

3649523

Report and Accounts
Thistledove Limited

28 November 1998



Thistledove Limited

Registered No. 3649523

DIRECTORS

J Lancaster
A R Cox
D J Keen
D J Curzon
D W Symondson
C F Corby

SECRETARY

A R Cox

AUDITORS

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

BANKERS

National Westminster Bank PLC
250 Regent Street
London W1A 4RY

SOLICITORS

Clifford Chance
200 Aldersgate Street
London EC1A 4JJ

REGISTERED OFFICE

TM House
Ashwells Road
Brentwood
Essex CM15 9ST

Thistledove Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors present their report and the group accounts for the period ended 28 November 1998.

RESULTS AND DIVIDENDS

The group profit for the year after taxation amounted to £6,761,000. After ordinary dividends of £20,080,000 (1997 - £164,000) and preference dividends of £649,000 (1997 - £1,599,000), there was a retained loss for the period of £13,968,000 (1997 - profit £9,685,000).

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the group are the retailing of newspapers, tobacco and confectionery, and the sale of tobacco and beverages from vending machines.

The directors are pleased to report an increase of 15.5% in the operating profit of the Group to £24.0 million on turnover which increased from £530 million to £541 million.

On 17 April 1998, the group acquired the shares of Vendcare Holdings Ltd which operates approximately 4,500 vending machines and provides technical maintenance to an additional 9,000 vending machines.

On 28 November 1998, the group acquired the shares of Tog Ltd, the parent company of the newsagent, Martin. Martin operates approximately 780 retail outlets throughout the United Kingdom, including 730 traditional CTNs and 50 convenience stores.

REORGANISATION TO ACQUIRE TOG LIMITED

The company was incorporated on 14 October 1998. On 28 November 1998, in a reorganisation in connection with the acquisition of Tog Limited, the entire share capital of TM Group Holdings Plc was acquired by Thistledove Limited in a share for share exchange.

The reorganisation has been accounted for using merger accounting principles, reflecting the fact that the ownership and control of TM Group Holdings Plc remained with the same institutional and management shareholders.

In the opinion of the directors, the information most relevant to shareholders is that for the 52 weeks ended 28 November 1998 and, accordingly, the information in this report and in the accounts is for this period. Amounts for TM Group Limited (formerly TM Group Holdings Limited) for the 52 weeks ended 29 November 1997 are given for comparative purposes. The company's statutory consolidated profit and loss account for the period from its incorporation is given in note 25.

FUTURE DEVELOPMENTS

The directors consider the company to be well placed to take advantage of opportunities to expand its activities.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of the activities of the group depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose the group to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The group has been internally assessing its potential Year 2000 compliance issues and has concluded that internal Year 2000 issues are unlikely to have a material effect on its business. The total cost of Year 2000 compliance is estimated to be less than £800,000.

The risk analysis has also considered the impact on the business of Year 2000 related failures by significant suppliers (including computer bureaux) and customers. Responses received to date indicate that the company will not suffer any loss of supply from any central supplier although it could be adversely affected by Year 2000 compliance issues that affect the ability of its suppliers to provide it with goods or services in a timely and dependable fashion.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the board believes that it will achieve an acceptable state of readiness.

EMPLOYMENT OF DISABLED PERSONS

Disabled persons are employed and trained by the group where their aptitudes and abilities allow and suitable vacancies are available. Where employees become disabled, the group endeavours to continue their employment, provided there are jobs which they can do, bearing in mind not only their handicap or disability, but also their experience and skills. The need to develop the careers of disabled people and ensure their continued safety at work is accepted throughout the group and the necessary steps are taken to train and promote disabled employees where this is in their own and the group's best interests.

EMPLOYEES

Information on matters of concern to employees is given through information bulletins, meetings and reports; the same means, reinforced by profit sharing and bonus schemes, are used to help employees achieve a common awareness of the financial and economic factors affecting the performance of the group.

DONATIONS

A total of £2,005 (1997 – £2,706) was paid during the year to United Kingdom charities. No political donations were made during the year.

Thistledove Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

DIRECTORS AND THEIR INTERESTS

The directors at 28 November 1998 and their interests in the share capital of the company (all beneficially held) were as follows:

			At 28 November 1998	
			"A" ordinary shares	"C" ordinary shares
J Lancaster	(Chief Executive)	(appointed 23 November 1998)	46,896	1,104
A R Cox		(appointed 23 November 1998)	22,411	551
D J Keen		(appointed 23 November 1998)	23,826	551
P Mitchell		(appointed 23 November 1998; resigned 31 March 1999)	23,322	551
D J Curzon		(appointed 23 November 1998)	9,927	368
D W Symondson	(Non-executive)	(appointed 28 November 1998)	-	-
C F Corby	(Non-executive)	(appointed 28 November 1998)	-	-

No director had an interest in the shares or loan stock of any subsidiary company at 28 November 1998 except TM Group Holdings Plc. Their interests are shown in the accounts of that company. The directors' interests in the shares of TM Group Limited (formerly TM Group Holdings Limited) prior to the recapitalisation in May 1998 are shown in the accounts of that company.


AUDIT COMMITTEE

The audit committee comprises the non-executive directors and usually meets not less than twice annually. The audit committee is responsible for reviewing a wide range of financial matters including the annual accounts before their submission to the Board, and monitoring the controls which are in force to ensure the integrity of the financial information reported to the shareholders. The audit committee advises the board on the appointment of external auditors and their remuneration both for audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. The committee provides a forum for reporting by the group's external auditors.

AUDITORS

Ernst & Young were appointed as auditors on 27 November 1998 and a resolution to re-appoint them as auditors will be put to the members at the Annual General Meeting.

By order of the board



Secretary

9 August 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the accounts.

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

REPORT OF THE AUDITORS
to the members of Thistle-dove Limited

We have audited the accounts on pages 7 to 38, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 13 to 15.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

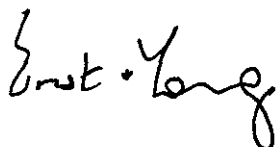
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group'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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 28 November 1998 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

9 August 1999.

Thistle dove Limited

GROUP PROFIT AND LOSS ACCOUNT

for the 52 week period ended 28 November 1998

		52 weeks ended 28 November 1998	TM Group Ltd 52 weeks ended 29 November 1997
TURNOVER			
Continuing operations			
ongoing		527,819	529,992
acquisitions		13,233	-
GROUP TURNOVER	2	541,052	529,992
Cost of sales		(400,979)	(398,377)
Gross profit		140,073	131,615
Selling, distribution and advertising costs		(106,401)	(100,953)
Administrative expenses		(9,198)	(8,360)
Exceptional items	4	(450)	(1,500)
		(116,049)	(110,813)
OPERATING PROFIT			
Continuing operations			
ongoing		23,136	20,802
acquisitions		888	-
GROUP OPERATING PROFIT	3	24,024	20,802
Net interest payable and similar charges	7	(14,477)	(4,334)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		9,547	16,468
Tax on profit on ordinary activities	8	(2,786)	(5,020)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,761	11,448
DIVIDENDS			
Ordinary dividends on non-equity shares	10	(80)	(164)
Preference dividends on non-equity shares	10	(649)	(1,599)
Equity dividend on "A" ordinary shares	10	(20,000)	-
(LOSS)/PROFIT RETAINED FOR THE PERIOD		(13,968)	9,685

