Mackays Stores Limited

Directors' report and financial statements
Registered number 36368
22 February 2002

Contents

Directors' report

The directors present their annual report, together with the audited financial statements of the company for the year ended 22 February 2002.

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 £8,752,000 (for fifty-two weeks) compared with £7,127,000 (for fifty-three weeks) in 2001.

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

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

A further dividend of £4,950,000 represented £10 per share was paid during the period on the ordinary shares.

Directors and directors' interests

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

PD Stevenson	(resigned 14 December 2001)
LC McGeoch	(resigned 14 December 2001)
IW McGeoch	
PJ Vann	
J O'Hara	
C Williamson	
JR Murray	(resigned 15 February 2002)
S Swannie	
JA Heaviside	
N Bennett	
A Ahmed	(non executive) (resigned 23 November 2001)

Mr MR McKimmie was appointed as a director on 15 February 2002.

In accordance with the Articles of Association, C Williamson, S Swannie and JA Heaviside retire at the annual general meeting and, being eligible, offer themselves for re-election.

The beneficial interests of IW McGeoch in the shares of the ultimate parent undertaking, Mackays Stores Group Limited, are as follows:

Ordinary shares of £1 each at 22 February 2002 : 6,503,547

Directors' report *(continued)*

Charitable and political contributions

Charitable contributions made by the company during the period amounted to £1,444 *(2001: £2,979)*. 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 gives 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 22 February 2002 was 15.

Auditors

On 3 May 2002 the business of KPMG was transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 14 June 2002 and the directors therefore appointed KPMG LLP to fill the vacancy arising. A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Matt McK

MR McKimmie
Secretary

Caledonia House
Caledonia Street
Paisley
PA3 2JP

2 August 2002

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.

KPMG

24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Independent auditors' report to the members of Mackays Stores Limited

We have audited the financial statements on pages 5 to 19.

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 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 with the company 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 company's affairs as at 22 February 2002 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

20 August 2002

Profit and loss account

for the 52 weeks ended 22 February 2002

	Note	2002 (52 weeks) £000	2001 (53 weeks) £000
Sales	2	132,822	128,460
Cost of sales		(107,842)	(106,951)
Gross profit		24,980	21,509
Administrative expense		(17,724)	(16,683)
Other operating income	3	2,104	2,408
Operating profit before exceptional items		9,360	7,234
Exceptional costs		(703)	-
Operating profit	4	8,657	7,234
Interest payable (net)	7	95	(107)
Profit on ordinary activities before tax		8,752	7,127
Tax on profit on ordinary activities	8	(2,731)	(2,233)
Profit on ordinary activities after tax and for the financial period		6,021	4,894
Dividends	9	(4,950)	-
Balance for period		1,071	4,894

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 52 weeks ended 22 February 2002

	2002 (52 weeks) £000	2001 (53 weeks) £000
Reported profit on ordinary activities before taxation	8,752	7,127
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	8,754	7,129
Historical cost profit for the period less *taxation and dividends*	1,073	4,896

Reconciliation of movements in shareholders' funds

for the 52 weeks ended 22 February 2002

	2002 (52 weeks) £000	2001 (53 weeks) £000
Profit for the financial period	6,021	4,894
Dividends	(4,950)	-
Movement in shareholders' funds	1,071	4,894
Opening shareholders' funds	34,195	29,301
Closing shareholders' funds	35,266	34,195

Balance sheet
at 22 February 2002

	Note	At 22 February 2002 £000	£000	At 23 February 2001 £000	£000
Fixed assets					
Tangible assets	*10*		18,214		17,227
Investments	*11*		-		-
			18,214		17,227
Current assets					
Stocks	*12*	20,735		20,469	
Debtors	*13*	8,500		2,867	
Cash at bank and in hand		7,798		5,092	
		37,033		28,428	
Prepayments and accrued income	*15*	165		198	
Creditors: amounts falling due within one year	*14*	(19,871)		(11,366)	
Net current assets			17,327		17,260
Total assets less current liabilities			35,541		34,487
Deferred income	*16*		(275)		(292)
Net assets			35,266		34,195
Capital and reserves					
Called up share capital	*17*		500		500
Revaluation reserve	*18*		231		233
Revenue reserve	*18*		34,535		33,462
Equity shareholders' funds			35,266		34,195

These financial statements were approved by the board of directors on 2 August 2002 and were signed on its behalf by:

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 Limited (formerly 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 22 February 2002. 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 Limited, 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

In accordance with FRS19, full provision is now made for all material timing differences. Whilst FRS 19: Deferred tax was implemented in the year, there is no material impact on the results either in respect of the period ended 22 February 2002 or prior years.

