519	319,826

21 Capital Commitments

	1998	1997
	£	£
Contracted	**Nil**	Nil
Authorised by directors but not contracted	**89,153**	Nil

22 Contingent Liabilities

The company has lodged defences in the Court of Session in answer to a summons regarding trade mark infringements. The pursuers have agreed to delay pre-proof hearings pending the outcome of a similar case currently being processed in the European Court. Provision in the 1998 accounts has been made for the estimated associated costs of defending the action. There is, however, the possibility that further costs may be incurred. It is the directors' opinion that to the best of their knowledge the further costs should not exceed £10,000.

23 Pensions

During the year the company participated in two pension schemes, one defined benefit and one defined contribution, operated by AAH plc; the previous ultimate holding company. The assets of the schemes are independent of the company's finances and pension costs are assessed in accordance with the advice of qualified actuaries, using the projected unit method.

The most recent actuarial valuation of the AAH Staff Pension Scheme is summarised below. The major assumption on which these are based is that, in the long term, the annual rate of return on investments will exceed the increase in the general level of earnings by at least two percentage points.

Valuation date	6 April 1997
Market value of assets at valuation date	£43.4 million
Level of funding at valuation date	98%

23 *Pensions (continued)*

Surpluses and deficiencies are dealt with over the expected working lifetime of the members by appropriate adjustments to the contribution rate.

Membership of the AAH defined benefit scheme ceased on 31 December 1998 and of the defined contributions scheme on 31 January 1999.

The directors of the ultimate holding company have subsequently established the M&S Toiletries (Holdings) Limited Group Personal Pension Scheme with Scottish Widows Fund and Life Assurance Society with effect from 1 April 1999. Approximately 32% of eligible staff within the company have joined the new pension scheme. The company is committed to contributing between 3% to 6% (previously 3%) of member's pensionable earnings dependent on employees length of service.

The company provides no other post retirement benefits to its employees.

The pension costs to the group are shown in note 5.

24 Ultimate holding company

On 20 February 1998 the ultimate holding company became M&S Toiletries (Holdings) Limited. The current directors of the company have an equity interest in M&S Toiletries (Holdings) Limited.

Copies of the M&S Toiletries (Holdings) Limited consolidated financial statements can be obtained from the Company Secretary at 100 Bankhead Crossway North, Sighthill, Edinburgh EH11 4ST.

The ultimate controlling party of the company is 3i plc by virtue of its investment in M&S Toiletries (Holdings) Limited of which M&S Toiletries Limited is a 100% subsidiary.

25 Related party transactions

As at the balance sheet date the company being a wholly owned subsidiary of M&S Toiletries (Holdings) Limited, is exempt from disclosing further information relating to transactions and balances with group undertakings under FRS8 "Related party disclosures".