

DIRECTORS AND ADVISORS

Registered Address and Head Office

22 Union Court
Union Road
London
SW4 6JQ

Registered Number

2263726

Directors

D C G Gyle-Thompson - **Non Executive Chairman**
W A Hobhouse - **Managing Director**
D V J Paget - **Finance Director and Company Secretary**
J P G Hilton - **Product Director**
K B Collinge - **Buying Director**
B R W Hay - **Retail Operations Director**
J D Lovering - **Non Executive Director**
D G Hemming - **Non Executive Director**

Bankers

Midland Bank plc
Poultry & Princes Street
London
EC2P 2BX

Registered Auditors

Horwath Clark Whitehill
25 New Street Square
London
EC4A 3LN

Nominated Advisor and Nominated Broker

Henderson Crosthwaite Institutional
Brokers Limited
32 St Mary at Hill
London
EC3P 3AJ

Registrars

Connaught St Michaels Limited
PO Box 30
Victoria Street
Luton
Bedfordshire
LU1 2PZ



CHAIRMAN AND MANAGING DIRECTORS' STATEMENT

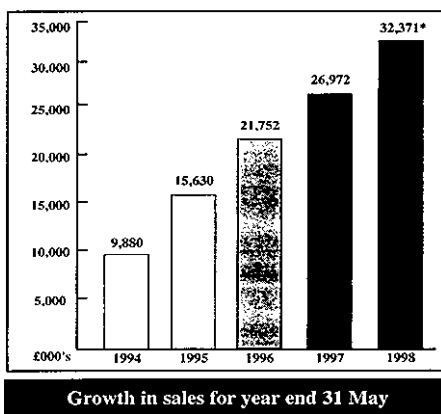
BUSINESS REVIEW

We are pleased to announce our seventh year of consecutive profit growth. This was particularly satisfactory in a year when our business in Japan reflected the weakness in that economy, and in the UK where there was evident slowing of retail activity towards the year end.

On continuing operations sales increased 20% to £32.4 million and profits pre tax and exceptionals 20% to £3.0 million. This led to growth in Earnings per Share of 22%, from 9.9p to 12.1p. The Directors are pleased to propose a final dividend of 2.55 pence, making the dividend for the full year 3.7 pence.

£000's Year end 31 May	Continuing operations	
	Sales	Profit before tax and exceptionals
1994	9,880	719
1995	15,630	1,312
1996	21,752	1,802
1997	26,972	2,511
1998	32,371	3,020

Your Board believe that a successful retail business will undergo continual change and development to maintain a fresh and appropriate offer in the market place. To that end we have developed three interesting formats during the past year.

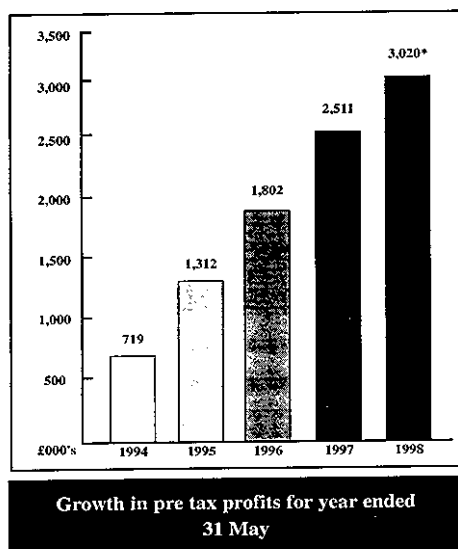


* Continuing Operations

CHAIRMAN AND MANAGING DIRECTORS' STATEMENT

The Factory Outlet format was further extended with 3 openings and 3 lease commitments for opening in the next six months, taking the number of Factory Outlet stores trading for Christmas to 9.

Last year we launched the Whittard Kitchen Store concept. This has proven very successful and we now have 3 sites trading. We have committed to open 4 further Kitchen Stores during the coming year. The Whittard Kitchen Store extends our business into a wider range of kitchen products, building on success and experience in ceramics and equipment. This division holds considerable potential for the Company.



* Continuing Operations

We will open the Whittard t-bar this Autumn in London. The t-bar takes the brand into the growing High Street café market. The t-bar will be tested, evaluated and rolled out if financially successful.

Overseas the Whittard franchise division continues to grow and we have trading franchises in Singapore, Dubai, Abu Dhabi, South Africa and Chile. There are further territories under discussion and we expect to fulfil our expectations of opening two new territories each financial year. The International division continues to contribute to group profits and we look forward to further progress during the financial year.

The Company's financial position remains strong. We have been able to finance our expansion from internally generated funds and still retain cash in the balance sheet. This provides important flexibility in a tightening retail market.

CURRENT TRADING

In common with many UK retailers, we are experiencing tougher trading conditions, however gross sales in the first quarter are ahead of the same period last year.

Five new stores have opened since the year end. Leases are in solicitors hands for an additional 5 openings during the current financial year, and negotiations for a further 5 sites are nearing completion.

This year we look forward to further growth and the development of our new divisions in factory outlets, kitchenware and the t-bar.

EMPLOYEES

The Company employed 688 people (full and part time) at the year end.

The Board recognise that the growth in the business has come about through the hard work and dedication of a great number of people. We have an excellent and highly creative team and are proud of all that we have achieved.

