

Mackays Stores Limited

Directors' report and financial statements

18 April 1997
Registered number 36368



Directors' report and financial statements

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Directors' report

The directors present their annual report, together with the audited financial statements of the company for the year ended 18 April 1997.

Activities

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

Review of the business and future developments

The company traded satisfactorily during the year. After adjusting for exceptional, non-recurring items, pre-tax profits are similar to the previous year at £11,273,000 (1996: £10,955,000).

On 1 April 1997, Mr JA Pow was appointed chief executive of the company.

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 year are set out in the profit and loss account on page 5.

Dividends

The directors approved the payment during the year of a dividend of £280 representing 5.6p per cumulative preference share. The directors do not recommend the payment of any further dividend.

Directors and directors' interests

The directors who held office throughout the year were as follows:

PD Stevenson
LC McGeoch
IW McGeoch
A Roberts
J O'Hara
JA Lawrie

During the year the following directors were appointed:

JA Pow	(appointed 1 April 1997)
T Paluchowski	(appointed 16 September 1996)
S Hoghton	(appointed 9 August 1996)

In accordance with the Articles of Association, IW McGeoch, S Hoghton and J O'Hara retire at the annual general meeting and, being eligible, offer themselves for re-election.

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

Disclosure of directors' interests as required by the Companies Act 1985 is dealt with in note 20 to the financial statements.

Directors' report (continued)

Charitable and political contributions

Charitable contributions made by the company during the year amounted to £11,638 (1996: £7,355). 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 18 April 1997 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

10 November 1997

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year 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.



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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 20.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of 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 18 April 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

27 November 1997

Profit and loss account
for the 52 weeks ended 18 April 1997

	<i>Note</i>	1997 £000	1996 £000
Sales	2	135,476	124,170
Cost of sales		(112,050)	(103,050)
Gross profit		23,426	21,120
Administrative expenses:			
Recurring	4	(14,802)	(13,025)
Exceptional	4	(7,745)	-
		(22,547)	(13,025)
Other operating income	3	2,944	1,855
Operating profit	4	3,823	9,950
Interest	7	(295)	35
Dividend receivable from subsidiary		-	970
Profit on ordinary activities before tax		3,528	10,955
Tax on profit on ordinary activities	8	(1,741)	(4,251)
Profit on ordinary activities after tax		1,787	6,704
Dividend	9	-	(4,950)
Transferred to reserves		1,787	1,754

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

There were no recognised gains or losses in either year other than the above retained profits.

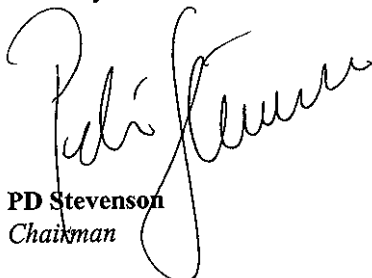
Note of historical cost profits and losses
for the 52 weeks ended 18 April 1997

	1997 £000	1996 £000
Reported profit on ordinary activities before taxation	3,528	10,955
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	93	95
Historical cost profit on ordinary activities before taxation	3,621	11,050
Historical cost profit for the year retained after taxation and dividend	1,880	1,849

Balance sheet
at 18 April 1997

	Note	1997 £000	1996 £000
Fixed assets			
Tangible assets	10	34,500	35,743
Current assets			
Stocks	12	24,153	22,050
Debtors	13	4,167	7,423
Cash at bank and in hand		6,128	2,613
		34,448	32,086
Prepayments and accrued income	15	1,250	-
Creditors: amounts falling due within one year	14	(28,447)	(27,650)
Net current assets		7,251	4,436
Total assets less current liabilities		41,751	40,179
Provisions for liabilities and charges	15	-	(173)
Deferred income	16	(606)	(648)
Net assets		41,145	39,358
Capital and reserves			
Called up share capital	17	500	500
Revaluation reserve	18	5,577	5,784
Revenue reserve	18	35,068	33,074
		41,145	39,358

These financial statements were approved by the board of directors on 10 November 1997 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 year ended 19 April 1996. 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.

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 taxation liabilities in the foreseeable future.

Notes (continued)

1 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	15% - 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 remaining term 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.

Notes (continued)

2 Sales and profit

All sales and profit on ordinary activities before tax arise from retailing within the United Kingdom. Further details of sales are as follows:

	1997 £000	1996 £000
Sales including value added tax	149,390	136,327
Value added tax	(13,914)	(12,157)
	<hr/> 135,476	<hr/> 124,170
	<hr/>	<hr/>
Operating profit	4,126	9,950
Interest	(295)	35
Dividend from subsidiary	-	970
	<hr/> 3,831	<hr/> 10,955
	<hr/>	<hr/>

3 Other operating income

	1997 £000	1996 £000
Property rentals and similar income	778	906
Discounts received	2,299	2,064
Loss on sale of fixed tangible assets	(33)	(1,312)
Other (expenses)/income	(100)	197
	<hr/> 2,944	<hr/> 1,855
	<hr/>	<hr/>

