



Mackays Stores Limited

Directors' report and financial statements

Registered number 36368

23 February 2001

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Directors' report

The directors present their annual report, together with the audited financial statements of the company for the period ended 23 February 2001.

Activities

The company operates as a multiple retailer of clothing with branches throughout the United Kingdom.

Review of the business and future developments

Performance has continued to improve from that experienced in the two previous years.

Pre tax profits of £7,127,000 (for fifty-three weeks) compared with £4,889,000 (for forty four weeks) in 2000.

The directors would like to thank all members of staff for their hard work, loyalty and support during the year.

Summary of trading results

The company's trading results for the period are set out in the profit and loss account on page 5.

Dividends

A dividend of £280, representing 5.6p per share, was paid during the period on the cumulative preference shares.

Directors and directors' interests

The directors who held office during the period were as follows:

PD Stevenson	
LC McGeoch	
IW McGeoch	
PJ Vann	
J O'Hara	
C Williamson	
JR Murray	
S Swannie	
JA Heaviside	
A Brown	(resigned 2 June 2000)
N Bennett	
A Ahmed	(non executive)

Mr N Bennet was appointed a director on 16 October 2000 and Mr A Ahmed was appointed a non executive director on 23 November 2000.

In accordance with the Articles of Association, PJ Vann, J O'Hara, N Bennet and A Ahmed retire at the annual general meeting and, being eligible, offer themselves for re-election.

The beneficial interests of PD Stevenson, LC and IW McGeoch in the shares of the ultimate parent undertaking, Mackays Stores (Holdings) PLC, are shown in the financial statements of that company.

Directors' report *(continued)*

Charitable and political contributions

Charitable contributions made by the company during the period amounted to £2,979 (2000: £5,710). There were no political contributions.

Employee involvement

The company has channels of communication with employees on business development, company performance and matters of general concern.

Employment of disabled persons

The company which gives a full and fair consideration to applications for employment made by disabled persons, has continued whenever possible the employment of persons who became disabled while they were with the company and has ensured continuing training, career development and opportunities for the promotion of disabled persons employed by it.

Creditor payment policy

The company aims to pay suppliers in accordance with agreed terms and conditions.

The number of days billings outstanding at 23 February 2001 was 15.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board



M McKimmie
Secretary

Caledonia House
Caledonia Street
Paisley
PA3 2JP

24 May 2001

Statement of directors' responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Report of the auditors to the members of Mackays Stores Limited

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. 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 with the company is not disclosed.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 23 February 2001 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to be 'KPMG' or a similar stylized signature.

KPMG
Chartered Accountants
Registered Auditors

25 June 2001

Profit and loss account
for the 53 weeks ended 23 February 2001

	<i>Note</i>	2001 (53 weeks) £000	2000 (44 weeks) £000
Sales	2	128,460	105,484
Cost of sales		(106,951)	(89,327)
Gross profit		21,509	16,157
Administrative expense		(16,683)	(13,857)
Other operating income	3	2,408	2,826
Operating profit	4	7,234	5,126
(Loss)/gain on sale of property		-	(132)
Profit before interest		7,234	4,994
Interest payable (net)	7	(107)	(105)
Profit on ordinary activities before tax		7,127	4,889
Tax on profit on ordinary activities	8	(2,233)	(1,401)
Profit on ordinary activities after tax and for the financial period		4,894	3,488
Dividends	9	-	-
Balance for period		4,894	3,488

A statement of movements on reserves is given in note 18.

There were no recognised gains or losses in either period other than the above profit after tax.

Note of historical cost profits and losses
for the 53 weeks ended 23 February 2001

	2001 (53 weeks) £000	2000 (44 weeks) £000
Reported profit on ordinary activities before taxation	7,127	4,889
Difference between a historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount	2	2
Historical cost profit on ordinary activities before taxation	7,129	4,891
Historical cost profit for the period less taxation and dividends	4,896	3,490

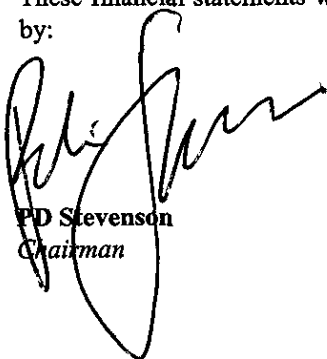
Reconciliation of movements in shareholders' funds


	2001 (53 weeks) £000	2000 (44 weeks) £000
Profit for the financial period	4,894	3,488
Dividends	-	-
Movement in shareholders' funds	4,894	3,488
Opening shareholders' funds	29,301	25,813
Closing shareholders' funds	34,195	29,301

