

Directors & Advisors

Head Office

Union Court
Union Road
London
SW4 6JQ

Registered Office

48 Moreton Street
London
SW1V 2PB

Registered Number

2263726

Directors

D C G Gyle-Thompson - Non Executive Chairman
W A Hobhouse - Managing Director
D V J Paget - Finance Director
J P G Hilton - Product Director
K B Collinge - Buying Director
J A C Hill - Non Executive Director
D G Hemming - Non Executive Director

Company Secretary

A M Hill
48 Moreton Street
London
SW1V 2PB

Bankers

Midland Bank plc
Poultry & Princes Street
London
EC2P 2BX

Registered Auditor

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 Director's Statement

Business Review

Whittard of Chelsea has completed six consecutive years of consistent profit growth.

Organic growth and the opening of new units led to sales of £27 million and pre tax profit of £2.5 million. This represents sales growth of 24% and pre tax profit growth of 39%.

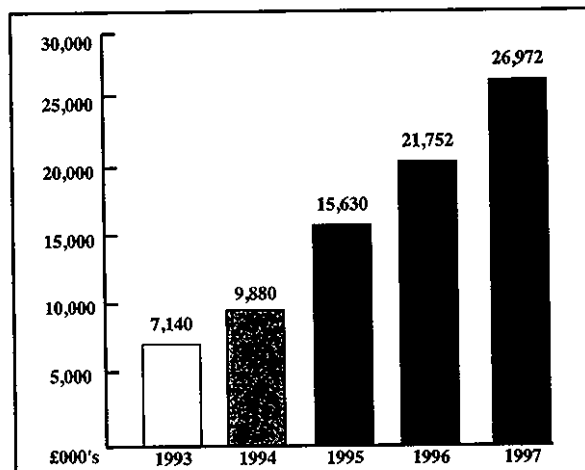
£000's

Year end 31 May Sales Pre Tax Profit

1993	7,140	233
1994	9,880	719
1995	15,630	1,312
1996	21,752	1,802
1997	26,972	2,511

This satisfactory result came about as the Company exploited its growing reputation as the leading specialist retailer of teas, coffees and ceramics in the United Kingdom. Its share of the roast and ground coffee market grew to 5.5% and of the speciality tea market to 17.9%. This growing market share plus increased awareness among potential customers allowed newly opened stores to move quickly to maturity while existing stores enjoyed organic growth.

Critical mass in the store portfolio has meant that the management team has opened stores without pro rata overhead growth. We expect this to continue in the future.



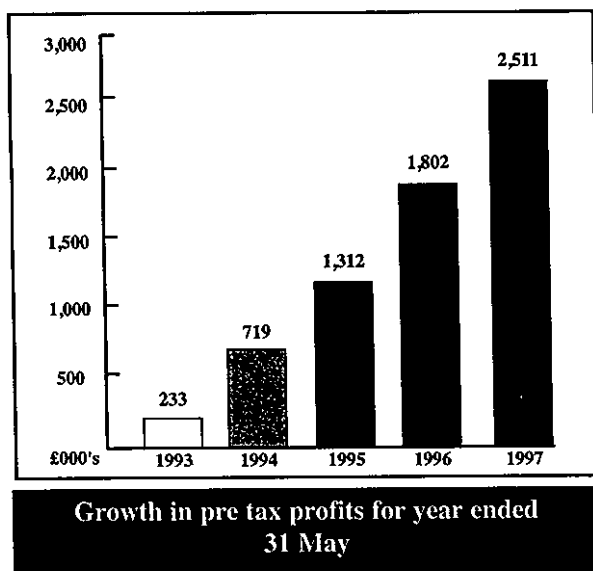
Growth in sales for year end 31 May

Whittard
OF CHELSEA

Chairman and Managing Director's Statement

Overseas the two Paris stores are operating successfully with a clear English identity. There are now 34 Whittard corners in department stores in Japan. The first franchise store opened in Dubai in April with further openings planned in the Gulf region before Christmas. A territory franchise was recently signed covering Singapore and Malaysia with a first outlet due to open in October. Further territory franchises are under negotiation.