Notes (continued)

4 Operating profit

	1997	1996
	£000	£000
<i>Operating profit is stated after charging/(crediting)</i>		
Special payments to group pension scheme	6,120	-
Depreciation of fixed tangible assets	3,981	3,931
Special payments to a director	1,625	-
Auditors' remuneration:		
- audit	36	36
- other services	59	46
Hire of equipment	1	(3)
Pension paid to a former director	1	1
	<u> </u>	<u> </u>

5 Directors' emoluments

	1997	1996
	£000	£000
Directors' emoluments	2,829	989
	<u> </u>	<u> </u>

The highest paid director received emoluments of £1,797,352 (1996: £356,690). He 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 year end was £338,400 and his accrued lump sum was £1,315,450.

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 (1996: £80,000).

8 of the directors (1996: 5) 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 year was as follows:

	Number of employees	
	1997	1996
Retailing	2,728	2,548

The aggregate payroll costs of these persons were as follows:

	1997	1996
	£000	£000
Wages and salaries	21,402	18,003
Social security costs	1,413	1,269
Other pension costs (including special payments in 1997)	6,515	369
	<u>29,330</u>	<u>19,641</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 1994. 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 market value of the scheme assets at the valuation date was £9,085,000 and the valuation showed that the actuarial value of the scheme's assets was more than sufficient to cover the value 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 year, based on the advice of the independent qualified actuary, was the same as the contribution rates actually payable to the scheme.

The next actuarial valuation as at 30 April 1997 in course of preparation.

Notes (continued)

7 Interest

	1997 £000	1996 £000
On bank loans and overdrafts	(715)	(660)
Sundry interest payable	-	(45)
Bank interest receivable	420	586
Interest from fixed asset investment	-	90
Gain on sale of investments	-	64
	<u>(295)</u>	<u>35</u>

8 Tax

	1997 £000		1996 £000
Corporation tax			
Charge for the year at 33% (1996: 33%) on the profit for the year on ordinary activities	(3,193)		(4,117)
Prior year adjustments	29		(61)
	<u> </u>		<u> </u>
		(3,164)	(4,178)
Deferred tax			
Release for the year	1,394		86
Prior year adjustments	29		(159)
	<u> </u>		<u> </u>
		1,423	(73)
		<u> </u>	<u> </u>
		(1,741)	(4,251)

The company experiences effective rates of tax (calculated by reference to profits excluding dividends from subsidiaries which are not taxable) that are higher than the rate of corporation tax, due to costs, mainly depreciation, on those items of capital expenditure which are ineligible for tax allowances.

Notes (continued)

9 Dividends

	1997 £000	1996 £000
Ordinary shares:		
Proposed/paid	-	(4,950)
	<u> </u>	<u> </u>

10 Tangible fixed assets

	Land and buildings Freehold	Leasehold	Fixtures, fittings and equipment	Total
	£000	£000	£000	£000
Cost or valuation				
At beginning of year	17,489	14,388	33,533	65,410
Additions	103	889	2,114	3,106
Disposals	(215)	(159)	(2,356)	(2,730)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At end of year	17,377	15,118	33,291	65,786
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Depreciation				
At beginning of year	(1,319)	(4,868)	(23,480)	(29,667)
Charge for year	(251)	(699)	(3,031)	(3,981)
Disposals	20	104	2,247	2,371
Intercompany transfer	-	-	(9)	(9)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At end of year	(1,550)	(5,463)	(24,273)	(31,286)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book value				
At 18 April 1997	15,827	9,655	9,018	34,500
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 19 April 1996	16,170	9,520	10,053	35,743
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The company's freehold properties were valued as at 30 April 1990.

Notes (continued)

10 Tangible fixed assets (continued)

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

	1997		1996	
	Valuation £000	Cost £000	Valuation £000	Cost £000
Cost or valuation	14,810	10,239	15,025	10,346
Depreciation	(1,559)	(2,565)	(1,344)	(2,448)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount	13,251	7,674	13,681	7,898
	<hr/>	<hr/>	<hr/>	<hr/>

	1997 £000	1996 £000
The book amount of land included in freehold properties amounts to:	4,903	4,803
	<hr/>	<hr/>

The net book amount of leasehold land and buildings comprises::

Long leasehold	487	500
Short leasehold	9,168	9,020
	<hr/>	<hr/>
	9,655	9,520
	<hr/>	<hr/>

11 Fixed asset investments

	£000
<i>Shares in subsidiary undertakings</i>	
Cost: At 19 April 1996	10
Disposals	(10)
	<hr/>
At 18 April 1997	-
	<hr/>
Provision: At 19 April 1996	(10)
Applied	10
	<hr/>
At 18 April 1997	-
	<hr/>

Notes (continued)

11 Fixed asset investments (continued)

The principal subsidiary undertakings are as follows:

	Country of registration	Holding (ordinary shares)	Nature of business
Mackays Stores (Far East) Limited	Hong Kong	100%	Textile merchandising, buying services and related activities

Held by the Mackays Stores (Far East) Limited:

Mackays China (HK) Limited	Hong Kong	50%	Retailing
Belleza Fashions Limited	Hong Kong	50%	Retailing

The investments in Mackays China (HK) Limited and Belleza Fashions Limited were purchased during the year at a cost of £197,785. They have been fully provided against at the year end.