Thistledove Limited

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 52 week period ended 28 November 1998

		<i>52 weeks ended 28 November 1998 £000</i>	<i>TM Group Ltd 52 weeks ended 29 November 1997 £000</i>
	Notes		
Profit on ordinary activities after taxation	24	6,761	11,448
Currency differences on net assets of foreign currency investments	24	-	(31)
Total recognised gains relating to the period		<u>6,761</u>	<u>11,417</u>

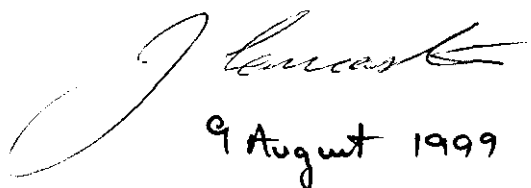
Thistledove Limited

GROUP BALANCE SHEET

at 28 November 1998

	Notes	28 November 1998 £000	TM Group Ltd 29 November 1997 £000
FIXED ASSETS			
Tangible assets	11	72,887	44,600
CURRENT ASSETS			
Stocks	14	104,044	97,759
Debtors	15	31,785	23,060
Other current assets	16	3,725	-
Cash at bank and in hand		33,423	18,360
CREDITORS: amounts falling due within one year	17	172,977 (196,564)	139,179 (155,709)
NET CURRENT LIABILITIES		(23,587)	(16,530)
TOTAL ASSETS LESS CURRENT LIABILITIES		49,300	28,070
CREDITORS: amounts falling due after more than one year	18	(236,730)	(33,118)
PROVISIONS FOR LIABILITIES AND CHARGES	22	(4,192)	(2,608)
		(191,622)	(7,656)
CAPITAL AND RESERVES			
Called up share capital	23	7	235
Share premium	24	160	23,292
Other reserves	24	(59,892)	-
Goodwill reserve	24	(134,559)	(47,813)
Profit and loss account	24	2,662	16,630
SHAREHOLDERS' FUNDS		(191,622)	(7,656)

Shareholders' funds includes non-equity interests which are disclosed in note 24.



Director

9 August 1999

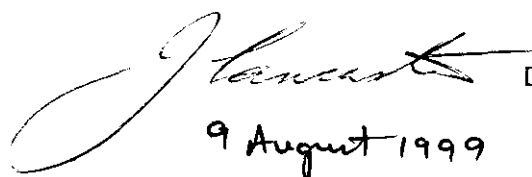
Thistledove Limited

BALANCE SHEET

at 28 November 1998

	Notes	28 November 1998 £000
FIXED ASSETS		
Investments	12	20,740
CURRENT ASSETS		
Debtors	15	470
Cash at bank and in hand		-
CREDITORS: amounts falling due within one year	17	470 (696)
NET CURRENT LIABILITIES		(226)
TOTAL ASSETS LESS CURRENT LIABILITIES		20,514
CREDITORS: amounts falling due after more than one year	18	(20,410)
		104
CAPITAL AND RESERVES		
Called up share capital	23	7
Share premium	24	160
Profit and loss account	24	(63)
SHAREHOLDERS' FUNDS		104

Shareholders' funds includes non-equity interests which are disclosed in note 24.

 Director
9 August 1999

Thistledove Limited

GROUP STATEMENT OF CASH FLOWS

for the 52 week period ended 28 November 1998

		52 weeks ended 28 November 1998 £000	TM Group Ltd 52 weeks ended 29 November 1997 £000
	Notes		
NET CASH INFLOW FROM OPERATING ACTIVITIES	26	39,389	35,237
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		553	430
Interest paid		(13,309)	(5,078)
Interest element of finance lease rental payments		(3)	(13)
Non equity dividends paid		(90)	(153)
		<u>(12,849)</u>	<u>(4,814)</u>
TAXATION			
Corporation tax paid (including advance corporation tax)		(5,596)	(2,923)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(13,167)	(12,933)
Receipts from sales of tangible fixed assets		2,028	2,457
		<u>(11,139)</u>	<u>(10,476)</u>
ACQUISITIONS AND DISPOSALS			
Sale of business		492	-
Purchase of businesses	13	(83,066)	(13,217)
		<u>(82,574)</u>	<u>(13,217)</u>
MANAGEMENT OF LIQUID RESOURCES			
Decrease in short-term deposits	26	2,783	23,235
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		<u>(69,986)</u>	<u>27,042</u>
FINANCING			
Issue of ordinary share capital		162	-
New loans net of issue costs	26	238,021	-
Repayment of long-term loans	26	(37,905)	(23,622)
Recapitalisation		(107,519)	-
Repayments of capital element of finance leases and hire purchase contracts		(73)	(83)
Purchase of hedging instrument		(4,854)	-
		<u>87,832</u>	<u>(23,705)</u>
INCREASE IN CASH	26	<u>17,846</u>	<u>3,337</u>

GROUP STATEMENT OF CASH FLOWS
for the 52 week period ended 28 November 1998

		52 weeks ended 28 November 1998 £000	TM Group Ltd 52 weeks ended 29 November 1997 £000
	Notes		
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN DEBT			
Increase in cash		17,846	3,337
Repayment of long term loans		37,905	23,622
Issue of new loans		(238,021)	-
Repayment of capital element of finance leases and hire purchase contracts		73	83
Finance leases		(1,835)	(186)
Cash inflow from short term deposits		(2,783)	(23,235)
Change in net debt resulting from cashflows	26	(186,815)	3,621
MOVEMENT IN NET DEBT			
NET DEBT AT BEGINNING OF PERIOD	26	(19,665)	(23,286)
NET DEBT AT END OF PERIOD	26	(206,480)	(19,665)

NOTES TO THE ACCOUNTS

at 28 November 1998

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company

The company was incorporated on 14 October 1998. On 28 November 1998, in a reorganisation in connection with the acquisition of Tog Limited, the entire share capital of TM Group Holdings Plc was acquired by Thistledove Limited in a share for share exchange.

In the opinion of the directors, the information most relevant to shareholders is that for the 52 weeks ended 28 November 1998 and, accordingly, the information in this report and in the accounts is for this period. Amounts for TM Group Limited (formerly TM Group Holdings Limited) for the 52 weeks ended 29 November 1997 are given for comparative purposes. The company's statutory consolidated profit and loss account for the period from its incorporation is given in note 25.