The brand format continues to be developed and improved. A specialist tea shop is now in place in the six main tourist locations; a coffee roasting store has been set up in the Kings Road (Chelsea); an existing store has been reopened as a specialist ceramics store in Chiswick. The team introduces new products regularly and will experiment on a continuous basis to develop the Company's product range and store formats.



The management team has been strengthened with a new Finance Director appointed to the Board on 4 September 1997. Department Heads from outside the business have been recruited to run the Operations function, Property and Systems. The combination of internal promotions and these outside appointments give the management team continuing impetus.

CURRENT TRADING

Sales in the first quarter of the financial year were above budget and ahead of last year on a like for like basis.

Two new stores were opened in July. Leases are in solicitors' hands for an additional nine openings during the current financial year, and negotiations for a further five sites are nearing completion.

We are confident that there will be good progress this year through organic growth, new store openings and the development of our overseas business.

FINANCIAL MANAGEMENT

The Company had positive cash balances at the year end and it is our intention to continue our policy of conservative cash management. Growth in the UK is financed from internally generated funds. Overseas it is the policy of the Company to develop territories with a local franchisee or partner, thus avoiding capital risk to the business.

OFFICIAL LIST

We are making application for the Company's Ordinary shares to be admitted to the Official List of the London Stock Exchange. We believe that this represents a logical step in the development of the Group, and that the profile and status of the Company will be enhanced.

EMPLOYEES

The Company employed 621 people (full and part time) at the year end.

The Directors recognise that the growth of the business is being achieved by the energy and commitment shown by those who work for the Company. Increasingly members of staff have bonus elements in their salary packages to align their interests with those of the shareholders. We would like to take this opportunity to thank all our employees whose hard work has led to this successful result for the year.

David Gyle-Thompson
Chairman

Will Hobhouse
Managing Director

9 September 1997

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 May 1997.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

The review on pages 1 to 2 refer to the Company's current operations and future developments.

RESULTS & DIVIDENDS

The profit for the year after taxation amounted to £1,572,344 (1996: £1,119,314). The Directors have paid an interim dividend of £160,311 (1p per share) to ordinary shareholders in respect of the year (1996: £1,132,486) and propose a final dividend of £344,081 (2.1p per share) (1996: £Nil).

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

DIRECTORS AND THEIR INTERESTS IN SHARES

The Directors, all of whom served throughout the year, and their families' beneficial interests in shares were as follows:

	Ordinary shares	
	of 5p each 1997	of 1p each 1996
D C G Gyle-Thompson	4,804,910	92,500
W A Hobhouse	4,492,030	63,300
J P G Hilton	159,698	2,000
J A C Hill	Nil	Nil
D C Boys	290,392	7,000
(Resigned 6 June 1997)		
D G Hemming	Nil	Nil
K B Collinge	202,615	Nil

As at 9 September there had been no change to the shareholdings shown above.

DVJ Paget was appointed a Director on 4 September 1997.

NON EXECUTIVE DIRECTORS

David Gyle-Thompson (Chairman) Age 53 - Joined the Board in 1988, he is also Chairman of Onslow Boyd Group Limited and Beauchamp Marketing Limited.

Anthony Hill Age 59 - Joined the Board in 1988. He is a solicitor, who until 31 August 1997 managed his own specialist law practice which concentrated on commercial law, commercial acquisitions and property, and is now a consultant to William Sturges.

David Hemming age 55 - Joined the Board in 1989, 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.

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.

During the year options were exercised resulting in shares being acquired as follows:

	Ordinary Shares of 5p each	
	Approved Scheme	Unapproved Scheme
W A Hobhouse	-	88,088
J P G Hilton	58,718	-
D C Boys	102,762	-
K B Collinge	176,154	-

The options were exercised at a price of 8.51p per share, while the market value at the dates of exercise was between £1.87 and £2.435 per share.

During the year J P G Hilton and K B Collinge have been granted 10,767 and 8,234 options under the Savings Related Share Option Scheme, at £1.184 per share, which are exercisable from September 1999 to March 2002.

