

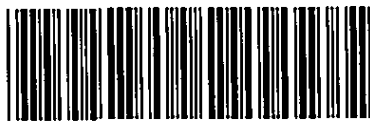
DIRECTORS' REPORT AND ACCOUNTS

MRG DEPARTMENT STORES (JOP) LIMITED

(Registered Number 503553)

30 December 2006

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MRG Department Stores (JOP) Limited

Directors' Report for the fifty two weeks ended 30 December 2006

The Directors present their report together with the audited accounts of the Company for the fifty two weeks ended 30 December 2006

Profits and dividends

Details of turnover and profits are shown in the profit and loss account set out on page 4

The profit for the financial period is £42,335 (prior period - £11,028,027)

Preference share dividends of £78,000 (prior period - £58,500) were paid in the year No ordinary dividend was paid in the year (prior period - £6,792,217)

Principal activity

The principal activity of the Company was formerly retailing in the United Kingdom The Company has not traded in the year

Review of the business

The Company is currently running down the business, the costs of which were provided for in previous years

Principal risks and uncertainties

The directors of 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.

Key performance indicators

Given the straightforward nature of the business, the company's directors are of the opinion that the analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business

Fixed assets

Details of the movements in investments are set out in note 7

Directors and their interests

The directors holding office during the year were

J C Jefferson	(resigned 31 March 2006)
P Newton	(resigned 31 May 2006)
P J Samuel	(resigned 5 March 2007)
J P Seigal	
C Lamont	(resigned 7 July 2006)
I F Wade	(resigned 11 December 2006)
A M Y Y So	
G G Smith	(appointed 11 December 2006)
D K M Lai	(appointed 11 December 2006)

None of the Directors have any interest in the share capital and debentures of group companies

MRG Department Stores (JOP) Limited
Directors' Report for the fifty two weeks ended 30 December 2006 (continued)

Directors and their interests (continued)

As permitted by s310(3)(a) of the Companies Act 1985, the Company maintains Directors' and Officers' Liability insurance which provides insurance cover against liabilities which Directors and other officers of the Company may incur personally as a consequence of claims made against them alleging breach of duty or other unlawful acts or omissions in their capacity as Directors and officers

Company secretary

The secretary who served during the year was

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Directors' responsibilities in respect of the financial statements

The following statement is made for the purpose of clarifying the responsibilities of the Directors in the preparation of the financial statements

Company law requires the directors to prepare financial statements for each financial year that gives 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently in the preparation of the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 December 2006 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Audit information

In so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all the 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.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the Board


J P Seigal
Director

Registered office

Hutchison House
5 Hester Road
Battersea
London
SW11 4AN

23.8.2007

Independent auditors' report to the members of MRG Department Stores (JOP) Limited

We have audited the financial statements of MRG Department Stores (JOP) Limited for the 52 weeks ended 30 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion,

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 30 December 2006 and of its profit for the 52 weeks then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds

23 August 2007

MRG Department Stores (JOP) Limited

Profit and loss account - for the fifty two weeks ended 30 December 2006

		52 weeks ended 30 December 2006	40 weeks ended 31 December 2005
	Notes	£	£
Turnover		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses		-	(311,000)
Operating loss	2	-	(311,000)
Dividends receivable		-	11,228,955
Profit on ordinary activities before interest and taxation		-	10,917,955
Interest receivable	4	2,570	17,072
Profit on ordinary activities before taxation		2,570	10,935,027
Taxation	5	39,765	93,000
Profit for the financial year		42,335	11,028,027
Dividends - including non-equity	6	(78,000)	(6,850,717)
Retained (loss)/profit	12	(35,665)	4,177,310

All of the above results relate to discontinued activities

Statement of total recognised gains and losses

	52 weeks ended 30 December 2006	40 weeks ended 31 December 2005
	£	£
Profit for the financial year	42,335	11,028,027
Unrealised loss on revaluation of investments	(132,374)	(11,228,955)
Total recognised losses relating to the year	(90,039)	(200,928)

