

MERCHANT RETAIL GROUP PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 29 DECEMBER 2012

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Merchant Retail Group plc

Annual Report and Financial Statements for the 52 weeks ended 29 December 2012

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Merchant Retail Group plc

Directors' report

The directors present their report together with the audited financial statements of Merchant Retail Group plc, registered number 1465195, for the 52 weeks ended 29 December 2012

PRINCIPAL ACTIVITY

The Company is the holding company of a retail group based within the United Kingdom and Republic of Ireland

RESULTS AND BUSINESS REVIEW

The operating profit for 2012 amounted to £249,592 (2011 profit £286,767), with a profit for the financial year of £403,783 (2011 profit £349,193)

DIVIDEND

No ordinary dividend was declared or paid during the financial year (2011 £nil) No preference dividend was declared or paid during the financial year (2011 £nil)

BUSINESS ENVIRONMENT

The UK health and beauty market grew by 2.3% in 2012 to £18,745m predominantly through price inflation

2012 has seen a further concentration to prime retailing locations especially in the South East, major regional shopping centres and empty secondary high street sites. The online expansion continues with pure play beauty retailers and those with strong TV or catalogue businesses.

Customers remained under pressure and lacking confidence in 2012 and as a result were much more thoughtful about purchases. Beauty suffered less than most other sectors but is not immune and saw signs of customers trading down to overcome their reluctance to spend.

A good proportion of the UK high street was on sale for most of 2012 and the health and beauty retailing promotional environment was no different. Heavy discounting throughout the grocers has resulted in many customers incorporating health and beauty as part of their household grocery shop.

STRATEGY

Against this challenging business environment, the main trading subsidiary, The Perfume Shop Limited (TPS), grew its store base and also continued to enhance its multi channel offering to complement its store presence and offer the customer more choice.

TPS continues to grow its loyalty scheme, the Perfume Shop Rewards Club, which was launched in September 2011. It is viewed as a strategic way of providing additional value to customers' through exclusive discounts, offers and incentives.

Merchant Retail Group plc

Directors' report (continued)

STRATEGY (continued)

TPS will now continue to expand its store base where relevant opportunities are available, continue to expand its multi channel offering, drive brand awareness and work with suppliers for innovative products and launches. Whilst the economy remains weak and the fragrance market is expected to remain competitive, TPS will develop competitive advantage through its product expertise and being the leading authority on fragrance. TPS recognises that physical stores need to compliment online by delivering a positive expert experience in store.

TPS also recognises that with continued upward pressure on retailer costs, it requires operational improvements, innovation and efficiencies to ensure we can maintain our value message for customers.

The TPS directors expect the economic environment to remain challenging for the foreseeable future and the squeeze on personal incomes to continue.

The TPS directors remain cautious but confident that by understanding our customers and providing access to luxury fragrance products to our customers everyday which are great value for money, the business will continue to improve on the current level of performance and emerge in a strong position to deliver future growth once consumer demand improves.

PRINCIPAL RISKS AND UNCERTAINTIES

The directors of the Company's intermediate parent company, A S Watson (Health & Beauty UK) Limited, manage the group's risks at a group level, rather than at an individual business unit level. For this reason, the Company's directors believe that a discussion of the group's risks would not be appropriate for an understanding of the development, performance or position of the Company's business. The principal risks and uncertainties of A S Watson (Health & Beauty UK) Limited, which include those of the Company, are discussed in the group's annual report which does not form part of this report.

DIRECTORS

The directors who held office during the year and up to the date of signing these financial statements, unless where stated, were:

D K M Lai
A J Heaton
G G Smith
J E Tonks

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.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

EMPLOYEES

All employees are contracted under the main trading subsidiary, TPS.

ENVIRONMENTAL

In 2012 the main trading subsidiary, TPS, continued with the environmental efforts started in 2007. In stores the bag and wrapping specification is continually reviewed to reduce the carbon footprint.

Merchant Retail Group plc

Directors' report (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- 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.

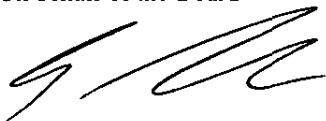
DISCLOSURE OF INFORMATION TO AUDITORS

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information (this is information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and they have taken all steps that they ought to have taken as a director 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 the office and a resolution concerning their reappointment will be proposed at the annual general meeting.