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)*

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%

The company's freehold properties were valued in 1999 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 1999 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.

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 £132,822,000 *(2001: £128,460,000)*.

Notes *(continued)*

3 Other operating income

	2002 (52weeks) £000	2001 (53 weeks) £000
Property rentals and similar income	**783**	785
Discounts received	**1,632**	1,844
Loss on sale of fixed tangible assets	**-**	(164)
Other expenses	**(15)**	(57)
	2,400	2,408

4 Operating profit

Operating profit is stated after charging	2002 (52weeks) £000	2001 (53 weeks) £000
Depreciation of fixed tangible assets	**3,286**	3,287
Auditors' remuneration:		
- audit	**45**	38
- other services	**37**	74
Hire of equipment	**1**	3
Pension paid to a former director	**1**	1
Exceptional costs relative to the acquisition of the entire share capital of Mackays Stores (Holdings) Limited by Mackays Stores Group Limited	**703**	-

5 Directors' emoluments

	2002 (52weeks) £000	2001 (53 weeks) £000
Executive remuneration	**2,696**	2,000
Compensation for loss of office	**138**	-
	2,834	2,000

The highest paid director received emoluments of £753,263 *(2001: £459,178)*. 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 £3,380 per annum *(2001: £278,125)*.

The services of the former chairman, Mr Peter Stevenson, were provided by The Stevenson Partnership Limited. Payments to The Stevenson Partnership Limited amounted to £153,333 *(2001: £80,000)*.

Seven of the directors *(2001: 9)* 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	
	2002	2001
	(52weeks)	(53 weeks)
Retailing	**2,518**	2,515

The aggregate payroll costs of these persons were as follows:

	2002	2001
	(52weeks)	(53 weeks)
	£000	£000
Wages and salaries	**23,890**	23,394
Social security costs	**1,437**	1,283
Other pension costs (including special payments to group pension scheme)	**857**	621
	26,184	25,298

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.

As noted above, the group operates a defined benefit scheme in the UK and under the transitional requirements of FRS 17: Retirement benefits the company is required to disclose further information on the assets and liabilities of the defined benefit scheme on an FRS 17 market value basis at the end of the accounting period.

A full actuarial valuation was carried out at 30 April 2000 and updated to 22 February 2002 by an independent qualified actuary. The major assumptions used by the valuation were (in nominal terms):

	At 22 February 2002
Rate of increase in salaries	3.6%
Rate of increase in pensions in payment	2.1%
Discount rate	5.6%
Inflation assumption	2.6%

Notes *(continued)*

Employees and remuneration *(continued)*

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

	Long term rate of return expected at 22 February 2002	At 22 February 2002 £000
Equities	7.0%	21,540
Corporate bonds	5.0%	3,975
Insurance policies		1,800
Insured pensions		615
Total market value of assets		27,930
Actuarial value of liability		(31,510)
Deficit in the scheme		(3,580)
Deferred tax		1,074
Net deficit in the scheme		(2,506)

The measurement bases required by FRS 17 are likely to give rise to significant fluctuations in the reported amounts of the defined benefit pension scheme's assets and liabilities from year to year, and do not necessarily give rise to a change in the contributions payable into the scheme, which is recommended by the independent actuary based on the expected long term rate of return on the scheme's assets. Although contributions payable may have to be increased during the year to 21 February 2003 the anticipated increase is within budget.

7 Interest

	2002 (52weeks) £000	2001 (53 weeks) £000
On bank loans and overdrafts	**(118)**	(272)
Bank interest receivable	**213**	165
	95	(107)

Notes *(continued)*

8 Tax

	2002 (52 weeks)		2001 (53 weeks)	
	£000	£000	£000	£000
Corporation tax				
UK corporation tax on profit for the period at 30% *(2001: 30%)*	(2,699)		(1,977)	
Adjustments in respect of prior periods	1		187	
Total corporation tax charge		(2,698)		(1,790)
Deferred tax				
Credit/(provision) for the period	(43)		(216)	
Adjustments in respect of prior periods	10		(227)	
Total deferred tax credit/(charge)		(33)		(443)
Tax on profit on ordinary activities		(2,731)		(2,233)

The tax assessed for the period is higher than the standard rate of corporation tax of 30%.

