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MERCHANT
Retail Group plc

1999 Report

and accounts



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Merchant Retail Group is a specialist perfumery retailer and department stores group.

The Group has two main businesses, The Perfume Shop and Joplings.

The Perfume Shop has 48 branches situated in prime shopping locations. It sells a wide range of branded fine fragrances at value for money prices.

Joplings, the department store division, is located in the north east of England. It operates 4 stores including the landmark department store in Sunderland and a ten acre retail park at Hexham.



Financial summary

The Financial Summary is taken from the audited accounts for the 52 weeks ended 27 March 1999.

	1999 £'000	1998 £'000	%
Sales incl. VAT			
The Perfume Shop	34,308	26,575	29%
Joplings	53,376	51,763	3%
	87,684	78,338	12%
Turnover excl. VAT			
The Perfume Shop	29,198	22,617	29%
Joplings	46,057	44,740	3%
	75,255	67,357	12%
Group Profits			
The Perfume Shop	3,311	2,304	44%
Joplings	2,902	2,768	5%
	6,213	5,072	
Central services	(823)	(789)	4%
Share scheme accrual	(443)	(263)	
Operating profit	4,947	4,020	23%
Income from fixed asset investment	477	238	100%
Interest	(1,394)	(1,222)	14%
Profit before taxation	4,030	3,036	33%
Earnings per ordinary share	3.18p	2.38p	34%
Fully diluted earnings per ordinary share	3.05p	2.32p	31%
Dividends per ordinary share	0.65p	0.50p	30%



Chairman's statement

It is with great satisfaction that the year of strong progress I anticipated in last year's annual report has been achieved. Both The Perfume Shop and Joplings enjoyed further gains at both sales and profit level. Group pre-tax profits rose to £4,030,000 compared to £3,036,000 last year, an improvement of 33%, an excellent result.

Consistent with the performance of the business which is allied to a progressive dividend policy, the Board is proposing a final ordinary dividend of 0.50p, which will bring the total for the year to 0.65p, a 30% increase on last year. The dividend will be paid subject to Shareholders' approval at the Annual General Meeting to those Shareholders registered at the close of business on 2 July 1999.

Since the summer of last year trading conditions on the UK High Street have been more difficult than has been experienced for a number of years, yet both our companies have built upon their excellent bases. The Perfume Shop has again demonstrated both its strength and unique appeal to customers, whilst Joplings has continued to provide improving returns in what is an extremely competitive sector of the retail market.

During the year there have been a number of management changes. Our Group Managing Director, David Wallis, left the Group and I was pleased to announce the appointment of Philip Newton as Chief Executive. Philip joined the Board in 1988 and has been Deputy Managing Director since 1993. We were also pleased to welcome Jeremy Seigal to the Board on 17 November 1998. Jeremy has been Managing Director of The Perfume Shop since 1992, and both he and Philip have been largely responsible for driving The Perfume Shop to the successful position it now holds. Our Finance Director, James Gaisford, leaves the Company at the end of May after eleven years of excellent service. He has played an important role in the development and progress of the business during that time and leaves with our thanks and best wishes for his future. I am pleased to announce that with effect from 1 June 1999,



Chris Lamont will be appointed Finance Director, bringing with him a wealth of experience having previously been Finance Director at Normans Limited and latterly The Perfume Shop.

Retail businesses succeed or fail on the quality of the people working within them. We are fortunate to have committed and developing teams throughout the Group, and each and every one of them has my thanks.

The business is in good hands and I anticipate further progress and growth in the current year.

On 29 April 1999 I announced that we were in advanced and positive discussions with the board of A. de Gruchy Holdings Limited. We have successfully concluded our negotiations and I am pleased to say that the Board of A. de Gruchy are recommending our offer of 300p per share for the share capital not already owned by the Group.

Reg Heath, Chairman



review

Group

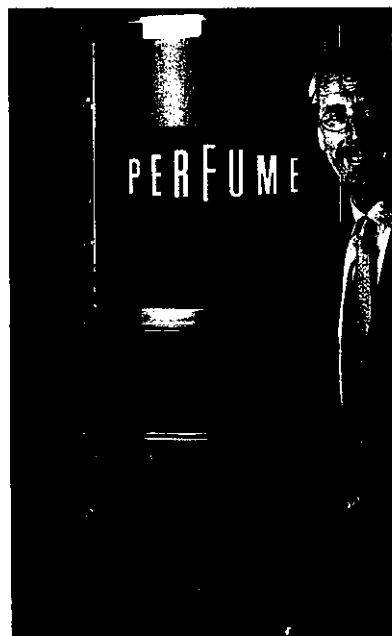
Both of our businesses have developed and strengthened their respective positions during the past year. This has provided the base upon which the excellent profit before taxation of £4,030,000 has been built, an increase of 33% upon last year. Sales grew by 12% or 6.7% on a like for like basis to £87.7 million.

PERFUME



From left to right:

Charles Denton - Property Director, Melanie Wadeley - Personnel Director, Chris Lamont - Finance Director, Jeremy Seigal - Managing Director, Philip Newton - Chairman.



Philip Newton, Chief Executive, Merchant Retail Group plc

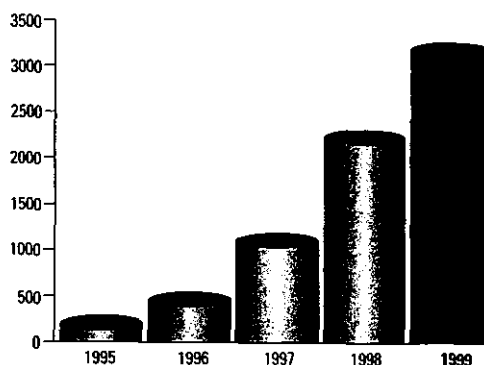
The Perfume Shop

Seven stores were opened during the calendar year to take our portfolio at March 1999 up to 46. Ten stores are planned for the calendar year 1999, for which the opening programme is well advanced. At the time of writing new stores have opened at Bluewater, Victoria Place London, Buchanan Galleries Glasgow and Coventry. With further openings later in the year at Braehead Glasgow and The Oracle Reading the business is well placed to achieve its expansion objectives for the year.

In a competitive trading climate sales increased again by 29% to £34.3 million with the ever important like for like growth once more moving robustly forward at 9.0%. It is worth repeating that in six years annual profits for this business have moved from £51,000 in 1993 to £3.3 million this year. Operating margin was again improved, reflecting the high quality management efforts made in all areas of this business.

The management team, which has been involved with The Perfume Shop since its infancy, has grown and developed with the sales. I believe businesses are very much like pyramids, the bigger and stronger the base that is established, the higher one can reach. With the people we have we are well placed to take advantage of the opportunities that lie ahead.

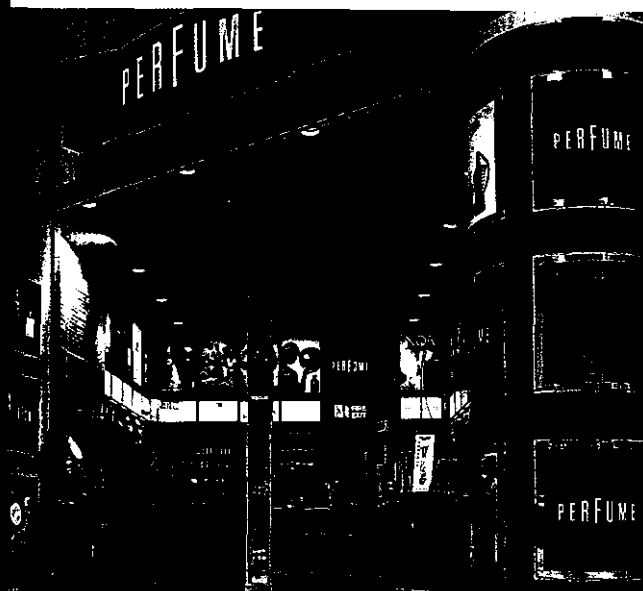
OPERATING PROFIT £'000



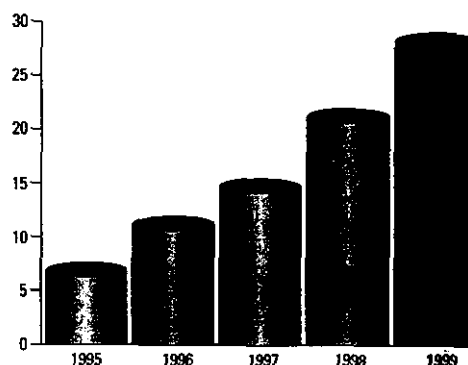
We remain convinced of the significant potential that exists for this business and continue to research and consider the options. Negotiations are in place with a substantial American systems company to develop a credible web site. Internet shopping will become part of the retail tapestry in the United Kingdom; although this is some way off from being profitable, an appropriate investment is being made to ensure that The Perfume Shop can be in the vanguard of this retail sales format for fine fragrance. We hope also that during the course of the year an initial investment can be made developing The Perfume Shop outside the U.K, possibly in Eire. Announcements will be made as and when these plans reach fruition.

With the anticipated eventual repeal of Duty Free sales, a significant percentage of which is forecast to migrate back to the High Street, The Perfume Shop should stand to benefit, as customers already identify The Perfume Shop as the duty free store on the High Street.

