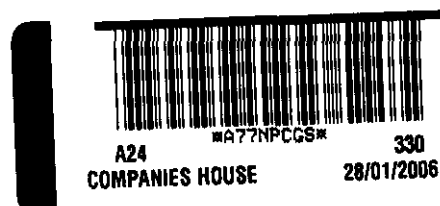


**A.S. Watson (Health & Beauty UK) Limited**

Annual report and accounts  
for the year ended 31 December 2004

Registered Number 04051648



# **A.S. Watson (Health & Beauty UK) Limited**

## **Annual report and accounts**

**for the year ended 31 December 2004**

## **Contents**

Directors' report for the year ended 31 December 2004 .....	3-4
Independent auditors' report for the year ended 31 December 2004 .....	4
Consolidated profit and loss account for the year ended 31 December 2004 .....	6
Consolidated balance sheet at 31 December 2004 .....	7
Company balance sheet at 31 December 2004 .....	8
Consolidated cash flow statement for the year ended 31 December 2004 .....	9
Accounting policies .....	10-11
Notes to the financial statements for the year ended 31 December 2004 .....	12-25

# **A.S. Watson (Health & Beauty UK) Limited**

## **Directors' report for the year ended 31 December 2004**

The directors present their report and the audited financial statements for the year ended 31 December 2004.

### **Principal activities**

The principal activity of the company was that of a non-trading holding company. There has been no significant change in activities during the year. The principal activity of its subsidiaries is that of operating retail health and beauty stores.

### **Review of business and future developments**

The continuing operations of the company and the group businesses performed profitably and the directors anticipate this success to continue in the foreseeable future.

Since the year end the company has capitalised the €364,779,683 loan (see note 14) payable to its parent company A. S. Watson (Europe) Holdings B.V. (formerly known as WPCS (Netherlands) B.V.), by the issue of 99 ordinary shares of £1 each and an increase in share premium of £257,571,000.

Also since the year end the company, through its subsidiary A.S. Watson (P&C UK) Ltd, completed the acquisition of Merchant Retail Group plc. The acquisition was by way of a recommended cash offer at 197p per share, valuing the entire ordinary share capital of Merchant Retail Group plc at approximately £221.9 million. The offer was declared unconditional in all respects on 14th July and cancellation of the listing of Merchant Retail Group plc shares on the official list and of trading on the London Stock Exchange was completed on 12 August 2005.

Merchant Retail Group plc is a speciality retail perfumery retailer and department stores group, operating in the UK, Ireland, Australia and Jersey. Merchant Retail Group plc has two main businesses, The Perfume Shop and de Gruchy. The Perfume Shop has more than 110 branches located in both shopping centres and malls throughout the UK and Ireland, selling a range of branded fragrances. De Gruchy is the leading department store in Jersey, located in St Helier.

### **Results and dividends**

The results for the year are shown in the consolidated profit and loss account on page 6. A dividend of £14,000,000 was declared and paid during the year. The group's balance sheet as detailed on page 7 shows a satisfactory position, with shareholders' funds amounting to £121,911,000 (2003: £115,591,000).

### **Directors and their interests**

The directors of the company during the year and to the date of these accounts are:

Ian Francis Wade

Brian Philip Ingham (resigned 3 January 2006)

Susan Mo Fong Chow

Lord Derwent

Frank John Sixt

Aloysius Martin Yirk Yu So (appointed 15 August 2005)

Jurgen Schreiber (appointed 3 January 2006)

Neil Page (appointed 3 January 2006)

None of the directors has any interest in the company.

### **Political and charitable contributions**

The Group made charitable donations and organised and contributed to fund-raising activities that in total raised £428,427 (2003: £73,717) during the year.

# A.S. Watson (Health & Beauty UK) Limited

## Employees

Applications for employment by disabled persons are always fully considered. Employment policies are designed to provide opportunities irrespective of colour, ethnic or national origin, nationality, sex or marital status. In the event of employees becoming disabled every effort is made, including appropriate training, to ensure that their employment with the company continues. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through newsletters and briefing groups.

## Supplier payment policy

The group does not impose standard payment terms on its suppliers but agrees specific terms with each one. It is the group's policy to pay its suppliers in accordance with the terms that have been agreed.

The group's average creditor payment period at 31 December 2004 was 36 days (2003: 34 days).

## Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that year. 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 a 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 financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company has been proposed at the annual general meeting.