Directors' Report (continued)

The following unexercised options have been granted to Directors since the year end:-

	Ordinary Shares of 5p each	
	Approved Scheme	Unapproved Scheme
J P G Hilton	16,500	23,500
K B Collinge	16,500	23,500
D V J Paget	16,500	33,500

All of these options are exercisable from June 2000 to June 2007 (June 2000 to June 2004 for unapproved share options) at £1.815 per share.

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 10 year period.

CORPORATE GOVERNANCE

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

The Board and Committees

The Board comprises 4 Executive and 3 Non Executive Directors. It meets formally at least 6 times a year and the Executive Directors meet regularly to monitor and guide performance.

The principal Board committees are

- Audit Committee.
- Remuneration Committee.

The Audit Committee comprises David Gyle-Thompson (Chairman of the Committee), Anthony Hill 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 and for the publication of the Company's financial statements. It acts as a communications route for the auditors and sets their remuneration.

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

The Committee seeks to ensure that the remuneration of the Executive Directors is aligned with the performance of the Company and with the individual's contribution to that performance, and that it is competitive with similar positions in comparable companies in the retail sector, so that the Company can attract, retain and motivate high calibre executives. 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 1997 amounted to the lesser of £100,000 and 15 per cent of the increase over the previous year in the Company's pre tax profit, and which was shared between eight Directors and senior managers
- share options granted from time to time, 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. Until March 1998 D V J Paget has a contract subject to three months notice on either side.

The Company does not have a pension scheme at present, but intends to introduce one with effect from 1 June 1998.

Internal Financial Control

The Directors are responsible for the Group's system of internal financial controls. Such systems provide reasonable, and not absolute, assurance against material misstatement or loss, that financial

Directors' Report (continued)

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.

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 16 to the financial statements.

In June 1996, the Company's shares were listed on the Alternative Investment Market.

SIGNIFICANT CHANGES IN FIXED ASSETS

All movements of fixed assets are disclosed in the notes to the financial statements.

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 are conducted principally at store level by regional, store and head office management.

CHARITABLE AND POLITICAL DONATIONS

Charitable donations of £6,657 (1996: £464) were made in the year. There were no donations made to political parties (1996: £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.

SUBSTANTIAL INTERESTS

At the date of the report, 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	1,360,800	8.54
Westpool Investment Trust Plc	962,000	5.87

AUDITORS

Clark Whitehill 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.

ANNUAL GENERAL MEETING

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

- to approve the adoption of the Whittard of Chelsea Employee Share Ownership Trust. This Trust is aimed at extending share ownership within the employees of the Company (Resolution 7).
- to renew the authority to issue new shares representing up to 36% of the issued share capital, having a nominal aggregate value of £296,031 (resolution 8).
- 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 £40,962, without being limited by pre-emption rights (Resolution 9).

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

AM Hill

Secretary

9 September 1997

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.

Auditor's Report

Auditor's Report To The Members Of Whittard Of Chelsea Plc

We have audited the financial statements on pages 8 to 21 which have been prepared under the accounting policies set out on page 13.

Respective Responsibilities of Directors and Auditors
As described on page 6 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 1997 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants
and Registered Auditors
9 September 1997

Auditor's 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 and 5 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 a 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 pages 4 and 5 and going concern on page 5, 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 and 5 appropriately reflects the Company's compliance with other paragraphs of the Code specified for our review.



Chartered Accountants
and Registered Auditors
9 September 1997

Whittard
OF CHELSEA

Consolidated Profit and Loss Account

For the year ended 31 May 1997

	Notes	1997 £	1996 £
TURNOVER	1	26,972,002	21,751,609
Cost of sales		<u>(22,427,558)</u>	<u>(18,295,151)</u>
GROSS PROFIT		4,544,444	3,456,458
Selling and distribution costs		<u>(534,401)</u>	<u>(389,506)</u>
Administration expenses		<u>(1,516,714)</u>	<u>(1,204,489)</u>
OPERATING PROFIT	2	2,493,329	1,862,463
Interest payable and similar charges	5	<u>(51,433)</u>	<u>(99,868)</u>
Other interest receivable and similar income	6	<u>69,157</u>	<u>39,521</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,511,053	1,802,116
Tax on profit on ordinary activities	7	<u>(938,709)</u>	<u>(682,802)</u>
PROFIT FOR THE FINANCIAL YEAR		1,572,344	1,119,314
Dividends	8	<u>(504,392)</u>	<u>(1,132,486)</u>
RETAINED PROFIT/(DEFICIT) FOR THE FINANCIAL YEAR	17	<u>1,067,952</u>	<u>(13,172)</u>
EARNINGS PER SHARE	9	<u>9.9p</u>	<u>7.9p</u>