It is worth re-emphasising, however, that no short cuts will be taken in any aspect of developing this business to accelerate growth, and as always, this particularly applies to the acquisition of new stores. Retailers ignore the liabilities of their property portfolio at their peril; we shall continue with the principles that have served us well thus far.



TURNOVER (£M)



THE PERFUME SHOP – KEY FACTS

Properties

46 Stores	All Leasehold
Average Size	425sq ft
Average Sales	£700,000 pa
Sales per sq ft	£1,800

Performance

Sales Performance	£29.2 million +29% increase +9.0% on a like for like basis
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JOPLINGS



From left to right: Philip Newton - Director, Jeremy Seigal - Director, Philip Samuel - Managing Director, Graeme Carter - Buying Director

Joplings

This business, almost the exact opposite of its sister company, has been in existence since 1804 and in a sector that achieves a much slower rate of growth. Since last year we have disposed of two of the smallest stores at North Shields and Ashington to allow us to concentrate on the larger space properties at Sunderland, Hexham, Tynedale Park and Leamington.

Sales for the year were £53.4 million, an increase of 3% against the previous period, with profit moving forward by 5% to £2,902,000. This is, in my view, a satisfactory performance when compared against last year's figures, which were influenced significantly by the windfalls provided by the demutualisation of a number of building societies and insurance companies. Joplings particularly benefited from the Northern Rock flotation, as many of our customers were savers and borrowers with that society. It is therefore appropriate, I believe, when considering Joplings' performance, to look at a two year period in like for like growth and on that basis sales have moved forward by 11.1%, clearly demonstrating the progress being achieved with this business.

Although Joplings is an older and far more mature business, it is no stranger to change and a major review of the entire business is currently underway. Once completed I believe this will identify shortcomings and, more importantly, profit opportunities that will allow us to set a clear strategy to move the business forward and encourage further and faster growth.

Our business like many others in the sector, carries a cost base that is necessary to operate from but one that would be appropriate for a business substantially larger. Shareholder value would be delivered with immediate results if we could expand our business to twice or even three times its size, and we must therefore continue to look for that opportunity. The agreed offer in respect of A. de Gruchy Holdings Limited is the first step in the realisation of this strategy.

The management team of Joplings has changed during the year, with Philip Samuel, previously responsible for Operations, moving to Managing Director to replace Norman Smith, who left the business with our thanks in February. In addition to our review of the business, we have as a priority the further development of a management team capable of delivering results both within the existing business and in a larger theatre.



THE FREEHOLD STORE PORTFOLIO

Stores	Size sq ft	Trading Name
Sunderland	90,000	Joplings
Hexham	60,000	Robbs
Leamington Spa	20,000	Woodwards
Tynedale Park	150,000	Tynedale Park



JOPLINGS SALES

Sales	£53.4 million
Sales Growth	+5% on a like for like basis
Sales of own bought merchandise	71%
Sales from concessions	29%

The long running legal action at Tynedale Park has been resolved satisfactorily, with £2.1million in damages plus a further award for costs being received. With that behind us we can at last start planning to provide a more appropriate environment for our customers.

A major refurbishment of Sunderland is also planned for this financial year; the refit of the Fashion Floor together with the provision of air-conditioning, new lifts and vastly improved customer facilities will help us compete with Debenhams, who come to Sunderland in time for Christmas 2000.



Joplings is facing a period of challenge both internally and externally, but I am confident we have the right people in the right place to meet that head on and ensure the progress of the business.



Investments

We have retained investment properties within our balance sheet, the largest of which is an office building let and producing £161,000 per annum. With interest rates at their current levels we will continue to hold these properties for income, however, they should be readily saleable should a more appropriate investment be presented to us.

Shareholder Vouchers

All Shareholders with 2,000 shares or more will be eligible for a 10% discount voucher available on application to the Company Secretary. This will be accepted at all branches of The Perfume Shop or Joplings Department Stores. We continue to look forward to welcoming you as customers as well as Shareholders.



Trading Prospects

The businesses are in excellent shape and ready to take advantage of the opportunities that lie ahead. We are, as a management team, determined to grow the business by all appropriate means. Whilst the current trading environment is challenging, we are pleased with the start to the new financial year by both The Perfume Shop and Joplings, both of whom are trading to expectations and in excess of our own internal budgets. I am excited that with that important element, luck, on our side the future offers much for us.

Philip Newton, Chief Executive

review

Results

The profit before tax achieved in the year to 27 March 1999 was £4,030,000, an improvement of £994,000 or 33% on the previous year. The increased profitability has largely been driven by The Perfume Shop where profits have increased by £1,007,000 or 44%, on sales up by 29%.

With the sales in the previous year boosted by the building society windfalls, Joplings did well to enjoy sales growth on a like for like basis of 5% and profits growth of 5%.

Costs within central services increased by 4%.

Dividend income from our A. de Gruchy investment continues to be recognised on a cash received basis. Having exercised our option to acquire the shares midway through the previous year, we were able to benefit fully from the increased shareholding and consequently received £477,000 in the year, up £239,000 on the previous year.

Following the expenditure last year on the purchase of shares in A. de Gruchy of £4.6 million, the redemption for £2.0 million of preference shares and the purchase of the freehold of our Leamington Spa store for £1.5 million, we anticipated that our interest costs would rise. In the event the interest costs were held to £1,394,000 an increase of £172,000 or 14%.

The current long term incentive plan has a maximum target of doubling the earnings per share over a three year period. As we have achieved this target in two years, an accrual at the highest level permitted has been made under the scheme.

Cash Flow

The net cash inflow from operating activities at £8,160,000 was an improvement of £5,138,000 on last year. The expansion in the number of Perfume Shops together with a move away from concession operators at Joplings has required an increased investment in stocks. However taken together with the increase in creditors, our working capital has improved by £146,000.



Financial Directors. From left to right:
Chris Lamont - Perfume Shop, James Gaisford - Merchant Retail Group
John Jefferson - Joplings

Net cash receipts from the settlement of the legal action concerning the Joplings building at Tynedale Park, Hexham and recovery of costs amounted to £1,886,000. We anticipate there will be a further recovery of costs.

An investment of £2,126,000 was made in the fixed assets in the year with £1,420,000 being spent on new shops and infrastructure support at The Perfume Shop. £706,000 was expended on Joplings largely on improvements to the retail premises.

Proceeds of £1,080,000 were received from the sale of the North Shields, Ashington and Tyne Mills premises of Joplings.

After paying out increased dividend payments and increased corporation tax payments, a net cash inflow of £5,088,000 before financing was achieved in the year.

Capital Structure

Our debt finance levels have reduced from £16,836,000 to £11,684,000 as a consequence of the improved cashflow.

We still retain £7,233,000 of storecard debt within Joplings. It is our view that the best measure of gearing is to deduct the storecard debt from borrowings at Joplings on the basis that it is readily convertible into known amounts of cash.

The gearing of the Group calculated in this manner has dropped to 16% from 40% in the previous year.

Interest cover has also improved from 3.5 times to 3.9 times.



Treasury Policy

We continue to take a conservative stance on treasury matters and no speculative positions have been taken in financial instruments.

Committed and fixed rate borrowings are currently provided by the £4,710,000 of 8³/₄% Unsecured Loan Stock 1999/2004 in issue. The remaining facilities are currently provided by way of bank overdrafts and facilities have been agreed with our banks for the forthcoming year.

Taxation

As I previously indicated, this year represents the last opportunity where the Group will enjoy the write back of surplus Advance Corporation Tax (ACT), which amounted to £494,000. This ACT had been previously written off in 1995.

In addition the Group was able to release £174,000 of surplus provisions set aside for prior years.

The taxation charge will rise to a more normal level in the new financial year.

Millennium

The Year 2000 issue arises where computer programs or microprocessors rely on two digits rather than four to define the calendar year and programs could fail on the changeover to the new century.

Our businesses depend on our own computer systems and microprocessor controlled equipment both at the point of sale and within our administrative centres.

A formal assessment of the risks and uncertainties in the businesses took place in 1997 and has been continuously updated. The action plans arising from the assessment have largely been completed with full compliance on all internal systems expected by the end of September 1999.

The company has obtained reassurance from its systems suppliers that their systems have been tested and are millennium compliant. Assurance has also been obtained as far as possible from other key suppliers of products and services. However, we are unable to be certain of avoiding business disruption that may be caused by either internal or external systems and, accordingly, contingency plans are being developed to minimise the impact in the event of any such occurrence.

The costs of implementing the action plans have not been significant and have been absorbed within the recurring activities of the business.

Accounting Policies

There have been no changes to the accounting policies in the year and they have been applied on a consistent basis throughout the year.

James Gaisford

James Gaisford, Group Finance Director

Directors and Advisers

Reg Heath

Chairman - aged 57

Appointed to the Board in November 1995, and as Chairman in June 1997. Chairman of the Audit Committee. Chairman of AutoLogic Holdings plc

Philip Newton

Chief Executive - aged 50

Appointed to the Board in 1988 and became Chief Executive in November 1998

James Gaisford B.Sc., ACA

Finance Director - aged 40

Appointed to the Board in June 1994

Jeremy Seigal

Director - aged 38

Managing director of The Perfume Shop. Appointed to the Board in November 1998

Michael Johns

Non-executive director - aged 55

Appointed to the Board in 1980. Chairman of the Remuneration Committee. Managing Partner of the solicitors Nicholson Graham & Jones

Jurek Piasecki B.Sc., Dip BA, C Eng., MIEE

Non-executive director - aged 53

Appointed to the Board in April 1995. Chairman and Chief Executive of Goldsmiths Group plc. Non-executive director of Quicks Group plc

Executive Committee

P Newton, J D Gaisford, J P Seigal



Jeremy Seigal

Audit and Remuneration Committees

M S M Johns, J S Piasecki, R F Heath

Secretary

J D Gaisford

Registered Office

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Registered Number

Registered in England and Wales 1465195

Financial Advisers

SG Hambros, 41 Tower Hill, London EC3N 4HA

Stockbrokers

Charterhouse Tilney Securities Limited, PO Box 66, Royal Liver Buildings, Pier Head, Liverpool L69 3RJ.