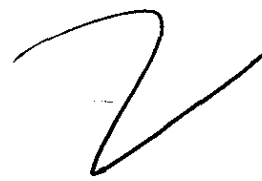
Balance sheet
at 23 February 2001

	<i>Note</i>	At 23 February 2001		At 18 February 2000	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		17,227		16,470
Investments	11		-		10
			<hr/>		<hr/>
			17,227		16,480
Current assets					
Stocks	12	20,469		19,601	
Debtors	13	2,867		2,601	
Cash at bank and in hand		5,092		1,941	
		<hr/>		<hr/>	
		28,428		24,143	
Prepayments and accrued income	15	198		641	
Creditors: amounts falling due within one year	14	(11,366)		(11,654)	
		<hr/>		<hr/>	
Net current assets			17,260		13,130
			<hr/>		<hr/>
Total assets less current liabilities			34,487		29,610
Deferred income	16		(292)		(309)
			<hr/>		<hr/>
Net assets			34,195		29,301
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	17		500		500
Revaluation reserve	18		233		235
Revenue reserve	18		33,462		28,566
			<hr/>		<hr/>
Equity shareholders' funds			34,195		29,301
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 24 May 2001 and were signed on its behalf by:


PD Stevenson
Chairman


IW McGeoch
Director



Notes

(forming part of the financial statements)

1 Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost accounting rules modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

Financial Reporting Standard Number 1

Mackays Stores (Holdings) PLC, of which the company is a wholly owned subsidiary undertaking, has adopted Financial Reporting Standard Number 1 in its consolidated financial statements for the period ended 23 February 2001. Accordingly, the company is exempt from the requirement to prepare a cash flow statement.

Consolidation

In view of the fact that consolidated financial statements have been prepared by the company's parent undertaking, Mackays Stores (Holdings) PLC, the company has not prepared consolidated financial statements as permitted by Section 228 of Companies Act 1985.

Transactions of UK companies in foreign currencies

Transactions denominated in foreign currencies are converted into sterling at the rate of exchange ruling at the transaction date, or at the hedged rate where forward cover is in place.

Balances denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date.

Realised exchange gains or losses on settled trading transactions, and unrealised gains or losses on unsettled short term monetary trading items resulting from restatement to closing rates of exchange are dealt with through the profit and loss account. Exchange gains or losses arising from financing arrangements are charged as finance costs in the profit and loss account.

Stock

Stock is valued at the lower of cost and estimated net realisable value. Cost is computed by deducting the appropriate composite trading margin from selling price.

Deferred tax

Deferred tax is provided on timing differences which are anticipated to increase or decrease taxation liabilities in the foreseeable future.

Notes (continued)

Accounting policies (continued)

Depreciation

With the exception of land and assets in the course of construction, fixed tangible assets are depreciated as follows:

- freehold properties evenly over 50 years;
- leasehold properties evenly over the term of their respective leases or 50 years whichever is the shorter period; the portion of leasehold premiums applicable to rent evenly over the period to the first rent review;
- all other fixed tangible assets evenly over their estimated useful lives on annual rates ranging as follows:

Plant and machinery, fixtures, fittings and equipment	10% - 33%
Motor vehicles	25%

Deferred income

Inducements to enter into lease agreements in respect of property are treated as deferred income. The income is credited to profit evenly over the primary period of the lease.

Finance leases and hire purchase

Assets held under finance leases and hire purchase contracts are recorded as fixed assets and are depreciated over the shorter of their estimated useful lives or lease terms. Obligations under such arrangements, net of finance charges, are included in creditors.

Finance charges are allocated to profit so as to produce a constant periodic rate of charge on the remaining balance of the obligation.

Operating leases

Rentals under operating leases are charged to profit as they fall due under the terms of the agreements.

Pensions

Contributions are charged to the profit and loss account in accordance with actuarial recommendations so as to spread the cost of pensions over the employees' expected remaining service lives with the company.

2 Sales

The company operates as multiple retailers of clothing and household textiles in the United Kingdom. Sales from these activities, net of value added tax, were £128,460,000 (2000: £105,484,000).