By Order of the Board

  
Director

19<sup>th</sup> JANUARY 2006

# A.S. Watson (Health & Beauty UK) Limited

## Independent auditors' report to the members of A.S. Watson (Health & Beauty UK) Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement and the related notes.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

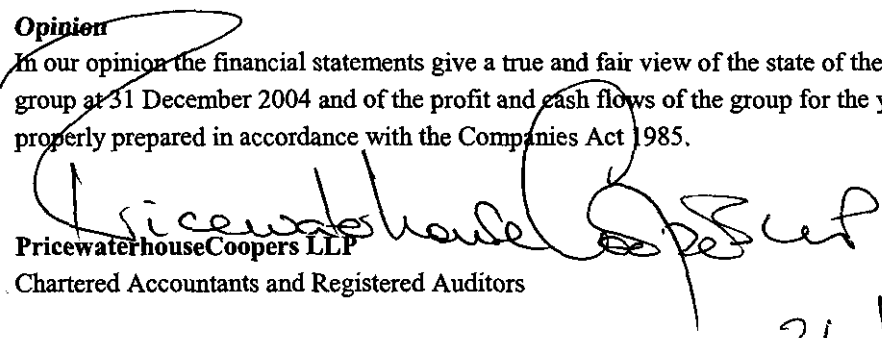
### Basis of audit opinion

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 information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group at 31 December 2004 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors

Gatwick

26 January 2006

# A.S. Watson (Health & Beauty UK) Limited

## Consolidated profit and loss account for the year ended 31 December 2004

	Note	Year ended 31 December 2004	Year ended 31 December 2003
		£'000	£'000
<b>Turnover</b>	1	<b>1,285,225</b>	<b>1,239,828</b>
<b>Cost of sales</b>		<b>(903,512)</b>	<b>(867,523)</b>
<b>Gross profit</b>		<b>381,713</b>	<b>372,305</b>
Distribution costs		(311,124)	(299,824)
Administrative expenses		(41,459)	(31,239)
Exchange gains		1,732	8,659
Other operating income		13,729	8,948
<b>Group operating profit</b>	2	<b>44,591</b>	<b>58,849</b>
Interest receivable	5	416	1,621
Interest payable	6	(9,618)	(7,489)
<b>Profit on ordinary activities before taxation</b>		<b>35,389</b>	<b>52,981</b>
Tax on profit on ordinary activities	7	(15,069)	(16,196)
<b>Profit on ordinary activities after taxation</b>		<b>20,320</b>	<b>36,785</b>
<b>Dividends on equity shares</b>		<b>(14,000)</b>	<b>-</b>
<b>Retained profit for the year</b>	17	<b>6,320</b>	<b>36,785</b>

All the activities of the company and group companies are continuing.

There were no recognised gains and losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities and the retained profit for the year stated above and their historical equivalents.

# A.S. Watson (Health & Beauty UK) Limited

## Consolidated balance sheet at 31 December 2004

	Note	2004 £'000	2003 £'000
<b>Fixed assets</b>			
Intangible fixed assets	8	103,533	104,693
Tangible fixed assets	9	170,905	157,334
Investments	10	8	8
		<b>274,446</b>	<b>262,035</b>
<b>Current assets</b>			
Stocks	11	215,664	184,926
Debtors	12	159,689	134,582
Cash at bank and in hand		31,428	28,811
		<b>406,781</b>	<b>348,319</b>
<b>Creditors: amounts falling due within one year</b>	13	<b>(259,336)</b>	<b>(201,793)</b>
<b>Net current assets</b>		<b>147,445</b>	<b>146,526</b>
<b>Total assets less current liabilities</b>		<b>421,891</b>	<b>408,561</b>
<b>Creditors: amounts falling due after more than one year</b>	14	<b>(255,570)</b>	<b>(237,178)</b>
<b>Provisions for liabilities and charges</b>	15	<b>(44,410)</b>	<b>(55,792)</b>
<b>Net assets</b>		<b>121,911</b>	<b>115,591</b>
<b>Capital and reserves</b>			
Called up share capital	16	54,000	54,000
Profit and loss account	17	67,911	61,591
<b>Total shareholders' funds</b>	18	<b>121,911</b>	<b>115,591</b>

The financial statements on pages 6 to 25 have been approved by the Board of Directors and signed on its behalf by:

  
Director


19<sup>th</sup> JANUARY 2006

# A.S. Watson (Health & Beauty UK) Limited

## Company balance sheet at 31 December 2004

	Note	2004 £'000	2003 £'000
<b>Fixed assets</b>			
Tangible fixed assets	9	2,682	2,730
Investments	10	151,916	153,266
		<b>154,598</b>	<b>155,996</b>
<b>Current assets</b>			
Debtors	12	174,351	152,927
Cash		678	165
		<b>175,029</b>	<b>153,092</b>
Creditors: amounts falling due within one year	13	(12,836)	(9,609)
<b>Net current assets</b>		<b>162,193</b>	<b>143,483</b>
<b>Total assets less current liabilities</b>		<b>316,791</b>	<b>299,479</b>
Creditors: amounts falling due after more than one year	14	(255,321)	(240,603)
Provisions for liabilities and charges		(218)	-
<b>Total net assets</b>		<b>61,252</b>	<b>58,876</b>
<b>Capital and reserves</b>			
Called up share capital	16	54,000	54,000
Profit and loss account	17	7,252	4,876
<b>Equity shareholders' funds</b>	18	<b>61,252</b>	<b>58,876</b>

The financial statements on pages 6 to 25 have been approved by the Board of Directors and signed on its behalf by:

  
Director

19th JANUARY 2006



# A.S. Watson (Health & Beauty UK) Limited

## Consolidated cash flow statement for the year ended 31 December 2004

	Note	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
<b>Net cash (outflow)/inflow from operating activities</b>	20	(4,840)	58,730
<b>Return on investments and servicing of finance</b>			
Interest paid		(9,618)	(7,489)
Interest received		416	1,621
<b>Net cash outflow from returns on investment and servicing of finance</b>		(9,202)	(5,868)
<b>Taxation</b>			
Corporation tax (paid)/repaid		(318)	2,993
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(49,241)	(20,780)
Purchase of intangible fixed assets		(12)	-
Disposal of tangible fixed assets		62	721
Disposal of intangible fixed assets		-	563
<b>Net cash outflow from capital expenditure</b>		(49,191)	(19,496)
<b>Cash (outflow)/inflow before use of liquid resources and financing</b>		(63,551)	36,359
<b>Financing</b>			
Issue of ordinary share capital		-	54,000
Loan for share capital to be issued		-	(54,000)
Dividend paid		(14,000)	-
Increase/(decrease) in borrowings		55,672	(11,192)
<b>Net cash inflow/(outflow) from financing</b>		41,672	(11,192)
<b>(Decrease)/increase in cash</b>	21	(21,879)	25,167

# **A.S. Watson (Health & Beauty UK) Limited**

## **Accounting policies**

### **Accounting convention**

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable Accounting Standards. A summary of these accounting policies, which have been applied consistently, is set out below:

### **Basis of consolidation**

The group financial statements consolidate the financial statements of the company and its subsidiaries. All companies' accounts are made up to the nearest Saturday to 31st December each year.

### **Turnover**

Turnover consists of sales through retail outlets excluding value added tax. Turnover is stated net of returns.

### **Fixed asset investments**

Investments, principally in group companies, are carried at cost less amounts written off, where necessary, to reflect any permanent diminution in value.

### **Fixed assets and depreciation**

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	- 50 years
Leasehold land and buildings	- life of lease
Fixtures, fittings, tools and equipment	- 4 to 10 years
Motor vehicles	- 4 to 10 years

No depreciation is provided on freehold land. The cost of leasehold land and buildings includes lease premiums and legal and professional costs associated with the acquisition and transfer of leases.

### **Impairment of tangible fixed assets**

Tangible fixed assets are subject to review for impairment in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill". Any impairment is recognised in the profit and loss account in the year in which it occurs.

### **Leases**

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

### **Stocks**

Stocks are valued at the lower of cost and net realisable value. Provisions are made as appropriate for shrinkage and slow moving items.

# **A.S. Watson (Health & Beauty UK) Limited**

## **Accounting policies (continued)**

### **Pensions**

Defined contribution pension costs charged to the profit and loss account represent the amounts payable by the group under the Trust rules for the period. Defined benefit pension costs are accounted for on the basis of charging the expected costs of providing pensions over the period during which the group benefits from the employees' service. The effects of variations from regular costs are spread over the expected average remaining service lives of members of the scheme.