Wise Speke, Commercial Union House, 39 Pilgrim Street, Newcastle-upon-Tyne, NE1 6RQ

Auditors

PricewaterhouseCoopers, Sun Alliance House, 9 Bond Court, Leeds, LS1 2SN

Solicitors

Nicholson Graham & Jones, 110 Cannon Street, London, EC4N 6AR

Principal Bankers

Barclays Bank plc, Pall Mall Branch, 50 Pall Mall, PO Box 15161, London, SW1A 1QA

Lloyds Bank plc, St. George's House, 6/8 Eastcheap, London, EC3M 1LL

Registrars

IRG plc, Balfour House, 390-398 High Road, Ilford, Essex IG1 1NQ



Jurek Piasecki



Michael Johns

Directors' and Corporate Governance Report

The Directors have pleasure in presenting their report together with the audited accounts for the 52 weeks ended 27 March 1999.

Activities

The primary activity of the Group is retailing in the United Kingdom, which is carried out by its trading businesses The Perfume Shop and Joplings.

Review of Group Activities

The activities of the Group and likely future developments are reviewed on pages 2 to 9.

Dividends

The Directors recommend the payment of a final dividend of 0.50p net per ordinary share payable on 1 August 1999 to shareholders on the register at close of business on 2 July 1999.

Preference share dividends of £5,000 (1998 - £114,000) were paid in the year.

Directors

The directors of the Company are shown on page 10. Mr D W Wallis resigned on 31 December 1998. Mr M S M Johns and Mr R F Heath retire by rotation and being eligible, offer themselves for re-election. Mr J P Seigal was appointed on 17 November 1998 and in accordance with the Articles will seek election at the Annual General Meeting. Mr C Lamont is proposed as a director from 1 June 1999 and in accordance with the Articles will seek election at the Annual General Meeting. The service contracts of all directors are noted in the Report of the Board on the Remuneration of Directors on page 28 to 31.

Directors' Interests

The interests of the Directors and their families in the shares and loan stock of the Company, according to the register kept under section 325 of the Companies Act 1985 are shown in the Report of the Board on the Remuneration of Directors on pages 28 to 31.

Share Capital

Details of the Share Capital of the Company, and the movements during the year, are set out in Note 16 to the accounts.

Substantial Shareholdings

The Company has been advised that on 24 May 1999 substantial holdings of ordinary 10p shares were:

RBSTB Nominees Limited	14.9%
Mr J. Guthrie	8.6%
M & G	6.2%
Johnson Fry Unit Trust	5.8%
Derby Trust	3.4%

On the same date substantial holdings of 5% cumulative preference shares were:

Jove Investment Trust	50.6%
Danae Investment Trust	28.6%
Hedgefield Country Securities Limited	5.5%
Medlock and Medlock Limited	3.4%

Annual General Meeting

The Annual General Meeting of the Company will be held on 1 July 1999 and notice of this meeting is set out on pages 32 and 33.

A resolution will be proposed, as Special Business, granting the Directors authority to modify the pre-emption rights under the Companies Act 1985.

A resolution will be proposed in respect of a new long term incentive plan for the Directors and senior employees.

A separate circular deals with the matter and is included with the annual report and accounts.

The directors believe that the proposals are in the best interests of the Company and unanimously recommend shareholders to vote in favour of them as the Directors intend to do in respect of their own shareholding which amounts to 4.3% of the issued ordinary share capital.

Donations

During the year £243 (1998 - £1,330) was donated to charities. No political contributions were made during the year (1998 - £Nil).

Employees

It is the Group's policy to ensure that all vacancies are open to disabled persons where the physical requirements of the job permit. In the event of an employee becoming disabled the Group offers, if appropriate, retraining or suitable alternative employment.

The Group actively encourages employee involvement in the business, with each division developing appropriate channels of communication. There are regular newsletters, regional meetings, management meetings and a conference to ensure that there is a regular flow and exchange of information and ideas about the business. This process has been enhanced by the achievement of the Investors in People award at Joplings Limited.

Policy On The Payment Of Creditors

For major suppliers it is the Group's policy to settle terms of payment when agreeing the terms of transactions and abide by them. Other suppliers are paid within generally accepted commercial time periods.

Auditors

Following their merger with Coopers & Lybrand to form the new firm of PricewaterhouseCoopers on 1 July 1998, Price Waterhouse resigned as auditors of the Company on 17 September 1998. The Board appointed PricewaterhouseCoopers to fill the casual vacancy thus arising to act as auditors of the Company from 17 September 1998 until the conclusion of the forthcoming Annual General Meeting.

PricewaterhouseCoopers are willing to continue in office and a resolution for their re-appointment as auditors at a remuneration to be fixed by the directors will be proposed at the Annual General Meeting. Special notice of this resolution has been given to the Company in accordance with section 388(3) of the Companies Act 1985.

Corporate Governance

i. The Board

The board comprises a non-executive Chairman, three executive Directors and two non-executive Directors. The Board holds 10 regular Board Meetings a year and other meetings as necessary. There is a schedule of matters which are reserved for the decision of the Board and includes responsibility for overall Group strategy, approval of significant acquisitions, divestments and capital expenditure.

All the non-executive Directors are considered to be independent and hold, or have held, senior positions in other U.K. organisations or partnerships.

All Directors have access to the advice and service of the Company Secretary and the Board has an established procedure whereby any Director wishing to do so in the furtherance of his duties may take independent professional advice at the Company's expense. Details of Board members and the membership of committees are set out on page 10.

In accordance with the Articles of Association, a third of Directors are subject to re-election each year. In practice, this means that all Directors are subject to re-election at intervals of no more than three years.

The Report of the Board on the Remuneration of Directors is set out on pages 28 to 31.

ii. Shareholder Relations

The Group maintains a close relationship with its major shareholders through regular contact. The Annual General Meeting is used as an opportunity to communicate with other shareholders and all Directors attend.

The Annual General Meeting details for this financial year are set out on pages 32 and 33.

iii. Financial Reporting

The Annual Report is designed to present a balanced and understandable view of the Group's activities and prospects. The Chairman's Statement, Business Review and the Financial Review are on pages 2 to 9 and provide an assessment of the Group's affairs.

iv. Internal Financial Controls

In the light of the provisions of the Combined Code relating to internal control, the Group is reviewing its internal control systems, including financial, operational, compliance and risk management. A report on the results of this review will be made next year, once guidance from the Turnbull/Davis Committee has been issued. In the meantime, as permitted by the London Stock Exchange, the following paragraphs continue to apply to internal financial controls only.

The Directors are responsible for ensuring that the Company maintains a system of internal financial controls, including suitable monitoring procedures. The system is designed to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication, but any such system can only provide reasonable, and not absolute, assurance against misstatement or loss.

The Company's internal financial control and monitoring procedures include:

- a) regular meetings of the Board, which is responsible for all strategic and financial matters;
- b) clear responsibilities on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- c) the control of key financial risks through clearly laid down authorisation levels and proper segregation of accounting duties;
- d) detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budgets;
- e) reporting on compliance with internal financial controls and procedures by line management which is reviewed by the external auditors. These reports are reviewed by the Audit Committee prior to the issue of the annual report.

The Audit Committee, which comprises the non-executive Directors, has reviewed the effectiveness of the system of internal financial controls for the period covered by the accounts.

v. Board Committees

THE EXECUTIVE COMMITTEE

The Executive Committee consisting of the three executive Directors controls the day to day operations of the Group.

THE AUDIT COMMITTEE

The Audit Committee, comprising the non-executive Directors, meets at least twice a year with the Company's auditors to review the Company's financial statements, internal controls and accounting policies. It advises the Board on the appointment of external auditors and on their remuneration.

THE REMUNERATION COMMITTEE

The Remuneration Committee is made up of all the non-executive Directors. The Committee has the responsibility for determining the remuneration, contract terms and other benefits for executive Directors and senior executives including performance related bonuses.

vi. Combined Code Compliance

The Directors consider that throughout the accounting period, the company complied with all the provisions of Section 1 of the Combined Code annexed to the London Stock Exchange Listing Rules with the exceptions listed below:

Given the small size of the Board, it has been considered inappropriate to establish a separate nominations committee or to appoint an independent non-executive Director.

Philip Newton and James Gaisford have service agreements which have a rolling term of 2 years and these are thought appropriate to maintain stability in a small group.

The long term incentive scheme currently in operation was awarded in one large block rather than on a phased basis, to reflect the commitment demanded from the Executives to deliver a doubling of earnings per share through organic growth.

vii. Going Concern

The Directors have reviewed the financial position of the Group and of the Company and have concluded that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

viii. Directors' Responsibilities in respect of the Financial Statements

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the Group's state of affairs as at the end of the financial year and profit and loss for the year then ended. The Directors consider that in preparing the financial statements, the Group has used suitable accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and confirm that all applicable accounting standards have been complied with. The financial statements have been prepared on a going concern basis.

