

**Mackays Stores Limited**

Directors' report and financial statements

Registered number SC36368

25 February 2011

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## Directors' report

The directors present their annual report, together with the audited consolidated financial statements of the company, for the 52 weeks ended 25 February 2011.

### Activities of the company

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

### Summary of trading results

The company results for the year ended 25 February 2011 are set out in the profit and loss account on page 7 and are summarised below:

	52 weeks ended 25 February 2011 £000	53 weeks ended 26 February 2010 £000
Turnover	186,939	181,905
Operating profit before charge for share schemes	11,586	11,120
EBITDA*	19,383	18,655
EBITDA* excluding loss on sale of fixed assets and charge for share schemes	20,629	20,032

\* EBITDA is defined as profit before interest, taxation, depreciation and amortisation

### Business review

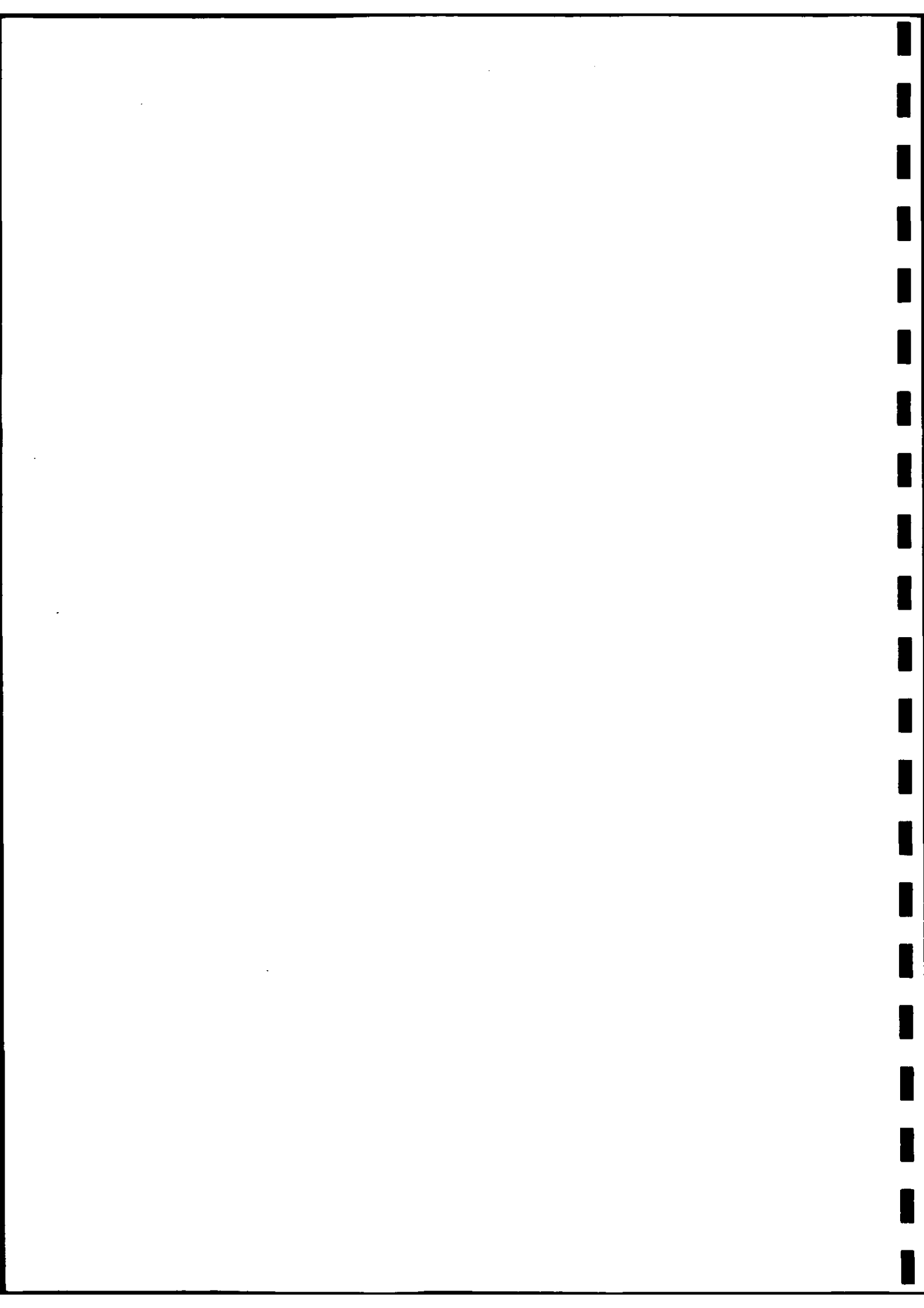
The company achieved another satisfactory result in 2010/11 with operating profits (excluding share scheme charges) increasing by £0.5 million to £11.6 million. Like for like sales grew by 3% (on a 52 week comparison basis) and turnover was further boosted by new store openings. This growth was achieved despite a significant reduction in consumer demand over the last two months of the financial year caused by uncertainties in the economy, and price rises across all sectors due to increases in raw material costs and the higher rate of VAT.