Notes (continued)

3 Other operating income

	2001 (53 weeks) £000	2000 (44 weeks) £000
Property rentals and similar income	785	764
Discounts received	1,844	2,086
Gain/(loss) on sale of fixed tangible assets	(164)	(16)
Other expenses	(57)	(8)
	<u>2,408</u>	<u>2,826</u>

4 Operating profit

	2001 (53 weeks) £000	2000 (44 weeks) £000
<i>Operating profit is stated after charging</i>		
Depreciation of fixed tangible assets	3,287	2,754
Special payment to group pension scheme	-	600
Auditors' remuneration:		
- audit	38	47
- other services	74	64
Hire of equipment	3	2
Pension paid to a former director	1	1
	<u> </u>	<u> </u>

5 Directors' emoluments

	2001 (53 weeks) £000	2000 (44 weeks) £000
Executive remuneration	<u>2,000</u>	<u>1,230</u>

The highest paid director received emoluments of £459,178 (2000: £381,196). The relevant director is a member of the group's defined benefit pension scheme under which the accrued pension to which he would have been entitled from normal retirement age had he retired at the period end was £278,125 per annum (2000: £270,625).

The services of the chairman, Mr Peter Stevenson, are provided by The Stevenson Partnership Limited. Payments to The Stevenson Partnership Limited amounted to £80,000 (2000: £67,692).

Nine of the directors (2000: 8) are members of the group's defined benefits pension scheme.

Notes (continued)

6 Employees and remuneration

The average number of persons employed (including directors) by the company during the period was as follows:

	Number of employees	
	2001 (53 weeks)	2000 (44 weeks)
Retailing	2,515	2,518

The aggregate payroll costs of these persons were as follows:

	2001 (53 weeks) £000	2000 (44 weeks) £000
Wages and salaries	23,394	17,650
Social security costs	1,283	997
Other pension costs (including special payments to group pension scheme)	621	1,094
	<u>25,298</u>	<u>19,741</u>

Pensions

Mackays Stores Limited operates a funded defined benefit pension scheme for group employees. The assets of the scheme are held separately from those of the group in funds administered by trustees independently of the group. The contributions are determined by an independent qualified actuary using the projected unit method. The most recent actuarial valuation was at 30 April 2000. The assumption which has the most significant effect on the results of the valuation is the excess of the rate of return on investments over the rate of increase in pensionable salary, which was assumed to be 2% per annum.

The actuarial valuation at 30 April 2000 showed that the market value of the scheme's assets was £29,366,000 and the actuarial value of those assets represented 106% of the benefits that had accrued to members at the valuation date, after allowing for expected future increases in salaries.

The net pension charge for the period represents the contributions paid to the scheme having regard to the advice of the independent qualified actuary.

7 Interest

	2001 (53 weeks) £000	2000 (44 weeks) £000
On bank loans and overdrafts	(272)	(190)
Bank interest receivable	165	85
	<u>(107)</u>	<u>(105)</u>

Notes (continued)

8 Tax

	2001 (53 weeks) £000	2000 (44 weeks) £000
Corporation tax		
Charge for the period at 30% (2000: 30%) on the profit for the period on ordinary activities	(1,977)	(1,320)
Prior year adjustments	187	185
	<hr/>	<hr/>
	(1,790)	(1,135)
Deferred tax		
(Provision)/release for the period	(216)	(266)
Prior year adjustments	(227)	-
	<hr/>	<hr/>
	(443)	(266)
	<hr/>	<hr/>
	(2,233)	(1,401)
	<hr/>	<hr/>

9 Dividends

	2001 (53 weeks) £000	2000 (44 weeks) £000
Ordinary shares:		
Dividend paid	-	-
	<hr/>	<hr/>
	£	£
Preference shares:		
Dividend paid	280	280
	<hr/>	<hr/>

Notes (continued)

10 Tangible fixed assets

	Land and buildings		Fixtures, fittings and equipment	Total
	Freehold	Leasehold		
	£000	£000	£000	£000
<i>Cost or valuation</i>				
At beginning of period	923	15,298	34,143	50,364
Additions	-	805	3,351	4,156
Disposals	-	(124)	(585)	(709)
At end of period	923	15,979	36,909	53,811
<i>Depreciation</i>				
At beginning of period	(123)	(6,578)	(27,193)	(33,894)
Charge for period	(14)	(746)	(2,528)	(3,288)
Disposals	-	86	512	598
At end of period	(137)	(7,238)	(29,209)	(36,584)
<i>Net book value</i>				
At 23 February 2001	786	8,741	7,700	17,227
At 18 February 2000	800	8,720	6,950	16,470

The net book amount of freehold land and buildings includes the following internal valuation carried out as at 22 January 1999 by the company's property controller who is a Fellow of the Royal Institution of Chartered Surveyors. The properties have been valued on the basis of open market value for existing use, as defined in the Statements of Asset Valuation Practice and Guidance Notes prepared by the Royal Institution of Chartered Surveyors.