The Directors are also responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board
J D Gaisford
Director and Secretary
Windsor, 24 May 1999



Consolidated Profit & Loss Account

For the fifty two weeks ended 27 March 1999

	Notes	1999 £'000	1998 £'000
Turnover		75,255	67,357
Cost of sales		49,645	45,363
Gross Profit		25,610	21,994
Administrative expenses		20,663	17,974
Operating Profit	2	4,947	4,020
Income from fixed asset investment	4	477	238
Profit before interest		5,424	4,258
Interest	5	(1,394)	(1,222)
Profit before Taxation		4,030	3,036
Taxation	6	(746)	(609)
Profit after Taxation		3,284	2,427
Minority interest		-	(14)
Profit for the Financial Year		3,284	2,413
Preference dividends		(5)	(86)
Ordinary dividends	7	(674)	(511)
Transfer to Reserves		2,605	1,816
Earnings per ordinary share	8	3.18p	2.38p
Fully diluted earnings per ordinary share	8	3.05p	2.32p

Movements in reserves are set out in note 17.

Statement of Total Recognised Gains and Losses

The total recognised profits relating to the year equalled the profits for the year of £3,284,000 (1998 - £2,413,000).

Note of Historical Cost Profits and Losses

There is no material difference between the results disclosed in the profit and loss account and the results on an unmodified historical cost basis.

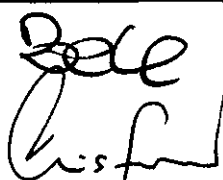
Balance Sheets

As at 27 March 1999

	Notes	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Fixed Assets					
Tangible assets	9	24,481	24,756	2,161	2,168
Investments	10	8,738	8,738	14,937	14,428
		33,219	33,494	17,098	16,596
Current Assets					
Stocks	11	10,349	9,235	-	-
Debtors	12	8,673	8,726	26,585	20,847
Properties held for sale		-	198	-	198
Cash at bank and in hand		253	241	1	6
		19,275	18,400	26,586	21,051
Creditors (due within one year)					
Debt finance	14	6,886	12,069	8,987	5,396
Other	13	11,769	10,040	1,875	2,621
		18,655	22,109	10,862	8,017
Net Current Assets/(Liabilities)		620	(3,709)	15,724	13,034
Total assets less current liabilities		33,839	29,785	32,822	29,630
Creditors (due after one year)					
Debt finance	14	4,762	4,767	4,710	4,710
Provisions for liabilities and charges	15	965	98	-	-
		28,112	24,920	28,112	24,920
Capital and reserves					
Called up share capital - Ordinary	16	10,314	10,218	10,314	10,218
- Preference	16	105	105	105	105
		10,419	10,323	10,419	10,323
Share premium account	17	6,534	6,484	6,534	6,484
Revaluation reserve	17	-	-	3,083	2,361
Share scheme reserve	17	702	261	702	261
Other reserves	17	1,541	1,541	3,946	3,946
Profit and loss account	17	8,916	6,311	3,428	1,545
Shareholders' funds (including non-equity interests)	17	28,112	24,920	28,112	24,920

P. Newton
J. D. Gaisford
Approved by the Board on 24 May 1999

Directors



Consolidated Cash Flow Statement

For the fifty two weeks ended 27 March 1999

	Notes	1999 £'000	1998 £'000
Operating activities			
Net cash inflow from operating activities	21	8,160	3,022
Returns on investments and servicing of finance			
Interest received		2	72
Interest paid		(1,404)	(1,277)
Dividends received on fixed asset investment		477	238
Dividends paid on non equity shares		(5)	(114)
Dividends paid to minority shareholders		-	(21)
		(930)	(1,102)
Taxation			
Corporation tax paid		(529)	(276)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,126)	(3,417)
Sale of tangible fixed assets		960	8
Proceeds from sale of properties held for sale		120	110
		(1,046)	(3,299)
Acquisitions and disposals			
Purchase of minority interest		-	(580)
Purchase of investment in A. de Gruchy		-	(4,598)
Disposal of Normans		-	1,236
		-	(3,942)
Equity dividends paid			
		(567)	(315)
Net cash inflow/(outflow) before financing		5,088	(5,912)
Financing			
Issue of ordinary shares (net of costs)		146	3,916
Redemption of variable rate preference shares		-	(2,000)
Repayment of amounts borrowed		(4,000)	(2,000)
Capital element of finance lease rental payments		(32)	(22)
		(3,886)	(106)
Increase/(decrease) in cash	21	1,202	(6,018)

Notes to the Accounts

1 ACCOUNTING POLICIES

a) Basis of Accounting

The accounts are prepared under the historical cost convention as modified by the revaluation of properties and in accordance with applicable accounting standards.

b) Basis of Consolidation

The Group accounts consolidate the accounts of Merchant Retail Group plc and its subsidiary undertakings which are made up to the balance sheet date.

In the Company's accounts, investments in subsidiary undertakings are stated at the book amount of the net assets of these subsidiary undertakings with movements being dealt with through the revaluation reserve. Only dividends received and receivable from subsidiary undertakings are included in the Company's profit and loss account.

c) Turnover

Turnover comprises the value of sales, excluding value added tax, to external customers.

d) Depreciation

It is the Group's policy to maintain all freehold properties in a good state of repair. In the opinion of the directors, the lives of these properties and their estimated residual values, excluding inflation, are such that any depreciation would be immaterial. The residual values of the properties are regularly reviewed in order to identify any permanent diminution in value which would be charged to the profit and loss account.

Short leasehold properties are depreciated over the remaining term of the lease.

Plant and machinery is depreciated on a straight line basis at rates sufficient to write off the costs of assets, less any estimated residual value, over their expected useful lives. Different lives are attributed to the various categories of plant and machinery with a maximum of 15 years.

e) Fixed Assets

Tangible assets include amounts in respect of interest paid, net of taxation, on borrowings specifically related to the financing of major capital projects.

Freehold properties are professionally revalued at regular intervals and the valuation incorporated in the consolidated balance sheet.

f) Leased Assets

Assets used by the Group, which have been funded through finance leases, are capitalised and the resulting lease obligations are included in creditors.

Rentals payable under operating leases are charged to the profit and loss account as incurred except where an incentive to sign the lease has been taken, when the incentive is spread on a straight line basis over the lease term or, if shorter, the period to the next open market rent review date.

g) Stocks

Stocks comprise goods held for resale and are valued at the lower of cost and net realisable value. Cost is calculated by reducing selling price by the relevant profit margin.

h) Deferred Taxation

No provision is made for deferred taxation in respect of capital allowances and other timing differences unless there is a reasonable probability that a liability will arise in the foreseeable future.

i) Foreign Currency

Transactions in foreign currency are translated into sterling at the rates of exchange ruling at the date of the transaction.

j) Pension Costs

The cost of providing pension benefits is charged to the profit and loss account over the period benefiting from the employees' services.

2 OPERATING PROFIT

	1999 £'000	1998 £'000
The following amounts have been charged/(credited) in arriving at operating profit:		
Employee and directors' costs (note 3)	10,355	9,120
Depreciation on		
- owned assets	1,132	1,124
- assets held under finance leases	37	26
Operating lease rentals		
- Buildings	2,041	1,500
- Plant and machinery	193	204
Auditors' remuneration	49	47
Other fees paid to auditors	60	45
Settlement of legal dispute at Tynedale Park	(832)	-
Reorganisation of Joplings	822	-

Auditors' remuneration in respect of the Company amounted to £19,000 (1998 - £18,000).

During the year, the Group obtained settlement in relation to its legal claim in respect of the Joplings building at Tynedale Park. The settlement amounted to £2.1 million plus £0.7 million of costs with recovery of further costs still ongoing. After taking account of the likely costs of repairing the building, and the legal costs already incurred by the Group, an exceptional credit of £832,000 has been released to the profit and loss account.

The reorganisation of Joplings reflects the costs of closing the Ashington and North Shields stores and the costs of a redundancy programme.

3 EMPLOYEE AND DIRECTORS' COSTS

	1999 £'000	1998 £'000
a) Payroll costs (including Directors' emoluments)		
Wages and salaries	9,001	8,041
Social security costs	633	543
Other pension costs	278	273
Share scheme accrual	443	263
	10,355	9,120

In accordance with UITF 17, the charge for the share scheme for the year is based upon the Remuneration Committee's expectation that the performance criteria will be met and reflects an allocation of the total charge on a straight line basis over the service lives of the executives during the three years of the plan to 1 April 2000. The charge has been calculated by reference to the price at which the option over the maximum number of shares was granted on 22 July 1997 of 25p, being the mid market price at that date. Further details of the scheme are noted in the Report of the Board on the Remuneration of Directors on pages 28 to 31.

	1999 £'000	1998 £'000
b) Directors' Emoluments		
The total emoluments of the Directors were as follows:		
Salaries, fees and benefits	464	440
Compensation for loss of office	136	-
Pension contributions	86	56
Pension paid to former Director	2	2
	688	498
Gain on exercise of options	240	-

A detailed analysis of all Directors' emoluments, including salaries and long term incentives, is provided in the Report of the Board on the Remuneration of Directors on pages 28 to 31.