We are pleased to welcome to the Board John Lovering as a Non-Executive Director and to promote Brian Hay to the Main Board as Operations Director. Both have much to contribute to further growth and progress.

David Gyle-Thompson
Chairman

Will Hobhouse
Managing Director

The Directors present their report and the audited financial statements for the year ended 31 May 1998, which includes the results of trading for the 52 weeks ended 24 May 1998 (1997: 52 weeks).

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in the sourcing and sale of tea, coffee and associated products through retail outlets.

The review on pages 1 and 2 refer to its current operations and future developments.

RESULTS AND DIVIDENDS

The profit for the period after taxation amounted to £1,794,631 (1997: £1,572,344). The Directors have paid an interim dividend of £188,430 (1.15p per share) to ordinary shareholders in respect of the year (1997: £160,311) and propose a final dividend of £417,822 (2.55p per share) (1997: £344,081). The final dividend will be payable on 16 November 1998 to shareholders on the Register at the close of business on 6 November 1998.

These results are discussed in the reviews on pages 1 and 2.

DIRECTORS' AND THEIR INTERESTS IN SHARES

The Directors of the Company and their families' beneficial interests in shares were as follows:

	Ordinary shares	
	of 5p each 1998	of 5p each 1997
D C G Gyle-Thompson	3,254,910	4,804,910
W A Hobhouse	3,782,030	4,492,030
J P G Hilton	154,698	159,698
J A C Hill (Resigned 10 July 1998)	Nil	Nil

J D Lovering (Appointed 5 May 1998)	2,500	Nil
D G Hemming	Nil	Nil
K B Collinge	202,615	202,615
D V J Paget (Appointed 4 September 1997)	60,000	Nil
D C Boys (Resigned 6 June 1997)	Nil	290,392

Apart from 3,204,910 shares of D C G Gyle-Thompson and 1,797,384 shares of W A Hobhouse, all shares are held beneficially.

As at 11 September 1998 there had been no changes to the shareholdings shown above.

B R W Hay was appointed a Director on 7 September 1998.

NON EXECUTIVE DIRECTORS

David Gyle-Thompson. (Chairman) Age 54. He joined the Board in 1988 and is also Chairman of Onslow Boyd Group Limited and Beauchamp Marketing Limited.

John Lovering. Age 48. He joined the Board in May 1998 and is also Chairman of The Birthdays Group Limited, The Peacock Group Limited and Fired Earth Limited. Prior to this he was Director and Chairman of the Strategic Committee of Hoogenbosch Beheer, BV the Dutch shoe and sports retailer, Chief Operating Officer of Tarmac plc from 1993 to 1995 and before that Finance Director of Sears plc.

David Hemming. Age 56. He joined the Board in 1989, then representing the original venture capital investor, Granville Private Equity Managers. Prior to joining Granville in 1985 he worked with the PA Consulting Group and Wilkinson Sword Group. He is now a consultant in management and business systems.

DIRECTORS' REPORT (CONTINUED)

SHARE OPTIONS

The Company has two Executive Share Option Schemes, one Inland Revenue approved and the other unapproved. Certain Directors and senior employees participate in these schemes. In addition the Company has an Inland Revenue approved Savings Related Share Option Scheme in which all qualifying employees can participate.

The following unexercised options have been granted to Directors:

	Ordinary Shares of 5p each		
	Savings Related Share Option Scheme	Approved Scheme	Unapproved Scheme
J P G Hilton	10,767	16,500	23,500
K B Collinge	8,234	16,500	23,500
D V J Paget	5,668	16,500	33,500
B R W Hay	10,029	16,500	23,500

The options granted under the Executive Share Option Schemes are exercisable from June 2000 to June 2007 (June 2004 for unapproved share options) at £1.815 per share. The options granted under the Savings Related Share Option Scheme are exercisable from September 1999 to May 2004 at between £1.184 and £1.72 per share. Apart from the Savings Related options granted to J P G Hilton and K B Collinge, all options were granted during the year.

During the year the Company's share price fluctuated between £1.60 and £2.315, and was £2.30 at 31 May 1998.

The maximum number of shares which can be included in these Share Option Schemes cannot exceed 10% of the Company's issued share capital in a ten year period.

YEAR 2000

The Company has carried out a wide ranging review of its computer systems and believes that all vulnerable systems have been identified

and will be rectified ahead of time. In some instances, systems are in the process of being replaced entirely to improve operational effectiveness, while other systems are being modified to ensure compliance. The Company has liaised with its trading partners and suppliers, to ensure that the supply chain will continue to operate without disruption and are assessing their progress towards compliance.

The revenue costs directly associated with Year 2000 compliance are not expected to be material in the context of the Company's expenditure on new systems.

CORPORATE GOVERNANCE

The company has complied throughout the period under review with all the provisions of the Code of Practice contained in the Cadbury Committees report, as laid down in the Listing Rules of the London Stock Exchange.

The Board and Committees

The Board comprises five Executive and three Non Executive Directors. It meets formally at least six times a year and the Executive Directors meet regularly to monitor and guide performance.