Despite the price rises referred to above product margins for the year as a whole were at a comparable level to the previous financial year. Overhead increases were again well contained.

Profit before tax increased by £0.6 million to £8.7 million and EBITDA (excluding loss on sale of fixed assets and charge for share schemes) was up by £0.6 million to £20.6 million. This resulted in substantial cash generation during the year which was partially offset by £8.7m of capital expenditure and bank borrowings (net of cash and inter group debt) decreased by £3.4 million to a positive balance of £2.9 million.

The company traded from twelve new sites during the period, two of which were relocations. Further new stores are expected to open in 2011/12. Four non profitable stores were closed during the period. The principal risks and uncertainties affecting the business include the following:

- A key factor in determining the success of the company is providing our customers each season with an exciting product range which reflects current market trends. Clearly there is a risk to the profitability of the business in product selection and we seek to mitigate this risk as far as possible with a thorough review process prior to placing order commitments.



## Directors' report *(continued)*

- **Competitive risk:** the company operates in highly competitive markets. Product innovations and price action by competitors can adversely affect our performance. The diversity of product ranges sold and age company catered for reduces the possible effect of action by any single competitor.
- **Unseasonal weather:** a significant proportion of the company's products are purchased for a specific season and unseasonal weather can therefore have a negative impact on profitability. It is the company's policy to substantially clear seasonal stock by the end of each season so that there is no negative impact on future trading.
- **Key personnel:** the company also operates in a competitive market in relation to retention of staff and seeks to offer a competitive remuneration package and an appealing working environment to promote staff loyalty. There is also a Share Incentive Plan which has resulted in around 2,000 current staff being shareholders. A further share issue was made during the year.
- **Foreign currency exchange:** the company monitors exchange rates closely and has a policy of hedging against currency fluctuations relating to product purchased overseas.
- **Major disruption/disaster:** by far the greatest risk to business continuity would be the occurrence of an event rendering the company's Head Office and warehouse inoperable. A formal Business Continuity Plan has been developed to mitigate the effect of such an eventuality.
- **IT Systems:** the company is dependent on the continuous operation of its IT systems in order to ensure that stock is supplied and replenished effectively and that management is provided with accurate information. Internal and external back up arrangements, including a disaster recovery facility, are in place to mitigate the risk of system failure.
- **The effect of legislation or other regulatory activities:** the company monitors forthcoming and current legislation regularly.
- **Pension funding risk:** the company operates a defined benefit pension scheme as detailed in note 6. The funding of the pension liabilities at the year end was 43% by equities and property and 57% by other assets. The company is subject to funding risks, principally poor performance of the equity investment and increased longevity of the members but has in the recent past contributed £10 million to the scheme in order to improve the deficit position.
- **Liquidity risk:** the company continues to generate significant cash, and has ongoing bank facilities well in excess of its borrowing requirement. The group renewed its borrowing facilities post the balance sheet date and most of the company's facility is now not repayable until August 2016.

Key areas of strategic development and performance of the business include:

- **General strategy:** the company holds regular sessions with its senior employees, and cascades the company's strategy to all levels of staff in order that all employees can understand and contribute to the achievement of objectives.
- **Sales growth:** it is a prime objective of the company to increase its market share by growing like for like sales and by adding to its store base. Like for like sales grew by 3% during 2010/11 and the company added 12 new sites to the estate. Further new stores are expected during 2011/12.
- **Store environment:** the company is committed to maintaining an up to date and appealing store environment from which to sell its products.
- **People:** the company is committed to the development of its staff and has attained Investors in People status in its stores, Head Office and London Buying Office. Feedback on levels of engagement and staff satisfaction is obtained by periodic surveys.
- **Health and Safety:** accident rates are constantly monitored and investigated and the company continues to seek ways of ensuring that a safe and healthy working environment is maintained. Health and Safety matters are regularly monitored at Board level.





## Directors' report *(continued)*

Key performance indicators are as follows:

	2011	2010	Measure
Sales Growth	6.1%	11.8%	Increase/decrease in gross sales v previous year (on a 52 week basis)
Gross Profit %	22.7%	21.4%	Ratio of gross profit (including other income) to sales
Stock turnover ratio	7.6	8.3	Turnover/stock

### Financial instruments

The company's policy is to minimise the use of complex financial instruments. Within this framework specific consideration is given to managing foreign currency risk through forward contracts where there is significant potential exposure and to managing interest rate risk through interest swaps where considered appropriate.

### Dividends

No dividend was paid during the period (2010: £Nil).

### Directors

The directors who held office during the period are noted below:

IW McGeoch  
MR McKimmie  
C Williamson  
N Bennett  
L Koser (resigned 3 December 2010)  
B Howie  
C Rutherford  
AJ McGeoch  
S Scavazza (appointed 8 October 2010)

In accordance with the Articles of Association, C Rutherford and AJ McGeoch retire at the annual general meeting and, being eligible, offer themselves for re-election.

### Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### Charitable and political contributions

Charitable contributions made by the company during the period amounted to £28,274 (2010: £47,829). 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. The Share Incentive Plan ("SIP"), for employees with over eighteen months service, saw a further assignment of shares to staff (2010: no assignments of shares to staff) during the period.



## Directors' report *(continued)*

### Employment of disabled persons

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

### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



MR McKimmie  
Director

Caledonia House  
5 Inchinnan Drive  
Inchinnan Business Park  
Inchinnan  
Renfrew  
PA4 9AF

29 August 2011



## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.





**KPMG LLP**

191 West George Street  
Glasgow  
G2 2LJ  
United Kingdom

**Independent auditor's report to the members of Mackays Stores Limited**

We have audited the financial statements of Mackays Stores Limited for the 52 week period ended 25 February 2011 set out on pages 7 to 22. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 25 February 2011 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**M Ross (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*

29 August 2011





## Profit and loss account

for the 52 week period ended 25 February 2011

	Note	2011 (52 weeks) £000	2010 (53 weeks) £000
Turnover	2	186,939	181,905
Cost of sales		(153,791)	(151,283)
<b>Gross profit</b>		<b>33,148</b>	<b>30,622</b>
Administrative expense		(31,663)	(28,885)
Other operating income	3	9,252	8,329
<b>Operating profit</b>		<b>10,737</b>	<b>10,066</b>
Loss on sale of tangible fixed assets		(397)	(323)
Net interest payable	7	(1,655)	(1,686)
<b>Profit on ordinary activities before tax</b>	4	<b>8,685</b>	<b>8,057</b>
Tax on profit on ordinary activities	8	(3,187)	(3,008)
<b>Profit for the financial period</b>		<b>5,498</b>	<b>5,049</b>

All amounts relate to continuing activities.



**Note of historical cost profits and losses**  
*for the 52 week period ended 25 February 2011*

	2011 (52 weeks) £000	2010 (53 weeks) £000
<b>Reported profit on ordinary activities before taxation</b>	<b>8,685</b>	<b>8,057</b>
Difference between a historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount	2	2
<b>Historical cost profit on ordinary activities before taxation</b>	<b>8,687</b>	<b>8,059</b>
<b>Historical cost profit for the period less taxation and dividends</b>	<b>5,500</b>	<b>5,051</b>

**Statement of total recognised gains and losses**  
*for the 52 week period ended 25 February 2011*

	2011 (52 weeks) £000	2010 (53 weeks) £000
<b>Profit for the financial period</b>	<b>5,498</b>	<b>5,049</b>
Actuarial gain/(loss) recognised in the pension scheme	1,587	(8,428)
Movement on deferred tax relating to actuarial gain/(loss)	(429)	2,360
<b>Total recognised gains and losses relating to the period</b>	<b>6,656</b>	<b>(1,019)</b>

**Reconciliation of movements in shareholders' funds**  
*for the 52 week period ended 25 February 2011*

	2011 (52 weeks) £000	2010 (53 weeks) £000
<b>Profit for the financial period</b>	<b>5,498</b>	<b>5,049</b>
Actuarial gain/(loss) recognised in pension scheme	1,587	(8,428)
Movement on deferred tax relating to actuarial gain/(loss)	(429)	2,360
<b>Net increase/(decrease) in shareholders' funds</b>	<b>6,656</b>	<b>(1,019)</b>
Opening shareholders' funds	43,507	44,526
<b>Closing shareholders' funds</b>	<b>50,163</b>	<b>43,507</b>



**Balance sheet**  
*at 25 February 2011*

	Note	2011 £000	2010 £000
<b>Fixed assets</b>			
Tangible assets	9	44,235	47,040
<b>Current assets</b>			
Stocks	10	24,434	21,799
Debtors	11	10,548	6,364
Cash at bank and in hand		12,144	7,745
		<u>47,126</u>	<u>35,908</u>
Creditors: amounts falling due within one year	12	(22,837)	(20,169)
<b>Net current assets</b>		<u>24,289</u>	<u>15,739</u>
<b>Total assets less current liabilities</b>		<u>68,524</u>	<u>62,779</u>
<b>Creditors: amounts falling due in more than one year</b>	12	(10,000)	(10,000)
Provisions for liabilities	13	(946)	(1,403)
Deferred income	14	(179)	(207)
Net pension scheme deficit	6	(7,236)	(7,662)
		<u>50,163</u>	<u>43,507</u>
<b>Net assets</b>		<u>50,163</u>	<u>43,507</u>
<b>Capital and reserves</b>			
Called up share capital	15	495	495
Capital redemption reserve	16	5	5
Revaluation reserve	16	212	214
Profit and loss account	16	49,451	42,793
<b>Equity shareholders' funds</b>		<u>50,163</u>	<u>43,507</u>

These financial statements were approved by the board of directors on 29 August 2011 and were signed on its behalf by:

  
**IW McGeoch**  
Director

Company registered number: SC36368



## 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.

#### *Cash flow*

The company's ultimate parent undertaking, Mackays Stores Group Limited, has adopted Financial Reporting Standard Number 1 in its consolidated financial statements. Accordingly, the company is exempt from the requirement to prepare a cash flow statement.