The highest paid director was Mr D W Wallis.

	1999 Number	1998 Number
c) Staff numbers		
The average number of people, including Directors, employed by the Group during the year was:		
Full time	484	454
Part time	644	592
	1,128	1,046

4 INCOME FROM FIXED ASSET INVESTMENT

	1999 £'000	1998 £'000
Dividend income from A. de Gruchy Holdings Limited	477	238

5 INTEREST

	1999 £'000	1998 £'000
Bank loans and overdrafts wholly repayable within five years	979	864
Loans repayable after five years	411	413
Payable on finance lease obligations	6	5
Interest receivable	(2)	(60)
	1,394	1,222

6 TAXATION

	1999 £'000	1998 £'000
The taxation charge based on the profit for the year at 31% (1998 - 31%) comprises:		
UK corporation tax	1,347	939
Deferred tax (note 15)	27	32
	1,374	971
Adjustment in respect of prior years:		
UK corporation tax (after writing back ACT of £494,000 (1998 - £295,000))	(668)	(348)
Deferred tax (note 15)	40	(14)
	746	609

7 ORDINARY DIVIDENDS

	1999 £'000	1998 £'000
Interim dividend of 0.15p per share (1998 - 0.10p)	158	102
Proposed final dividend of 0.50p per share (1998 - 0.40p)	516	409
	674	511

8 EARNINGS PER SHARE

Basic and fully diluted earnings per share have been calculated in accordance with FRS 14, which was issued in October 1998. The figures for 1998 have been restated accordingly.

The calculation of earnings per share is based upon the profit for the financial year, after deducting minority interests and preference dividends, divided by the weighted average of ordinary shares.

	1999		1998	
	Earnings £'000	Weighted average no of shares (thousands)	Earnings £'000	Weighted average no of shares (thousands)
Basic earnings per share	3,279	103,005	2,327	97,597
Dilutive potential ordinary shares arising from:				
- Long term incentive plan	-	2,500	-	1,425
- Employee share option schemes	-	2,093	-	1,394
Fully diluted earnings per share	3,279	107,598	2,327	100,416

9 TANGIBLE ASSETS

	Group			Total £'000
	Land and buildings		Plant and machinery	
	Freehold £'000	Short Leasehold £'000	£'000	
Cost or Valuation				
At 29 March 1998	20,704	998	10,219	31,921
Additions	2	781	1,377	2,160
Disposals and assets written off	(1,208)	(8)	(134)	(1,350)
At 27 March 1999	19,498	1,771	11,462	32,731
Valuation in 1994	17,621	53	-	17,674
Cost	1,877	1,718	11,462	15,057
	19,498	1,771	11,462	32,731

Aggregate Depreciation

At 29 March 1998	-	(286)	(6,879)	(7,165)
Charge for year	-	(143)	(1,026)	(1,169)
Disposals and assets written off	-	8	76	84
At 27 March 1999	-	(421)	(7,829)	(8,250)

Net Book Amounts

At 27 March 1999	19,498	1,350	3,633	24,481
At 28 March 1998	20,704	712	3,340	24,756

The net book value of plant and machinery includes an amount of £79,000 in respect of assets held under finance leases (1998 - £82,000). The depreciation charge for the year for plant and machinery held under finance leases was £37,000 (1998 - £26,000).

	Freehold property £'000	Company Plant and machinery £'000	Total £'000
Cost or Valuation			
At 29 March 1998	2,116	95	2,211
Additions	2	15	17
Disposals and assets written off	-	(36)	(36)
At 27 March 1999	2,118	74	2,192
Aggregate depreciation			
At 29 March 1998	-	(43)	(43)
Charge for the year	-	(13)	(13)
Disposals and assets written off	-	25	25
At 27 March 1999	-	(31)	(31)

9 TANGIBLE ASSETS (continued)

	Company		
	Freehold property £'000	Plant and machinery £'000	Total £'000
Net book amounts			
At 27 March 1999	2,118	43	2,161
At 28 March 1998	2,116	52	2,168

On an historical cost basis, land and buildings would have been included at the following amounts:

	Freehold £'000	Short leasehold £'000
At 27 March 1999		
Cost	18,132	1,771
Aggregate depreciation	-	(421)
Net book amount	18,132	1,350
Net book amount at 28 March 1998	18,278	712

At 27 March 1999, the Group had placed contracts for capital expenditure of £453,000 (1998 - £173,000).

10 FIXED ASSET INVESTMENTS

Group	1999 £'000	1998 £'000
Investment in A. de Gruchy Holdings Limited	8,738	8,738

The Group owned 4,346,892 ordinary 20p shares at 27 March 1999 which represented a holding of 28.4% of the issued share capital at a cost per share of £2.01. A. de Gruchy Holdings Limited's ordinary shares are listed on the London Stock Exchange and the mid market price at the year end was £2.15.

Company

Investments in subsidiary undertakings:	£'000
Valuation at 28 March 1998	14,428
Dormant subsidiaries placed in voluntary liquidation in period	(355)
Surplus on revaluation	864
Valuation at 27 March 1999	14,937

The historical cost of investments in subsidiary undertakings is £13,130,000 (1998 - £16,044,000).

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

Company	Nature of Business	Country of Operation
The Perfume Shop Limited	Perfume retailing	UK
Joplings Limited	Department store retailing	UK

Both the above companies are registered in England.

11 STOCKS

	Group	
	1999 £'000	1998 £'000
Goods for resale	10,349	9,235

12 DEBTORS

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Trade debtors	7,233	6,747	-	-
Amounts owed by group undertakings	-	-	26,537	20,708
Other debtors	1,013	1,389	-	59
Prepayments and accrued income	427	590	48	80
	8,673	8,726	26,585	20,847

Trade debtors include an amount of £7,233,000 (1998 - £6,747,000) in respect of in-house charge-card debt, of which £612,000 (1998 - £333,000) is due after more than 1 year.

13 OTHER CREDITORS (Due within one year)

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Trade creditors	5,691	5,263	-	-
Amounts owed to group undertakings	-	-	689	1,618
Corporation tax	1,292	1,142	311	148
Other taxes and social security	815	633	15	27
Other creditors	1,375	946	21	126
Accruals and deferred income	2,080	1,647	323	293
Proposed dividends	516	409	516	409
	11,769	10,040	1,875	2,621

14 DEBT FINANCE

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Bank loans and overdrafts	6,855	12,045	8,987	5,396
Finance lease obligations	83	81	-	-
8¾% unsecured loan stock 1999/2004	4,710	4,710	4,710	4,710
	11,648	16,836	13,697	10,106

Bank loans and overdrafts are repayable:

Within one year	6,855	12,045	8,987	5,396
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Other loans and finance lease obligations are repayable:

Within one year	31	24	-	-
Between one and two years	26	24	-	-
Between two and five years	26	33	-	-
After five years	4,710	4,710	4,710	4,710
	4,793	4,791	4,710	4,710
	11,648	16,836	13,697	10,106

Due within one year	6,886	12,069	8,987	5,396
Due after one year	4,762	4,767	4,710	4,710
	11,648	16,836	13,697	10,106

Bank loans and overdrafts are secured by specific charges on properties, debentures and cross-guarantees between companies in the Group. The bank loans and overdrafts bear interest at floating rates, which are linked to base rate.

There is no material difference between the market value of the unsecured loan stock and the amount at which it is carried in the accounts at the year end.

15 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Remedial work at Tynedale Park £'000	Group Deferred Tax £'000	Total £'000
As at 29 March 1998	-	98	98
Remedial provision	800	-	800
Deferred tax transfer to profit and loss account	-	67	67
As at 27 March 1999	800	165	965

Details of the potential liability to deferred taxation and the extent to which provision is made in these accounts is set out below:

	Potential £'000	1999 Provided £'000	Potential £'000	1998 Provided £'000
Capital allowances	183	183	106	106
Other timing differences	(18)	(18)	(8)	(8)
	165	165	98	98

Company

The Company has no potential liability to deferred taxation.

16 CALLED UP SHARE CAPITAL

	Authorised		Allotted and Fully Paid	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Ordinary shares of 10p each	13,380	13,380	10,314	10,218
5% cumulative preference shares of £1 each	105	105	105	105
Unclassified shares	2,000	2,000	-	-
	15,485	15,485	10,419	10,323

During the period 957,732 ordinary shares were allotted on the exercise of executive share options for a consideration of £145,328 (1998 - 391,274 shares; £46,953).

5% Preference Shares

A brief summary of the rights attached to the 5 per cent cumulative preference shares ("5% preference shares") is as follows:

The holders of 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.

Unclassified shares

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

16 CALLED UP SHARE CAPITAL (continued)

Executive Share Option Schemes

The first scheme was introduced in 1985 as an incentive to senior employees who make a significant contribution to the Group. A second scheme was introduced in 1995, and a third in 1996. The options under all schemes are normally exercisable between the third and tenth anniversaries of the option grant date. In addition, the 1995 and 1996 schemes require certain performance criteria to be passed before the options can be exercised.

