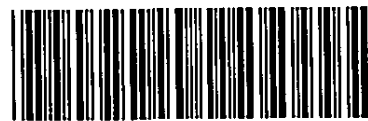


**MERCHANT RETAIL GROUP PLC**  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE 52 WEEKS ENDED 25 DECEMBER 2010

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# **Merchant Retail Group plc**

## **Annual Report and Financial Statements for the 52 weeks ended 25 December 2010**

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# **Merchant Retail Group plc**

## **Directors' report for the 52 weeks ended 25 December 2010**

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The directors present their report together with the audited financial statements of Merchant Retail Group plc, company registration number 1465195, for the 52 weeks ended 25 December 2010

### **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 loss for 2010 amounted to £2,413 (2009 loss £164), with a profit after taxation of £94,988 (2009 loss £1,442,259)

### **DIVIDEND**

No ordinary dividend was paid (2009 £nil) during the 52 weeks No preference dividend (2009 £nil) was paid during the 52 weeks

### **BUSINESS ENVIRONMENT**

The UK health and beauty market grew by 4.6% in 2010 to £17.895m

2010 has seen a further concentration to prime retailing locations, empty secondary high street sites and continued aggressive store expansion of some health and beauty discounter chains

The total UK health and beauty market has been relatively resilient through the economic downturn with an "essential" element to health and beauty, however discretionary spend on higher value "treat" items has been under pressure as consumer confidence fell as economic austerity measures were announced Shoppers were noticeably making fewer shopping trips in an attempt to save money

Many health and beauty retailers faced strong price competition from grocers especially on volume led promotional pricing

Innovation is a key driver of growth in the cosmetics and fragrance categories and there was a lack of new products from suppliers until the second half of 2010

### **STRATEGY**

Against the challenging business environment, the main trading subsidiary, The Perfume Shop Limited ("TPS") grew its store base by 10 new stores and commenced a trial of shop in shops in a few Superdrug group company stores TPS also enhanced its multi channel offering to complement its store presence and offer the customer more choice Sales fell in the year due to a lack of innovation and new launches from suppliers until second half 2010 and significant snowfall during the peak trading period, however the business continued its investment in TV and marketing to ensure the message of great price, product and value reached the customer

The business 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 will retain new customers through the delivery of a positive experience both in store and on line

The directors remain confident in maintaining the current level of performance in the future

## **Merchant Retail Group plc**

### **Directors' report for the 52 weeks ended 25 December 2010 (continued)**

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#### **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  
J P Seigal  
G G Smith

This report has been prepared in accordance with the special provision of Part VII of the Companies Act 1985 relating to small companies.

#### **EMPLOYEES**

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

#### **ENVIRONMENTAL**

In 2010 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 for the 52 weeks ended 25 December 2010 (continued)

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### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

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 elected to prepare 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 estimates that are reasonable and prudent,
- state whether applicable UK 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 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.

### INDEPENDENT AUDITORS AND PROVISION 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.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their appointment will be proposed at the annual general meeting.

On behalf of the Board



J P Seigal  
Director

13<sup>th</sup> April 2011

# **Merchant Retail Group plc**

## **Independent auditors' report to the members of Merchant Retail Group plc**

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We have audited the financial statements of Merchant Retail Group plc for the 52 weeks ended 25 December 2010 which comprise of 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.

### **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 25 December 2010 and of its profit for the year 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 financial year for which the financial statements are prepared is consistent with the financial statements.

## **Merchant Retail Group plc**

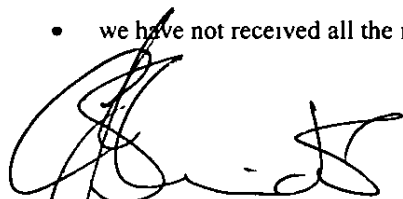
### **Independent auditors' report to the members of Merchant Retail Group plc (continued)**

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#### **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



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

13<sup>th</sup> April 2011

## Merchant Retail Group plc

### Profit and loss account for the 52 weeks ended 25 December 2010

		52 weeks ended 25 December 2010	52 weeks ended 26 December 2009
	Notes	£	£
Administrative expenses		<u>(2,413)</u>	<u>(164)</u>
<b>Operating loss</b>	2	<b>(2,413)</b>	<b>(164)</b>
Interest receivable and similar income	4,5	<u>134,405</u>	<u>156,389</u>
<b>Profit on ordinary activities before taxation</b>		<b>131,992</b>	<b>156,225</b>
Tax charge on profit on ordinary activities	6	<u>( 37,004)</u>	<u>(1,598,484)</u>
<b>Profit / (loss) on ordinary activities after taxation for the 52 weeks</b>		<b><u>94,988</u></b>	<b><u>(1,442,259)</u></b>