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

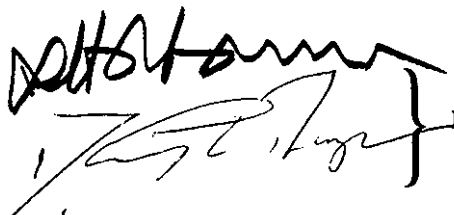
The notes on pages 14 to 21 form part of this profit and loss account.

Consolidated Balance Sheet

At 31 May 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Tangible assets	10	4,053,009	3,721,685
Investments	11	956	956
CURRENT ASSETS			
Stocks	12	2,376,033	1,940,806
Debtors	13	1,007,132	755,261
Cash at bank and in hand		<u>1,521,206</u>	<u>38,547</u>
		4,904,371	2,734,614
CREDITORS:			
amounts falling due within one year	14	<u>(4,209,873)</u>	<u>(4,876,580)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>694,498</u>	<u>(2,141,966)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,748,463</u>	<u>1,580,675</u>
CREDITORS:			
amounts falling due after more than one year	14	-	(4,000)
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	15	<u>(50,000)</u>	<u>-</u>
NET ASSETS		<u>4,698,463</u>	<u>1,576,675</u>
CAPITAL AND RESERVES			
Called up share capital	16	819,240	3,690
Share premium account	17	2,545,173	906,887
Capital redemption reserve	17	-	400,000
Profit and loss account	17	<u>1,334,050</u>	<u>266,098</u>
Equity Shareholder's Funds	18	<u>4,698,463</u>	<u>1,576,675</u>

Approved by the Board on 9 September 1997
and signed on its behalf:

 Directors

The notes on pages 14 to 21 form part of this balance sheet.

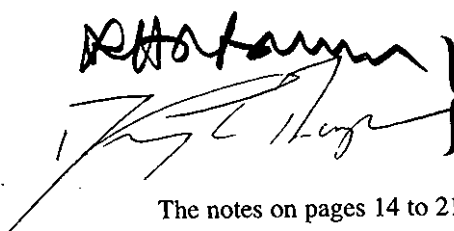
Whittard
OF CHELSEA

Balance Sheet

At 31 May 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Tangible assets	10	4,012,702	3,577,208
Investments	11	7,206	7,206
CURRENT ASSETS			
Stocks	12	2,352,426	1,918,342
Debtors	13	1,084,843	938,608
Cash at bank and in hand		<u>1,458,595</u>	-
		4,895,864	2,856,950
CREDITORS:			
amounts falling due within one year	14	<u>(4,167,309)</u>	<u>(4,860,689)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>728,555</u>	<u>(2,003,739)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,748,463</u>	<u>1,580,675</u>
CREDITORS:			
amounts falling due after more than one year	14	-	(4,000)
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	15	<u>(50,000)</u>	-
NET ASSETS		<u>4,698,463</u>	<u>1,576,675</u>
CAPITAL AND RESERVES			
Called up share capital	16	819,240	3,690
Share premium account	17	2,545,173	906,887
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Approved by the Board on 9 September 1997
and signed on its behalf:

 Directors

The notes on pages 14 to 21 form part of this balance sheet.