The company's immediate subsidiary, TM Group Holdings PLC was incorporated on 7 November 1997 as Arrowfleet PLC and changed its name to TM Group Holdings PLC on 1 May 1998. On 15 May 1998, it became the parent company of the TM Group in a recapitalisation of TM Group Limited (formerly TM Group Holdings Limited). Under this recapitalisation, it acquired all of the issued share capital of TM Group Limited (formerly TM Group Holdings Limited) in exchange for shares in the company and cash payments.

Immediately prior to the recapitalisation, TM Group Limited (formerly TM Group Holdings Limited) declared a cash dividend of £20.0 million on its "A" ordinary shares with a scrip alternative which was satisfied by the issue of new preference shares. These preference shares were acquired for a cash consideration of £25.0 million and the existing preference shares in TM Group Limited (formerly TM Group Holdings Limited) were acquired for an aggregate cash payment of £24.5 million, representing their redemption price plus accrued dividends.

Basis of consolidation

The consolidated accounts have been prepared using merger accounting principles, reflecting the fact that the ownership and control of the Group remained with the same shareholders after the recapitalisation in May 1998 and the reorganisation in November 1998. Schedule 4A to the Companies Act 1985 and Financial Reporting Standard 6, Acquisitions and Mergers, require business combinations which include a substantial cash element to be accounted for using acquisition accounting principles. The use of acquisition accounting would give rise to goodwill on consolidation. As there was no arm's length acquisition price in the recapitalisation in May 1998, the resulting goodwill would not be a meaningful amount. In addition, as there was no external acquiring party, such goodwill would in effect be self-generated goodwill. In the opinion of the directors the acquisition method of accounting would not result in a true and fair view of either the results of operations or financial position of the Group. No quantification of this departure is given as to do so would be misleading. The reorganisation in November 1998 was a share for share exchange involving no cash consideration (see note 23).

Both the reorganisation in May and that in November have therefore been accounted for using merger accounting principles.

Goodwill

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired, is set off against reserves on acquisition.

NOTES TO THE ACCOUNTS

at 28 November 1998

1. ACCOUNTING POLICIES (continued)

If a subsidiary or business is subsequently sold or closed, any goodwill arising on acquisition that was set off directly against reserves, is taken into account in determining the profit or loss on sale or closure.

Depreciation

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned. Principal rates used for this purpose are:

Land and buildings

Freehold

(including land where it is not separately identifiable)	–	50 years
Long leaseholds improvements	–	50 years
Short leaseholds improvements	– shops	– 10 years
	– other	– the term of the lease

Plant and machinery

Motor vehicles	–	4 years
Computer equipment	–	between 3 and 6 years
Furniture and fittings	–	between 7 and 10 years
Machinery and equipment	–	between 5 and 10 years

Lottery income

Commission from the sale of on-line lottery tickets is recognised within turnover. Revenue from the sale of instant lottery tickets is recognised gross, as part of turnover.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost of goods for resale in the retail businesses is calculated for each category of stock by reducing the net selling price by the attributable average gross margin. Net realisable value is the price at which the stocks can be realised in the normal course of the business.

Volume rebates

Volume discounts receivable from manufacturers are recognised as a credit to cost of sales in the period in which the stock to which the volume discounts apply is sold.

Taxation

Current and deferred taxation provisions are based on the results of the period and include all taxation liabilities accruing to the date of the accounts.

Deferred taxation is provided using the liability method in respect of all material timing differences to the extent that they are expected to reverse in the future without being replaced, with the exception of pension timing differences which are provided in full, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

NOTES TO THE ACCOUNTS

at 28 November 1998

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities, including the dollar denominated senior subordinated notes, denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All differences on translation are taken to the profit and loss account.

The balance sheets of overseas subsidiary undertakings are translated at the rates of exchange ruling at the balance sheet date. The results of overseas subsidiary undertakings are translated at the average rates of exchange for the period. The exchange difference arising on the retranslation of opening net assets together with the differences between profit and loss accounts translated at average rates and at balance sheet rates are taken directly to reserves.

Interest rate risk management

The Group manages its exposure to interest rate fluctuation by the use of derivatives such as interest rate swaps, options and caps. These instruments are accounted for as hedges, with the profit and loss account reflecting the net interest payable or receivable under the instruments. Premiums paid on entering into options are marked to market at the end of each period and the resulting gain or loss is expensed in the profit and loss account.

Capital instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Lease agreements which transfer to the group substantially all the risks and rewards of ownership of an asset, are treated as if they had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Pensions

The Group operates three defined benefit pension schemes, in addition to some small defined contribution schemes, which require contributions to be made to separately administered funds. The cost of contributions to the defined benefit schemes are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Group. The regular cost is attributed to individual years using the projected unit credit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either accruals or prepayments in the balance sheet. Actuarial valuations are undertaken periodically.

NOTES TO THE ACCOUNTS

at 28 November 1998

2. **TURNOVER AND SEGMENTAL ANALYSIS**

Turnover represents the amounts receivable for goods and services sold in the period which fall within the group's principal activities, stated net of value added tax.

In the opinion of the directors, the group operates in two principal areas of activity, that of retailing of newspapers, tobacco, confectionery and stationery and vending and related business. The geographical analyses of turnover by origin and by destination, which is almost entirely the United Kingdom, are not materially different.

Turnover, group profit on ordinary activities before tax and net assets are analysed as follows:

Area of activity

	<i>Retailing Business</i>		<i>Vending Business</i>		<i>Total</i>	
	<i>TM Group Ltd</i>	<i>TM Group Ltd</i>	<i>TM Group Ltd</i>	<i>TM Group Ltd</i>	<i>TM Group Ltd</i>	<i>TM Group Ltd</i>
	<i>52 weeks ended</i>	<i>52 weeks ended</i>	<i>52 weeks ended</i>	<i>52 weeks ended</i>	<i>52 weeks ended</i>	<i>52 weeks ended</i>
	<i>28 November</i>	<i>29 November</i>	<i>28 November</i>	<i>29 November</i>	<i>28 November</i>	<i>29 November</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>	<i>1997</i>	<i>1998</i>	<i>1997</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
TURNOVER						
Continuing operations	321,918	318,783	219,134	211,209	541,052	529,992
Turnover of acquisitions included in the above	-	-	13,233	-	13,233	-
PROFIT						
Segment profit:						
Continuing operations	10,174	10,147	17,251	14,088	27,425	24,235
Common costs (including exceptional costs)					(3,401)	(3,433)
Net interest payable and similar charges					24,024 (14,477)	20,802 (4,334)
Profit on ordinary activities before taxation					9,547	16,468
Operating profit of acquisitions included in the above	-	-	888	-	888	-