The group continues to comply with SSAP 24 "Accounting for Pension Costs". In accordance with the transitional arrangements under FRS 17 "Retirement Benefits" (paragraph 94), additional balance sheet disclosures have been given in note 23 for the year ending 31 December 2004.

### **Deferred taxation**

Deferred tax is provided on timing differences that have originated but have not reversed at the balance sheet date. Deferred tax is not provided on permanent differences. Deferred tax assets are only recognised to the extent that, based on all available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

### **Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

### **Goodwill and intangible assets**

Goodwill is amortised over 20 years on a straight line basis.

Negative goodwill is amortised over 4 years on a straight line basis.

Purchased goodwill arising on the purchase of pharmacy licences is calculated on the excess of the fair value of consideration given over the fair value of the identifiable assets acquired, is capitalised as an intangible asset and amortised on a straight line basis over an appropriate period not exceeding 20 years. Where a business or pharmacy licence is sold, or where goodwill is impaired, the net book value of the goodwill or the amount of impaired goodwill, as applicable, is charged through the profit and loss account in the year of disposal or impairment.

### **Related party disclosures**

The company is exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the AS Watson (Health & Beauty UK) Limited group.

### **Company's own profit and loss account**

The company has taken advantage of the exemption available in s230(4) of the Companies Act 1985 not to present its own profit and loss account and related notes. The company's profit before taxation for the year was £15,116,000 (2003: loss of £807,000).

# A.S. Watson (Health & Beauty UK) Limited

## Notes to the financial statements for the year ended 31 December 2004

### 1 Turnover

The total turnover of the group for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

### 2 Group operating profit

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
This is stated after charging/(crediting):		
Auditors' remuneration		
– for audit services	231	134
– for other services	129	84
Operating lease rentals		
- land and building	103,743	95,992
- plant and equipment	5,261	2,844
Goodwill amortisation	2,229	(1,707)
Reduction in goodwill impairment provision	(1,057)	(1,069)
Depreciation of tangible fixed assets – owned	28,290	27,470
(Reduction)/increase in idle property impairment provision	(187)	352
Loss/(profit) on disposal of fixed assets	7,505	(239)

### 3 Directors' emoluments

Aggregate directors' emoluments for the year totalled £343,901, of which £215,329 was paid by another group company and £128,572 paid direct by the Company which was refunded in full by the other group company.

# A.S. Watson (Health & Beauty UK) Limited

## 4 Employee information

The average weekly number of persons (including executive directors) employed by the group during the year was:

	Year ended 31 December 2004 Number	Year ended 31 December 2003 Number
Administrative staff	353	416
Sales staff	10,190	9,655
Distribution	860	809
	<b>11,403</b>	<b>10,880</b>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Wages and salaries	148,662	134,861
Social security costs	9,332	8,151
Pension costs	5,381	4,962
	<b>163,375</b>	<b>147,974</b>

## 5 Interest receivable

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Bank interest receivable	416	1,621

## 6 Interest payable

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Bank loans and overdraft	7,561	7,343
Other interest	2,057	146
	<b>9,618</b>	<b>7,489</b>

# A.S. Watson (Health & Beauty UK) Limited

## 7 Tax on profit on ordinary activities

### (a) Analysis of tax charge in the period

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Tax charge on the profit on the ordinary activities of the Group for the period:	9,792	16,126
Over-provided in prior periods	(421)	(489)
Total current tax	9,371	15,637
Deferred tax:		
Origination and reversal of timing differences	5,698	559
	15,069	16,196

### (b) Factors affecting tax charge for the period

The tax assessed for the period is different from the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Profit on ordinary activities before tax	39,364	52,981
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 : 30%)	11,808	15,895
Effects of:		
Depreciation in excess of capital allowances	2,262	2,251
Short-term timing differences	(3,879)	(1,780)
Over-provided in prior periods	(421)	(489)
Other	(399)	(240)
Current tax charge for the year	9,373	15,637

# A.S. Watson (Health & Beauty UK) Limited

## 8 Intangible fixed assets

	Negative Goodwill	Goodwill	Total Intangibles
	2004	2004	2004
	£'000	£'000	£'000
<b>Cost</b>			
At 1 January 2004	(35,943)	123,753	87,810
Additions	-	12	12
At 31 December 2004	(35,943)	123,765	87,822
<b>Amortisation</b>			
At 1 January 2004	30,932	(14,049)	16,883
Charge in the year	5,011	(7,240)	(2,229)
Movement in impairment provision	-	1,057	1,057
At 31 December 2004	35,943	(20,232)	15,711
<b>Net book amount at 31 December 2004</b>	-	103,533	103,533
Net book amount at 31 December 2003	(5,011)	109,704	104,693

Goodwill arising from the acquisitions of Savers Health and Beauty Limited and the Kruidvat Superdrug BV group has been capitalised and is being amortised over 20 years in accordance with the provisions of FRS 10 "Goodwill and Intangible Assets".