#### *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.

#### *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.

#### *Tangible fixed assets and 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 tangible fixed 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%

The company's freehold properties were valued in 1990 on the basis of open market value for existing use. On the adoption of FRS 15, the company has followed the transitional provisions to retain the net book value of land and buildings which were revalued in 1990 but not to adopt a policy of revaluation in the future.

#### *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.





## Notes (continued)

### Accounting policies (continued)

#### Turnover

Turnover represents the value of goods supplied, net of valued added tax, discounts and returns.

#### Finance leases

Assets held under finance leases and hire purchase contracts are recorded as fixed assets and are depreciated over their estimated useful lives or the lease term if shorter. 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.

#### Share based payments

The group share ownership programme allows eligible employees to acquire fully paid up shares in the Mackays Stores Group Limited ("MSGSL"), the ultimate parent company. Previously, eligible employees were also able to acquire options to acquire shares, however, all options granted under this arrangement, to the extent not exercised, have now expired. Due to the fact that shares acquired (including shares acquired under the exercise of options) under these arrangements may not be retained by employees on cessation of employment with the group, such transactions are accounted for as "cash settled".

In respect of fully paid up shares issued directly to employees at a consideration less than fair value under the group's Share Incentive Plan, the fair value of such shares is determined independently and recognised immediately in the financial statements as an intergroup liability, with a corresponding charge recognised in the profit and loss account. The liability is subsequently re-measured at each balance sheet date (or settlement date if shares are repurchased during the year) with any changes to fair value being recognised in the profit and loss account. The liability in respect of shares previously acquired under the exercise of options and retained by eligible employees is also re-measured at each balance sheet date, with any changes being recognised in the profit and loss account.

#### Pensions

The company's defined benefit pension scheme assets are measured using market value whilst pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the year is charged to operating profit. The expected return on scheme assets and the increase during the year in the present value of scheme liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits, are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

#### Deferred tax

In accordance with FRS 19, full provision is made for all material timing differences between the treatment of certain items for accounting and taxation purposes.

A net deferred tax asset is regarded as recoverable and recognised therefore only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.



## Notes (continued)

### 2 Turnover

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 £186,939,000 (2010: £181,905,000).

### 3 Other operating income

	2011 (52 weeks) £000	2010 (53 weeks) £000
Property rentals and similar income	3,568	3,226
Discounts received	5,684	5,103
	<u>9,252</u>	<u>8,329</u>

### 4 Profit before tax

	2011 (52 weeks) £000	2010 (53 weeks) £000
<i>Profit before tax is stated after charging/(crediting):</i>		
Depreciation of fixed tangible assets	9,071	8,940
Charge in respect of employee share schemes	849	1,054
Auditors' remuneration:		
- audit of these financial statements	52	45
- services relating to taxation	87	113
- other services	-	28
Hire of equipment	8	15
Pension paid to a former director	2	2
Operating lease charges:		
- land and buildings	21,726	22,551
- other	378	374
	<u>21,726</u>	<u>22,551</u>

### 5 Directors' emoluments

	2011 (52 weeks) £000	2010 (53 weeks) £000
Directors' remuneration (excluding pension contributions)	<u>1,533</u>	<u>1,755</u>

The highest paid director received emoluments, excluding pension contributions and including the estimated money value of benefits in kind, of £500,620 (2010: £551,646).

Seven of the directors (2010: seven) 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	
	2011 (52 weeks)	2010 (53 weeks)
Retailing	3,507	3,463

The aggregate payroll costs of these persons were as follows:

	2011 (52 weeks)	2010 (53 weeks)
Wages and salaries	39,607	38,474
Social security costs	2,489	2,422
Other pension costs	1,980	976
Share based payment arrangements	849	1,054
	<u>44,925</u>	<u>42,926</u>

### Pensions

Mackays Stores Limited operates a funded defined benefits pension scheme for eligible 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.

A full actuarial valuation was carried out at 30 April 2008 and has been updated to 25 February 2011 and 26 February 2010 by a qualified independent actuary.

The information disclosed below is in respect of the whole of the plans for which the Company is the sponsoring employer throughout the periods shown. All defined benefit obligations are funded. The current practice of increasing pensions in line with inflation is included in the measurement of the defined benefit obligation.