All of the above results relate to continuing operations

There is no material difference between the profit on ordinary activities and the profit / (loss) for the year stated above and their historical cost equivalents

### Statement of total recognised gains and losses for the 52 weeks ended 25 December 2010

	52 weeks ended 25 December 2010	52 weeks ended 26 December 2009
	£	£
Profit / (loss) for the financial year	94,988	(1,442,259)
Unrealised profit on revaluation of investments	<u>17,808,814</u>	<u>16,735,197</u>
<b>Total recognised gains since last annual report</b>	<b><u>17,903,802</u></b>	<b><u>15,292,938</u></b>



**Merchant Retail Group plc**  
**Balance sheet as at 25 December 2010**

		25 December 2010 £	26 December 2009 £
	Notes		
<b>FIXED ASSETS</b>			
Investment in subsidiaries	8	<u>81,714,670</u>	<u>63,905,856</u>
<b>CURRENT ASSETS</b>			
Debtors	9	125,903,323	127,171,812
Cash		<u>318,617</u>	<u>190,484</u>
		<u>126,221,939</u>	<u>127,362,296</u>
<b>CREDITORS: Amounts falling due within one year</b>	10	<u>(89,411,444)</u>	<u>(90,646,790)</u>
		<u>(89,411,444)</u>	<u>(90,646,790)</u>
<b>NET CURRENT ASSETS</b>		<u>36,810,495</u>	<u>36,715,506</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>118,525,165</u>	<u>100,621,362</u>
<b>CREDITORS: Amounts falling due after one year</b>	11	(105,000)	(105,000)
Provisions for liabilities and charges	12	(750,000)	(750,000)
<b>NET ASSETS</b>		<u>117,670,165</u>	<u>99,766,362</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	11,249,336	11,249,336
Share premium account	14	10,388,052	10,388,052
Revaluation reserve	14	69,860,214	52,051,400
Other reserves	14	8,671,226	8,671,226
Profit and loss account	14	<u>17,501,337</u>	<u>17,406,348</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>	15	<u>117,670,165</u>	<u>99,766,362</u>

The financial statements on pages 6 to 13 were approved by the Board of Directors and signed on its behalf by



J P Seigal  
Director

13<sup>th</sup> April

2011

# **Merchant Retail Group plc**

## **Notes to the financial statements for the 52 weeks ended 25 December 2010**

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### **1 ACCOUNTING POLICIES**

#### **a) Basis of preparation**

The financial statements are prepared on the going concern basis, under the historical cost convention modified to include the revaluation of investments, and in accordance with the Companies Act 2006 and applicable accounting standards. 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 accounts 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 was a wholly owned subsidiary undertaking of A S Watson (Health & Beauty UK) Limited, a company registered in England and Wales, which publishes consolidated accounts that are publicly available.

#### **b) Valuation of investment 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.

# Merchant Retail Group plc

## Notes to the financial statements for the 52 weeks ended 25 December 2010 (continued)

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### 2 OPERATING LOSS

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

### 3 DIRECTORS' EMOLUMENTS

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

### 4 INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks ended 25 December 2010 £	52 weeks ended 26 December 2009 £
From group undertakings	134,110	158,014
Bank balances	296	-
	<u>134,405</u>	<u>158,014</u>

### 5 INTEREST PAYABLE

	52 weeks ended 25 December 2010 £	52 weeks ended 26 December 2009 £
Bank balances	-	(1,625)

# Merchant Retail Group plc

## Notes to the financial statements for the 52 weeks ended 25 December 2010 (continued)

<b>6 TAX ON PROFIT OF ORDINARY ACTIVITIES</b>	<b>52 weeks ended 25 December 2010 £</b>	<b>52 weeks ended 26 December 2009 £</b>
<b>a) Analysis of charge in the year</b>		
<b>Current tax:</b>		
Tax charge on profit on ordinary activities at 28%	36,958	43,744
Adjustment to tax charge in respect of prior period	<u>46</u>	<u>1,554,740</u>
Total current tax charge	<u>37,004</u>	<u>1,598,484</u>
<b>b) Factors affecting tax charge for the year</b>		
Profit on ordinary activities before taxation	<u>131,992</u>	<u>156,225</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)		
Effects of	36,958	43,744
Adjust to tax change in respect of prior period	<u>46</u>	<u>1,554,740</u>
Total current tax charge	<u>37,004</u>	<u>1,598,484</u>

The Finance (No 2) Act 2010, enacted in July 2010, includes legislation to reduce the main rate of corporation tax from 28% to 26% from 1 April 2011. Further reductions to the main rate are proposed, to reduce the rate by 1% per annum to 23% by 1 April 2014.