Negative goodwill acquired through the acquisition of Kruidvat Superdrug BV group has been amortised over 4 years in accordance with the provisions of FRS 10.

The impairment provision relates to the value of pharmacy licences owned by the subsidiary undertaking Superdrug Stores plc, with the release being against the amortisation of the licences in the accounts of Superdrug Stores plc.

# A.S. Watson (Health & Beauty UK) Limited

## 9 Tangible fixed assets

	Land and buildings £'000	Fixtures, fittings and equipment £'000	Payments on account and assets in the course of construction £'000	Total £'000
<b>Cost</b>				
At 1 January 2004	15,484	323,932	149	339,565
Reclassifications	-	149	(149)	-
Additions	671	44,440	4,130	49,241
Disposals	(61)	(31,140)	-	(31,201)
<b>At 31 December 2004</b>	<b>16,094</b>	<b>337,381</b>	<b>4,130</b>	<b>357,605</b>
<b>Depreciation</b>				
At 1 January 2004	7,221	175,010	-	182,231
Charge for the year	608	27,682	-	28,290
Disposals	(61)	(23,573)	-	(23,634)
Movement in impairment provision	(187)	-	-	(187)
<b>At 31 December 2004</b>	<b>7,581</b>	<b>179,119</b>	<b>-</b>	<b>186,700</b>
<b>Net book value:</b>				
<b>At 31 December 2004</b>	<b>8,513</b>	<b>158,262</b>	<b>4,130</b>	<b>170,905</b>
At 31 December 2003	8,263	148,922	149	157,334

The net book amount of land and buildings comprise:

	2004 £'000	2003 £'000
Freehold	2,875	2,764
Leasehold:		
Over 50 years unexpired	910	931
Under 50 years unexpired	4,728	4,568
	<b>8,513</b>	<b>8,263</b>



# A.S. Watson (Health & Beauty UK) Limited

## 9 Tangible fixed assets (continued)

Company	Land and buildings £'000	Fixtures, fittings and equipment £'000	Total £'000
<b>Cost</b>			
At 1 January 2004	-	2,730	2,730
Additions	491	42	533
<b>At 31 December 2004</b>	<b>491</b>	<b>2,772</b>	<b>3,263</b>
<b>Depreciation</b>			
At 1 January 2004	-	-	-
Charge for the year	33	548	581
<b>At 31 December 2004</b>	<b>33</b>	<b>548</b>	<b>581</b>
<b>Net book value:</b>			
<b>At 31 December 2004</b>	<b>458</b>	<b>2,224</b>	<b>2,682</b>
At 31 December 2003	-	2,730	2,730

The net book value of land and buildings comprises a lease with less than 50 years unexpired.

## 10 Investments

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Fixed asset investment	8	8	-	-
Shares in subsidiary at cost	-	-	151,916	153,266
	<b>8</b>	<b>8</b>	<b>151,916</b>	<b>153,266</b>

At 31 December 2004 the wholly owned subsidiaries of the Company are:

Name	Country of reg'n	Principal activity	Type of shares	%
WPCS (UK) Finance Limited	United Kingdom	Financing	Ordinary	100
Kruidvat Superdrug BV	Netherlands	Holding company	Ordinary	100
Kruidvat UK Limited	United Kingdom	Retail	Ordinary	100
Superdrug Stores plc	United Kingdom	Retail health and beauty stores	Ordinary	100
A.S.Watson Card Services (UK) Limited	United Kingdom	Card processing services	Ordinary	100
Savers Health and Beauty Limited	United Kingdom	Retail health and beauty stores	Ordinary	100
Kruidvat Real Estate UK Limited	United Kingdom	Dormant	Ordinary	100
Superdrug Pension Trustee Limited	United Kingdom	Dormant	Ordinary	100
Tip Top Drugstores Plc	United Kingdom	Dormant	Ordinary	100
F.C. Davison & Son (Chemist) Limited	United Kingdom	Dormant	Ordinary	100
Crosby's Limited	United Kingdom	Dormant	Ordinary	100