The principal board committees are

1. Audit Committee
2. Remuneration Committee

The Audit Committee comprises David Gyle-Thompson (Chairman of the Committee), John Lovering and David Hemming, all of whom are Non Executive Directors. It meets twice a year with the Company's auditors. The Committee is responsible for reviewing the accounting procedures and controls prior to the publication of the Company's financial statements. It also acts as a communications route for the auditors and sets their remuneration.

Report of the Remuneration Committee

The Remuneration Committee determines the employment terms and remuneration of the Executive Directors. The members of the Committee are David Gyle-Thompson (Chairman of the Committee), John Lovering and David Hemming.

The Committee has set the remuneration of the Executive Directors so that it is aligned with the performance of the Company, with the individual's contribution to that performance, and is competitive with similar positions in comparable companies in the retail sector. This enables the Company to attract, retain and motivate high calibre executives. The Company has complied throughout the year with Section A of the best practice provisions annexed to the listing rules. In setting its remuneration policy the Committee has given full consideration to Section B of the best practice provisions annexed to the listing rules.

The remuneration package for each executive comprises:

- a basic salary, which is reviewed annually by the Committee
- other benefits, comprising a fully expensed Company car and private health insurance
- a share in a bonus pool, which in the year to 31 May 1998 amounted to the lesser of £150,000 and 15 per cent of the increase over the previous year in the Company's pre tax profit, and which was shared between the Directors and senior managers
- share options granted from time to time (detailed in Note 17), and
- service contracts, subject to one year's notice for W A Hobhouse and six months for the other executives on either side, increasing to two years given by the Company on change of control of the Company.

Non executive directors have no service contracts and are not eligible for bonus or participation in share option schemes and no pension contributions are made on their behalf. The remuneration of non executives is determined by the Chairman and Managing Director.

Details of individual Directors and their remuneration package are given in Note 5 to the financial statements.

Internal Financial Control

The Directors are responsible for the Group's system of internal financial controls. Such systems provide reasonable, but not absolute, assurance against material misstatement or loss, that financial information is relevant, reliable and accurate and that the Company's assets are correctly accounted for and adequately safeguarded. Steps are taken to ensure that any weaknesses in the systems of control are identified and rectified as quickly as possible, and that controls are continuously enhanced to improve the security of assets and operational efficiency.

Risks to the Group are formally appraised through the annual process of preparing business plans and budgets and reviews of capital expenditure proposals. Informally the risks are appraised through close monitoring of operations. Financial results are reported on weekly and monthly through the year and variances from approved plans and budgets are monitored and followed up vigorously.

The Directors confirm that they have reviewed the effectiveness of the system of internal financial control.

DIRECTORS' REPORT (CONTINUED)

Going Concern

The Directors confirm that they are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

SHARE CAPITAL

Movements in share capital are set out in Note 17 to the financial statements.

In September 1997, the Company's shares were listed on the main market of the London Stock Exchange.

EMPLOYEE POLICIES

The Group is committed to permitting policies to ensure that employees and those applying for positions are treated equally regardless of sex, marital status, age, creed, colour, race or ethnic origin.

It is the Group's policy to give full and fair consideration to applications for employment by people who are disabled and to continue wherever possible the employment of any staff who may become disabled.

Communications and consultation within the Group is conducted principally at store level by store, regional and head office management.

CHARITABLE AND POLITICAL DONATIONS

Charitable donations of £42,055 were made in the year (1997: £6,657). There were no donations made to political parties (1997: £Nil).

SUPPLIER PAYMENT POLICY

It is the policy of the Company to negotiate payment terms and conditions for business transactions with suppliers, and to make payment in accordance with these terms, subject to the terms and conditions being complied with by the supplier. The number of creditor days outstanding at the year end were 31.

SUBSTANTIAL INTERESTS

On 2 September 1998, the following substantial interests (3% or more) in the Company's share capital, other than Directors' holdings shown above, had been notified to the company:

Shareholder	Ordinary Shares	% Holding
Fidelity International Limited and its direct and indirect subsidiaries	2,114,100	12.90
AIB Govett Asset Management Limited	1,125,000	6.87
Westpool Investment Trust plc	962,000	5.87

AUDITORS

During the year the auditors changed their name to Horwath Clark Whitehill, and have signed their reports in their new name. They have indicated their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the following Annual General Meeting.

DIRECTORS' REPORT (CONTINUED)

ANNUAL GENERAL MEETING

Special business to be proposed at the Annual General Meeting will seek shareholder approval of the following:

- to renew the authority to issue new shares representing up to 36% of the issued share capital, having a nominal aggregate value of £294,933 (Resolution 7)
- to renew the authority to issue for cash new shares representing up to 5% of the issued share capital, having a nominal aggregate value of £40,963, without being limited by pre-emption rights (Resolution 8).
- to authorise the Company to purchase up to 1,638,519 ordinary shares in the market, representing 10% of the current issued ordinary share capital of the Company, at a price not less than the nominal value of the ordinary shares and not more than 5% above the average of the middle market quotations of the Company's ordinary shares derived from the London Stock Exchange Daily Official List for the 10 business days before the purchase is made. The authority would be given for the period ending on the date of next year's Annual General Meeting or fifteen months after the passing of the resolution (whichever is the earlier) and it is presently intended that a resolution for the renewal of such authority would be proposed at each succeeding Annual General Meeting. The Directors have no present intention of making such purchases, but it is prudent to have this authority so as to be able to act at short notice if circumstances change. The authority would, however, only be exercised if the Directors believe that to do so would be in the best interests of shareholders generally.