On behalf of the Board



G G Smith
Director

25 JUNE

2013

Merchant Retail Group plc

Independent auditors' report to the member of Merchant Retail Group plc

We have audited the financial statements of Merchant Retail Group plc for the 52 weeks ended 29 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 29 December 2012 and of its profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the period for which the financial statements are prepared is consistent with the financial statements.

Merchant Retail Group plc

Independent auditors' report to the member of Merchant Retail Group plc (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit
- the directors were not entitled to take advantage of the small companies' exemption in preparing the Directors' Report

Rosemary Shapland

**Rosemary Shapland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick**

Date 25 June 2013

Merchant Retail Group plc

Profit and loss account for the 52 weeks ended 29 December 2012

| | | 52 weeks ended 29 December 2012 | 53 weeks ended 31 December 2011 |
|---|------|---------------------------------------|---------------------------------------|
| | Note | £ | £ |
| Administrative income | | <u>249,592</u> | <u>286,767</u> |
| Operating profit | 2 | 249,592 | 286,767 |
| Interest receivable and similar income | 4 | <u>130,937</u> | <u>173,337</u> |
| Profit on ordinary activities before taxation | | 380,529 | 460,104 |
| Tax credit/ (charge) on profit on ordinary activities | 5 | <u>23,254</u> | <u>(110,911)</u> |
| Profit for the financial year | 13 | <u>403,783</u> | <u>349,193</u> |

All of the above results relate to continuing operations

A note on historical profits has not been included as part of these financial statements as the profits disclosed in the profit and loss account are prepared on a historical cost basis

Statement of total recognised gains and losses for the 52 weeks ended 29 December 2012

| | | 52 weeks ended 29 December 2012 | 53 weeks ended 31 December 2011 |
|--|---|---------------------------------------|---------------------------------------|
| | | £ | £ |
| Profit for the financial year | | 403,783 | 349,193 |
| Unrealised profit on revaluation of investments | 7 | <u>17,974,217</u> | <u>19,025,890</u> |
| Total recognised gains for the financial year | | <u>18,378,000</u> | <u>19,375,083</u> |

Merchant Retail Group plc

Balance sheet as at 29 December 2012

| | | 29 December 2012 £ | 31 December 2011 £ |
|---|------|---------------------------|---------------------------|
| | Note | | |
| FIXED ASSETS | | | |
| Investments in subsidiaries | 7 | <u>118,714,777</u> | <u>100,740,560</u> |
| CURRENT ASSETS | | | |
| Debtors | 8 | 125,852,624 | 125,792,412 |
| Cash at bank and in hand | | <u>659,734</u> | <u>530,573</u> |
| | | 126,512,358 | 126,322,985 |
| CREDITORS: amounts falling due within one year | 9 | <u>(89,448,887)</u> | <u>(89,413,297)</u> |
| | | (89,448,887) | (89,413,297) |
| NET CURRENT ASSETS | | <u>37,063,471</u> | <u>36,909,688</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 155,778,248 | 137,650,248 |
| CREDITORS: amounts falling due after one year | 10 | (105,000) | (105,000) |
| Provisions for liabilities and charges | 11 | (250,000) | (500,000) |
| NET ASSETS | | <u>155,423,248</u> | <u>137,045,248</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 12 | 11,249,336 | 11,249,336 |
| Share premium account | 13 | 10,388,052 | 10,388,052 |
| Revaluation reserve | 13 | 106,860,321 | 88,886,104 |
| Other reserves | 13 | 8,671,226 | 8,671,226 |
| Profit and loss account | 13 | <u>18,254,313</u> | <u>17,850,530</u> |
| TOTAL SHAREHOLDER'S FUNDS | 14 | <u>155,423,248</u> | <u>137,045,248</u> |

The financial statements on pages 6 to 12 were approved by the Board of Directors and signed on its behalf by



G G Smith
Director

25 JUNE

2013

Merchant Retail Group plc

Notes to the financial statements for the 52 weeks ended 29 December 2012

1 ACCOUNTING POLICIES

a) Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention, as modified to include the revaluation of investments, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies which are consistently applied are set out below.