	2011 £000	2010 £000
Present value of funded deficit benefit obligations	(75,071)	(68,537)
Fair value of plan assets	<u>65,158</u>	<u>57,896</u>
Deficit	(9,913)	(10,641)
Related deferred tax asset	<u>2,677</u>	<u>2,979</u>
Net liability	<u>(7,236)</u>	<u>(7,662)</u>

### Movements in present value of defined benefit obligation

	2011 £000	2010 £000
At 26 February 2010	(68,537)	(52,490)
Current service cost	(1,888)	(889)
Interest cost	(3,969)	(3,471)
Actuarial losses	(2,529)	(13,667)
Contributions by members	(217)	(380)
Benefits paid	<u>2,069</u>	<u>2,360</u>
At 25 February 2011	<u>(75,071)</u>	<u>(68,537)</u>



## Notes (continued)

### 6 Employees and remuneration (continued)

#### Pensions (continued)

##### Movements in fair value of plan assets

	2011 £000	2010 £000
At 26 February 2010	57,896	50,413
Expected return on plan assets	3,511	2,887
Actuarial gains	4,116	5,239
Contributions by employer	1,487	1,337
Contributions by members	217	380
Benefits paid	(2,069)	(2,360)
	<hr/>	<hr/>
At 25 February 2011	65,158	57,896
	<hr/>	<hr/>

##### Expense recognised in the profit and loss account

	2011 (52 weeks) £000	2010 (53 weeks) £000
Current service cost	1,888	889
Interest on defined benefit pension plan obligation	3,969	3,471
Expected return on defined benefit pension plan assets	(3,511)	(2,887)
	<hr/>	<hr/>
Total	2,346	1,473
	<hr/>	<hr/>

The expense is recognised in the following line items in the profit and loss account:

	2011 (52 weeks) £000	2010 (53 weeks) £000
Administrative expenses	1,888	889
Interest payable and similar charges	458	584
	<hr/>	<hr/>
Total	2,346	1,473
	<hr/>	<hr/>

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is a gain of £1,587,000 (2010: loss £8,428,000).

Cumulative actuarial losses reported in the statement of total recognised gains and losses are £3,987,000 (2010: cumulative losses £5,574,000).





## Notes (continued)

### 6 Employees and remuneration (continued)

#### Pensions (continued)

The fair value of the plan assets and the return on those assets were as follows:

	Return %	2011 Fair value £000	Return %	2010 Fair value £000
Equities/property	7.46	28,173	7.74	20,558
Bonds	5.09	26,542	5.26	29,176
Currency and cash	2.83	4,451	4.28	4,157
Insurance policies	-	-	5.10	1,720
Insured pensions		5,992		2,285
		<b>65,158</b>		<b>57,896</b>
Actual return on scheme assets		<b>7,627</b>		<b>8,126</b>

None of the Company's own financial instruments, property occupied, or other assets used by the Company are included within fair value of plan assets.

To develop the expected long term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.05% assumption at 25 February 2011. Insured pensions were not included in this calculation.

	2011 (52 weeks) £000	2010 (53 weeks) £000
Weighted average assumptions used to determine benefit obligations		
Discount rate	5.35%	5.70%
Rate of increase in salaries	4.65%	4.65%
Rate of increase of pensions in payment	3.35%	3.35%
Inflation (RPI)	3.65%	3.65%
Inflation (CPI)	2.65%	-

Weighted average life expectancy for mortality tables used to determine benefit obligations

At 25 February 2011:	Male	Female
Member aged 65 (current life expectancy)	20.3	23.2
Member aged 45 (life expectancy at age 65)	21.3	24.1

Following the government announcement that it will use the CPI measure of inflation to set future minimum pension increases rather than the RPI measure used previously, the directors reconsidered the inflation assumptions used in relation to deferred members. The reduction in liabilities of £2 million has been reflected as part of the actuarial gains and losses reflected in the Statement of Recognised Gains and Losses.



## Notes (continued)

### 6 Employees and remuneration (continued)

#### Pensions (continued)

##### History of plans

The history of the plans for the current and prior periods is as follows:

##### Balance sheet

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of scheme liabilities	(75,071)	(68,537)	(52,490)	(57,413)	(57,783)
Fair value of scheme assets	65,158	57,896	50,413	52,413	50,678
Deficit	(9,913)	(10,641)	(2,077)	(5,000)	(7,105)