NOTES TO THE ACCOUNTS
at 28 November 1998

2. TURNOVER AND SEGMENTAL ANALYSIS (continued)

Area of activity

	Retailing Business		Vending Business		Total	
	TM Group Ltd		TM Group Ltd		TM Group Ltd	
	52 weeks ended	52 weeks ended	52 weeks ended	52 weeks ended	52 weeks ended	52 weeks ended
	28 November	29 November	28 November	29 November	28 November	29 November
	1998	1997	1998	1997	1998	1997
	£000	£000	£000	£000	£000	£000
NET ASSETS						
Net assets by segment:						
Continuing operations	7,437	9,717	11,849	14,318	19,286	24,035
	<u> </u>	<u> </u>	<u> </u>	<u> </u>		
Unallocated net liabilities					(210,908)	(31,691)
					<u> </u>	<u> </u>
Total net liabilities					(191,622)	(7,656)
					<u> </u>	<u> </u>
Net (liabilities)/assets of acquisitions included in the above	(2,738)	-	1,080	1,480	(1,658)	1,480
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Unallocated net liabilities comprise:						
Fixed assets					146	184
Pension (liability)/prepayment					(855)	677
Other debtors					2,419	1,285
Other current asset					3,656	-
Cash at bank and in hand					33,423	18,360
Corporation tax					(4,148)	(7,096)
Other creditors and accruals					(6,885)	(2,731)
Bank and other loans					(238,022)	(37,905)
Deferred taxation					(642)	(1,004)
Proposed dividends					-	(3,461)
					<u> </u>	<u> </u>
					(210,908)	(31,691)
					<u> </u>	<u> </u>

Thistledove Limited

NOTES TO THE ACCOUNTS at 28 November 1998

3. OPERATING PROFIT

This is stated after charging/(crediting):

	52 weeks ended 28 November 1998 £000	TM Group Ltd 52 weeks ended 29 November 1997 £000
Auditors' remuneration		
- audit services	192	115
- non-audit services	133	955
Depreciation of owned assets	10,181	10,126
Depreciation of assets held under finance leases	78	34
Operating lease payments		
- land and buildings	11,005	10,737
- plant and machinery	1,786	109
Operating lease income	(1,123)	(1,195)
Profit on disposal of tangible fixed assets	(886)	(806)
	<hr/>	<hr/>
In addition:		
Auditors' remuneration for non-audit services not included in the above	1,237	-
	<hr/>	<hr/>

4. OPERATING EXCEPTIONAL ITEMS

	52 weeks ended 28 November 1998 £000	TM Group Ltd 52 weeks ended 29 November 1997 £000
Aborted acquisition costs	144	1,500
Recapitalisation costs	700	-
Profit on sale of Pour over Coffee division	(394)	-
	<hr/>	<hr/>
	450	1,500
	<hr/>	<hr/>

Thistledove Limited

NOTES TO THE ACCOUNTS at 28 November 1998

5. DIRECTORS' EMOLUMENTS

	52 weeks ended 28 November 1998 £000	TM Group Ltd 52 weeks ended 29 November 1997 £000
Emoluments	1,008	809

Five Directors were members of the Group's defined benefit Pension Scheme. The emoluments of the highest paid director, excluding pension contributions, were £316,000 (1997 – £268,000) and his accrued pension benefits were £101,000 (1997 £74,000).

6. STAFF COSTS

	52 weeks ended 28 November 1998 £000	TM Group Ltd 52 weeks ended 29 November 1997 £000
Wages and salaries	53,261	46,756
Social security costs	3,571	2,864
Other pension costs	730	610
	57,562	50,230

The average weekly number of employees during the period was as follows:

	52 weeks ended 28 November 1998 No	TM Group Ltd 52 weeks ended 29 November 1997 No
Retailing	6,480	6,524
Vending and related business	1,415	1,041
Central administration	14	14
	7,909	7,579

The TM Group Holdings Limited Employee Benefit Trust ("ESOP") was established in January 1997. Shares held by the trust for TM Group Ltd (formerly TM Group Holdings Ltd) were exchanged for shares in TM Group Holdings Plc following a recapitalisation of the group on 15 May 1998. In a further reorganisation on 28 November 1998, shares held by the trust were exchanged for shares in Thistledove Limited. At 28 November 1998 the ESOP held 17,869 "A" Ordinary Shares in Thistledove Limited purchased from former employees.

Thistledove Limited

NOTES TO THE ACCOUNTS

at 28 November 1998

6. STAFF COSTS (continued)

The trust was set up for the benefit of employees against its holding of "A" ordinary shares in the company. Conditional awards over the shares will vest for certain employees under certain circumstances from time to time.

7. NET INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks ended 28 November 1998 £000	TM Group Ltd 52 weeks ended 29 November 1997 £000
Interest receivable	553	430
Interest payable:		
Bank loans and overdrafts	(3,691)	(225)
Other loans	(10,025)	(4,526)
Finance charges payable under finance leases	(3)	(13)
	<u>(13,719)</u>	<u>(4,764)</u>
Similar charges:		
Retranslation of senior notes	(113)	-
Revaluation of currency options	(1,198)	-
	<u>(1,311)</u>	<u>-</u>
Net interest payable and similar charges	<u>(14,477)</u>	<u>(4,334)</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge is made up as follows:

	52 weeks ended 28 November 1998 £000	TM Group Ltd 52 weeks ended 29 November 1997 £000
Based on the profit for the period:		
UK Corporation tax payable at 31% (1997 - 31.7%)	3,304	5,465
Deferred taxation (credit)/charge	(322)	55
Corporation tax overprovided in previous years	(196)	(500)
	<u>2,786</u>	<u>5,020</u>

9. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT UNDERTAKING

The loss after taxation dealt with in the accounts of the parent undertaking was £63,000.

Thistledove Limited

NOTES TO THE ACCOUNTS

at 28 November 1998

10. DIVIDENDS

	52 weeks ended 28 November 1998 £000	TM Group Ltd 52 weeks ended 29 November 1997 £000
Non-equity dividends on "B" preferred ordinary shares	80	164
Non-equity dividends on redeemable cumulative preference shares	649	1,599
Equity dividend on "A" ordinary shares	20,000	-
	<u>20,729</u>	<u>1,763</u>

The dividends above were payable for the period prior to the recapitalisation described in note 23.

The equity dividend on the "A" shares was satisfied by the issue of 20 million £1 preference shares in TM Group Limited.

11. TANGIBLE FIXED ASSETS

Group	Land and buildings £000	Plant and machinery £000	Total £000
Cost:			
At 29 November 1997 (TM Group Ltd)	10,460	40,076	50,536
Additions	1,867	11,300	13,167
Acquisitions	10,574	15,918	26,492
Disposals	(1,111)	(5,012)	(6,123)
At 28 November 1998	<u>21,790</u>	<u>62,282</u>	<u>84,072</u>
Depreciation:			
At 29 November 1997 (TM Group Ltd)	916	5,020	5,936
Provided during the year	875	9,384	10,259
Disposals	(692)	(4,318)	(5,010)
At 28 November 1998	<u>1,099</u>	<u>10,086</u>	<u>11,185</u>
Net book value:			
At 28 November 1998	<u>20,691</u>	<u>52,196</u>	<u>72,887</u>
At 29 November 1997 (TM Group Ltd)	<u>9,544</u>	<u>35,056</u>	<u>44,600</u>

The net book value of plant and machinery above includes an amount of £2,082,000 (1997 – £92,000) in respect of assets held under finance leases.