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

MRG Department Stores (JOP) Limited
Balance sheet as at 30 December 2006

		2006	2005
	Notes	£	£
FIXED ASSETS			
Investments	7	<u>19,545,890</u>	<u>19,678,264</u>
CURRENT ASSETS			
Debtors	8	<u>23,708,469</u>	<u>24,272,149</u>
CREDITORS (due within one year)			
Debt finance		(62,193)	(1,495,617)
Creditors	9	<u>(27,929,407)</u>	<u>(26,389,679)</u>
		<u>(27,991,600)</u>	<u>(27,885,296)</u>
NET CURRENT LIABILITIES		<u>(4,283,131)</u>	<u>(3,613,147)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		15,262,759	16,065,117
PROVISIONS FOR LIABILITIES AND CHARGES	10	(512,045)	(1,146,364)
NET ASSETS		<u>14,750,714</u>	<u>14,918,753</u>
CAPITAL AND RESERVES			
Called up share capital	11	6,100,000	6,100,000
Revaluation reserve	12	7,237,928	7,370,302
Profit and loss account	12	1,412,786	1,448,451
SHAREHOLDERS' FUNDS (EQUITY AND NON-EQUITY)	13	<u>14,750,714</u>	<u>14,918,753</u>
ANALYSIS OF SHAREHOLDERS' FUNDS			
Equity		14,150,714	14,318,753
Non-equity		600,000	600,000
		<u>14,750,714</u>	<u>14,918,753</u>



J P Sergal

Director

Approved by the Board on 27.8 - 2007

MRG Department Stores (JOP) Limited
Notes to the accounts - 30 December 2006

1 ACCOUNTING POLICIES

a) Basis of accounting

The accounts are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of investments in subsidiary undertakings, and in accordance with the Companies Act 1985 and applicable accounting standards

A summary of the more important accounting policies, is set out below

b) Investment in subsidiary undertakings

Investments in subsidiaries are stated at the book amount of the net assets of those subsidiaries with movements being dealt with through the revaluation reserve. Only dividends received and receivable from subsidiaries are included in the Company's profit and loss account. In accordance with s228 Companies Act 1985 the Company does not prepare group accounts since it is itself a wholly owned subsidiary of A S Watson (Health and Beauty UK) Limited, a company which prepares group accounts

c) Leased assets

Assets used by the Company, 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.

d) 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. Timing differences are differences between the Company's taxable profit and its results as stated in the financial statements

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 substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

e) Pension costs

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

f) Foreign currency

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date

g) Related party transactions

The Company was a wholly owned subsidiary of Hutchison Whampoa Limited at the year end and is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Group

MRG Department Stores (JOP) Limited
Notes to the accounts - 30 December 2006 (continued)

2 OPERATING LOSS

The following amounts have been charged in arriving at operating loss

	52 weeks ended 30 December 2006 £	40 weeks ended 31 December 2005 £
Staff costs (note 3)	623,100	933,775
Operating lease rentals - Other	9,816	12,504
Other fees paid to auditors	12,100	5,200

Auditors' remuneration has been borne by the Company's sister undertaking, The Perfume Shop Limited

All of the above costs in the current year were previously provided for, and therefore there is no effect on the profit or loss for the current year

3 STAFF COSTS

	52 weeks ended 30 December 2006 £	40 weeks ended 31 December 2005 £
Total payroll costs were		
Wages and salaries	517,551	688,041
Social security costs	50,496	190,430
Other pension costs	55,053	55,304
	<u>623,100</u>	<u>933,775</u>
	number	number

The average monthly number of people employed by the Company during the year was

Total	<u>23</u>	<u>37</u>
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The emoluments of the directors, including pension contributions, were as follows

	52 weeks ended 30 December 2006 £	40 weeks ended 31 December 2005 £
Directors' remuneration		
- Remuneration	132,075	161,955
- Pension contributions	22,131	24,677
	<u>154,206</u>	<u>186,632</u>

MRG Department Stores (JOP) Limited
Notes to the accounts - 30 December 2006 (continued)

3 STAFF COSTS (continued)

Pension contributions of £22,131 (prior period - £24,677) were paid on behalf of 2 (prior period - 2) directors J C Jefferson has a personal pension plan into which the Company pays contributions. Payments for P J Samuel are made to a defined benefit scheme.

P Newton, J P Seigal, C Lamont and G G Smith were remunerated for their services to The Perfume Shop Limited. Their emoluments are shown in the financial statements of that company.

None of the other directors are remunerated for their services to the Company.