The differences are explained below:

	2002 (52 weeks) £000	2001 (53 weeks) £000
Profit on ordinary activities before tax	8,752	7,127
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2001: 30%)*	2,626	2,138
Effects of:		
Expenses not deductible for tax purposes	16	27
Loss on disposal of asset not qualifying for capital allowances	27	59
Depreciation adjustments	72	-
Other taxable income	-	(31)
Current deferred tax credit/(charge)	(43)	(216)
Adjustments to corporation tax charge in respect of previous periods	1	(187)
Corporation tax charge for period	2,699	1,790

Notes *(continued)*

9 Dividends

	2002 (52weeks) £000	2001 (53 weeks) £000
Ordinary shares:		
Dividend paid	**4,950**	-
	£	£
Preference shares:		
Dividend paid	**280**	280

10 Tangible fixed assets

	Land and buildings Freehold	Land and buildings Leasehold	Fixtures, fittings and equipment	Total
	£000	£000	£000	£000
Cost or valuation				
At beginning of period	923	15,979	36,909	53,811
Additions	-	945	3,557	4,502
Disposals	-	(433)	(1,562)	(1,995)
At end of period	923	16,491	38,904	56,318
Depreciation				
At beginning of period	(137)	(7,238)	(29,209)	(36,584)
Charge for period	(13)	(831)	(2,441)	(3,285)
Disposals	-	275	1,490	1,765
At end of period	(150)	(7,794)	(30,160)	(38,104)
Net book value				
At 22 February 2002	**773**	**8,697**	**8,744**	**18,214**
At 23 February 2001	786	8,741	7,700	17,227

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.

Notes *(continued)*

Tangible fixed assets *(continued)*

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

	2002		2001	
	Valuation	**Cost**	Valuation	Cost
	£000	**£000**	£000	£000
Cost or valuation	**923**	**834**	923	834
Depreciation	**(150)**	**(292)**	(137)	(281)
Net book amount	**773**	**542**	786	553

	2002	2001
	£000	£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	**8,296**	8,341
	8,696	8,741

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

Notes *(continued)*

12 Stocks

	2002 £000	2001 £000
Finished goods and goods for resale	**20,735**	20,469

13 Debtors

	2002 £000	2001 £000
Amounts due within one year:		
Trade debtors	**339**	139
Amounts owed by group undertakings	**5,878**	768
Other debtors	**118**	187
Prepayments and accrued income	**2,165**	1,773
	8,500	2,867

14 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Trade creditors	**4,482**	3,748
Corporation tax	**1,086**	934
Other tax and social security	**2,606**	512
Other creditors and accruals	**5,928**	5,312
Amounts owed to group undertakings	**5,769**	860
	19,871	11,366

Notes *(continued)*

15 Prepayments and accrued income

	2002 £000	2001 £000
Deferred tax relief/(tax):		
At 23 February 2001	**198**	641
Movement for period (note 8)	**(33)**	(443)
	165	198
Representing tax/(tax relief) deferred by:		
Excess capital allowances	**(206)**	(210)
Other timing differences	**371**	408
	165	198

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 *(2001: £720,000)*. There are no other unprovided potential liabilities.

16 Deferred income

	2002 £000	2001 £000
Balance remaining of inducements to enter into lease agreements in respect of property:		
At beginning of period	**292**	309
Credited to profit and loss account for period	**(17)**	(17)
At end of period	**275**	292

17 Share capital

	2002 £000	2001 £000
Authorised, allotted, issued and fully paid:		
495,000 ordinary shares of £1 each	**495**	495
5,000 cumulative 5.6% (plus tax credit) preference shares of £1 each	**5**	5
	500	500

Notes *(continued)*

18 Reserves

	Revaluation reserve £000	Revenue reserve £000
At 23 February 2001	233	33,462
Transfer of depreciation on revalued fixed assets	(2)	2
Balance on profit and loss account for period	-	1,071
At 22 February 2002	**231**	**34,535**

19 Commitments

	2002 (52 weeks) £000	2001 (53 weeks) £000
Capital:		
Contracted but not provided	**466**	-

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

	2002 (52 weeks) £000	2001 (53 weeks) £000
Land and buildings	**15,049**	15,483
Other	**22**	20

In 2003 these charges are estimated to amount to:

	£000	£000
Land and buildings	**15,445**	15,607
Other	**22**	22

20 Contingent liabilities

The company, in common with other group companies, has provided a bond and floating charge over its assets in respect of term loan and overdraft facilities extended to Mackays Stores Group Limited and its subsidiaries by its banks. The amounts outstanding in relation to the parent undertaking were £35,595,000 *(2001: £Nil)*.

Notes *(continued)*

21 Ultimate parent undertaking

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

The only group in which the results of the company are consolidated is that headed by Mackays Stores Holdings Limited formerly Mackays Stores (Holdings) PLC. The accounts of that group are available from its registered office at Caledonia House, Caledonia Street, Paisley, PA3 2JP.

22 Related party *transactions*

In accordance with the exemptions provided under Financial Reporting Standard 8 for companies whose voting rights are 90% or more controlled within a group, the company has not disclosed transactions with other subsidiary undertakings of the ultimate holding company.