NOTES TO THE ACCOUNTS

at 28 November 1998

11. TANGIBLE FIXED ASSETS (continued)

The net book value of land and buildings for the group is made up of:

	<i>Freehold</i> £000	<i>Long</i> <i>leasehold</i> £000	<i>Short</i> <i>leasehold</i> £000	<i>Total</i> £000
At 28 November 1998	10,149	1,651	8,891	20,691
At 29 November 1997 (TM Group Ltd)	5,296	1,458	2,790	9,544

Thistledove Limited

NOTES TO THE ACCOUNTS

at 28 November 1998

12. INVESTMENTS

	<i>28 November 1998 £000</i>
At 14 October 1998	-
Additions	20,740
At 28 November 1998	<u>20,740</u>

The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the group.

<i>Name of company</i>	<i>Country of registration (or incorporation) and operation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
<i>All held by the company unless indicated.</i>				
Bracklands Ltd*	England and Wales	Ordinary shares	100%	Property Co
Clark Retail Ltd*	Scotland	Ordinary shares	100%	Retailing
Farthingmist Ltd*	England and Wales	Ordinary shares	100%	Purchase of and supply of tobacco products
Forbuoys Ltd*	England and Wales	Ordinary shares	100%	Retailing
Martin Retail Group Ltd*	Scotland	Ordinary shares	100%	Retailing
Mayfair Vending Ltd*	England and Wales	Ordinary shares	100%	Vending
Reliable Refreshments Ltd*	England and Wales	Ordinary shares	100%	Vending
TM Group Holdings Plc	England and Wales	Ordinary shares	100%	Predecessor Holding Co
TM Group Ltd* (formerly TM Group Holdings Ltd)	England and Wales	Ordinary shares Cum preference shares	100% 100%	Predecessor Holding Co
Tog Ltd*	England and Wales	Ordinary shares	100%	Intermediate Holding Co
Vendcare Holdings Ltd*	England and Wales	Ordinary shares	100%	Vending
Vendepac Ireland Ltd*	Eire	Ordinary shares	100%	Vending
Vendepac Ltd*	England and Wales	Ordinary shares	100%	Vending

*100% held by a subsidiary undertaking

NOTES TO THE ACCOUNTS

at 28 November 1998

13. ACQUISITIONS

Vendcare Holdings Ltd

On 17 April 1998 the group acquired Vendcare Holdings Ltd for cash consideration of £18,775,000. Goodwill arising on the acquisition of Vendcare Holdings Ltd has been transferred to goodwill reserve.

Analysis of the acquisition of Vendcare Holdings Ltd:

Net assets at date of acquisition:

	Book Value £000	Adjustments £000	Fair value to group £000
Tangible fixed assets	1,089	-	1,089
Stocks	1,301	-	1,301
Debtors	2,896	-	2,896
Cash	1,277	-	1,277
Creditors	(5,197)	(517) (a)	(5,714)
Deferred taxation	40	-	40
Net assets	<u>1,406</u>	<u>(517)</u>	<u>889</u>
Goodwill arising on acquisition			<u>18,514</u>
			<u>19,403</u>
Discharged by:			
Cash paid			18,775
Costs associated with the acquisition			628
			<u>19,403</u>

Adjustments:

- (a) Deficit on pension fund and other provisions.

Vendcare Holdings Limited recorded a profit after tax of £285,000 on turnover of £6,804,000 in the period from 1 January 1998 to 17 April 1998. No information has been given in relation to operating costs of the acquisition as they have been integrated with other ongoing continuing operations. The company recorded a profit after tax of £1,080,000 in its previous financial year.

Vendcare Holdings Limited contributed £1,699,000 to the Group's net operating cashflows, paid £643,000 in respect of taxation and utilised £14,000 for capital expenditure in the period from acquisition to 28 November 1998.

NOTES TO THE ACCOUNTS

at 28 November 1998

13. ACQUISITIONS (continued)

Tog Ltd

On 28 November 1998 the group acquired Tog Ltd and its subsidiaries for cash consideration of £50,625,000. Goodwill arising on the acquisition of Tog Ltd has been transferred to goodwill reserve. The cash payments of £74,893,000 made in connection with the Tog Ltd acquisition can be summarised as follows:

Consideration for shares (see above)	50,625
Repayment of Tog's debt	19,373
Payment of employee bonuses	4,895
	<u>74,893</u>

Analysis of the acquisition of Tog Ltd:

Net assets at date of acquisition:

	Book Value £000	Adjustments Revaluation £000	Other £000	Fair value to group £000
Tangible fixed assets	31,932	(6,932) (a)	-	25,000
Stocks	23,079	-	-	23,079
Debtors	7,531	-	-	7,531
Cash	11,648	-	-	11,648
Creditors	(69,536)	-	(9,936) (b)	(79,472)
Provisions	(1,633)	-	(795) (c)	(2,428)
Net assets	<u>3,021</u>	<u>(6,932)</u>	<u>(10,731)</u>	<u>(14,642)</u>

Goodwill arising on acquisition	66,415
	<u>51,773</u>

Discharged by:	
Cash paid	50,625
Costs associated with the acquisition	1,148
	<u>51,773</u>

Adjustments:

- (a) Revaluation of tangible fixed assets.
- (b) Bonuses, estimated deficit on pension fund and other liabilities.
- (c) Onerous leases.

NOTES TO THE ACCOUNTS

at 28 November 1998

13. ACQUISITIONS (continued)

The profit and loss account of Tog Limited for the pre-acquisition period 26 April 1998 to 28 November 1998 is summarised below:

	£000
Turnover	229,116
Profit from trading	6,101
Fair value adjustments	(17,663)
Operating loss	(11,562)
Net finance charges	(1,386)
Loss before tax	(12,948)
Tax	-
Loss after tax	(12,948)

The company earned a profit after tax of £6,892,000 in its previous financial period, ending 26 April 1998.

Other acquisitions

The group made other acquisitions during the year for cash consideration of £2,766,000.

Total acquisitions

Goodwill arising on acquisition, which has been transferred to goodwill reserve, is analysed below:

	£000
Tog Ltd	66,415
Vendcare Holdings Ltd	18,514
Other (not individually material)	1,817
	86,746

Cashflows relating to acquisitions are analysed as follows:

	£000	£000
Tog Ltd		
- cash consideration paid (less cash acquired)	40,125	
- repayment of debt	19,373	
- part payment of other contractual liabilities	2,676	62,174
Vendcare		
- cash consideration paid (less cash acquired)		18,126
Other		
- cash consideration paid		2,766
		83,066

Thistledove Limited

NOTES TO THE ACCOUNTS

at 28 November 1998

14. STOCKS

	Group	
	TM Group Ltd	
	28 November	29 November
	1998	1997
	£000	£000
Machinery and spares	1,120	777
Goods for resale	102,924	96,982
	<u>104,044</u>	<u>97,759</u>

The directors consider that the replacement value of stocks does not materially differ from the book value shown above.