An analysis of the options outstanding at 27 March 1999 is set out below:

Date of grant	Number of options	Ordinary shares under option	Exercise price
1985 Scheme			
14 July 1989	3	53,094	57.21p
21 December 1989	4	70,792	48.63p
25 July 1991	3	900,000	41.00p
16 June 1992	1	250,000	16.00p
20 July 1993	1	400,000	16.00p
28 September 1994	4	153,173	12.00p
1995 Scheme			
26 March 1996	5	356,250	16.50p
27 August 1996	4	64,550	19.50p
16 July 1997	7	407,920	25.25p
1996 Scheme			
25 September 1996	2	54,200	21.00p
16 July 1997	2	92,080	25.25p
	36	2,802,059	

Savings Related Share Option Scheme

A Sharesave scheme enables employees to make regular savings in conjunction with an option to subscribe for ordinary shares in the Company. Options are normally exercisable for a period of six months after the completion of a three year savings period.

An analysis of the options outstanding as at 27 March 1999 is set out below:

Date of grant	Number of options	Ordinary shares under option	Exercise price
26 September 1997	154	1,330,122	20.25p

17 RESERVES

Group	Share premium account £'000	Share scheme reserve £'000	Other reserves £'000	Profit and loss account £'000	Shareholders' funds £'000
At 29 March 1998	6,484	261	1,541	6,311	24,920
Nominal value of shares issued in year	-	-	-	-	96
Premium on shares issued (net of costs)	50	-	-	-	50
Movement on share scheme reserve	-	441	-	-	441
Retained profit for the year	-	-	-	2,605	2,605
At 27 March 1999	6,534	702	1,541	8,916	28,112

Shareholders' funds include non-equity interests of £105,000 (1998 - £105,000).

Goodwill written off on the acquisition of subsidiary undertakings amounts to £3,575,000 (1998 - £3,575,000).

17 RESERVES (continued)

Company	Share premium account	Revaluation reserve	Other reserves (incl. Share scheme)	Profit and loss account	Shareholders' funds
	£'000	£'000	£'000	£'000	£'000
At 29 March 1998	6,484	2,361	4,207	1,545	24,920
Revaluation of investments in subsidiaries	-	864	-	-	864
Nominal value of shares issued in year	-	-	-	-	96
Premium on shares issued (net of costs)	50	-	-	-	50
Movement on share scheme reserve	-	-	441	-	441
Realised net surplus on voluntary liquidation of dormant subsidiaries	-	(142)	-	142	-
Retained profit for the year	-	-	-	1,741	1,741
At 27 March 1999	6,534	3,083	4,648	3,428	28,112

Shareholders' funds include non-equity interests of £105,000 (1998 - £105,000).

Merchant Retail Group plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The amount of the consolidated profit for the year dealt with in the accounts of the parent undertaking is a profit of £2,420,000 (1998 - £1,438,000).

The total recognised gain for the parent undertaking amounted to £3,284,000 (1998 - £2,163,000). There is no difference between the reported profit for the year of the parent undertaking and the profit on an unmodified historical cost basis.

18 OPERATING LEASE COMMITMENTS

	Land and buildings		Other	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Leases expiring:				
Within one year	50	99	20	33
Between two and five years	285	170	46	143
Over five years	1,763	1,153	-	-
	2,098	1,422	66	176

19 CONTINGENT LIABILITIES

The Company has guaranteed the overdrafts and finance lease commitments of certain subsidiary undertakings which, at 27 March 1999, amounted to £789,000 (1998 - £1,200,000).

20 PENSION COMMITMENTS

The Group operates a defined benefit pension scheme covering the executive directors and certain of its employees, the assets of which are held in a separate trustee administered fund. It is subject to an independent valuation at least every three years on the basis of which a qualified actuary certifies the rate of the employer's contributions.

The latest formal actuarial valuation of the scheme was undertaken at 1 April 1997. The actuarial method used was the projected unit method. The principal long term assumptions were that the annual rate of return on investments would exceed the annual increase in earnings by 3% and the annual increase in pensions would be 3%.

20 PENSION COMMITMENTS (continued)

At the date of the actuarial valuation, the total market value of the scheme's assets was £5,014,000 and the actuarial value of the assets represented approximately 103% overall of the benefits that have accrued to members after allowing for expected future increases in earnings.

There is no difference between the charge to the profit and loss account and the contributions paid in the current year.

21 GROUP STATEMENT OF CASH FLOWS

a) Reconciliation of operating profit to net cash inflow from operating activities				
	1999		1998	
	£'000		£'000	
Operating profit	4,947		4,020	
Depreciation charges	1,169		1,150	
Increase in stocks	(1,114)		(1,372)	
Increase in debtors	(201)		(1,577)	
Increase in creditors	1,461		540	
Increase in share scheme reserve	441		261	
Non cash movements in Joplings reorganisation	403		-	
Non cash movements in Tynedale Park legal settlement	(832)		-	
Cash movements in Tynedale Park legal settlement	1,886		-	
Net cash inflow from operating activities	8,160		3,022	
b) Reconciliation of net cash flow to movement in net debt				
	1999		1998	
	£'000		£'000	
Increase/(decrease) in cash in the period	1,202		(6,018)	
Decrease in debt and lease financing	4,032		2,022	
Change in net debt from cash flows	5,234		(3,996)	
New finance leases	(34)		(33)	
Movements in net debt in the period	5,200		(4,029)	
Net debt at start of year	(16,595)		(12,566)	
Net debt at end of year	(11,395)		(16,595)	
c) Analysis of net debt				
	28 March		New	27 March
	1998	Cash flow	finance lease	1999
	£'000	£'000	acquired	£'000
			£'000	
Cash at bank and in hand	241	12	-	253
Overdrafts	(8,045)	1,190	-	(6,855)
	(7,804)	1,202	-	(6,602)
Debt due within 1 year	(4,000)	4,000	-	-
Debt due after 1 year	(4,710)	-	-	(4,710)
Finance leases	(81)	32	(34)	(83)
Loans and lease obligations	(8,791)	4,032	(34)	(4,793)
Net debt	(16,595)	5,234	(34)	(11,395)

Auditors' Report

To the Members of Merchant Retail Group Plc

We have audited the financial statements on pages 14 to 26 (including the additional disclosures on pages 29 to 31 relating to the remuneration of Directors specified for our review by the London Stock Exchange) 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 17.

Respective Responsibilities Of Directors And Auditors

The Directors are responsible for preparing the Annual Report including, as described on page 13, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange 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 or the Listing Rules regarding the 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.

We review whether the statement on page 13 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its internal controls.

Basis Of 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 judgments 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 affairs of the Company and of the Group as at 27 March 1999 and of the profit and cash flows of the Group for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
9 Bond Court, Leeds, LS1 2SN

24 May 1999

PRICEWATERHOUSECOOPERS 

Report of the Board on the Remuneration of Directors

For The Year Ended 27 March 1999

The Remuneration Committee

The Remuneration Committee is composed of the three non-executive Directors and chaired by Michael Johns. The Committee makes its decisions following consultation with the Chief Executive and has access to professional advice from outside the Company.

The remuneration of the non-executive Directors is determined by the Board.

Compliance

The Company has complied with Section A of the Best Practice provisions annexed to the Listing Rules and the Remuneration Committee has given full consideration to Section B of the Best Practice provisions annexed to the Listing Rules in framing the remuneration packages for Directors.

Remuneration Policy for Executive Directors

The Remuneration Committee seeks to provide the remuneration packages necessary to attract, retain and motivate executive Directors of the quality required to manage the business of the Group and seeks to avoid paying more than is necessary for this purpose. In establishing the level of remuneration for each Director the Committee has regard to packages offered by comparable companies. The main components of the remuneration packages for executive Directors are:-

(i) Contracts

Philip Newton and James Gaisford have service agreements with the Company which have a rolling term of two years. The Remuneration Committee have determined that although the terms are in excess of one year they are appropriate to maintain stability in a small Group.

In the event of there being a change of control of the Company and the Director is subsequently dismissed, the service agreement for these two directors provides for payment of a sum equal to 80% of the salary and benefits in kind due over the two year contract together with payment of 10% of salary into the appropriate pension scheme. There is also a change of control clause in the long term incentive scheme such that the shares shall vest in proportion to the years that have elapsed.

Jeremy Seigal has a service agreement which has a rolling term of twelve months.

The non-executive Directors have fixed term agreements with the Company which do not exceed 3 years.

(ii) Basic Salary and Benefits

Salaries and benefits are reviewed annually. Benefits principally comprise a car and private health care.

(iii) Bonuses

The Committee reserves powers to make discretionary awards if appropriate.

(iv) Share Schemes

(a) Long Term Incentive Plan

The Committee consider a long term incentive scheme is the best way to incentivise the management team so that their interests are aligned with those of the shareholders. The proposal for a long term incentive plan was approved by shareholders at the 1997 Annual General Meeting.

Under the plan, each participating executive has been awarded a maximum conditional interest in shares which is held in trust during the deferral period ending on the date of the preliminary announcement of the Group's results for the year to 1 April 2000. Only one award for the three year period can be made under the Plan.

On that date the number of shares that will finally vest and be transferred to participants will depend on the extent to which the Company's performance for the three years ending on 1 April 2000 exceeds the following three performance criteria:-

- 1) That the total shareholder return for the three years must exceed the median in the list of companies selected from the Retail General sector classified as small capital; and,
- 2) The Company's earnings per share must grow so that they equal at least 150% of the figure reported for the year ended 29 March 1997; and,

- 3) If 1) and 2) are satisfied, the extent to which the profit performance targets set by the Remuneration Committee for each participant by reference to the Company's three year plan are achieved. The maximum performance will be achieved if the earnings per share are twice the figure reported for the year ended 29 March 1997.