The Directors will use the authority to issue shares should a business opportunity occur or on the exercise of outstanding options.



By Order of the Board
D V J Paget
Secretary

11 September 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group at the end of the period and of the profit or loss of the group for that period. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

AUDITORS REPORT

Auditors Report to the shareholders of Whittard of Chelsea plc

We have audited the financial statements on pages 9 to 21 which have been prepared under the accounting policies set out on page 14. We have also examined the amounts disclosed relating to Directors' share options on page 4.

Respective Responsibilities of Directors and Auditors

As described on page 7 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

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 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 the information in the financial statements.

Unqualified Opinion

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

Harwell Clive Whitehill

Chartered Accountants
and Registered Auditors
11 September 1998

Auditors Report to Whittard of Chelsea plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statement on pages 4 to 6 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with these paragraphs of the Code which is not disclosed.

Basis of Opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. The guidance does not require us to perform additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control on page 5 and going concern on page 6, in our opinion the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company and examination of relevant documents, in our opinion the directors statement on pages 4 to 6 appropriately reflects the Company's compliance with other paragraphs of the Code specified for our review.

Harwell Clive Whitehill

Chartered Accountants
and Registered Auditors
11 September 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 May 1998

	Notes	1998		1997
		Before Discontinued Activities and Exceptional Items	Discontinued Activities and Exceptional Items (Note 3)	Including Discontinued Activities and Exceptional Items
		£	£	£
TURNOVER	1	32,371,075	84,820	32,455,895
Cost of sales		(27,146,259)	(150,692)	(27,296,951)
GROSS PROFIT		5,224,816	(65,872)	5,158,944
Selling and distribution costs		(512,782)	-	(512,782)
Administration expenses		(1,748,139)	(140,014)	(1,888,153)
OPERATING PROFIT	2	2,963,895	(205,886)	2,758,009
Interest payable and similar charges	6	(9,634)	-	(9,634)
Other interest receivable and similar income	7	65,571	-	65,571
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,019,832	(205,886)	2,813,946
Tax on profit on ordinary activities	8			(1,019,315)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION				1,794,631
Dividends	9			(606,252)
RETAINED PROFIT FOR THE FINANCIAL PERIOD	19			1,188,379
EARNINGS PER SHARE	10	12.1p		11.0p

The profit and loss account contains all gains and losses recognised in the current and preceding years.

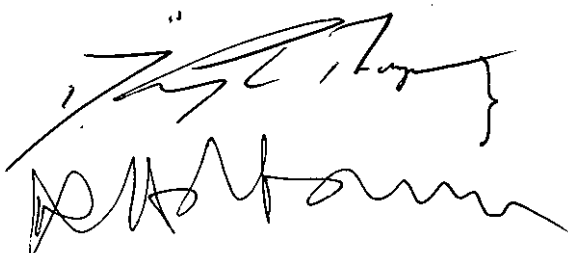
The notes on pages 15 to 21 form part of this profit and loss account.

CONSOLIDATED BALANCE SHEET

At 31 May 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	11	4,702,505	4,053,009
Investments	12	956	956
CURRENT ASSETS			
Stocks	13	2,723,535	2,376,033
Debtors	14	1,455,250	1,007,132
Cash at bank and in hand		2,178,552	1,521,206
		6,357,337	4,904,371
CREDITORS: amounts falling due within one year	15	(5,089,121)	(4,209,873)
NET CURRENT ASSETS		1,268,216	694,498
TOTAL ASSETS LESS CURRENT LIABILITIES		5,971,677	4,748,463
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	16	(84,385)	(50,000)
		5,887,292	4,698,463
CAPITAL AND RESERVES			
Called up share capital	17	819,259	819,240
Share premium account	18	2,545,604	2,545,173
Profit and loss account	18	2,522,429	1,334,050
Shareholders' Funds	19	5,887,292	4,698,463

Approved by the Board on 11 September 1998 and signed on its behalf:



Directors

The notes on pages 15 to 21 form part of this balance sheet.

BALANCE SHEET

At 31 May 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	11	4,670,950	4,012,702
Investments	12	7,206	7,206
CURRENT ASSETS			
Stocks	13	2,704,346	2,352,426
Debtors	14	1,646,892	1,084,843
Cash at bank and in hand		2,069,842	1,458,595
		6,421,080	4,895,864
CREDITORS: amounts falling due within one year	15	(5,127,559)	(4,167,309)
NET CURRENT ASSETS		1,293,521	728,555
TOTAL ASSETS LESS CURRENT LIABILITIES		5,971,677	4,748,463
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	16	(84,385)	(50,000)
		5,887,292	4,698,463
CAPITAL AND RESERVES			
Called up share capital	17	819,259	819,240
Share premium account	18	2,545,604	2,545,173
Profit and loss account	18	2,522,429	1,334,050
Shareholders' Funds	19	5,887,292	4,698,463

Approved by the Board on 11 September 1998 and signed on its behalf:

Directors

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CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 May 1998