The emoluments and pension arrangements of the highest paid director, P J Samuel, were as follows	52 weeks ended 30 December 2006 £	40 weeks ended 31 December 2005 £
- Remuneration	114,816	92,264
- Pension contributions	19,138	15,698
	<u>133,954</u>	<u>107,962</u>

All of the above staff costs were provided for in previous periods, and therefore there is no effect on the profit or loss for the current year.

4 INTEREST RECEIVABLE	52 weeks ended 30 December 2006 £	40 weeks ended 31 December 2005 £
Interest receivable	<u>2,570</u>	<u>17,072</u>

5 TAXATION	52 weeks ended 30 December 2006 £	40 weeks ended 31 December 2005 £
a) Analysis of credit in the period		
UK corporation tax		
Current year	-	(93,000)
Prior years	(39,765)	-
Current tax credit for the period (note 5b)	<u>(39,765)</u>	<u>(93,000)</u>
Deferred tax		
Current year	-	-
Prior years	-	-
Total deferred tax credit for the period	<u>-</u>	<u>-</u>
Total tax credit	<u>(39,765)</u>	<u>(93,000)</u>

MRG Department Stores (JOP) Limited
Notes to the accounts - 30 December 2006 (continued)

5 TAXATION (continued)

b) Factors affecting the tax charge for the period

The tax charge for the year is lower than the standard rate of corporation tax in the UK (30%) for the following reasons

Profit on ordinary activities before taxation	<u>2,570</u>	<u>10,935,027</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (prior period - 30%)	771	3,280,508
Effects of		
Dividends received from UK subsidiary companies	-	(3,368,686)
Permanent differences	(771)	(4,822)
Adjustments in respect of prior years	(39,765)	-
Current tax credit for the period (note 5a)	<u>(39,765)</u>	<u>(93,000)</u>

c) Factors that may affect future tax charges

Future tax charges are likely to be in line with the standard rate of Corporation Tax in the UK of 30%

6 DIVIDENDS PAYABLE

	52 weeks ended 30 December 2006	40 weeks ended 31 December 2005
	£	£
Non-equity		
Preference dividends 13 00p (prior period - 9 75p) per £1 share	78,000	58,500
Equity		
Ordinary dividend paid nil (prior period - 30 87p) per £0 25 share	-	6,792,217
	<u>78,000</u>	<u>6,850,717</u>

MRG Department Stores (JOP) Limited
Notes to the accounts - 30 December 2006 (continued)

7 FIXED ASSET INVESTMENTS

Investments in group undertakings	£
Valuation at 31 December 2005	19,678,264
Revaluation of investments	(132,374)
Valuation at 30 December 2006	<u>19,545,890</u>

The historical cost of investments in group undertakings is £8,862,116 (prior period £8,862,116)

In the opinion of the directors, the value of the Company's investments in its subsidiary undertakings is not less than the amount stated above. The principal wholly owned subsidiary undertakings of the Company are set out below

Company	Nature of business	Country of operation
Chantlee Properties Limited	Property holding company	UK
Joplings Financial Services Limited	Finance company	UK

All the above companies are registered in England

	2006 £	2005 £
8 DEBTORS (receivable within one year)		
Amounts owed by parent undertaking	23,498,486	23,587,940
Amounts owed by subsidiary undertakings	183,858	613,687
Other debtors	17,676	38,245
Prepayments and accrued income	8,449	32,277
	<u>23,708,469</u>	<u>24,272,149</u>

MRG Department Stores (JOP) Limited
Notes to the accounts - 30 December 2006 (continued)

9 CREDITORS (due within one year)	2006	2005
	£	£
Trade creditors	10,225	24,694
Amounts owed to group companies	26,123,735	25,974,610
Corporation tax	1,518,452	215,475
Other taxes and social security	22,345	26,994
Other creditors and accruals	254,650	147,906
	<u>27,929,407</u>	<u>26,389,679</u>

Bank loans and overdrafts are secured by a floating charge on the assets of other subsidiary undertakings

10 PROVISIONS FOR LIABILITIES AND CHARGES

	Disposal of Business
	£
At 1 January 2006	1,146,364
Utilised in the year	(634,319)
At 30 December 2006	<u>512,045</u>

The provision relates to the future costs of running down the business, and is expected to be substantially utilised within 12 months

MRG Department Stores (JOP) Limited
Notes to the accounts - 30 December 2006 (continued)

11 CALLED UP SHARE CAPITAL

	Authorised		Allotted and fully paid	
	2006	2005	2006	2005
	£	£	£	£
Equity				
22,000,000 ordinary shares of £0.25 each	5,500,000	5,500,000	5,500,000	5,500,000
Non-equity				
600,000 13% cumulative preference shares of £1 each	600,000	600,000	600,000	600,000
	<u>6,100,000</u>	<u>6,100,000</u>	<u>6,100,000</u>	<u>6,100,000</u>

The rights of the 13% cumulative preference shares are

Dividends are payable at a rate of 13% on the amounts paid up on the shares and in priority to any payment to the holders of any other class of share.