The maximum conditional awards over the ordinary 10p shares subsisting at the year end, were as follows:-

P Newton	750,000
J D Gaisford	375,000
J P Seigal	625,000
D W Wallis	500,000

The long term incentive plan has a maximum target of doubling the earnings per share over a three year period. This maximum target has been achieved within the two years to 27 March 1999. As a recognition of the contribution to the business of D W Wallis, who left the Company during the year, the Remuneration Committee has used its discretion to permit D W Wallis to remain as a beneficiary under the plan. No vesting of any of the awards will be permitted in any event until the end of the three year plan on 1 April 2000, when the financial performance will be measured against the original criteria.

At the forthcoming Annual General Meeting, the Remuneration Committee will be proposing a new long term incentive plan starting in the 1999/2000 financial year, to incentivise the current management team to continue the successful growth of the business.

(b) Share Option Schemes

Awards of share options to Directors and senior employees have been made as an incentive to improve the Group's performance. Exercise of options granted under the 1995 Share Option Scheme are subject to increasing the normalised earnings per share by 2% in excess of the Retail Price Index.

A variation of the 1995 Share Option Scheme, called the 1996 Discretionary Share Option Scheme, was introduced to cope with the changes in the tax regime that the Chancellor put in place in 1996. The rules are identical to the 1995 scheme save that the discretionary scheme does not have approval from the Inland Revenue.

Executives included within the proposed long term incentive scheme are not eligible for any new share option awards but are able to participate in the Savings Related Share Option scheme on the same terms as other employees.

(iv) Pensions

Executive Directors are offered the option of participating in the Company's defined benefit pension scheme or to make their own arrangements for a private pension plan. No pensions are provided for the Chairman and non-executive Directors.

The defined benefit pension arrangements comprise the Merchant Retail Group Pension Scheme which is an Inland Revenue approved final salary occupational scheme with a money purchase underpin arrangement. Its main features are:-

- a) a normal retirement age of 60;
- b) a pension entitlement at retirement of one sixtieth of the final pensionable salary for each year of service subject to a maximum 40 years of service;
- c) if the money purchase underpin arrangement yields a higher pension than the final salary basis, the pension can be purchased using this money instead;
- d) life assurance cover of four times the pensionable salary;
- e) pensions payable in the event of ill health; and
- f) a spouse's pension payable on death.

Only the basic salary element of the Directors' emoluments is pensionable.

REPORT OF THE BOARD ON THE REMUNERATION OF DIRECTORS (continued)**Directors' Emoluments**

The emoluments (excluding pension arrangements) of the Directors were as follows:

				1999	1998
	Salary and Fees £'000	Compensation for Loss of Office £'000	Benefits £'000	Total £'000	Total £'000
R F Heath	25	-	-	25	22
D W Wallis (resigned 31 December 1998)	102	136	5	243	144
P Newton	138	-	8	146	142
J D Gaisford	90	-	17	107	93
J P Seigal (appointed 17 November 1998)	42	-	2	44	-
M S M Johns	20	-	-	20	24
J S Piasecki	15	-	-	15	15
	432	136	32	600	440

Directors' Pensions

	Years of service	Increase in accrued pension per annum over the year £'000	Transfer value of the increase in accrued pension £'000	Accrued pension per annum at 27 March 1999 (ii) £'000	Money purchase contribution £'000
P Newton (i)	-	-	-	-	22
J D Gaisford	11	2	9	16	-
J P Seigal	8	3	16	12	-
D W Wallis (resigned 31 December 1998)	12	4	44	28	-

- (i) P Newton has a personal pension plan into which the company pays contributions.
- (ii) The accumulated total accrued pension is that which would become payable at age 60 on the assumption that service terminated on 27 March 1999 and relates to the Merchant Retail Group scheme.
- (iii) The transfer rates quoted above have been calculated by an independent actuary in accordance with Actuarial Guidance note GN 11.
- (iv) The non-executive Directors are not party to any pension arrangements.

Directors' Interests In The Company's Shares

The interests of the Directors and their families in the shares and loan stock of the Company, according to the register kept under section 325 of the Companies Act 1985 are shown below;

	Ordinary Shares Of 10p	
	At 27 March 1999	At 28 March 1998
R F Heath	830,644	680,644
P Newton	2,144,341	2,044,341
J D Gaisford	234,195	234,195
J P Seigal	197,000	197,000
M S M Johns	382,581	382,581
J S Piasecki	666,292	666,292

On 27 March 1999 and 28 March 1998 J D Gaisford held £6,700 8¾% unsecured loan stock 1999/2004.

The Company has not been notified of any changes to the beneficial holdings of the Directors, their families and any connected persons between 27 March 1999 and 24 May 1999.

Directors' Share Options

Share options have been granted to the Directors under the executive share option schemes, and the savings related share option scheme, as set out below:

	At 28 March 1998	Lapsed or exercised	At 27 March 1999	Exercise Price	Date from which exercisable	Expiry Date
P Newton						
1985 Scheme	400,000	-	400,000	41.00p	25.7.94	25.7.01
1985 Scheme	400,000	-	400,000	16.00p	20.7.96	20.7.03
1985 Scheme	75,828	-	75,828	12.00p	28.9.97	28.9.04
Savings Related Scheme	48,148	-	48,148	20.25p	26.9.00	26.3.01
J D Gaisford						
1985 Scheme	41,296	(41,296)	-	57.21p	Lapsed on 22.12.98	
1985 Scheme	100,000	-	100,000	41.00p	25.7.94	25.7.01
1985 Scheme	100,000	(100,000)	-	16.00p	-	-
1985 Scheme	75,828	(75,828)	-	12.00p	-	-
1995 Scheme	112,500	-	112,500	16.50p	26.3.99	26.3.06
1996 Scheme	37,500	-	37,500	21.00p	25.9.99	25.9.06
Savings Related Scheme	48,148	-	48,148	20.25p	26.9.00	26.3.01
J P Seigal						
1985 Scheme	250,000	-	250,000	16.00p	17.6.95	17.6.02
1985 Scheme	60,662	-	60,662	12.00p	28.9.97	28.9.04
Savings Related Scheme	48,148	-	48,148	20.25p	26.9.00	26.3.01
D W Wallis (resigned 31 December 1998)						
1985 Scheme	400,000	-	400,000	41.00p	25.7.94	31.12.99
1985 Scheme	500,000	(500,000)	-	16.00p	-	-
Savings Related Scheme	48,148	-	48,148	20.25p	31.12.98	30.6.99

Options exercised during the year

J D Gaisford exercised options for 175,828 shares on 19 May 1998, paying £25,099. The gain before dealing costs on the sale of these shares at 51p amounted to £64,573.

D W Wallis, who resigned as a director on 31 December 1998, exercised options for 500,000 shares on 19 May 1998, paying £80,000. The gain before dealing costs on the sale of these shares at 51p amounted to £175,000.

The market price of the shares at 27 March 1999 was 38.75p and the range during the year was 29.00p to 57.00p.

M S M Johns is a partner of Nicholson Graham & Jones, the Group's solicitors. This firm is instructed in the ordinary course of business and at normal professional rates.

P Newton and R F Heath are directors of Aureole Investments Limited. The Company leases office premises in Windsor from Nimbus Securities Limited, a wholly owned subsidiary of Aureole Investments Limited. The lease is for a total of £33,500 per annum, is at open market value and is terminable on six month's notice from the Company.

Save as aforesaid, none of the Directors had or has a material contract with the Company or any of its subsidiaries.

Apart from the share option schemes, the Company is not party to any arrangements whereby Directors or their families may acquire interests in the Company or any other Company.



M S M Johns

Chairman of the Remuneration Committee, 24 May 1999

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the nineteenth Annual General Meeting of Merchant Retail Group plc will be held at Founders Hall, No 1 Cloth Fair, London, EC1A 7HT at 11.00 am on 1 July 1999 for the following purposes:

Ordinary Business

1. To receive and consider the statement of accounts for the year ended 27 March 1999 and the report of the directors and auditors thereon.
2. To declare a final dividend on the Ordinary shares of 0.5p per share in respect of the year ended 27 March 1999.
3. To re-appoint the following directors who have been appointed Directors since the date of the previous Annual General Meeting:
 - (a) Mr J P Seigal
 - (b) Mr C Lamont. Aged 35, currently the Finance Director of The Perfume Shop

To re-appoint the following Directors who retire by rotation:

 - (c) Mr M S M Johns
 - (d) Mr R F Heath
4. To re-appoint PricewaterhouseCoopers as auditors of the Company and to authorise the directors to fix their remuneration.

Special Business

To consider and, if thought fit, to pass resolution 5 as an Ordinary Resolution and resolution 6 as a Special Resolution:

5. THAT
 - a) the Merchant Retail Group Long Term Incentive Plan (the "plan"), the main features of which are summarised in the appendix to the letter from the Chairman dated 8 June 1999 and the rules of which are now produced to the meeting and signed by the Chairman, be and is hereby approved; and
 - b) the Directors be and are hereby authorised (i) to do all such things as they may consider necessary and expedient to carry the plan into effect including making such changes to the draft rules establishing the plan as the Directors may consider necessary or desirable to obtain any approvals or to take account of any statutory, fiscal, exchange control or securities regulations either generally or in relation to any potential participant or class of potential participants provided that the overall limits contained in the plan continue to apply, and (ii) to vote, and be counted in the quorum at any Board Meeting, on any matter connected with the Plan, notwithstanding that they may be interested in the same and the provisions of the Articles of Association of the Company be relaxed accordingly to that extent (except that no Director may be counted in a quorum or vote in respect of his own participation).