## 7 DIVIDENDS

No dividend was paid during the 52 weeks (2009 £nil)

# Merchant Retail Group plc

## Notes to the financial statements for the 52 weeks ended 25 December 2010 (continued)

### 8 INVESTMENT IN SUBSIDIARIES

	£
Investment in subsidiary undertakings	
At 26 December 2009	63,905,856
Revaluation of investments during the year	17,808,814
<b>At 25 December 2010</b>	<b>81,714,670</b>

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 (2009 £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	Department store retailing	England	UK

### 9 DEBTORS: amounts falling due within one year

	52 weeks ended 25 December 2010 £	52 weeks ended 26 December 2009 £
Amounts owed by group undertakings	124,851,429	126,430,420
Corporation tax	382,572	384,585
Other debtors	669,322	356,807
	<b>125,903,323</b>	<b>127,171,812</b>

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.

### 10 CREDITORS: amounts falling due within one year

	52 weeks ended 25 December 2010 £	52 weeks ended 26 December 2009 £
Amounts owed to group undertakings	89,352,410	90,589,755
Accruals and deferred income	27,535	25,535
Preference share dividend	31,500	31,500
	<b>89,411,444</b>	<b>90,646,790</b>

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 25 December 2010 (continued)

11 CREDITORS: amounts falling due after one year	52 weeks ended 25 December 2010 £	52 weeks ended 26 December 2009 £
Preference shares	<u>105,000</u>	<u>105,000</u>

The holders of 5 per cent 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 FRS25 preference shares have been reclassified within creditors.

The Company has no liability to deferred taxation.

## 12 PROVISIONS FOR LIABILITIES AND CHARGES

At 26 December 2009 and 25 December 2010	<u>£</u> 750,000
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	52 weeks ended 25 December 2010 £	52 weeks ended 26 December 2009 £
The elements of provisions for liabilities and charges are as follows		
Sale of A De Gruchy Holdings Limited and final closure	<u>750,000</u>	<u>750,000</u>

## 13 CALLED UP SHARE CAPITAL

	Authorised		Allotted and fully paid	
	2010 £	2009 £	2010 £	2009 £
Ordinary shares of 10 p each	13,380,000	13,380,000	11,249,336	11,249,336
Unclassified shares	2,000,000	2,000,000	-	-
	<u>15,380,000</u>	<u>15,380,000</u>	<u>11,249,336</u>	<u>11,249,336</u>
<b>Unclassified Shares</b>				

The unclassified share capital arises from the redemption of £2,000,000 preference shares on 31 December 1997. The previously authorised share capital £2,000,000 has been retained on the redemption and may be utilised for the issue of ordinary share capital.

# Merchant Retail Group plc

## Notes to the financial statements for the 52 weeks ended 25 December 2010 (continued)

### 14 RESERVES

	Share premium account £	Revaluation reserve £	Other reserves £	Profit & loss account £
At 26 December 2009	10,388,052	52,051,400	8,671,226	17,406,348
Revaluation of investments in subsidiaries	-	17,808,814	-	-
Profit for the 52 weeks	-	-	-	94,988
At 25 December 2010	<u>10,388,052</u>	<u>69,860,214</u>	<u>8,671,226</u>	<u>17,501,337</u>

### 15

	52 weeks ended 25 December 2010 £	52 weeks ended 26 December 2009 £
Profit / (loss) for the 52 weeks	94,988	(1,442,259)
Revaluation of investment in subsidiary	17,808,814	16,735,197
Net movement in shareholders' funds	17,903,803	15,292,938
Opening shareholders' funds	99,766,362	84,473,424
Closing shareholders' funds	<u>117,670,165</u>	<u>99,766,362</u>

### 16 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 accounts of that company 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.

The Company'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 the Company are consolidated. The financial statements of Hutchison Whampoa Limited can be obtained from 22nd Floor, Hutchison House, 10 Harcourt Road, Hong Kong.