Consolidated Cash Flow Statement

For the year ended 31 May 1997

	1997	1996
£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES (note 1)	3,225,943	2,950,640
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	69,157	39,521
Interest paid	(51,313)	(99,196)
Interest element of finance lease payments	(120)	(672)
NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	17,724	(60,347)
TAXATION	(1,151,800)	(1,356)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Payments to acquire tangible fixed assets	(1,399,314)	(1,866,222)
Proceeds from sale of fixed assets	21,500	-
EQUITY DIVIDENDS PAID	(160,311)	(1,579,496)
NET CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING	553,742	(556,781)
MANAGEMENT OF LIQUID RESOURCES		
Cash placed on deposit	(1,640,000)	-
FINANCING		
Capital element of finance lease rental payments	(882)	(4,741)
Issue of share capital	2,053,836	57,500
Repayment of other loans	(6,000)	(6,000)
	2,046,954	46,759
INCREASE/(DECREASE) IN CASH	960,696	(510,022)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT/FUNDS (Note 2)		
Increase/(decrease) in cash in the period	960,696	(510,022)
Cash outflow from decrease in debt and lease financing	6,882	10,741
Cash outflow from increase in liquid resources	1,640,000	-
Movement in net debt/funds in the period	2,607,578	(499,281)
Net debt at 1 June 1996	(1,092,372)	(593,091)
NET FUNDS/(DEBT) AT 31 MAY 1997	1,515,206	(1,092,372)

The notes on page 12 form part of this statement.

Notes to the Cash Flow Statement

For the year ended 31 May 1997

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

	1997 £	1996 £
Operating Profit	2,493,329	1,862,463
Depreciation charges	1,067,990	787,015
Increase in stocks	(435,227)	(76,680)
Increase in debtors	(170,156)	(228,338)
Increase in creditors	291,507	606,180
Profit on disposal of fixed assets	(21,500)	-
NET CASH INFLOW FROM OPERATING ACTIVITIES	3,225,943	2,950,640

2. ANALYSIS OF NET DEBT/FUNDS

	At 1 June 1996 £	Cash flow £	Non-cash changes £	At 31 May 1997 £
Cash at bank and in hand	38,547	24,063	-	62,610
Overdrafts	(1,118,037)	936,633	-	(181,404)
Debt due within one year	(8,000)	6,000	(4,000)	(6,000)
Debt due after one year	(4,000)	-	4,000	-
Finance leases	(882)	882	-	-
Current asset investments	-	1,640,000	-	1,640,000
	<u>(1,092,372)</u>	<u>2,607,578</u>	<u>-</u>	<u>1,515,206</u>

Accounting Policies

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 have been valued by the Directors 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.

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 trading profit. 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

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. Substantially all turnover is with UK customers.

2. OPERATING PROFIT

	1997	1996
	£	£
This is stated after charging:		
Depreciation	1,067,990	787,015
Profit on sale of fixed assets	21,500	-
Hire of equipment	76,254	49,319
Auditors remuneration	25,000	25,000

In the year ended 31 May 1997 the auditors received £126,073 for services other than audit (1996 - £15,107).

3. STAFF COSTS

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

	1997	1996
	No.	No.
Executive Directors	4	5
Administration staff	19	17
Sales and warehouse staff (full time and part-time)	436	402
	<u>459</u>	<u>424</u>

Staff costs including Directors during the year amounted to:

		£
Wages and salaries	3,989,436	3,138,176
Social security costs	281,196	240,794
Other pension costs	1,099	1,195
	<u>4,271,731</u>	<u>3,380,165</u>

Notes to the Financial Statements (continued)

4. DIRECTORS' EMOLUMENTS

	Salary / Fees	Bonus	Pension Contributions	Benefits	Compensation for Loss of Office	Total	1996
	£	£	£	£	£	£	£
Executives							
W A Hobhouse	75,000	24,194	-	9,518	-	108,712	70,632
J P G Hilton	28,000	9,032	1,000	5,734	-	43,766	33,179
D C Boys	56,000	-	-	10,711	18,064	84,775	58,353
K B Collinge	44,000	14,194	-	4,442	-	62,636	45,932
Non Executives							
D C G Gyle-Thompson	39,500	-	-	-	-	39,500	20,520
J A C Hill	10,000	-	-	-	-	10,000	10,000
D G Hemming	15,000	-	-	-	-	15,000	15,000
	<u>267,500</u>	<u>47,420</u>	<u>1,000</u>	<u>30,405</u>	<u>18,064</u>	<u>364,889</u>	<u>253,616</u>

Included above are:

Consultancy fees from Onslow Boyd Group Limited, a company which is a shareholder of the Company and of which DCG Gyle-Thompson is a Director and in which he is beneficially interested, for £39,500 (1996: nil) in respect of the services of DCG Gyle-Thompson as a Director of Whittard.