# A.S. Watson (Health & Beauty UK) Limited

## 11 Stocks

	2004	2003
	£'000	£'000
Finished goods and goods for resale	215,664	184,926

## 12 Debtors: amounts due within one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Trade debtors	39,280	35,161	-	-
Other debtors	860	2,471	-	-
Prepayments and accrued income	55,577	40,253	16	472
Amounts owed from group undertakings	63,972	51,603	167,797	147,395
Corporation tax	-	-	6,538	5,060
Deferred tax	-	5,094	-	-
	159,689	134,582	174,351	152,927

### Group:

Amounts owed from group undertakings include £58,597,731 (2003: £58,619,431) receivable by a subsidiary undertaking from two group undertakings not within the A.S. Watson (Health & Beauty UK) Limited group.

### Company:

Amounts owed to the company from group undertakings include a loan of £95,450,000 to the subsidiary undertaking Superdrug Stores plc and a loan of £34,000,000 to the subsidiary undertaking Kruidvat UK Limited. Both loans bear interest at 4.4% and are repayable on demand.

## A.S. Watson (Health & Beauty UK) Limited

### 13 Creditors: amounts falling due within one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank overdrafts	34,496	10,000	-	-
Trade creditors	105,250	88,868	-	-
Amounts owed to group undertakings	5,406	2,692	10,344	3,959
Corporation tax	29,329	20,275	-	-
Other taxation and social security	20,736	17,042	-	-
Accruals and deferred income	64,119	62,916	2,492	5,650
	<b>259,336</b>	<b>201,793</b>	<b>12,836</b>	<b>9,609</b>

Accruals and deferred income include £11,826,000 (2003: £23,447,431) in relation to a charitable covenant which is payable by the subsidiary undertaking Superdrug Stores plc on or before 31 December 2005.

### 14 Creditors: amounts falling due after more than one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank loans	-	199,649	-	80,000
Amount due to group undertaking	255,321	-	255,321	135,000
Accruals and deferred income	249	37,529	-	25,603
	<b>255,570</b>	<b>237,178</b>	<b>255,321</b>	<b>240,603</b>

#### Group:

On 9 November 2004 A.S. Watson (Health & Beauty UK) Limited drew down a loan of €364,779,683 from a group undertaking, A.S. Watson (Europe) Holdings B.V.. On the same date, the subsidiary undertaking, WPCS (UK) Finance Limited repaid the US\$210,000,000 bank loan. The new loan is subject to interest at the rate of Euribor + 3.175% and has no fixed repayment date.

# A.S. Watson (Health & Beauty UK) Limited

## 14 Creditors: amounts falling due after more than one year (continued)

### Company:

On 9 November 2004 A.S. Watson (Health & Beauty UK) Limited drew down a loan of €364,779,683 from a group undertaking, A.S. Watson (Europe) Holdings B.V., and repaid the £135,000,000 loan previously drawn down against the subsidiary undertaking, WPCS (UK) Finance Limited. The new loan is subject to interest at the rate of Euribor + 3.175% and has no fixed repayment date.

The repayment profile of overdrafts and loans is as follows:

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Repayable:				
In one year or less	34,496	55,000	-	45,000
Between one and two years	-	35,000	-	35,000
Between two and five years	-	119,649	-	135,000
After five years	255,321	-	255,321	-
	289,817	209,649	255,321	215,000

## 15 Provisions for liabilities and charges

	Pension provision £'000	Updating stores £'000	Vacant property £'000	Restructuring £'000	Deferred tax provision £'000	Total provisions £'000
At 31 December 2003	10,682	23,907	7,087	14,116	-	55,792
(Release)/increase in the year	(1,187)	(10,229)	(255)	(314)	603	(11,382)
At 31 December 2004	9,495	13,678	6,832	13,802	603	44,410

Provisions were made on the acquisition of Kruidvat Superdrug BV.

### Pension provision

The pension provision relates to the deficit in the defined benefit section of the scheme operated by Superdrug Stores plc, a subsidiary of Kruidvat Superdrug BV. This is expected to be utilised over 14 years.