	1998	1997
£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 1)	3,760,428	3,225,943
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	65,571	69,157
Interest paid	(9,634)	(51,313)
Interest element of finance lease payments	-	(120)
	55,937	17,724
TAXATION	(926,730)	(1,151,800)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Payments to acquire tangible fixed assets	(1,818,864)	(1,399,314)
Proceeds from sale of fixed assets	124,636	21,500
EQUITY DIVIDENDS PAID	(532,511)	(160,311)
NET CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING	662,896	553,742
MANAGEMENT OF LIQUID RESOURCES		
Cash withdrawn from/(placed on) deposit	140,000	(1,640,000)
FINANCING		
Capital element of finance lease rental payments	-	(882)
Issue of share capital	450	2,053,836
Repayment of other loans	(6,000)	(6,000)
	(5,550)	2,046,954
INCREASE IN CASH	797,346	960,696
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (Note 2)		
Increase in cash in the year	797,346	960,696
Cash outflow from decrease in debt and lease financing	6,000	6,882
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(140,000)	1,640,000
Increase in net funds in the year	663,346	2,607,578
Net funds/(debt) at 1 June 1997	1,515,206	(1,092,372)
NET FUNDS AT 31 MAY 1998	2,178,552	1,515,206

The notes on page 13 form part of this statement.

NOTES TO THE CASH FLOW STATEMENT

For the year ended 31 May 1998

1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998	1997
	£	£
Operating Profit	2,758,009	2,493,329
Depreciation charges	1,169,367	1,067,990
(Increase) in stocks	(347,502)	(435,227)
(Increase) in debtors	(434,480)	(170,156)
Increase in creditors	739,670	291,507
(Profit) on disposal of fixed assets	(124,636)	(21,500)
NET CASH INFLOW FROM OPERATING ACTIVITIES	3,760,428	3,225,943

2. ANALYSIS OF NET FUNDS

	At 1 June 1997	Cash flow	At 31 May 1998
	£	£	£
Cash at bank and in hand	62,610	615,942	678,552
Overdrafts	(181,404)	181,404	-
Debt due within one year	(6,000)	6,000	-
Current asset investments	1,640,000	(140,000)	1,500,000
	1,515,206	663,346	2,178,552

ACCOUNTING POLICIES

For the year ended 31 May 1998

Accounting Convention

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards. They consolidate the financial statements of Whittard of Chelsea Plc and all its subsidiaries. No profit and loss account is presented for the company as provided by Section 230(3) of the Companies Act 1985.

Depreciation

Depreciation is provided on all tangible fixed assets on a straight line balance basis at rates calculated to write off the cost of each asset over its expected useful life as follows:

Office equipment	25%
Plant and equipment	15%
Shop fittings	15%

Depreciation is provided on leasehold property to write off the cost over the life of the lease.

Stocks

Stocks are stated at the lower of cost (being purchase price including transport and handling costs) and net realisable value. Net realisable value means estimated selling price less further costs expected to be incurred to completion and disposal.

Deferred Taxation

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

Leasing Contracts

Assets acquired under finance leases are included in tangible fixed assets and the obligations to pay future instalments are shown under creditors.

Payments made under operating lease are charged to the profit and loss account as incurred.

Foreign Currency

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences arising in the ordinary course of business are included in the operating profits. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date.

Rent Free Periods and Landlord Contributions

The benefit arising from rent free periods and landlord contributions is spread on a straight line basis over the period to the first rent review.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 1998

1. TURNOVER

Turnover represents the invoiced amount of goods sold and services provided stated net of value added tax.

The turnover and pre-tax profit is attributable to one activity; tea, coffee and associated product sales in the United Kingdom and internationally.

2. OPERATING PROFIT

	1998	1997
	£	£
This is stated after charging:		
Depreciation	1,169,367	1,067,990
Profit on sale of fixed assets	124,636	21,500
Hire of equipment	46,444	76,254
Hire of land and buildings	4,543,826	3,803,595
Auditors remuneration	27,500	25,000

In the year ended 31 May 1998 the auditors received £32,120 for services other than audit (1997 : £126,073).

3. DISCONTINUED ACTIVITIES AND EXCEPTIONAL COSTS

Exceptional administrative costs of £140,014 were incurred relating to the move to the official list, and a loss of £65,872 was incurred in a trialled retail activity, which has been discontinued (1997:£Nil).

4. STAFF COSTS

The average number of persons including Directors employed by the company during the period was:

	1998	1997
	No.	No.
Working directors	4	4
Administration staff	18	19
Sales and warehouse staff (full time and part-time)	489	436
	511	459

Staff costs including directors during the year amounted to:

	£	£
Wages and salaries	5,127,517	3,989,436
Social security costs	386,695	281,196
Other pension costs	11,000	1,099
	5,525,212	4,271,731

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 May 1998

5. DIRECTORS EMOLUMENTS

	Salary/Fees	Bonus	Pension Contributions	Benefits	Total	1997
	£	£	£	£	£	£
Executives						
W A Hobhouse	90,000	-	-	9,581	99,581	108,712
J P G Hilton	32,000	-	11,000	7,207	50,207	43,766
D C Boys	1,077	-	-	400	1,477	84,775
K B Collinge	60,000	10,000	-	4,624	74,624	62,636
D V J Paget	51,589	10,000	-	1,270	62,859	-
Non Executives						
D C G Gyle-Thompson	47,564	-	-	-	47,564	39,500
D G Hemming	15,000	-	-	-	15,000	15,000
J A C Hill	9,167	-	-	-	9,167	10,000
	<u>306,397</u>	<u>20,000</u>	<u>11,000</u>	<u>23,082</u>	<u>360,479</u>	<u>364,889</u>

Included above are consultancy fees from Onslow Boyd Group Limited, a company which is a shareholder of the Company, of which D C G Gyle-Thompson is a Director and in which he is beneficially interested, for £47,564 (1997: £39,500). These fees were paid in respect of the services of D C G Gyle-Thompson as a Director of Whittard of Chelsea.