Consultancy fees from Granville Private Equity Limited of £15,000 (1996: £15,000) in respect of the services of DG Hemming as a Director of Whittard.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1997	1996
	£	£
Bank loans and overdrafts	19,945	86,817
Finance charges payable	120	672
Other interest	31,368	12,379
	<u>51,433</u>	<u>99,868</u>

6. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

Money market and bank deposit interest	<u>69,157</u>	<u>39,521</u>
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7. TAXATION

Charge for the period comprises:

UK Corporation tax at 32.7% (1996: 33.0%)	890,740	635,652
Deferred taxation	50,000	-
Under/(over) provision in previous years	(2,031)	47,150
	<u>938,709</u>	<u>682,802</u>

Notes to the Financial Statements (continued)

8. DIVIDENDS

	1997	1996
	£	£
Dividend paid of 171.4p per Ordinary share of 1p each	—	282,486
Dividend paid of 416.3p per Ordinary 'B' share of 1p each	—	850,000
Dividend paid of 1.0p per Ordinary share of 5p each	160,311	—
Dividend proposed of 2.1p per Ordinary share of 5p each	344,081	—
	504,392	1,132,486

The dividend paid in 1996 represented a Special Dividend, paid to shareholders as at 31 May 1996.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit on ordinary activities after taxation of £1,572,344 (1996: £1,119,314) divided by the weighted average number of ordinary shares in issue during the year of 15,844,419 (1996: 14,168,128 shares after adjustment for bonus issues and re-designation of shares during the current year).

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

10. TANGIBLE FIXED ASSETS

Group	Short Leasehold Property £	Shop Fittings £	Plant and Equipment £	Office Equipment £	Total £
Cost					
At 1 June 1996	754,761	4,317,325	976,435	357,836	6,406,357
Additions	288,382	710,210	196,807	203,915	1,399,314
Disposals	(41,446)	(192,829)	(9,366)	—	(243,641)
31 May 1997	1,001,697	4,834,706	1,163,876	561,751	7,562,030
Depreciation					
At 1 June 1996	152,935	2,058,392	318,956	154,389	2,684,672
Charge for the year	109,067	685,477	196,489	76,957	1,067,990
Disposals	(41,446)	(192,829)	(9,366)	—	(243,641)
31 May 1997	220,556	2,551,040	506,079	231,346	3,509,021
Net Book Value					
At 31 May 1997	781,141	2,283,666	657,797	330,405	4,053,009
At 31 May 1996	601,826	2,258,933	657,479	203,447	3,721,685

Notes to the Financial Statements (continued)

10. TANGIBLE FIXED ASSETS (CONTINUED)

Company	Short Leasehold Property £	Shop Fittings £	Plant and Equipment £	Office Equipment £	Total £
Cost					
At 1 June 1996	716,183	4,199,839	975,665	357,836	6,249,523
Additions	288,382	710,210	196,807	203,915	1,399,314
Disposals	(16,769)	(123,403)	(8,596)	-	(148,768)
31 May 1997	987,796	4,786,646	1,163,876	561,751	7,500,069
Depreciation					
At 1 June 1996	150,383	2,048,587	318,956	154,389	2,672,315
Charge for the year	83,069	608,075	195,719	76,957	963,820
Disposals	(16,769)	(123,403)	(8,596)	-	(148,768)
31 May 1997	216,683	2,533,259	506,079	231,346	3,487,367
Net Book Value					
At 31 May 1997	771,113	2,253,387	657,797	330,405	4,012,702
At 31 May 1996	565,800	2,151,252	656,709	203,447	3,577,208

11. INVESTMENTS

	Group		Company	
	1997	1996	1997	1996
		£		£
Listed investments	956	956	956	956
Shares in Group undertakings	-	-	6,250	6,250
	956	956	7,206	7,206