The shares have no redemption rights

On a winding up, the shareholder will be entitled to a repayment of the capital paid up on the shares together with any deficiency or arrears of dividend and a premium. The premium is the greater of either 10p or the average of the market value in excess of the nominal value of the shares taken in a three month period 30 days before the notice to convene the general meeting of the Company to consider the return of the capital.

The shares do not entitle the holders to any voting rights unless

- (i) the dividend is six months in arrears, or
- (ii) the business of the meeting includes the consideration for the reduction of the capital of the Company, the winding up of the Company or the varying of rights of the shares

12 RESERVES

	Revaluation reserve	Profit and loss account
	£	£
At 1 January 2006	7,370,302	1,448,451
Revaluation of subsidiary undertakings	(132,374)	-
Retained loss for the year	-	(35,665)
At 30 December 2006	<u>7,237,928</u>	<u>1,412,786</u>

MRG Department Stores (JOP) Limited
Notes to the accounts - 30 December 2006 (continued)

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Note	2006 £	2005 £
Profit on ordinary activities after taxation		42,335	11,028,027
Dividend	6	(78,000)	(6,850,717)
Revaluation of investment in subsidiaries	7	(132,374)	(11,228,955)
Net change in shareholders' funds		<u>(168,039)</u>	<u>(7,051,645)</u>
Opening shareholders' funds		<u>14,918,753</u>	<u>21,970,398</u>
Closing shareholders' funds		<u>14,750,714</u>	<u>14,918,753</u>

Shareholders' funds include non-equity interests of £600,000 (prior period - £600,000)

14 OPERATING LEASE COMMITMENTS

The minimum annual rental commitments at 30 December 2006 in respect of non-cancellable operating leases were

	Plant & Machinery	
	2006	2005
	£	£
Leases expiring		
Within one year	9,768	9,768
Between one and five years	-	-
Over five years	-	-
	<u>9,768</u>	<u>9,768</u>

15 CONTINGENT LIABILITIES

The Company together with other group undertakings, has given guarantees in respect of bank overdrafts in the name of group undertakings. At 30 December 2006, these overdrafts amounted in total to £551,551 (prior period 1,268,708)

MRG Department Stores (JOP) Limited
Notes to the accounts - 30 December 2006 (continued)

16 PENSION COMMITMENTS

The Company participates in pension arrangements provided on a group basis

Merchant Retail Group plc 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.

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

The Company is unable to identify its share of the underlying assets and liabilities of the group scheme. Therefore in accordance with FRS 17 the Company has accounted for the contributions to the scheme as if they were a defined contribution scheme. The detailed disclosures required by FRS 17 have been included within the financial statements of the parent company at the year end, Merchant Retail Group plc.

The above defined benefit scheme was closed to new members from 1 April 2001. All new employees are given the opportunity to join a money purchase scheme. The Company makes a contribution, the level of which depends on the seniority of the employee.

17 ULTIMATE HOLDING COMPANY

The immediate parent undertaking is Merchant Retail Group plc, which is a wholly owned subsidiary undertaking of A S Watson (Health & Beauty UK) Limited, which publishes consolidated accounts and a group cash flow statement that can be obtained from Hutchison House, 5 Hester Road, Battersea, London SW11 4AN. Both companies are incorporated in the United Kingdom.

The Company has not prepared a Cash Flow Statement, as A S Watson (Health & Beauty UK) Limited has prepared a consolidated cash flow statement in accordance with the revised Financial Reporting Standard 1.

The Company's ultimate parent undertaking and controlling party is Hutchison Whampoa Limited, a company incorporated in Hong Kong, which is the parent undertaking of the largest group to consolidate their financial statements. These can be obtained from Hutchison House, 22nd Floor, 10 Harcourt Road, Hong Kong.