### Updating stores

The provision relating to the updating of stores concerns the value of the net book value of redundant fixed assets expected to be written off over 2 years.

### Vacant property

The vacant property provision is in respect of the disposal of properties no longer required in the portfolio, consists of property costs and dilapidations and is expected to be utilised within 9 years, the lease commitment element discounted by 10%.

### Restructuring

The restructuring provision concerns the logistical, distribution and administration functions and consists of the expected write off of the net book value of fixed assets in 2005 and lease commitments up to 2016, discounted by 4%.

# A.S. Watson (Health & Beauty UK) Limited

## 16 Share capital

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Authorised:				
54,001,000 (31 December 2003: 54,001,000) ordinary shares of £1 each	54,001	54,001	54,001	54,001
Allotted and fully paid:				
54,000,001 (31 December 2003: 54,000,001) ordinary shares of £1 each	54,000	54,000	54,000	54,000

## 17 Reserves

	Group Profit and loss account £'000	Company Profit and loss account £'000
At 1 January 2004	61,591	4,876
Retained profit for the year	6,320	2,376
At 31 December 2004	67,911	7,252

## 18 Reconciliation of movement in shareholders' funds

	Group £'000	Company £'000
Opening shareholders funds	115,591	58,876
Profit on ordinary activities after taxation	20,320	16,376
Dividend	(14,000)	(14,000)
At 31 December 2004	121,911	61,252

## 19 Financial commitments

- (a) A subsidiary has a duty deferment guarantee in favour of HM Customs & Excise to the value of £1.5m.
- (b) Capital commitments at the end of the financial year for which no provision had been made totalled £2,236,000 (2003: £3,392,000).

At 31 December 2004, the group had the following annual commitments under non-cancellable operating leases:

	Land and buildings 2004 £'000	Plant and equipment 2004 £'000	Land and buildings 2003 £'000	Plant and equipment 2003 £'000
Expiring within one year	3,424	1,673	3,308	1,755
Expiring between one and five years	12,733	452	10,630	577
Expiring after five years	87,783	-	87,022	-
	103,940	2,125	100,960	2,332

# A.S. Watson (Health & Beauty UK) Limited

## 19 Financial commitments (continued)

(c) The company has provided assurances to two subsidiary undertakings, Kruidvat UK Limited and Superdrug Stores plc, that for at least 12 months from the date of approval of their financial statements for the year ending 31 December 2004, the company will continue to make available such funds as are needed by each subsidiary and the company will not seek repayment of the amounts currently made available.

## 20 Reconciliation of group operating profit to net cash inflow from operating activities

	2004 £'000	2003 £'000
Operating profit	44,591	58,849
Amortisation	1,172	(2,776)
Depreciation	28,103	27,822
Loss/(profit) on sale of tangible fixed assets	7,505	(239)
Increase in stocks	(30,738)	(26,929)
(Increase)/decrease in debtors	(30,201)	1,518
(Decrease)/increase in creditors	(25,272)	485
Net cash (outflow)/inflow from operating activities	(4,840)	58,730

## 21 Reconciliation of net cashflow to movement in net debt

	2004 £'000	2003 £'000
(Decrease)/increase in cash in the year	(21,879)	25,167
Changes from movement in debt	(55,672)	65,192
Movement in net debt	(77,551)	90,359
Opening net debt	(180,838)	(271,197)
Closing net debt	(258,389)	(180,838)

## 22 Analysis of net debt

	At 31 December 2003 £'000	Cash flows £'000	At 31 December 2004 £'000
Cash at bank and in hand	28,811	2,617	31,428
Overdraft	(10,000)	(24,496)	(34,496)
	18,811	(21,879)	(3,068)
Debt due in less than one year	-	-	-
Debt due after more than one year	(199,649)	(55,672)	(255,321)
Net debt	(180,838)	(77,551)	(258,389)

# A.S. Watson (Health & Beauty UK) Limited

## 23 Pensions

The company has two subsidiary undertakings with pension arrangements for participating employees.

Savers Health and Beauty Limited operates a defined contribution pension scheme. The total cost for the year ended 31 December 2004 was £122,000 (2003: £149,000).

Superdrug Stores plc operates a hybrid pension scheme with defined contribution and benefit sections, the latter closed to new entrants. Contributions payable in respect of the defined contribution section for the year ended 31 December 2004 totalled £513,000 (2003: £465,000).