Group undertakings comprise:

Subsidiary	% owned	Activity	Country of incorporation
SARL Whittard of Chelsea	100	Sale of tea and coffee	France
Whittard Trading Company Ltd	100	Dormant	UK
Whittard and Company Ltd	100	Dormant	UK
Rigadoon Ltd	90	Project Development	UK

Notes to the Financial Statements (continued)

12. STOCKS	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Finished Goods	<u>2,376,033</u>	<u>1,940,806</u>	<u>2,352,426</u>	<u>1,918,342</u>
13. DEBTORS				
Trade debtors	276,694	359,791	273,827	359,791
Amounts owed by Group undertakings	-	-	100,338	205,574
Other debtors	190,478	46,198	170,718	23,971
ACT recoverable	90,817	9,102	90,817	9,102
Prepayments and accrued income	<u>449,143</u>	<u>340,170</u>	<u>449,143</u>	<u>340,170</u>
	<u>1,007,132</u>	<u>755,261</u>	<u>1,084,843</u>	<u>938,608</u>
14. CREDITORS:				
amounts falling due within one year:				
Bank loans and overdraft	-	1,118,037	-	1,118,037
Trade creditors	1,605,287	1,419,338	1,605,076	1,417,575
Corporation tax	929,823	1,111,199	929,823	1,111,199
Other taxation and social security payable	181,210	72,666	171,607	67,005
Other creditors	52,244	45,606	52,244	45,606
Dividend payable	344,081	-	344,081	-
Accruals and deferred income	1,091,228	1,100,852	1,058,478	1,092,385
Obligations under finance leases	-	882	-	882
Other loans	<u>6,000</u>	<u>8,000</u>	<u>6,000</u>	<u>8,000</u>
	<u>4,209,873</u>	<u>4,876,580</u>	<u>4,167,309</u>	<u>4,860,689</u>
Creditors: amounts falling due after more than one year:				
Other loans	-	4,000	-	4,000
	-	4,000	-	4,000

The other loan is repayable in quarterly instalments of £2,000 and is interest free.

Notes to the Financial Statements (continued)

15. DEFERRED TAXATION

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

	Group and Company Amounts provided		Group and Company Maximum liability	
	1997	1996	1997	1996
	£	£	£	£
Accelerated capital allowances	50,000	-	91,058	97,307
Deferred income	-	-	(22,332)	(29,145)
Short term timing differences	-	-	-	1,770
	<u>50,000</u>	<u>-</u>	<u>68,726</u>	<u>69,932</u>

Group and Company £

At 1 June 1996	-
Profit and loss account	50,000
At 31 May 1997	<u>50,000</u>

16. CALLED-UP SHARE CAPITAL

	1997	1996
	£	£
Authorised		
40,000,000 Ordinary shares of 1p each	-	400,000
40,000,000 Ordinary 'B' shares of 1p each	-	400,000
300,000 1994 Cumulative redeemable preference shares of £1 each	-	300,000
300,000 1995 Cumulative redeemable preference of £1 each	-	300,000
28,000,000 Ordinary shares of 5p each	<u>1,400,000</u>	<u>-</u>
	<u>1,400,000</u>	<u>1,400,000</u>

Allotted and Fully Paid

At 1 June 1996		
164,800 Ordinary shares of 1p each	1,648	1,573
204,200 Ordinary 'B' shares of 1p each	2,042	2,042
	<u>3,690</u>	<u>3,615</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	-	-
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 options	-	-
515,181 Ordinary shares of 5p each (1996 - 7,500 Ordinary shares of 1p each)	25,760	75
At 31 May 1997	<u>819,240</u>	<u>3,690</u>
16,384,809 Ordinary shares of 5p each		

In addition to the bonus issues, 2,215,181 Ordinary 5p shares were allotted during the year for which the total consideration was £2,561,373.

The Company operates an approved executive share option scheme and an unapproved executive share option scheme. In addition there is an approved Savings Related Share Option Scheme for employees.

Details of options outstanding as at 9 September 1997 are given below:-

Approved executive scheme	152,000
Unapproved executive scheme	178,000
Approved Savings Related Share Option Scheme	129,019

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 March 2002 at £1.184 per share.