15. DEBTORS

	Group		Company
	TM Group Ltd		
	28 November	29 November	28 November
	1998	1997	1998
	£000	£000	£000
Trade debtors	11,221	7,076	-
Other debtors	16,792	13,480	470
Prepayments	3,772	1,639	-
Advanced corporation tax	-	865	-
	<u>31,785</u>	<u>23,060</u>	<u>470</u>
Due within one year	<u>31,785</u>	<u>23,060</u>	<u>470</u>

16. OTHER CURRENT ASSETS

	Group		Company
	TM Group Ltd		
	28 November	29 November	28 November
	1998	1997	1998
	£000	£000	£000
Currency options	3,656	-	-
Current asset investment	69	-	-
	<u>3,725</u>	<u>-</u>	<u>-</u>

Thistledove Limited

NOTES TO THE ACCOUNTS

at 28 November 1998

17. CREDITORS: amounts falling due within one year

	Group		Company
	TM Group Ltd		
	28 November	29 November	28 November
	1998	1997	1998
	£000	£000	£000
Loans (note 19)	3,217	4,829	-
Obligations under finance leases (note 21)	1,076	78	-
Trade creditors	146,699	120,969	-
Corporation tax	4,148	7,096	-
Taxation and social security	3,787	866	-
Other creditors	18,531	4,339	696
Accruals	19,106	14,071	-
Proposed dividend	-	3,461	-
	<u>196,564</u>	<u>155,709</u>	<u>696</u>

18. CREDITORS: amounts falling due after more than one year

	Group		Company
	TM Group Ltd		
	28 November	29 November	28 November
	1998	1997	1998
	£000	£000	£000
Loans (note 19)	234,804	33,076	20,410
Obligations under finance leases (note 21)	806	42	-
Other creditors	1,120	-	-
	<u>236,730</u>	<u>33,118</u>	<u>20,410</u>

NOTES TO THE ACCOUNTS

at 28 November 1998

19. LOANS

	Group		Company
	TM Group Ltd		
	28 November	29 November	28 November
	1998	1997	1998
	£000	£000	£000
Amounts falling due:			
In one year or less	3,217	4,829	-
Between one and two years	235	6,037	-
Between two and five years	30,479	18,512	-
In five years or more	212,915	8,527	21,838
	<hr/>	<hr/>	<hr/>
	246,846	37,905	21,838
Less: unamortised issue costs	(8,825)	-	(1,428)
	<hr/>	<hr/>	<hr/>
	238,021	37,905	20,410
Less: included in creditors:			
amounts falling due within one year	3,217	4,829	-
	<hr/>	<hr/>	<hr/>
	234,804	33,076	20,410
	<hr/>	<hr/>	<hr/>

Details of loans not wholly repayable within five years are as follows:

	Group		Company
	TM Group Ltd		
	28 November	29 November	28 November
	1998	1997	1998
	£000	£000	£000
\$175 million Senior Notes due			
15 May 2008	106,077	-	-
£55 million 12.25% Senior			
Subordinated Notes due 15 May 2008	55,000	-	-
£30 million Unsecured Mezzanine Loan	30,000	-	-
Unsecured 7% loan notes due			
31 December 2008	21,838	-	21,838
Secured loan repayable in semi			
annual instalments commencing			
31 May 1996	-	29,378	-
7% unsecured loan repayable on			
24 July 2003	-	8,527	-
	<hr/>	<hr/>	<hr/>
	212,915	37,905	21,838
Less: unamortised issue costs and			
losses on exchange	(7,097)	-	(1,428)
	<hr/>	<hr/>	<hr/>
	205,818	37,905	20,410
	<hr/>	<hr/>	<hr/>

On 15 May 1998, a group company repaid the £8,527,000 unsecured loan notes and £29,378,000 secured loan.

NOTES TO THE ACCOUNTS

at 28 November 1998

19. LOANS (continued)

The \$175,000,000 senior notes due in May 2008 have been translated at the rate of \$1.648 to £1.

Interest on the Senior and Senior Subordinated Notes is payable half-yearly. The Notes are redeemable on and after 15 May 2003 in whole or in part at the option of the company. The Notes are unsecured and rank pari passu with any existing and future senior unsecured indebtedness of the company and senior to all existing and future subordinated debt of the company but are subordinate to all liabilities in the subsidiaries of the company.

The Unsecured Mezzanine Loan was redeemed on 26 February 1999 by the issue of a Note due in one instalment on 28 November 2008. This Note ranks pari passu with the Senior Notes and Senior Subordinated Notes. The rate of interest payable on the loan is 7% above LIBOR of which LIBOR + 4% is payable half yearly.

Interest on the unsecured 7% loan notes is payable half yearly. From the issue of the notes until 31 December 1999, the rate of interest will be 2% per annum and 5% per annum will accrue. From 1 January 2000 until 31 December 2000, the rate of interest will be 4% and 3% per annum will accrue. Accrued interest will be paid on redemption. The notes are redeemable on 31 December 2008.

The Senior Term Loan and the loan drawn down under the revolving credit facility, included within amounts falling due between 2 and 5 years, are secured by fixed and floating charges over the assets and undertakings of certain subsidiaries of the Group.

20. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The group is a party to derivative financial instruments to manage its exposure to foreign currency exchange rates and interest rates. Those borrowings and interest liability thereon that are in US dollars are partly hedged with respect to the US dollar exchange risk and significant sterling interest rate exposure is also hedged.

In May 1998, a group company acquired a series of five "knock-out" options, exercisable on 13 May 2003, to purchase US dollars (and sell pounds sterling), in an aggregate amount equal to the principal amount of the senior notes, at the rate of \$1.55 = £1.00. Each of these options is subject to automatic termination (and loss of the exercise right) on an earlier date if the exchange rate between the US dollar and the pound sterling exceeds a specified "knock-out" price varying from \$1.70 = £1.00 to \$1.81 = £1.00, depending on the option.

On 24 September 1998, the exchange rate between the US dollar and the pound sterling exceeded £1.70 = £1.00 and, as a result, one of the knock-out options (giving it the right to purchase \$25 million) was terminated. On 1 October 1998, the group purchased a further option, exercisable on 13 May 2003, to purchase \$25 million, at the rate of \$1.60 = £1.00. This option does not contain the knock-out feature described above.

On 8 October 1998, the exchange rate between the US dollar and the pound sterling exceeded \$1.72 = £1.00 and, as a result, an additional one of the company's knock-out options (also giving it the right to purchase \$25 million) was terminated.

Gains and losses arising on options are recognised in the profit and loss account within interest payable.

NOTES TO THE ACCOUNTS

at 28 November 1998

20. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

A group company has also entered into a foreign exchange forward contract for the purchase, at rates varying from \$1.5891 = £1.00 to \$1.6177 = £1.00, of US dollar amounts equal to the total of the first ten half-yearly interest payments on the senior notes, for settlement on each interest payment date from, and including, the payment made on 15 November 1998 to 15 May 2003.