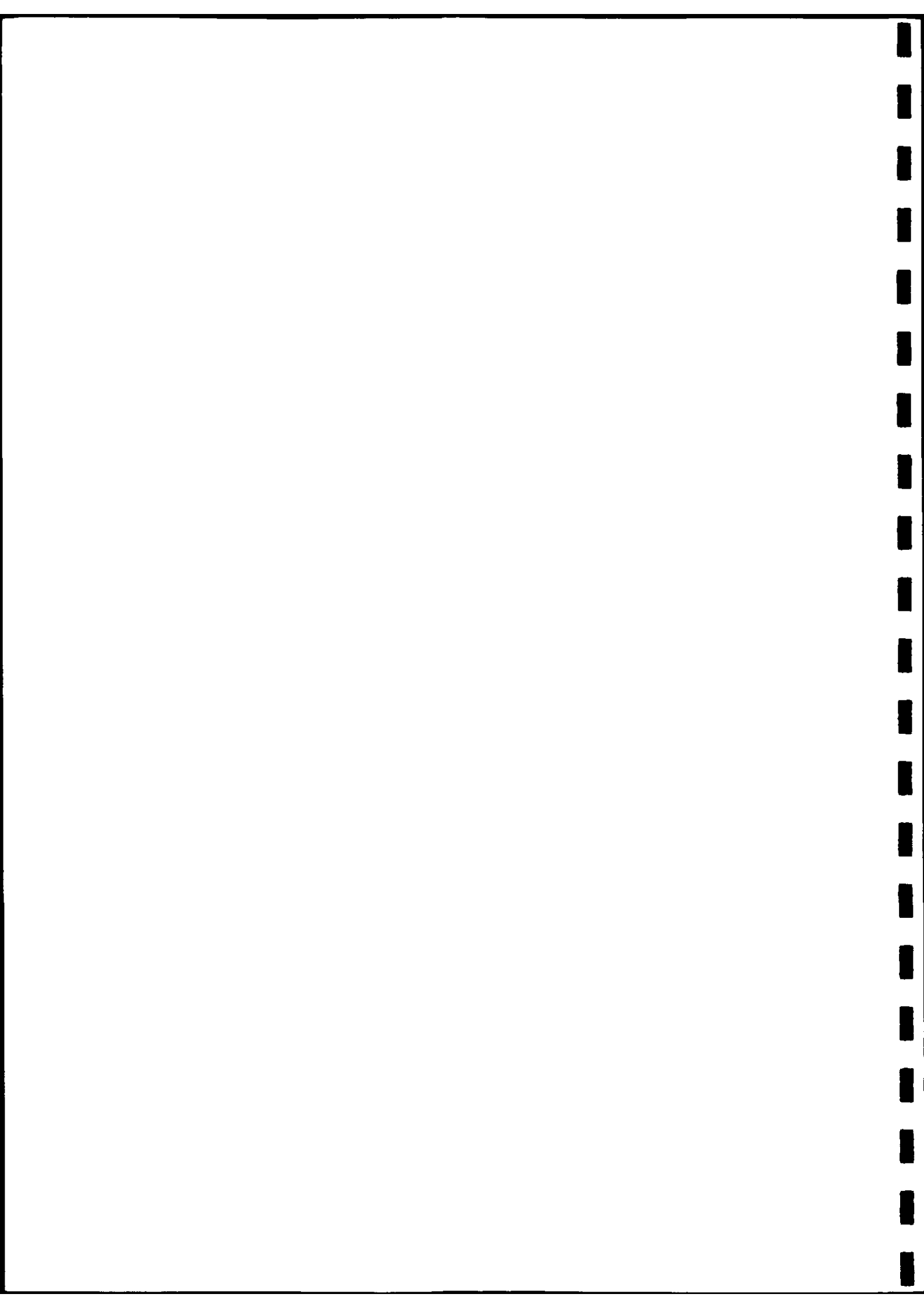
##### Experience adjustments

	2011 £000/%	2010 £000/%	2009 £000/%	2008 £000/%	2007 £000/%
Experience adjustments on scheme liabilities	-	-	796	91	(146)
as a percentage of scheme liabilities	-	-	1.5%	0.2%	0.2%
Experience adjustments on scheme assets	4,116	5,239	(4,804)	(7,631)	414
as a percentage of scheme assets	6.3%	9.0%	9.5%	14.6%	0.8%

The Company expects to contribute approximately £1,516,500 to its defined benefit plans in the next financial year.

### 7 Interest (net)

	2011 (52 weeks) £000	2010 (53 weeks) £000
Interest receivable/(payable) from parent undertaking	349	(125)
Bank interest receivable	88	6
Bank interest payable – on bank loans and overdrafts	(1,634)	(983)
Finance charges from pension scheme liabilities (note 6)	(458)	(584)
	(1,655)	(1,686)