Notes to the Financial Statements (continued)

17. MOVEMENTS ON RESERVES GROUP AND COMPANY

	Share Premium account £	Capital Redemption reserve £	Profit and Loss account £	Total £
At 1 June 1996	906,887	400,000	266,098	1,572,985
Bonus issues of shares	(304,790)	(400,000)	-	(704,790)
Issues of shares	2,450,614	-	-	2,450,614
Expenses of share issue	(507,538)	-	-	(507,538)
Retained profit for the year	-	-	1,067,952	1,067,952
At 31 May 1997	2,545,173	-	1,334,050	3,879,223

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
Profit for the financial year	1,572,344	1,119,314
Dividends	(504,392)	(1,132,486)
	1,067,952	(13,172)
New share capital subscribed less expenses of issue	2,053,836	57,500
	3,121,788	44,328
Opening shareholders' funds	1,576,675	1,532,347
Closing shareholders' funds	4,698,463	1,576,675

19. OPERATING LEASES AND EQUIPMENT HIRE AGREEMENTS

a) The following payments are due in the year ending 31 May 1997 in respect of operating leases and hire agreements which expire in the following periods from the balance sheet date.

	£
Less than one year	4,997
2 to 5 years	35,549
	40,546

Notes to the Financial Statements (continued)

19. OPERATING LEASES AND EQUIPMENT HIRE AGREEMENTS (CONTINUED)

b) In addition the Company has numerous leasehold properties with terms varying up to 25 years. The rental terms vary considerably and can relate directly to the turnover of individual outlets. In view of this, the Company Board considers it inappropriate and commercially disadvantageous to disclose information regarding annual rental payments as required by Statement of Standard Accounting Practice No.21 - 'Accounting for Leases and Hire Purchase Contracts'.

20. CAPITAL COMMITMENTS	1997	1996
	£	£
Contracted but not provided for	<u>45,000</u>	<u>-</u>

21. OTHER COMMITMENTS

Forward foreign exchange contracts at the period end amount to £2,093,000 (sterling equivalent) (1996: £157,157).

22. RELATED PARTY TRANSACTIONS

The Company retained the services of Shelton Cobb, of which J A C Hill was the proprietor, to act as solicitor to the Company. That firm's charges have been in line with expected charges given the type of work involved, and they totalled £40,000 during the year to 31 May 1997.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Whittard of Chelsea Plc will be held on Tuesday, 11th November 1997 at Henderson Crosthwaite, 32 St Mary at Hill, London EC3P 3AJ 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 1997.
2. To confirm payment of the interim dividend and declare a final dividend.
3. To re-elect David Courtenay Gladstone Gyle-Thompson as a Director*, who retires by rotation in accordance with the Articles of Association of the Company.
4. To re-elect John Philip Giles Hilton as a Director, who retires by rotation in accordance with the Articles of Association of the Company.
5. To elect as Director David Vernon John Paget, who was appointed since the previous Annual General Meeting.
6. To re-appoint Clark Whitehill as auditors of the Company and authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

7. To approve the adoption of the Whittard of Chelsea Employee Share Ownership Trust (the "Trust"), the main features of which are summarised in the attached Appendix, and to authorise the Directors to do all acts and things necessary to establish the Trust and carry it into effect.
8. 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."

9. 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 8 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;

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."

10. To transact any other business that may be transacted at an Annual General Meeting.

Appendix

The Whittard of Chelsea Employee Share Ownership Trust.

The Trust will be a discretionary trust for the benefit of the Company's employees. The trustees will be a wholly owned subsidiary of the Company. The trustees will receive funds from the Company or borrow from external sources in order to acquire shares in the Company. The trustees will make these shares available to selected employees on whatever terms they decide or through the operation of the Company's other share schemes.

The Trust may not hold more than 10 per cent of the Company's issued share capital at any one time.

No alteration may be made to the advantage of participants without the prior approval of shareholders unless it is a minor amendment:

- a) to benefit the administration of the Trust;
- b) to take account of changes in legislation; or
- c) to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the Company.