The pension contribution is paid to a defined contribution scheme.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1998	1997
	£	£
Bank loans and overdrafts	2,838	19,945
Other loans repayable within five years	-	120
Other interest	6,797	31,368
	<u>9,634</u>	<u>51,433</u>

7. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

Money market and bank deposit interest	<u>65,571</u>	<u>69,157</u>
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 May 1998

8. TAXATION

	1998 £	1997 £
Charge for the period comprises:		
UK Corporation tax at 31% (1996: 32.7%)	989,752	890,740
Overseas taxation	6,000	-
Deferred taxation	34,385	50,000
(Over) provision in previous years	(10,822)	(2,031)
	<u>1,019,315</u>	<u>938,709</u>

9. DIVIDENDS

Dividend paid of 1.15p (1996: 1.0p) per Ordinary share of 5p each	188,430	160,311
Dividend proposed of 2.55p (1996: 2.1p) per Ordinary share of 5p each	<u>417,822</u>	<u>344,081</u>
	<u>606,252</u>	<u>504,392</u>

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit on ordinary activities after taxation of £1,794,631 (1997: £1,572,344) divided by the weighted average number of ordinary shares in issue during the year of 16,384,943 (1997: 15,844,419).

The calculation of the earnings per share before Discontinued Activities and Exceptional Costs is based on the profit on ordinary activities after taxation before Discontinued Activities and Exceptional Costs of £1,980,097 divided by the weighted average number of ordinary shares in issue during the year of 16,384,943.

The fully diluted earnings per share is not materially different to the basic earnings per share.

11. TANGIBLE FIXED ASSETS

Group	Short Leasehold Property £	Shop Fittings £	Plant and Equipment £	Office Equipment £	Total £
Cost					
At 1 June 1997	1,001,697	4,834,706	1,163,876	561,751	7,562,030
Additions	294,715	1,191,461	245,007	87,680	1,818,863
Disposals	(43,708)	(343,819)	(69,098)	-	(456,625)
31 May 1998	<u>1,252,704</u>	<u>5,682,348</u>	<u>1,339,785</u>	<u>649,431</u>	<u>8,924,268</u>
Depreciation					
At 1 June 1997	220,556	2,551,040	506,079	231,346	3,509,021
Charge for the year	92,618	734,788	218,032	123,929	1,169,367
Disposals	(43,708)	(343,819)	(69,098)	-	(456,625)
31 May 1998	<u>269,466</u>	<u>2,942,009</u>	<u>655,013</u>	<u>355,275</u>	<u>4,221,763</u>
Net Book Value					
At 31 May 1998	<u>983,238</u>	<u>2,740,339</u>	<u>684,772</u>	<u>294,156</u>	<u>4,702,505</u>
At 31 May 1997	<u>781,141</u>	<u>2,283,666</u>	<u>657,797</u>	<u>330,405</u>	<u>4,053,009</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 May 1998

11. TANGIBLE FIXED ASSETS (CONTINUED)

Company	Short Leasehold Property £	Shop Fittings £	Plant and Equipment £	Office Equipment £	Total £
Cost					
At 1 June 1997	987,796	4,786,646	1,163,876	561,751	7,500,069
Additions	294,715	1,191,461	245,007	87,680	1,818,863
Disposals	(43,708)	(343,818)	(69,098)	-	(456,624)
31 May 1998	<u>1,238,803</u>	<u>5,634,289</u>	<u>1,339,785</u>	<u>649,431</u>	<u>8,862,308</u>
Depreciation					
At 1 June 1997	216,683	2,533,259	506,079	231,346	3,487,367
Charge for the year	91,073	727,579	218,033	123,928	1,160,614
Disposals	(43,708)	(343,818)	(69,098)	-	(456,624)
31 May 1998	<u>264,048</u>	<u>2,917,021</u>	<u>655,014</u>	<u>355,274</u>	<u>4,191,357</u>
Net Book Value At 31 May 1998	<u>974,755</u>	<u>2,717,267</u>	<u>684,770</u>	<u>294,156</u>	<u>4,670,950</u>
At 31 May 1997	<u>771,113</u>	<u>2,253,387</u>	<u>657,797</u>	<u>330,405</u>	<u>4,012,702</u>

12. INVESTMENTS

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Listed investments	956	956	956	956
Shares in group undertakings	-	-	6,250	6,250
	<u>956</u>	<u>956</u>	<u>7,206</u>	<u>7,206</u>

Group undertakings include:

Subsidiary	% owned	Activity	Country of incorporation
SARL Whittard of Chelsea	100	Sale of tea and coffee	France