Sterling interest rate swap arrangements on other borrowings, some of which were arranged subsequent to the balance sheet date, were as follows:

<i>Principal Amount £000</i>	<i>Transaction Date</i>	<i>First Interest Payment Date</i>	<i>Final Interest Payment Date</i>	<i>Fixed Interest Rate Payable %</i>	<i>Variable Rate Swapped %</i>
30,000	December 1998	May 1999	November 2000	5.65	6.67
964	October 1998	October 1998	May 2003	6.31	7.43

In December 1998, a group company entered into an interest rate cap at 6.5% on a principal amount of £10,000,000 commencing in February 1999 and ending in November 2001.

In September 1996, a group company entered into an interest rate cap at 7% on a reducing notional amount commencing at £17,200,000 and ending at £10,785,000 in September 1998. It also entered into an interest rate swap on a reducing notional amount commencing at £17,200,000 and ending at £10,785,000 in September 1998 under which it received floating rate interest based on LIBOR and paid fixed rate interest at 6.4675%.

21. OBLIGATIONS UNDER FINANCE LEASES

Group

The net finance lease obligations to which the group is committed are:

	<i>28 November 1998 £000</i>	<i>TM Group Ltd 29 November 1997 £000</i>
Within one year	1,076	78
In two to five years	806	42
	<u>1,882</u>	<u>120</u>

NOTES TO THE ACCOUNTS
at 28 November 1998

22. PROVISIONS FOR LIABILITIES AND CHARGES

<i>Group</i>	<i>Disposal of dis- continued operations £000</i>	<i>Disposal of Branches £000</i>	<i>Deferred taxation £000</i>	<i>Dilapid- ations £000s</i>	<i>Onerous contracts £000</i>	<i>Default assignees £000</i>	<i>Other £000</i>	<i>Total £000</i>
At 29 November 1998	225	1,148	1,004	-	231	-	-	2,608
Arising during the period	-	166	-	-	-	-	-	166
Arising on acquisition	-	124	(40)	700	1,146	443	15	2,388
Utilised during the period	(225)	(336)	(322)	-	(87)	-	-	(970)
At 28 November 1998	<u>-</u>	<u>1,102</u>	<u>642</u>	<u>700</u>	<u>1,290</u>	<u>443</u>	<u>15</u>	<u>4,192</u>

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	<i>Provided</i>		<i>Not provided</i>	
	<i>28 November 1998 £000</i>	<i>TM Group Ltd 29 November 1997 £000</i>	<i>28 November 1998 £000</i>	<i>TM Group Ltd 29 November 1997 £000</i>
Capital allowances in advance of depreciation	588	817	1,246	1,053
Pension prepayments	-	351	-	-
Other timing differences	54	(164)	(31)	-
	<u>642</u>	<u>1,004</u>	<u>1,215</u>	<u>1,053</u>

Thistledove Limited

NOTES TO THE ACCOUNTS

at 28 November 1998

23. SHARE CAPITAL

		28 November 1998 No	28 November 1998 £
<i>Authorised:</i>			
Equity shares	- "A" ordinary shares of 1p each	178,697	1,787
	- "B" ordinary shares of 1p each	459,538	4,595
Non-equity shares	- "C" ordinary shares of 1p each	161,765	1,618
		<u>800,000</u>	<u>8,000</u>

		28 November 1998 No	28 November 1998 £
<i>Allotted, called up and fully paid:</i>			
Equity shares	- "A" ordinary shares of 1p each	178,697	1,787
	- "B" ordinary shares of 1p each	321,303	3,213
Non-equity shares	- "C" ordinary shares of 1p each	161,765	1,618
		<u>661,765</u>	<u>6,618</u>

		<i>TM Group Ltd</i>	
		29 November 1997 No	29 November 1997 £
<i>Authorised, allotted, called up and fully paid:</i>			
Equity shares - "A" ordinary shares of 1p each		450,000	4,500
Non-equity shares			
- "B" ordinary shares of 1p each		2,550,000	25,500
- Redeemable cumulative preference shares of £1 each (1997 - 1p)		20,527,000	205,270
		<u>23,527,000</u>	<u>235,270</u>

The company was incorporated on 14 October 1998. On 28 November 1998, the company became the parent company of TM Group Holdings PLC following a recapitalisation. Under the recapitalisation, the company acquired all of the issued share capital of TM Group Holdings PLC through a share for share exchange and subscribed for a further £20,734,550 of "B" shares.

On incorporation, the authorised ordinary share capital of the company was £100 and the issued ordinary share capital was £2. On 28 November 1998, the authorised ordinary share capital of the company was sub-divided and reclassified into 10,000 ordinary shares of 1p each. In addition, the authorised ordinary share capital of the company was increased by 790,000 ordinary shares of 1p each. These shares were reclassified into 178,697 "A" ordinary shares of 1p each, 459,538 "B" ordinary shares of 1p each and 161,765 "C" ordinary shares of 1p each. All the "A" and "C" ordinary shares and 321,303 "B" ordinary shares were issued on 28 November 1998.

Thistledove Limited

NOTES TO THE ACCOUNTS

at 28 November 1998

23. SHARE CAPITAL (continued)

The "A" and "B" ordinary shares have no fixed right to a dividend. The "C" ordinary shares have the right to a fixed cumulative dividend of 7% per annum.

The "A", "B" and "C" ordinary shares rank pari passu for voting rights and on a winding up.

24. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

<i>Group</i>	<i>Share capital £000</i>	<i>Share premium account £000</i>	<i>Profit and loss account £000</i>	<i>Goodwill reserve £000</i>	<i>Other reserves £000</i>	<i>28 November 1998 Total £000</i>
At 29 November 1997	235	23,292	16,630	(47,813)	-	(7,656)
Arising on acquisition of businesses	-	-	-	(86,746)	-	(86,746)
Recapitalisation	(180)	(23,292)	(20,000)	-	(59,942)	(103,414)
Profit for the period	-	-	6,761	-	-	6,761
Dividend paid	-	-	(729)	-	-	(729)
Arising on share issue	2	160	-	-	-	162
Reorganisation	(50)	-	-	-	(50)	-
At 28 November 1998	<u>7</u>	<u>160</u>	<u>2,662</u>	<u>(134,559)</u>	<u>(59,892)</u>	<u>(191,622)</u>
<i>TM Group Ltd</i>						
<i>29 November 1997</i>						
<i>Group</i>	<i>Share capital £000</i>	<i>Share premium account £000</i>	<i>Profit and loss account £000</i>	<i>Goodwill reserve £000</i>	<i>Other reserves £000</i>	<i>Total £000</i>
At 30 November 1996	235	23,292	6,976	(40,635)	-	(10,132)
Arising on acquisition of businesses	-	-	-	(7,178)	-	(7,178)
Profit for the period	-	-	11,448	-	-	11,448
Foreign currency translations	-	-	(31)	-	-	(31)
Dividend proposed	-	-	(1,763)	-	-	(1,763)
At 28 November 1997	<u>235</u>	<u>23,292</u>	<u>16,630</u>	<u>(47,813)</u>	<u>-</u>	<u>(7,656)</u>