The equivalent amounts for freehold properties calculated under historical cost accounting rules are as follows:

	2001		2000	
	Valuation £000	Cost £000	Valuation £000	Cost £000
Cost or valuation	923	834	923	834
Depreciation	(137)	(281)	(123)	(269)
Net book amount	786	553	800	565

Notes (continued)

Tangible fixed assets (continued)

	2001 £000	2000 £000
The book amount of land included in freehold properties amounts to:	251	251
The net book amount of leasehold land and buildings comprises:		
Long leasehold	400	400
Short leasehold	8,341	8,320
	<u>8,741</u>	<u>8,720</u>

11 Fixed asset investments

The principal subsidiary undertakings are as follows:

	Country of registration	Holding (ordinary shares)	Nature of business
Mackays Stores (Far East) Limited	Hong Kong	100%	Dormant
Disposal of investment in Velvet Holdings Limited			
		2001 £000	
Cost of investment		10	
Disposal		(10)	
		<u> </u>	

12 Stocks

	2001 £000	2000 £000
Finished goods and goods for resale	20,469	19,601
	<u> </u>	<u> </u>

Notes (continued)

13 Debtors

	2001 £000	2000 £000
Amounts due within one year:		
Trade debtors	139	107
Amounts owed by group undertakings	768	1,040
Other debtors	187	46
Prepayments and accrued income	1,773	1,408
	<hr/> 2,867 <hr/>	<hr/> 2,601 <hr/>

14 Creditors: amounts falling due within one year

	2001 £000	2000 £000
Bank borrowings	-	-
Trade creditors	3,748	2,482
Corporation tax	934	570
Other tax and social security	512	2,730
Other creditors and accruals	5,312	5,744
Amounts owed to group undertakings	860	128
	<hr/> 11,366 <hr/>	<hr/> 11,654 <hr/>

The company, in common with other group companies, has entered into cross guarantees in respect of bank advances to the group.

Notes (continued)

15 Prepayments and accrued income

	2001 £000	2000 £000
Deferred tax relief/(tax):		
At 18 February 2000	641	907
Movement for period (note 8)	(443)	(266)
	<u>198</u>	<u>641</u>
Representing tax/(tax relief) deferred by:		
Excess capital allowances	(210)	(254)
Other timing differences	408	895
	<u>198</u>	<u>641</u>

Disposal of the freehold properties at the valuation incorporated in the financial statements would not, in aggregate, give rise to any tax charge as capital losses estimated to arise on disposal of some properties would offset capital gains arising on others and in addition there are unutilised capital losses potentially available within the group.

The unprovided liability in respect of capital gains rolled over amounts to £720,000 (2000: £1,367,000). There are no other unprovided potential liabilities.

16 Deferred income

	2001 £000	2000 £000
Balance remaining of inducements to enter into lease agreements in respect of property:		
At beginning of period	309	523
Credited to profit and loss account for period	(17)	(214)
	<u>292</u>	<u>309</u>

17 Share capital

	2001 £000	2000 £000
<i>Authorised, allotted, issued and fully paid:</i>		
495,000 ordinary shares of £1 each	495	495
5,000 cumulative 5.6% (plus tax credit) preference shares of £1 each	5	5
	<u>500</u>	<u>500</u>

Notes (continued)

18 Reserves

	Revaluation reserve £000	Revenue reserve £000
At 18 February 2000	235	28,566
Transfer of depreciation on revalued fixed assets	(2)	2
Balance on profit and loss account for period	-	4,894
	<hr/>	<hr/>
At 23 February 2001	233	33,462
	<hr/>	<hr/>

19 Commitments

Capital:

	2001 £000	2000 £000
Contracted but not provided	-	606
	<hr/>	<hr/>

Other:

The rental charges incurred by the company under non-cancellable operating leases were:

	2001 (53 weeks) £000	2000 (44 weeks) £000
Land and buildings	15,483	12,532
Other	20	23
	<hr/>	<hr/>

In 2000/01 these charges are estimated to amount to:

	£000	£000
Land and buildings	18,607	15,509
Other	22	28
	<hr/>	<hr/>

20 Ultimate parent undertaking

The company's ultimate parent undertaking is Mackays Stores (Holdings) PLC which is registered in Scotland.

The only group in which the results of the company are consolidated is that headed by Mackays Stores (Holdings) PLC.