13. STOCKS

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Finished Goods	<u>2,723,535</u>	<u>2,376,033</u>	<u>2,704,346</u>	<u>2,352,426</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 May 1998

14. DEBTORS

	Group		Group	
	1998	1997	1998	1997
	£	£	£	£
Trade debtors	541,234	276,694	541,234	273,827
Amounts owed by group undertakings	-	-	191,642	100,338
Other debtors	44,194	190,478	44,194	170,718
ACT recoverable	104,455	90,817	104,455	90,817
Prepayments and accrued income	765,367	449,143	765,367	449,143
	<u>1,455,250</u>	<u>1,007,132</u>	<u>1,646,892</u>	<u>1,080,843</u>

15. CREDITORS:

amounts falling due within one year:

Trade creditors	1,964,133	1,605,287	1,964,176	1,605,076
Corporation tax	1,001,661	929,823	1,001,661	929,823
Other taxation and social security payable	253,059	181,210	251,449	171,607
Other creditors	470,331	52,244	510,379	52,244
Dividend payable	417,822	344,081	417,822	344,081
Accruals and deferred income	982,116	1,091,228	982,116	1,058,478
Other loans	-	6,000	-	6,000
	<u>5,089,121</u>	<u>4,209,873</u>	<u>5,127,559</u>	<u>4,167,309</u>

16. DEFERRED TAXATION

The amounts provided and maximum potential liability for deferred taxation are:-

	Group and Company Amounts provided		Group and Company Maximum liability	
	1998	1997	1998	1997
	£	£	£	£
Accelerated capital allowances	97,764	50,000	97,764	91,058
Deferred income	(13,379)	-	(13,379)	(22,332)
	<u>84,385</u>	<u>50,000</u>	<u>84,385</u>	<u>68,726</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 May 1998

17. CALLED-UP SHARE CAPITAL

	Group and Company	
	1998	1997
Authorised		
28,000,000 Ordinary shares of 5p each	<u>1,400,000</u>	<u>1,400,000</u>
Allotted and Fully Paid At 1 June 1997		
16,384,809 Ordinary shares of 5 p each	819,240	-
(164,800 Ordinary shares of 1p each)	-	1,648
(204,200 Ordinary 'B' shares of 1p each)	-	2,042
	<u>819,240</u>	<u>3,690</u>
(3 June 1996 : Bonus issue of 275,074 Ordinary shares of 1p each)	-	2,750
(17 June 1996 : All shares redesignated as Ordinary shares of 1p each)	-	-
(17 June 1996 : Bonus issue of 70,204,066 Ordinary shares of 1p each)	-	702,040
(17 June 1996 : Consolidation of shares into Ordinary shares of 5p each)	-	-
(20 June 1996 : Issue of 1,700,000 Ordinary shares of 5p each)	-	85,000
Issued to employees by exercise of option 380 Ordinary shares of 5p each (1997: 515,181)	<u>19</u>	<u>25,760</u>
16,385,189 Ordinary shares of 5p each (1997 : 16,384,809)	<u>819,259</u>	<u>819,240</u>

The company operates an approved executive share option scheme and an unapproved executive share option scheme. In addition there is a SAYE approved share option scheme for employees.

Details of options outstanding are given below:-

	Outstanding at 1 June 1997	Granted in year	Lapsed in year	Exercised in year	Outstanding at 31 May 1998
Approved executive scheme	20,000	132,000	-	-	152,000
Unapproved executive scheme	20,000	158,000	-	-	178,000
SAYE approved scheme	129,019	70,921	(52,303)	380	147,257

The options under the Approved and Unapproved executive schemes are exercisable from June 1999 to June 2007 (June 1999 to June 2004 for Unapproved share options) at between £1.48 and £1.815 per share. The options under the Approved Savings Related Share Option Scheme are exercisable from September 1999 to May 2003 at between £1.184 and £1.72 per share.

18. MOVEMENTS ON RESERVES

	Share Premium account £	Profit and Loss account £	Total £
At 1 June 1997	2,545,173	1,334,050	3,879,223
Issues of shares	431	-	431
Retained profit for the year	-	1,188,379	1,188,379
At 31 May 1998	<u>2,545,604</u>	<u>2,522,429</u>	<u>5,068,033</u>

The profit of the Company before dividends was £1,794,633 (1997: £1,572,344).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 May 1998

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998	1997
	£	£
Profit for the financial period	1,794,631	1,572,344
Dividends	(606,252)	(504,392)
	1,188,379	1,067,952
New share capital subscribed less expenses of issue	450	2,053,836
	1,188,829	3,121,788
Opening shareholders' funds	4,698,463	1,576,675
Closing shareholders' funds	5,887,292	4,698,463

20. OPERATING LEASES AND EQUIPMENT HIRE AGREEMENTS

The following payments are due in the year ending 31 May 1999 in respect of operating leases and hire agreements which expire in the following periods from the balance sheet date.

	Land and Buildings	Plant and Equipment
	£	£
Less than one year	40,485	4,887
2 to 5 years	350,530	43,163
More than 5 years	4,388,130	-
	4,779,145	48,050

21. CAPITAL COMMITMENTS

	1998	1997
	£	£
Contracted but not provided for	82,500	45,000

22. OTHER COMMITMENTS

Forward foreign exchange contracts at the period end amount to £92,242 (sterling equivalent) (1997: £2,093,000). Security has been given to the Company's bankers in respect of forward foreign exchange contracts and other facilities granted to the Company in the form of a floating charge over the assets and undertaking of the Company.