## Notes (continued)

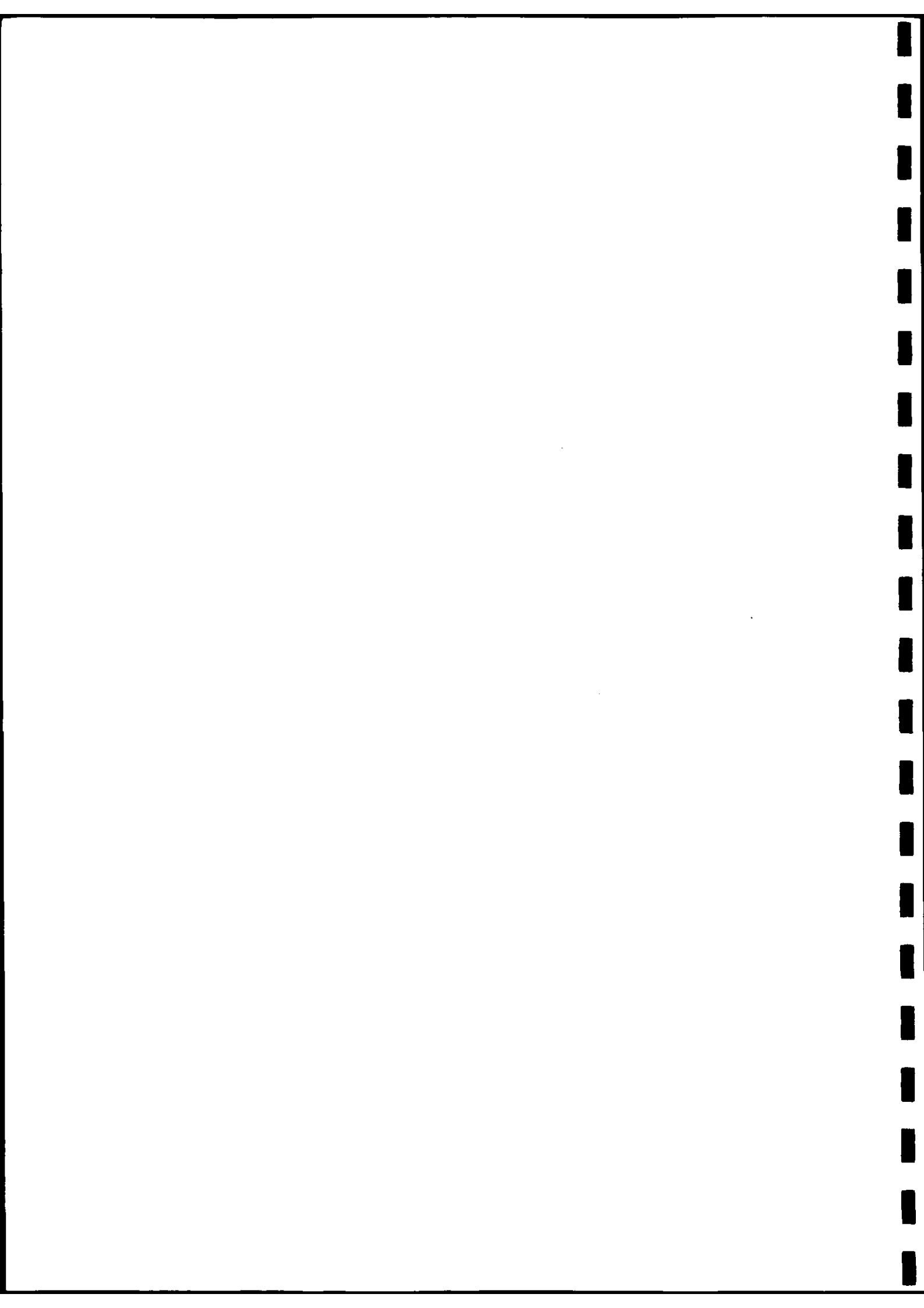
### 8 Tax

	2011 (52 weeks) £000	2010 (53 weeks) £000
<b>Corporation tax</b>		
UK corporation tax on profit for the period at 28% (2010: 28%)	3,802	3,705
Adjustments in respect of prior periods	(32)	(86)
	<hr/>	<hr/>
Total corporation tax charge	3,770	3,619
<b>Deferred tax</b>		
Credit for the period	(422)	(479)
Adjustments in respect of prior periods	14	(94)
Credit in respect of pension liability related items	(126)	(38)
Adjustment in respect of change of rate	(49)	
	<hr/>	<hr/>
Total deferred tax credit	(583)	(611)
	<hr/>	<hr/>
<b>Tax on profit on ordinary activities</b>	3,187	3,008
	<hr/>	<hr/>

The tax assessed for the period is higher (2010: higher) than the standard rate of corporation tax of 28% (2010: 28%). The differences are explained below:

	2011 (52 weeks) £000	2010 (53 weeks) £000
<b>Current tax reconciliation</b>		
Profit on ordinary activities before tax	8,685	8,057
	<hr/>	<hr/>
Current tax at 28% (2010: 28%)	2,432	2,256
<b>Effects of:</b>		
Expenses not deductible for tax purposes	34	74
Depreciation adjustments on items not qualifying for capital allowances	645	566
Current deferred tax credit	422	517
Adjustments to corporation tax charge in respect of previous periods	(32)	(86)
Other items	254	(64)
Loss on sale of assets not chargeable to corporation tax	69	61
Adjustments in relation to share based payment arrangements	(54)	295
	<hr/>	<hr/>
Corporation tax charge for the period	3,770	3,619
	<hr/>	<hr/>

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 23% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and then a reduction to 26% was substantively enacted on 29 March 2011 and will be effective from 1 April 2011. This will reduce the company's future tax charge accordingly. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liabilities accordingly.



Land and buildings Freehold	Leasehold	Fixtures, fittings and equipment	Total
£000	£000	£000	£000
3,538	40,563	57,758	101,859
-	3,579	5,079	8,658
(2,113)	(624)	(2,807)	(5,544)
<hr/>	<hr/>	<hr/>	<hr/>
1,425	43,518	60,030	104,973
<hr/>	<hr/>	<hr/>	<hr/>
403	17,760	36,656	54,819
49	2,315	6,707	9,071
(129)	(382)	(2,641)	(3,152)
<hr/>	<hr/>	<hr/>	<hr/>
323	19,693	40,722	60,738
<hr/>	<hr/>	<hr/>	<hr/>
1,102	23,825	19,308	44,235
<hr/>	<hr/>	<hr/>	<hr/>
3,135	22,803	21,102	47,040