Disapplication Of Pre-Emption Rights

6. THAT the Directors of the Company be and they are hereby empowered pursuant to the general authority conferred on them for the purposes of Section 80 of the Companies Act 1985 by the ordinary resolution passed on 25 July 1996 during the period expiring at the conclusion of the next annual general meeting of the Company or on 30 September 2000 whichever is the earlier to allot equity securities as defined in Sections 94 (2) and 94 (3) of the Companies Act 1985 as if Section 89 (1) of that Act did not apply to the allotment provided that this power shall be limited to :-

a) allotments in connection with a rights issue or other offer on a pre-emptive basis to holders of ordinary shares and (where considered by the Directors to be appropriate) other equity securities where the Directors shall have the right to make such exclusions or other arrangements as they may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of any territory or the requirements of the London Stock Exchange or any other Stock Exchange or regulatory authority; and

b) other allotments of equity securities for cash where the aggregate nominal amount of the shares that may be allotted does not exceed 5% of the nominal value of the issued ordinary share capital of the Company as at the date of passing of this resolution.

The Company may make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the Directors may implement such offer or agreement notwithstanding such expiry.

7. To transact any other ordinary business of the Company.

Registered Office

Kings Road House
2 Kings Road
Windsor
Berks. SL4 2AG



By order of the Board
C Lamont
Secretary

8 June 1999

- i. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company. The instrument appointing a proxy must be lodged with the registrars of the Company not less than forty-eight hours before the meeting or any adjourned meeting.
- ii The holders of the 5% preference shares are entitled to attend and vote at the meeting.
- iii The register of Directors' share interests will be available for inspection by members at the registered office during normal business hours from the date of this notice until 30 June 1999 and, on the day of the meeting, at the place of the meeting from 10.45 am until the conclusion of the meeting.
- iv Copies of the Directors' service contracts will be available for inspection at the registered office during normal business hours from the date of this notice until 30 June 1999 and, on the day of the meeting, at the place of the meeting from 10.45 am until the conclusion of the meeting.

Explanatory note

Disapplication of Pre-Emption Rights

Under resolution 6, the Directors are given power to issue securities in certain circumstances and up to a stated limit, other than pro-rata to shareholders.

Financial Record

		1999	1998	1997	1996	1995
Turnover excluding VAT	£'000	75,255	67,357	60,916	93,253	146,942
Profit/(loss) before taxation	£'000	4,030	3,036	1,767	(2,155)	1,075
Earnings/(loss) attributable to ordinary shareholders	£'000	3,279	2,327	1,220	(2,783)	887
Earnings/(loss) per share		3.18p	2.38p	1.43p	(3.27p)	1.04p
Adjusted earnings per share+		3.18p	2.38p	1.43p	0.23p	1.44p
Ordinary dividend per share		0.65p	0.50p	0.25p	0.00p	0.00p

The financial record set out above has been restated in accordance with FRS 3.

+ Adjusted for exceptional items and profits or losses on the sale of properties.

Financial Calendar

1 July 1999	Annual General Meeting
1 July 1999	Half year interest on 8 ³ / ₄ % loan stock 1999/2004 Half year dividends on the 5% preference shares
1 August 1999	Payment of final dividend
November 1999	Interim announcement of results for the 26 weeks ending 25 September 1999
1 January 2000	Half year interest on 8 ³ / ₄ % loan stock 1999/2004 Half year dividends on 5% preference shares
May 2000	Preliminary announcement of results for the 53 weeks ending 1 April 2000

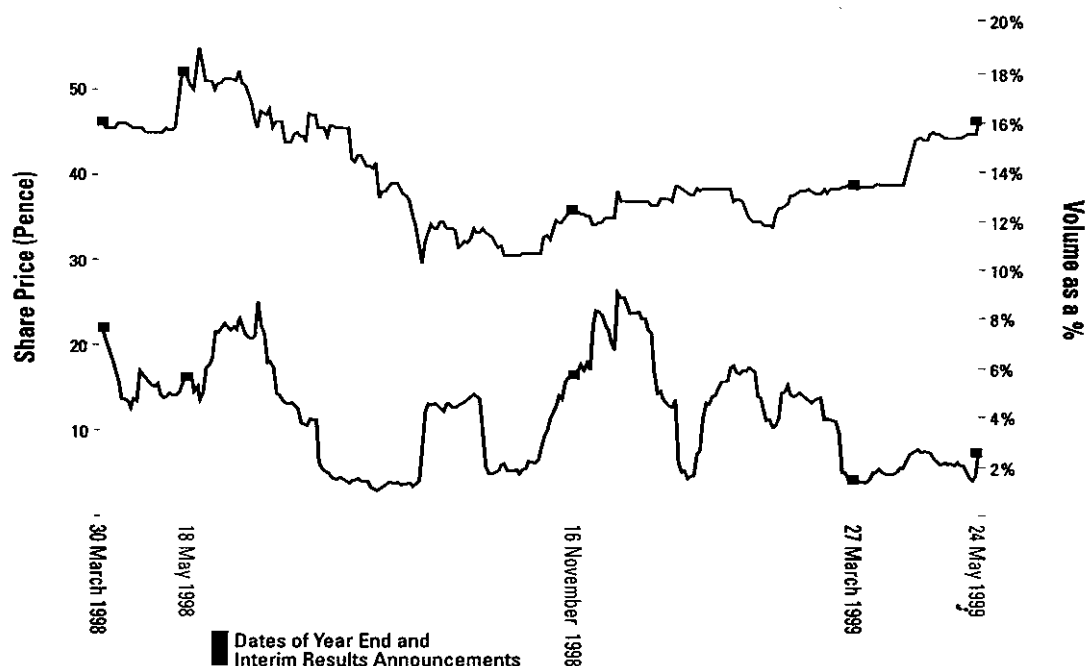
SHAREHOLDER INFORMATION

Analysis of Holdings in Ordinary 10p shares

Size of shareholding as at 24 May 1999	Shareholder analysis		Shareholding analysis	
	Number of holders	% of holders	Holding	% of Ordinary Shares
0 - 10,000	4,536	89%	11,561,256	11%
10,001 to 50,000	410	8%	8,514,209	8%
50,001 to 100,000	53	1%	3,873,631	4%
100,001 to 500,000	62	1%	14,529,501	14%
Above 500,000	24	1%	64,767,918	63%
	5,085	100%	103,246,515	100%

Share Price and average share volumes traded since 30 March 1998

(Volumes expressed as a rolling 4 week average % of the total company)



Dividends on ordinary shares

A final dividend of 0.40p per share was paid on 1 August 1998 in respect of the financial year ended 28 March 1998. An interim dividend of 0.15p per share was paid in respect of the year under review on 1 January 1999. Subject to approval at the Annual General Meeting on 1 July 1999, a final dividend of 0.50p per share will be paid on 1 August 1999 to shareholders on the register on 2 July 1999.

Payment of dividends by Bank Transfer

Many shareholders will find it helpful to have their dividends paid directly by bank transfer into their bank accounts with the corresponding tax voucher sent by post to the shareholder's address. Shareholders are invited to fill in a dividend payment mandate form which is available from the Registrars.

Shareholder Enquiries

All administrative enquiries relating to shareholdings should in the first instance be addressed to the Company's Registrars and should clearly state the registered shareholder's name and address. Please write to IRG plc, Balfour House, 390-398 High Road, Ilford, Essex IG1 1NQ (Telephone 0181 478 8241 and Facsimile 0181 478 2876).

Shareholder Vouchers

All shareholders with 2,000 ordinary 10p shares or more are eligible for a 10% discount voucher available on application to the Company Secretary. The voucher will be accepted at all branches of The Perfume Shop and Joplings.



Merchant Retail Group plc

STORE LOCATIONS

The Perfume Shop

- Basingstoke
- Belfast
- Birmingham, Merry Hill
- Birmingham, Pallasades
- Blackburn
- Blackpool
- Bluewater (Kent)
- Brighton
- Bristol, Cribbs Causeway
- Bristol, The Galleries
- Bromley
- Cambridge
- Cheltenham
- Chester
- Coventry
- Dundee
- East Kilbride
- Edinburgh
- Five Sisters (West Lothian)
- Foyleside (Northern Ireland)
- Glasgow, Buchanan Galleries
- Glasgow, Parkhead
- Glasgow, St Enochs
- Guildford
- Hull
- Ipswich
- Leicester
- Liverpool
- London, Broadgate, Liverpool Street
- London, High Street, Kensington
- London, Victoria
- Maidstone
- Manchester, Arndale Centre
- Manchester, Trafford Centre
- Middlesbrough
- Milton Keynes
- Newcastle
- Newtownabbey (Northern Ireland)
- Norwich
- Nottingham
- Perth
- Romford
- Sheffield
- Southampton
- Thurrock
- Tunbridge Wells
- Watford
- Wolverhampton

Joplings

- Joplings, Sunderland
- Robbs, Hexham
- Tynedale Park, Hexham
- Woodwards, Leamington Spa



MERCHANT
Retail Group plc

PERFUME

JOPLINGS

Merchant Retail

Kings Road House, 2 Kings Road, Windsor, Berkshire SL4 2AG. Telephone 01753 357 053