23. RELATED PARTY TRANSACTIONS

Until August 1997, the Company retained the services of Shelton Cobb, of which J A C Hill was the proprietor, to act as a solicitor to the Company. That firm's charges were in line with expected charges given the type of work involved, and they totalled £12,644 (1997: £40,000) during the year to 31 May 1998.

NOTICE OF ANNUAL GENERAL MEETING

For the year ended 31 May 1998

Notice is hereby given that the Annual General Meeting of Whittard of Chelsea Plc will be held at 11 a.m. on Thursday 22nd October 1998 at 72 Baker Street, London W1M 1DL for the transaction of the following business:-

ORDINARY BUSINESS

1. To receive and adopt the Report of the Directors and Financial Statements and the Report of the Auditors for the year ended 31 May 1998.
2. To confirm payment of the interim dividend and declare a final dividend, to be paid on 16 November 1998.
3. To re-elect David Geoffrey Hemming* as a Director, who retires by rotation in accordance with the Articles of Association of the Company.
4. To elect Brian Ronald William Hay as a Director, who was appointed since the previous Annual General Meeting.
5. To elect John David Lovering* as a Director, who was appointed since the previous Annual General Meeting.
6. To re-appoint Horwath Clark Whitehill as auditors of the Company and authorise the Directors to fix their remuneration.
7. To consider and if thought fit to pass the following resolution as an Ordinary Resolution:-

"That the Directors be and they hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £296,031, such authority (unless previously revoked or varied by the Company in General Meeting) to expire at the date of the next Annual General Meeting to be held or 15 months from the date of this resolution, whichever is earlier, provided that the Directors may allot equity securities pursuant to this authority after that date pursuant to an offer or agreement made by the Company on or before that date."

8. To consider and if thought fit to pass the following resolution as a Special Resolution:-

"That the Directors be and they hereby generally empowered in accordance with Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company for cash pursuant to the authority conferred by resolution 7 above as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:-

(i) the allotment of equity securities in connection with an offer by way of rights in favour of the holders of equity securities in proportion (as nearly as possible) to the respective number of ordinary shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems in respect of overseas holders or otherwise; and

(ii) the allotment of equity securities (otherwise than pursuant to (i) above) up to an aggregate nominal amount of £40,962;

* Members of the Audit and Remuneration Committees

NOTICE OF ANNUAL GENERAL MEETING

For the year ended 31 May 1998

and this power shall expire at the date of the next Annual General Meeting or 15 months from the date of this resolution, whichever is earlier, provided that the Directors may make an offer or agreement before such expiry which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such offer as if the power conferred hereby had not expired".

9. To consider and if thought fit pass the following resolution as a Special Resolution:-

"That the Company be and is hereby generally and unconditionally authorised to make market purchases (as defined by section 163(3) of the Companies Act 1985) on the London Stock Exchange of ordinary shares of 5p each ("ordinary shares") in the capital of the Company provided that:

- (i) the maximum aggregate number of shares authorised to be purchased is 1,638,519 ordinary shares;
- (ii) the minimum price which shall be paid for the ordinary shares is 5p for each share, and the maximum price (exclusive of expenses) which may be paid for such shares is 5% above the average of the middle market quotations derived from the London Stock Exchange Daily Official List for the 10 business days before the purchase is made;
- (iii) unless previously renewed, varied or revoked, the authority hereby conferred shall expire on the date of the Annual General Meeting of the Company to be held in 1999 or 15 months after the date of passing of this resolution (whichever is the earlier); and
- (iv) the Company may, before such expiry, make a contract to purchase its own shares under the authority hereby conferred which will or may be executed duly or partly after the expiry of such authority, and may make a purchase of its own shares in pursuance of such a contract."

Registered Office:
22 Union Court
Union Road
London SW4 6JQ

By order of the Board
D V J Paget
Secretary

Notes:

1. Any member of the Company entitled to attend and vote at this Meeting may appoint a proxy to attend and, on a poll, to vote in his stead. The proxy need not be a member of the Company.
2. For the convenience of members who may be unable to attend the meeting, a form of proxy is enclosed which should be completed and returned to Connaught St Michaels Limited, PO Box 30, Victoria Street, Luton, Bedfordshire LU1 2PZ not less than 48 hours before the time fixed for the Meeting. The fact that members may have completed forms of proxy will not prevent them from attending and voting in person should they afterwards decide to do so.
3. Members who hold ordinary shares in uncertified form must have been entered on the Company's register of members by 11.00 am on 20 October 1998 in order to be entitled to attend and vote at the Meeting. Such members may only vote at the Meeting in respect of ordinary shares in the Company held at that time.
4. Copies of the following will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and public holiday excepted) from the date of this notice until the close of the Annual General Meeting, and at the place of the Annual General Meeting from at least 15 minutes prior to and during the Meeting:
 - (i) the service contracts of the Directors; and
 - (ii) the register of the Director's interests maintained under Section 325 of the Companies Act 1985.