12 Stocks

	1997 £000	1996 £000
Finished goods and goods for resale	24,153	22,050

13 Debtors

	1997 £000	1996 £000
Amounts due within one year:		
Trade debtors	293	270
Amounts owed by group undertakings	1,041	3,743
Other debtors	98	552
Prepayments and accrued income	2,735	2,437
	4,167	7,002
Amounts due in more than one year:		
Amounts owed by group undertakings	-	715
Less: Provisions	-	(294)
	-	421
Total debtors	4,167	7,423

Notes (continued)

14 Creditors: amounts falling due within one year

	1997 £000	1996 £000
Bank loans and overdrafts	3,274	3
Trade creditors	3,467	7,284
Bills of exchange payable	9,067	7,843
Corporation tax	3,163	2,047
Other tax and social security	2,219	1,110
Other creditors and accruals	7,257	5,999
Amounts owed to group undertakings	-	3,364
	<hr/> 28,447 <hr/>	<hr/> 27,650 <hr/>

The company, in common with other group companies, has entered into cross guarantees in respect of bank loans and overdrafts due by the group.

15 Prepayments and accrued income / provisions for liabilities and charges

	1997 £000	1996 £000
Deferred tax / (tax relief):		
At 19 April 1996	173	255
Movement for year (note 8)	(1,423)	73
Transfer to corporation tax payable	-	(155)
	<hr/> (1,250) <hr/>	<hr/> 173 <hr/>
Amounts provided:		
Excess capital allowances	813	909
Other timing differences	(2,063)	(736)
	<hr/> (1,250) <hr/>	<hr/> 173 <hr/>

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 £788,000 (1996: £839,000). There are no other unprovided potential liabilities.

Notes (continued)

<div>16</div> <div>Deferred income</div> <div>1997 £000</div> <div>1996 £000</div>	
<div>Balance remaining of inducements to enter into lease agreements in respect of property:</div>	
<div>At beginning of year</div> <div>648</div> <div>690</div>	
<div>Received in year</div> <div>-</div> <div>310</div>	
<div>Credited to profit and loss account for year</div> <div>(42)</div> <div>(352)</div>	
<div></div> <div></div> <div></div>	
<div>At end of year</div> <div>606</div> <div>648</div>	
<div></div> <div></div> <div></div>	
<div>17</div> <div>Share capital</div> <div>1997 £000</div> <div>1996 £000</div>	
<div>Authorised, allotted, issued and fully paid:</div>	
<div>495,000 ordinary shares of £1 each</div> <div>495</div> <div>495</div>	
<div>5,000 cumulative 5.6% (plus tax credit) preference shares of £1 each</div> <div>5</div> <div>5</div>	
<div></div> <div></div> <div></div>	
<div></div> <div>500</div> <div>500</div>	
<div></div> <div></div> <div></div>	
<div>18</div> <div>Reserves</div> <div>Revaluation reserve £000</div> <div>Revenue reserve £000</div>	
<div>At 19 April 1996</div> <div>5,784</div> <div>33,074</div>	
<div>Transfer of depreciation on revalued fixed assets</div> <div>(93)</div> <div>93</div>	
<div>Retained profit for year</div> <div>-</div> <div>1,787</div>	
<div>Transfer on sale of revalued asset</div> <div>(114)</div> <div>114</div>	
<div></div> <div></div> <div></div>	
<div>At 18 April 1997</div> <div>5,577</div> <div>35,068</div>	
<div></div> <div></div> <div></div>	

Notes (continued)

19 Commitments

Capital:	1997 £000	1996 £000
Contracted but not provided	293	216
Authorised but not contracted	989	379
	<u> </u>	<u> </u>

Other:

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

	1997 £000	1996 £000
Land and buildings	10,220	9,423
Other	35	20
	<u> </u>	<u> </u>

In 1997/98 these charges are estimated to amount to:

	£000
Land and buildings	10,698
Other	21
	<u> </u>

20 Directors' interests in transactions entered into during the year

During the year expenses amounting to £33,402 were met on behalf of Mr LC McGeoch and reimbursed by him.

Notes (continued)

21 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.

22 Reconciliation of movements in shareholders' funds

	1997 £000	1996 £000
Profit for the financial year	1,787	6,704
Dividends	-	(4,950)
	<hr/>	<hr/>
Net addition to shareholders' funds	1,787	1,754
Opening shareholders' funds	39,358	37,604
	<hr/>	<hr/>
Closing shareholders' funds	41,145	39,358
	<hr/> <hr/>	<hr/> <hr/>