For the purpose of producing the FRS 17 disclosure in line with transitional rules, the following pension accounting figures were drawn up at 31 December 2004, 2003 and 2002, based on interim valuations carried out by a qualified independent actuary:

Financial assumptions:	2004	2003	2002
Discount rate	5.25%	5.5%	5.5%
Retail price index	2.5 %	2.5%	2.3%
Salary increases	3.5 %	3.5%	3.3%
Pension increases	2.5 %	2.5%	2.4%

The assets in the Scheme and the expected rates of return were:

	31 December 2004		31 December 2003		31 December 2002	
	Longterm rate of expected return	Value £'m	Longterm rate of expected return	Value £'m	Longterm rate of expected return	Value £'m
Equity	8.75%	43.0	8.75%	34.0	7.5%	25.9
Property	7.00%	2.4	7.13%	1.7	6.5%	1.4
Bonds (incl gilts)	5.25%	3.4	5.50%	3.2	5.0%	2.3
Cash	4.00%	0.0	4.00%	0.0	4.0%	0.4
Total		48.8		38.9		30.0

The following amounts at 31 December 2004 and 2003 were measured in accordance with the requirements of FRS 17.

	31 December 2004 £'m	31 December 2003 £'m
Total market value of assets	48.8	38.9
Actuarial liabilities	(67.2)	(55.5)
Deficit	(18.4)	(16.6)
Related deferred tax asset	5.5	5.0
Net balance sheet liability at the end of year	(12.9)	(11.6)

# A.S. Watson (Health & Beauty UK) Limited

## 23 (continued)

The following amounts would have been recognised in the group financial statements in the year to 31 December 2004 under the requirements of FRS 17:

	Year ended 31 December 2004 £'m	Year ended 31 December 2003 £'m
Components of pension cost for the year :		
Current service cost charged to operating profit	4.7	5.0
Expected return on assets	3.5	2.3
Interest cost	(3.0)	(2.5)
Net return	0.5	(0.2)
Amounts recognised in STRGL		
Actual return in excess of expected	1.4	1.6
Experience (losses)	0.1	(4.4)
Change in actuarial assumptions	3.8	3.6
Actuarial gain in STRGL	5.3	0.8

	Year ended 31 December 2004 £'m	Year ended 31 December 2003 £'m
Movement in deficit during the year:		
Deficit at the start	(16.6)	(16.6)
Total operating charge	(4.7)	(5.0)
Contributions	4.7	4.4
Other financing income	0.5	(0.2)
Actuarial gain	(2.3)	0.8
Deficit at the end	(18.4)	(16.6)
Irrecoverable deficit at the end	-	-
Recoverable deficit at the end	(18.4)	(16.6)



# A.S. Watson (Health & Beauty UK) Limited

## 23 (continued)

History of experience gains and losses for the year:

	Year ended 31 December 2004	Year ended 31 December 2003
Difference between the expected and actual return on scheme assets		
Amount	£1.4m	£1.6m
Percentage of scheme assets	3%	4%
Experience gains and losses on scheme liabilities		
Amount	£0.1m	£(4.4m)
Percentage of the present value of scheme liabilities	0%	8%
Total amount recognised in STRGL		
Amount	£2.3m	£0.8m
Percentage of the present value of scheme liabilities	3%	1%

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December 2004 and 2003 would be as follows:

	31 December 2004 £'m	31 December 2003 £'m
Net assets excluding pension liability	121.9	115.6
Pension liability	(12.9)	(11.6)
Net assets including pension liability	109.0	104.0
Profit and loss reserve excluding pension liability	67.9	61.6
Pension reserve	(12.9)	(11.6)
Profit and loss reserve	55.0	50.0

## 24 Related party transactions

The company has taken advantage of the exemptions available under Financial Reporting Standard No 8 and has not disclosed transactions with companies that are part of the Hutchison Whampoa Limited group of companies. There are no other transactions requiring disclosure at the year-end.

## 25 Ultimate parent undertaking

The consolidated accounts of the company can be obtained from Hutchison House, 5 Hester Road, Battersea, London SW11 4AN. The Company's ultimate parent undertaking and controlling party is Hutchison Whampoa Limited, a company incorporated in Hong Kong, which is the parent undertaking of the largest group to consolidate their financial statements that can be obtained from Hutchison House, 22nd Floor, 10 Harcourt Road, Hong Kong.