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

	2011 Valuation £000	2011 Cost £000	2010 Valuation £000	2010 Cost £000
Cost or valuation	1,425	1,331	3,538	3,444
Depreciation	(323)	(441)	(403)	(523)
Net book amount	1,102	890	3,135	2,921

	2011 £000	2010 £000
The book value of land included in freehold properties amounts to:	251	651





**Notes (continued)**

**9 Tangible fixed assets (continued)**

	2011 £000	2010 £000
The net book amount of leasehold land and buildings comprises:		
Long leasehold	2,583	2,617
Short leasehold	21,242	20,186
	<u>23,825</u>	<u>22,803</u>

**10 Stocks**

	2011 £000	2010 £000
Finished goods and goods for resale	24,434	21,799
	<u>24,434</u>	<u>21,799</u>

**11 Debtors**

	2011 £000	2010 £000
Trade debtors	727	611
Amounts owed by group undertakings	6,345	2,334
Other debtors	112	46
Prepayments and accrued income	3,364	3,373
	<u>10,548</u>	<u>6,364</u>



## Notes (continued)

### 12 Creditors

*Amounts falling due within one year*

	2011 £000	2010 £000
Trade creditors	6,706	7,580
Corporation tax	1,102	1,838
Other tax and social security	3,210	2,399
Other creditors and accruals	6,279	7,806
Amounts owed to group undertakings	5,540	546
	<u>22,837</u>	<u>20,169</u>

*Amounts falling due in more than one year*

	2011 £000	2010 £000
Bank loan	<u>10,000</u>	<u>10,000</u>

#### Analysis of borrowings

Debt can be analysed as follows:

	2011 £000	2010 £000
Repayable:		
In one year or less, or on demand	-	-
Between two and five years	10,000	10,000
	<u>10,000</u>	<u>10,000</u>

The bank loan is repayable by April 2012 and bears interest at a rate of between 1% and 2% above LIBOR. The Company's bank borrowings are secured by a floating charge over the assets of the group.

Post the balance sheet date new borrowing facilities have been agreed with the group's banks. The new facilities comprise overdraft and revolving credit. The revolving credit facilities amount to £30 million and are repayable between August 2014 and August 2016 and bear interest at rates of approximately 2% above Libor. The loans are secured by a floating charge over the assets of the group.



## Notes (continued)

### 13 Provision for liabilities

	Deferred tax £000	
At beginning of period	(1,403)	
Movement in period (note 8)	457	
	<u>(946)</u>	
	<b>2011</b>	2010
	<b>£000</b>	<b>£000</b>
<i>Analysed as:</i>		
Excess capital allowances	<b>(1,428)</b>	(1,829)
Other timing differences	<b>482</b>	426
	<u><b>(946)</b></u>	<u><b>(1,403)</b></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 £2,569 (2010: £2,664). There are no other unprovided potential liabilities.

### 14 Deferred income

	2011 £000	2010 £000
Balance remaining of inducements to enter into lease agreements in respect of property:		
At beginning of period	207	235
Credited to profit and loss account for period	<b>(28)</b>	<b>(28)</b>
	<u>179</u>	<u>207</u>

### 15 Share capital

	2011 £000	2010 £000
<i>Authorised, allotted, issued and fully paid:</i>		
495,000 ordinary shares of £1 each	<b>495</b>	495



## Notes (continued)

### 16 Reserves

	Capital redemption reserve £000	Revaluation reserve £000	Profit and loss account £000
At beginning of period	5	214	42,793
Profit for financial period	-	-	5,498
Transfer of depreciation on revalued fixed assets	-	(2)	2
Actuarial loss in the period	-	-	1,587
Deferred tax movement relating to pension scheme	-	-	(429)
<b>At end of period</b>	<b>5</b>	<b>212</b>	<b>49,451</b>

### 17 Commitments

	2011 £000	2010 £000
Capital - contracted but not provided	652	-

Annual commitments under non-cancellable operating leases are as follows:

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
- within one year	2,532	150	2,223	-
- two to five years	4,507	55	6,807	374
- over five years	16,082	-	13,724	-
	<b>23,121</b>	<b>205</b>	<b>22,754</b>	<b>374</b>

### 18 Contingent liabilities

The company, in common with other group companies, has entered into cross guarantees in respect of bank advances to the group. The amounts outstanding in relation to the parent undertaking and the ultimate parent undertaking were £25,644,000 (2010: £23,456,000).

### 19 Ultimate parent undertaking

The company's ultimate parent undertaking is Mackays Stores Group Limited which is registered in Scotland.

Mackays Stores Group Limited prepares group accounts which include the results of the company. Copies of the group accounts are available from its registered office at Caledonia House, 5 Inchinnan Drive, Inchinnan Business Park, Inchinnan, Renfrew, PA4 9AF.

### 20 Related party transactions

The company has taken advantage of the exemption permitted by FRS 8: 'Related Party Disclosures' from disclosing transactions with other members of the group where 90% of the voting rights are controlled within the group.