The Company is exempt from the following -

- publication of a cash flow statement under FRS 1, 'Cash flow statements' (revised 1996),
- publication of consolidated financial statements under section 400 of the Companies Act, and
- requirement to disclose related party transactions with A S Watson (Health & Beauty UK) Limited owned group undertakings, under FRS 8, 'Related party disclosures'

These exemptions have been claimed as the Company is a wholly owned subsidiary undertaking of A S Watson (Health & Beauty UK) Limited, a company registered in England and Wales, which publishes consolidated financial statements that are publicly available.

b) Valuation of investments in subsidiaries

Investments in subsidiary undertakings are stated at the book value of the net assets of each subsidiary undertaking with the movement being dealt with through the revaluation reserve. Investments are revalued annually.

c) Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

d) Provision

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.

2 OPERATING PROFIT

Auditors' remuneration for the current year has been borne by the Company's subsidiary, The Perfume Shop Limited.

Merchant Retail Group plc

Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

3 DIRECTORS' EMOLUMENTS

No emoluments were paid or payable by the Company to the directors (2011 £nil), who are remunerated for their services by other group companies

| 4 INTEREST RECEIVABLE AND SIMILAR INCOME | 52 weeks ended 29 December 2012 £ | 53 weeks ended 31 December 2011 £ |
|--|--|--|
| From group undertakings | 129,644 | 172,219 |
| Bank interest receivable | 1,293 | 1,118 |
| | <u>130,937</u> | <u>173,337</u> |

| 5 TAX ON PROFIT ON ORDINARY ACTIVITIES | 52 weeks ended 29 December 2012 £ | 53 weeks ended 31 December 2011 £ |
|---|--|--|
| a) Analysis of credit/(charge) in the year | | |
| Current tax: | | |
| UK corporation tax | (31,980) | (110,911) |
| Adjustment in respect of prior period | <u>55,234</u> | <u>-</u> |
| Total current tax credit/(charge) | <u>23,254</u> | <u>(110,911)</u> |

b) Factors affecting tax charge for the year

The tax assessed for the period is lower (2011 higher) than the standard effective rate of corporation tax in the UK for the year ended 29 December 2012 of 24.5% (2011 26.5%). The differences are explained below

| | | |
|--|----------------|------------------|
| Profit on ordinary activities before taxation | <u>380,529</u> | <u>460,104</u> |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24% - 26% (2011 26%-28%) | | |
| Effects of | (93,230) | (121,928) |
| Adjustment in respect of prior period | 55,234 | - |
| Release of provision not subject to tax | <u>61,250</u> | <u>11,017</u> |
| Total current tax credit/(charge) | <u>23,254</u> | <u>(110,911)</u> |

Factors affecting current and future tax charges

During the year, as a result of the changes in the UK corporation tax rate to 24%, which was substantially enacted on 26 March 2012 and was effective from 1 April 2012, and to 23%, which was substantially enacted on 3 July 2012 and will be effective from 1 April 2013. The relevant deferred tax balances have been re-measured.

A further reduction to the UK corporation tax rate has been announced. The change proposes to reduce the rate to 22% from 1 April 2014. The change had not been substantively enacted at the balance sheet date and, therefore, is not recognised in these financial statements.

Merchant Retail Group plc

Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

6 DIVIDENDS

No dividend was paid during the financial year (2011 £nil)

7 INVESTMENTS IN SUBSIDIARIES

| | £ |
|--|--------------------|
| Investments in subsidiary undertakings | |
| At 31 December 2011 | 100,740,560 |
| Revaluation of investments during the year | 17,974,217 |
| At 29 December 2012 | 118,714,777 |

Investments in subsidiary undertakings are revalued at the net asset value of the year end balance sheet

The historical cost of investments in subsidiary undertakings is £13,130,000 (2011 £13,130,000)

The Company's principal wholly owned operating subsidiaries are set out below

| <u>Company</u> | <u>Nature of Business</u> | <u>Country of Registration</u> | <u>Country of Operation</u> |
|-------------------------------------|---------------------------|--------------------------------|-----------------------------|
| The Perfume Shop Limited | Perfume retailing | England | UK / Ireland |
| MRG Department Stores (JOP) Limited | Dormant | England | UK |

8 DEBTORS

| | 29 December 2012 £ | 31 December 2011 £ |
|------------------------------------|--------------------------|--------------------------|
| Amounts owed by group undertakings | 124,851,429 | 124,851,429 |
| Corporation tax | 331,873 | 271,661 |
| Other debtors | 669,322 | 669,322 |
| | 125,852,624 | 125,792,412 |

Interest is charged on intercompany loans included within amounts owed by group undertakings at a rate of 0.5% above the UK base rate. All other intercompany balances are unsecured, interest free and repayable on demand.