Group shareholders' funds comprise the following interests:

	<i>28 November 1998 £000</i>	<i>TM Group Ltd 29 November 1997 £000</i>
Equity	(191,784)	(30,733)
Non-equity	162	23,077
	<u>(191,622)</u>	<u>(7,656)</u>

Thistledove Limited

NOTES TO THE ACCOUNTS at 28 November 1998

24. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES (continued)

Company	Share capital £000	Share premium account £000	Profit and loss account £000	28 November 1998 Total £000
On incorporation	-	-	-	-
Arising on share issue	7	160	-	167
Loss for the period			(63)	(63)
At 28 November 1998	<u>7</u>	<u>160</u>	<u>(63)</u>	<u>104</u>

Shareholders' funds comprise the following interests:

	28 November 1998 £000	29 November 1997 £000
Equity	(58)	1,045
Non-equity	162	23,077
	<u>104</u>	<u>24,122</u>

25. STATUTORY CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR PERIOD FROM DATE OF INCORPORATION TO 28 NOVEMBER 1998

	28 November 1998
TURNOVER	68,238
Cost of sales	(48,552)
Gross profit	<u>19,686</u>
Selling, distribution and advertising costs	(12,631)
Administrative expenses	(1,150)
	<u>(13,781)</u>
OPERATING PROFIT	5,905
Net interest payable and similar charges	(2,328)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	<u>3,577</u>
Tax on profit on ordinary activities	(1,044)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	<u>2,533</u>

NOTES TO THE ACCOUNTS
at 28 November 1998

26. NOTES TO THE STATEMENT OF CASHFLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities

	52 weeks ended 28 November 1998 £000	TM Group Ltd 52 weeks ended 29 November 1997 £000
Operating profit	24,024	20,802
Depreciation and amortisation charges	10,539	10,160
Profit on disposal of tangible fixed assets	(886)	(806)
Decrease in debtors	(266)	228
Increase/(decrease) in stocks	18,422	(5,958)
(Decrease)/increase in creditors	(11,600)	12,202
Decrease in provisions	(844)	(1,391)
Net cash inflow from operating activities	<u>39,389</u>	<u>35,237</u>

(b) Analysis of net debt

	At 29 November 1997 £000	Cashflow £000	At 28 November 1998 £000
Cash at bank and in hand	9,360	17,846	27,206
Short term deposits*	9,000	(2,783)	6,217
Loans	(37,905)	(200,116)	(238,021)
Finance leases	(120)	(1,762)	(1,882)
	<u>(19,665)</u>	<u>(186,815)</u>	<u>(206,480)</u>

*Short term deposits are included within cash at bank and in hand in the balance sheet.

27. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £3,862,000 (1997 – £557,000) for the group.

NOTES TO THE ACCOUNTS

at 28 November 1998

28. OPERATING LEASE COMMITMENTS

At 28 November 1998, the group had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>TM Group Ltd</i>		<i>TM Group Ltd</i>	
	<i>28 November</i>	<i>29 November</i>	<i>28 November</i>	<i>29 November</i>
	<i>1998</i>	<i>1997</i>	<i>1998</i>	<i>1997</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
within one year	1,151	361	935	13
within two to five years	4,562	2,290	1,135	2
in over five years	16,885	7,070	-	-
	<u>22,598</u>	<u>9,721</u>	<u>2,070</u>	<u>15</u>

29. CONTINGENT LIABILITY

Certain subsidiaries of the company have assigned UK property leases in the normal course of business. Should the assignees fail to fulfil any obligations in respect of these leases, members of the group may be liable for those defaults. The number of such claims arising to date have been small, and the liability, which is charged to the profit and loss as it arises, has not been material.

30. PENSION COMMITMENTS

The group operates three defined benefit pension schemes covering a significant number of its permanent employees (in addition to some small defined contribution schemes), all of which are funded by the payment of contributions to separate trustee administered funds.

The contributions to the schemes during the year were determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit method. The principal assumptions made for the most recent valuations were as follows:

	<i>Vendepac Ltd</i> <i>(formerly TM Group Ltd)</i> <i>(% per annum)</i>	<i>Vendcare Ltd</i> <i>(% per annum)</i>	<i>Martin Retail Group Ltd</i> <i>(% per annum)</i>
Rate of return on investments	9.0	9.0	9.0
Rate of salary increases	7.0	7.0	7.0
Rate of pension increases	3.5-4.5	3.4-4.5	3.4-4.5
Rate of growth in dividends	4.5	4.5	4.5
Date of latest valuation	31 March 1997	17 April 1998	28 November 1998
Market value of schemes' assets at latest valuation	£54,531,000	£3,574,000	£23,584,000

The actuarial value of the schemes' assets represented the following percentages of the benefits for each scheme that had accrued to the members based on service to that date allowing for assumed future salary increases:

	<i>Vendepac Ltd</i> <i>(formerly TM Group Ltd)</i> <i>(%)</i>	<i>Vendcare Ltd</i> <i>(%)</i>	<i>Martin Retail Group Ltd</i> <i>(%)</i>
Percentage of benefits	116	106	107

NOTES TO THE ACCOUNTS
at 28 November 1998

30. PENSION COMMITMENTS (continued)

The excess in the Vendepac Ltd scheme is being used to finance a temporary reduction in the company's contributions.

The fair value of the surpluses or deficits at the dates of acquisition by the parent undertaking was determined having regard to the most recent actuarial valuations. As a result a net liability is included within creditors for the group of £855,000 (1997 – prepayment £677,000).

Movements in the group pension (liability)/asset throughout the period may be summarised as follows:

	28 November 1998 £000	TM Group Ltd 29 November 1997 £000
Balance at the beginning of the period	677	1,097
Fair value adjustment in respect of acquisitions	(870)	
Funding	66	190
Charged during the period	(728)	(610)
(Liability) Asset	<u>(855)</u>	<u>677</u>

31. POST BALANCE SHEET EVENTS

On 7, 10 and 23 December 1998, subsidiaries of the company received loans in aggregate of £115,000,000 to fund the purchase of stock. Proceeds from the sale of this stock were applied to repay these bank loans by 26 March 1999. Of the total loans, £47,500,000 was received to fund the purchase of stock that was contracted for, but not accrued, at 28 November 1998.

The Unsecured Mezzanine Loan was redeemed on 26 February 1999 by the issue of a Note due in one instalment on 28 November 2008. This Note ranks pari passu with the Senior Notes and Senior Subordinated Notes. The rate of interest payable on the loan is 7% above LIBOR of which LIBOR + 4% is payable half yearly.