9 CREDITORS: amounts falling due within one year

| | 29 December 2012 £ | 31 December 2011 £ |
|------------------------------------|--------------------------|--------------------------|
| Amounts owed to group undertakings | 89,391,220 | 89,354,262 |
| Accruals and deferred income | 26,167 | 27,535 |
| Preference share dividend | 31,500 | 31,500 |
| | 89,448,887 | 89,413,297 |

Amounts owed to group undertakings are unsecured, interest free and repayable on demand

Merchant Retail Group plc

Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

| 10 CREDITORS: amounts falling due after one year | 29 December 2012 £ | 31 December 2011 £ |
|--|--------------------------|--------------------------|
| Preference shares | <u>105,000</u> | <u>105,000</u> |

The holders of 5% cumulative preference shares ("5% preference shares") are entitled to receive a fixed cumulative preferential dividend at the rate of 5% per annum on the amounts paid up thereon, payable half yearly on 1 January and 1 July in each year. The 5% preference shares are not redeemable. On a return of assets on a winding up, the holders of 5% preference shares are entitled (without prejudice to their rights to participate otherwise in the assets of the Company) to payment of arrears and accruals of dividends in priority to any payment to the holders of any other class of shares. Every holder of a 5% preference share who is present in person at a general meeting of the Company is entitled, on a show of hands, to one vote, and, on a poll, to ten votes in respect of each 5% preference share held.

In accordance with FRS 25 "Financial instruments: disclosure and presentation" preference shares have been reclassified within creditors.

The Company has no liability to deferred taxation.

11 PROVISIONS FOR LIABILITIES AND CHARGES

| | £ |
|--------------------------|----------------|
| At 31 December 2011 | 500,000 |
| Utilised during the year | (250,000) |
| At 29 December 2012 | <u>250,000</u> |

| | 29 December 2012 £ | 31 December 2011 £ |
|--|--------------------------|--------------------------|
| The elements of provisions for liabilities and charges are as follows: | | |
| Sale of A De Gruchy Holdings Limited and final closure | <u>250,000</u> | <u>500,000</u> |

12 CALLED UP SHARE CAPITAL

| | Allotted and fully paid | |
|-------------------------------------|-------------------------|-------------------|
| | 2012 £ | 2011 £ |
| 112,493,360 Ordinary shares of 10 p | <u>11,249,336</u> | <u>11,249,336</u> |
| | <u>11,249,336</u> | <u>11,249,336</u> |

Merchant Retail Group plc

Notes to the financial statements for the 52 weeks ended 29 December 2012 (continued)

13 RESERVES

| | Share premium account £ | Revaluation reserve £ | Other reserves £ | Profit and loss account £ |
|---|-------------------------------|-----------------------------|------------------------|---------------------------------|
| At 31 December 2011 | 10,388,052 | 88,886,104 | 8,671,226 | 17,850,530 |
| Revaluation of investments in subsidiaries | - | 17,974,217 | - | - |
| Profit for the financial year | - | - | - | 403,783 |
| At 29 December 2012 | <u>10,388,052</u> | <u>106,860,321</u> | <u>8,671,226</u> | <u>18,254,313</u> |

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

| | 52 weeks ended 29 December 2012 £ | 53 weeks ended 31 December 2011 £ |
|--|--|--|
| Profit for the financial year | 403,783 | 349,193 |
| Revaluation of investments in subsidiaries | 17,974,217 | 19,025,890 |
| Net movement in shareholders' funds | <u>18,378,000</u> | <u>19,375,083</u> |
| Opening shareholders' funds | 137,045,248 | 117,670,165 |
| Closing shareholders' funds | <u>155,423,248</u> | <u>137,045,248</u> |

15 ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is A S Watson (P&C UK) Ltd, which is a wholly owned subsidiary undertaking of A S Watson (Health & Beauty UK) Limited, a company registered in England. The consolidated financial statements of A S Watson (Health & Beauty UK) Limited can be obtained from Hutchison House, 5 Hester Road, Battersea, London SW11 4AN. A S Watson (Health & Beauty UK) Limited represents the smallest group into which the results of the Company are consolidated.

Merchant Retail Group plc's ultimate parent undertaking and controlling party is Hutchison Whampoa Limited, a company incorporated in Hong Kong, which is the largest group into which the results of Merchant Retail Group plc are consolidated. The financial statements of Hutchison Whampoa Limited can be obtained from 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong.