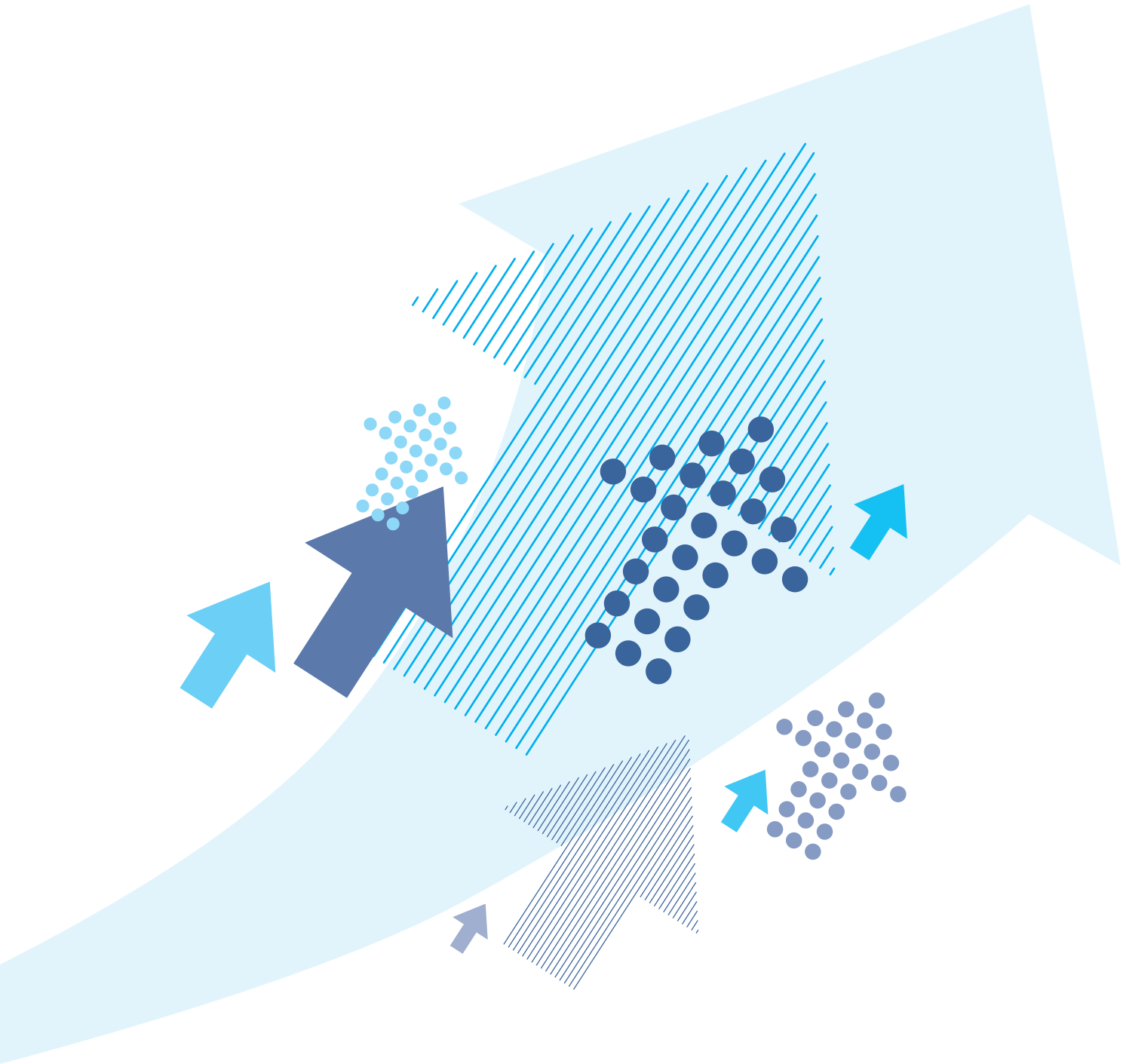


Menzies Group

Annual Report 2000



Menzies is a leading logistics support services group committed to quality and added value

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Menzies Group



Highlights

Group restructuring now starting to deliver real benefits

Operating Profit and Profit Before Tax significantly improved

Balance sheet strengthened by non-core disposals

Turnover

£1,395.8m

+2%

Operating profit

£33.9m

+10%

Headline profit before tax

£31.3m

+9%

Headline earnings per share

37.2p

+15%

Dividend

17.1p*

+8%

Net assets

£136.2m

+£48m

*Includes proposed final dividend of 12.1p

Chairman's Statement

With profits increasing and a significant strengthening of the balance sheet, we are optimistic that the Group is well placed for future growth



Gavin Reed, Chairman

Two years ago the Board embarked on a far reaching process of change with the objective of creating a leading logistics support company strategically and operationally focused on growing shareholder value. Your Board remains confident that this strategy is right. It is much encouraged by the progress to date and we are now beginning to see the benefits from the restructuring of the Group.

Menzies Wholesale turned in a strong performance. It continues to demonstrate its ability to adapt to the changing needs of its customers as well as successfully carrying out major changes to its operations following further rationalisation within the industry. Menzies Transport Services, our Aviation Services Division, had an extremely active year establishing itself as the UK's largest independent air cargo handler. There is clearly a wider goal, in that air traffic is international and growing, and Menzies Transport Services now has a potent opportunity to become one of the world's leading providers of ground handling services. The Group has now taken

a major step forward with the proposed acquisition of the ground handling operations of Ogden Aviation Services ("Ogden Ground Services") for US\$117.8m (£79m).

In March this year we took the opportunity to dispose of our stake in Samas Universal Office Supplies ("SUOS"). This investment has been significant and highly successful for the Group, but it did not represent a core activity.

Steady progress continues to be made at Early Learning Centre and we remain confident that at the right time we will achieve a disposal of this business at a suitable value for our shareholders.

I would like to pay a special tribute to my Board colleagues in this year of significant change. Our executive team, ably and energetically led by David Mackay, has worked tirelessly both on the challenging agenda of acquisitions and new initiatives whilst also ensuring that the essentials of improving productivity and cash management are progressed within our continuing

businesses. Both Martyn Smith, who joined as Group Finance Director in July 1999, and Peter Smith, who has built Menzies Transport Services up over the last five years and who was appointed as a Director in December 1999, are already making a substantial contribution to the Board. In addition we continue to use the special skills and experience of our team of Non-Executive Directors in a proactive way.

We have reviewed our advisory team and have appointed Dresdner Kleinwort Benson as financial advisors and joint stockbrokers with Brewin Dolphin Securities.

Your Board is encouraged by the overall progress achieved in the last year, with profits increasing, strong cash generation and a significant strengthening of the balance sheet. Accordingly the Directors are recommending an increased final dividend of 12.1p, raising the total payment to 17.1p, a rise of 8.2%.

The proposed acquisition of Ogden Ground Services will transform Menzies Transport Services and open further horizons of opportunity to us and it is our intention to re-launch this Division as the Menzies Aviation Group ("MAG"). A smooth integration will be our initial priority in order to ensure that the anticipated benefits and profitability can be realised as soon as possible. The acquisition provides us with a strong platform to increase our share of this rapidly growing market. The Board is optimistic that the Group is well placed for future growth.



Gavin Reed
Chairman

Board of Directors

- 1 Gavin Reed *#§** (65) was appointed a non-executive director in 1992 and Chairman in 1998. He is Chairman of the Remuneration and Nomination Committees. Previously Vice Chairman of Scottish and Newcastle plc, he is Chairman of Hamilton & Inches Ltd and holds a number of other directorships.
- 2 David Mackay §** (57) was appointed Chief Executive in 1997, having joined the Board as Wholesale Managing Director in 1984 and the Group in 1964.
- 3 Dermot Jenkinson *#** (45) was appointed to the Board in 1986 where he held various executive responsibilities prior to assuming a non-executive role on 30th April 1999.
- 4 William Thomson *#+§** (60) has been a non-executive director since 1987 and chairs the Audit Committee as well as being non-executive Chairman of Menzies Aviation Group. He is Chairman of E G Thomson (Shipping) Ltd and British Assets plc and holds a number of other directorships.



- * Non-executive director
- # Member of Remuneration Committee
- + Member of Audit Committee
- § Member of Nomination Committee

1

9

2

4

- 5 **Ian Harrison** *#+ (43) was appointed a non-executive director in 1987. He is a director of Record Treasury Management Ltd.
- 6 **Charles Ramsay** *#+ (63) was appointed a non-executive director in 1990. He is Chairman of Cockburns of Leith plc and holds several other directorships.
- 7 **Michael Walker** *#+ (47) was appointed a non-executive director in 1995. He is Managing Partner of solicitors Maclay Murray & Spens.

- 8 **Iain Callaghan** (53) joined the Group in 1965 and was appointed to the Board in January 1997. He is Managing Director of Menzies Wholesale.
- 9 **Martyn Smith** (45) was appointed Group Finance Director on 5th July 1999. He was previously Group Financial Controller of Inchcape plc, having held a number of UK and international financial positions both there and earlier with Rothmans.

- 10 **Peter Smith** (56) joined the Group as Chief Executive of Menzies Aviation Group in 1996. His career in aviation has included senior positions, UK and overseas, in British Caledonian and British Airways as well as a period as an independent consultant to the airline industry. He was appointed a director on 3rd December 1999.
- 11 **Adair Anderson** (53) was appointed Company Secretary in 1986, having joined the Group in 1974.



Chief Executive's Review

It has been a very active and challenging year in which we have made further significant progress in establishing ourselves as a focused logistics support services group



David Mackay, Chief Executive

It has been a very active and challenging year in which we have made further significant progress in establishing ourselves as a focused logistics support services group. In particular, major advances have been made in the development of our Aviation Services Division, culminating in the proposed acquisition of Ogden Ground Services. This move will transform Aviation Services into a major international operation.

Results

Group turnover increased by 2% in the year to £1,395.8m. Distribution turnover was 1% lower at £1,081.4m due to the anticipated downturn in sales at both THE and THE Games. Aviation Services expanded significantly, with turnover rising 56% in the year to £76.8m. Sales at Early Learning Centre increased 8% during the year to £158.3m as the recovery continued.

Group operating profits for the year increased by 10% to £33.9m. In Distribution, strong results in Menzies Wholesale and an improvement in THE were offset by the anticipated reduction at THE Games. Aviation Services operating profits were inevitably constrained by justified investment while operating losses at Early Learning Centre were considerably lower than last year.

Interest cost increased by £0.4m to £2.6m, with last year benefiting from higher purchases from Nintendo and related payment terms.

Headline profit before tax rose by over 9% to £31.3m. A reduction in the tax rate from 31% last year to 28% also enhanced Headline earnings per share, which increased by 15% to 37.2p.

Group results include a number of exceptional items which mainly reflect the restructuring of operations, planned disposals and the enhanced focus on distribution activities. Operating exceptional items totalled a cost of £11.0m including £4.9m for a major reorganisation of the wholesale distribution network in Central Scotland and London, the benefit of which will be evident in future years. In addition, a provision was made in respect of fixed asset impairment at THE and for the restructuring of certain operations at ELC.

This was countered by non-operating exceptional gains totalling £13.0m primarily from the disposal of the stake in SUOS and the sale of Hanover Buildings, Edinburgh. The overall gain is stated net of £26.5m of goodwill previously written off to reserves. The exceptional items are covered in greater detail in the Financial Review.

Group profit before tax and after exceptional items rose £19.9m to £33.3m and earnings per share after exceptional items increased by 34.1p to 48.0p.

Distribution

Menzies Wholesale continues to create operating efficiencies and added value services within its highly effective distribution system

Distribution

	2000 £m	1999 £m	Change £m
Sales			
Menzies			
Wholesale	856.7	814.4	42.3
THE	128.6	152.2	(23.6)
THE Games	96.1	120.3	(24.2)
	1,081.4	1,086.9	(5.5)
Operating profit	30.7	31.5	(0.8)

Menzies Wholesale had a very good year, with increased operating profits from sales which grew 5% to £856.7m, partly assisted by the impact of the 53rd week. Newspaper sales revenue rose by 4% in the year but volumes continued to decline some 2%, despite extensive promotional activity. Magazines showed 6% revenue growth during the year, in line with the level in the previous year. Sales also benefited from the Pokémon collections, which have become the fastest ever selling non-football stickers in the UK.

Two years ago, the industry secured long term contract renewals with publishers linked to geographical restructuring, providing enhanced future certainty of earnings but at the expense of some margin reduction. In the past year, the Division has continued to improve operating efficiency which has helped to partially offset the lower margins which resulted from these contract renewals.

Further developments to improve efficiency are in progress, in particular a major reorganisation of the branch network in Central Scotland and East London. Related capital expenditure of £13.0m spread over the next two years will leave the Division with 27 hubs and 9 spokes, an overall reduction of 8 branches.

For some time we have recognised the growing influence and differing service requirements of multiple retailers. Considerable progress has been made in addressing issues such as the provision of innovative space planning and range management services for the majority of the multiple retailers. The recent announcement by Tesco of its intention to appoint a single wholesaler for its UK magazine supply could have wide ranging implications for the news network in the future. However, we have long term contracts in place with the majority of our magazine suppliers who have assured us that they intend to honour these contracts in full and expect us to do likewise. Menzies Wholesale is of course fully committed to fulfilling its contractual obligations whilst working closely with customers and suppliers to satisfy the needs of all in the supply chain rather than just the self-selected few.



Frank Martin, Branch Transport Maintenance Manager.
Menzies Wholesale delivers over 1.5 billion
newspapers to its customers every year



THE Games sold over 1.1m Pokémon games in the UK during the year

Game Boy, in its 10th successful year, surged ahead, benefiting in particular from the “Pokémon phenomenon”

We have made two investments which anticipate changes that we believe will ultimately occur in the market place. In October, FMD Ltd, a joint venture with other major wholesalers in which the Division has a 33.3% interest, acquired Worldwide Magazine Distribution Ltd for £2.1m. This marketing business focuses on the expansion of overall demand for magazines to specialist retailers, such as sports and music shops. In May this year, the Division also invested £2.5m for a 22.5% holding in Magazineshop.co.uk, the UK's leading internet magazine subscription service, and has an option to increase the shareholding. Given the dynamics of the industry and the likely impact on specialist titles, the development of an effective complementary network should prove beneficial.

Despite considerable efforts, **THE** has not managed to replace the major contracts lost in the previous year, and sales were down 16% during the year to £128.6m. The Division

has, however, made good progress in re-establishing itself as a cost-effective distributor following the installation of a semi-automated pick-packing system which achieved a considerable reduction in staff numbers. Despite the lower level of sales, **THE** substantially reduced operating losses during the year.

Internet trading in the music, books and video market is expanding rapidly and **THE** is performing effectively in the supply process of these products for several customers. Nevertheless, the internet continues to represent only a small percentage of the total business.

THE Games operates in an extremely volatile market and turnover during the year was 20% lower at £96.1m. The sales mix has reversed from the pattern of 1999 and N64 now represents 34% of total sales and Game Boy 66%.

Game Boy, in the 10th successful year of this product, surged ahead, benefiting in particular from the Pokémon phenomenon. Both hardware and software sales exceeded all expectations. However, the £52.5m sales decline of the N64 format inevitably reduced overall profitability.

Nintendo and certain of its present and previous European distributors are currently under investigation by the European Commission for alleged restriction of cross-border trading in Nintendo products, with a formal Statement of Objections having been issued on 26th April 2000. It is too early at this stage to form a clear view on the likelihood or extent of any liability which may result from this action.

Our contract with Nintendo ends in December 2000, and we are currently in discussions about renewal in a period which would see important new product launches.

Aviation Services

Menzies Aviation Group's rapid expansion has created a platform for strategic development within the international ground handling industry

Aviation Services

	2000 £m	1999 £m	Change £m
Sales			
Underlying	63.6	49.2	14.4
Acquisitions	12.3	–	12.3
Business start-ups	0.9	–	0.9
	76.8	49.2	27.6
Operating profit			
Underlying	3.5	1.7	1.8
Acquisitions	(1.1)	–	(1.1)
Business start-ups	(0.6)	–	(0.6)
	1.8	1.7	0.1

Since first entering the ground handling market in 1995, Aviation Services has been very successful in developing the business and is now a significant supplier of ground handling and associated services in the UK. Expansion has continued during the year through a combination of acquisitions,

business start-ups and organic growth resulting in a 56% increase in turnover during the year to £76.8m.

Operating profit increased by just 6% to £1.8m being inevitably held back by losses incurred by both acquisitions and business start-ups. These losses were consciously anticipated and do not detract from the significant profit opportunities which we see ahead. Excluding the acquisitions and start-ups, the results reflect an improvement with underlying operating profit more than doubling to £3.5m.

In response to the level of growth and expansion, Aviation Services has been reorganised into three Divisions: Cargo Handling, Passenger and Ramp Handling Services, and Support Services.

Menzies World Cargo ("MWC") encompasses the Group's cargo handling and trucking operations at Heathrow, Manchester, Birmingham and Glasgow in the UK, together with Melbourne and Sydney airports in Australia.

The Group has been associated with Lufthansa since July 1998, when it became a 50% partner in their cargo handling facility at Heathrow. Based on the success of this joint venture, we acquired majority control in the London Cargo Centre on 2nd May 2000 by increasing our interest to 80% and Lufthansa, through its ground handling subsidiary GlobeGround, in turn acquired 20% of our UK cargo operations.

We are now the largest independent air cargo handler at Heathrow, with a UK handling capacity of over 420,000 tonnes per annum and operations at 15 cargo terminals for over 35 airline customers. One of the key steps in this achievement was the acquisition of the air cargo handling business of the BOC Group in June 1999 for £7.5m, which effectively doubled the handling capacity at Heathrow and extended our operations to Manchester and Birmingham, and into Australia. The Aer Lingus facility at Heathrow was acquired in January 2000 for £6.1m, adding a further 30,000 tonnes of capacity.



Mark Allen, GlobeGround Manchester,
helps MAG move over 300,000 tonnes of cargo per
annum at 15 cargo terminals for over 35 airlines

Aviation Services (continued)

The acquisition of Ogden Ground Services will propel Menzies Aviation Group into the premier league of this industry

Aviation Services also provides **Passenger and Ramp Handling operations**.

The relationship with GlobeGround was extended into this sector at Manchester airport through a 49% investment. A similarly structured venture commenced operations in May 1999 at Stansted, incurring initial start-up losses. Provision of services to Lufthansa commenced in May 2000, and the business is now expected to be profitable. The relationship was expanded in July 2000 to include operations at Heathrow.

Other service activities have been grouped together under **Menzies Aviation Support Services**. This year has represented the successful first year of operation for Connect, which has a five-year contract with BAA plc for the provision of passenger and baggage transfer services within Heathrow.

Execair, the specialist executive aircraft handler, has completed a successful first year within the Group operating from 6 airports helped by the short term benefits of business from BMW at Birmingham. Further expansion of Execair to new locations in the UK and Continental Europe is planned for the coming year.

Menzies Security Services commenced operations in July 1999 and incurred an operating loss of £0.3m in its first ten months of operation. The business, however, is now establishing itself in the aviation industry.

As part of our continuing expansion in the aviation sector, MC Services, an independent customer complaints agency, was acquired shortly after the year-end for £1.8m. It has contracts with 10 leading airlines and is trading profitably.

Acquisition of Ogden Ground Services

Aviation is a worldwide business, and our ability to expand without a significant and established overseas presence would be somewhat limited. The dynamics of the international ground handling market are also changing as airlines outsource and airports in many countries are liberalised.

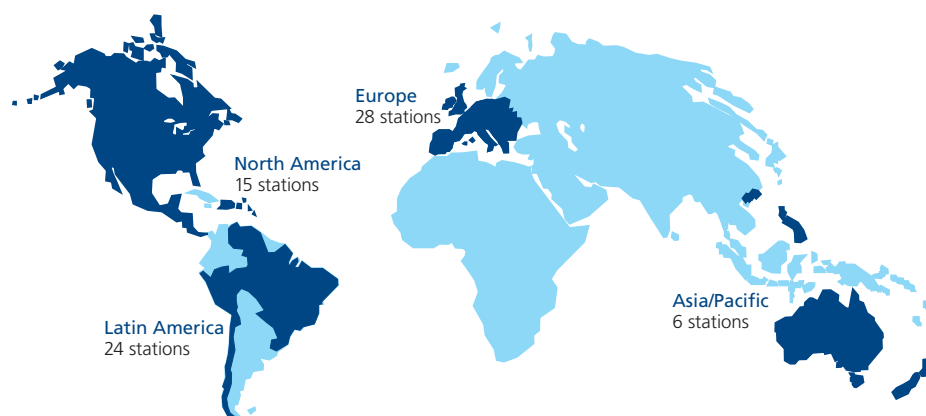
The proposed acquisition of Ogden Ground Services provides Aviation Services with a unique opportunity to undertake a step change in its operations through the acquisition of a profitable international ground handling business. The combined business also provides us with a strong platform capable of exploiting the significant opportunities which are now emerging as global airline alliances grow, airport markets de-regulate and the industry outsources non-core activities.



Ajmer Sandhu is part of the “Connect” team handling the efficient transfer of 4m passengers and 6m bags per annum between Heathrow’s four terminals



MAG and Ogden Ground Services



Founded in 1946, Ogden Aviation Services has grown to become one of the world's leading independent aviation support companies with a significant presence in North America, Latin America, Europe and Asia-Pacific. The principal business is the provision of ground handling services, in particular air cargo, passenger and ramp handling services, for which the company has operations at 58 airports in 18 countries.

Following completion, we intend to integrate the corporate head office functions of Ogden Ground Services within the headquarters of Menzies Aviation Group ("MAG") in the UK. Apart from UK cargo handling, the two businesses do not overlap in their activities.

We are not faced therefore with a substantial task of having to rationalise management and operations; nor do achievement of the benefits from this acquisition depend on synergy savings. Following completion, our key task will be to blend the workforces, business systems and cultures of MAG and Ogden Ground Services into an effective and focused international business. An integration team has been selected and has already begun this process.

The combined business will be one of the world's leading independent suppliers of ground handling services to the aviation community. This acquisition enables MAG to achieve critical mass and coverage in an industry which is consolidating into fewer, but global, providers.

Retail

	2000 £m	1999 £m	Change £m
Sales	158.3	146.3	12.0
Operating loss	(2.0)	(4.6)	2.6

Early Learning Centre increased sales by 8% against the comparative period reflecting further progress made in the recovery of this business with a 3% like for like sales increase. However, progress towards profit has been slower than expected in a highly competitive and deflationary toy market. In addition, ELC did not benefit from a "blockbuster" product this year contrasting with the success of Furby last year. ELC rightly decided not to stock Pokémon product, as the content rendered it inappropriate for its brand and core customers.

ELC has continued with the strategy of developing from a single channel to a multi-channel retailer. Sales to Sainsbury stores increased by 87%, closing the year with a presence in 260 stores. Concessions are

Delivering the strategy...

...shaping the future

also being opened within Debenhams, in 21 stores at the year end and with a further 22 scheduled. The most recent one, at Oxford Street in London, was set up within 5 days of the original invitation.

ELC's website (www.elc.co.uk) was launched in October benefiting from the experience of its highly successful mail order business and establishing itself as a quality service in keeping with the brand's image. Sales have totalled some £0.4m since the launch with conversion rates of 8% in April well ahead of trade averages. The site creates opportunities for significant future growth and has firmly established ELC as a "bricks and clicks" retailer.

ELC has thus continued to change significantly. In particular, there has been a considerable increase in sourcing product from the Far East. Much has been achieved at ELC as evidenced by the reduction in the operating loss for the year to £2.0m, some £2.6m lower than 1999. We remain on track to achieve profitability and a successful disposal of this Division.

People

A business is only as good as its staff, and we are no exception. We continually seek to develop the team and we have, for instance, recently introduced a leading logistics programme directed at the opportunities within our distribution businesses in partnership with Cranfield University School of Management.

I am hugely encouraged by the commitment of all employees at every level of the business, and again thank them for their hard work.

Outlook

We ended the financial year on a strong note with operating profits rising by 10%, a particularly robust cash flow reflecting positive control of working capital and a strong balance sheet.

We have achieved a great deal since we embarked on the restructuring of the Group. There is still much to be done, primarily in respect of integrating Ogden Ground Services and in the process transforming the existing businesses of MAG into a global force.

I think we have shown that the Group now has a self-challenging culture and that we understand the "make it happen" factor. These qualities are needed in exciting and challenging times. I look to the future with growing confidence, confirmed in my belief that our strategy is right and beginning to yield the expected promising results.



David Mackay
Chief Executive

Financial Review

Strong free cash flow positions us well to take advantage of investment opportunities



Martyn Smith, Group Finance Director

Introduction

The trading results of the Group are explained in the Chairman's Statement and Chief Executive's Review. This review gives further information on financial and accounting matters.

Segmental Results

The Aviation Services activity is now reported as a separate segment, reflecting the growing significance of this business to the Group.

The segmental analysis now also shows central costs and the net pension credit to more clearly explain our results.

Accounting Developments

The Accounting Standards Board ("ASB") has issued FRS 15 - *Tangible Fixed Assets* and FRS 16 - *Current Tax*, which are both effective for this year's accounts. However neither of these standards has a material effect on the Group's results.

In addition, the ASB has continued to issue a number of exposure drafts and discussion papers over the past year. In particular, FRED 20 - *Retirement Benefits* proposes significant changes that could impact future years' reported results.

Acquisitions

The Group's strategy of investing in its growing Aviation Services activity continued during the year.

On 4th June 1999 the UK air cargo handling operations of the BOC Group plc were acquired for £5.3m in cash. The Australian BOC air cargo handling operations were then acquired on 29th July 1999 for £2.2m, of which £1.0m was deferred until 4th June 2000. On 10th January 2000 the Aer Lingus air cargo terminal at Heathrow was acquired for £6.1m in cash.

As part of the strengthening of our relationship with Lufthansa, the Group increased its shareholding in the London Cargo Centre Ltd by 30% to 80% on 2nd May 2000, with GlobeGround, Lufthansa's ground handling subsidiary, retaining a 20% interest. From this date the business was accounted for as a subsidiary.

Exceptional items

Exceptional items yielded a gain before tax of £2.0m (1999: loss before tax of £15.2m). These items in particular reflect the Group's strategy of focusing on Distribution and Aviation Services activities.

Exceptional operating expenses are summarised as:

- a restructuring provision of £4.9m was made in respect of Menzies Wholesale's branch network in Central Scotland and London;
- a fixed asset diminution provision of £3.2m was made in respect of THE;
- £2.4m was provided to rationalise certain of Early Learning Centre's operations; and
- the Group's share of the redundancy costs incurred by the then joint venture operation, London Cargo Centre Ltd, amounted to £0.5m.

Non-operating exceptional items were as follows:

- a gain of £3.7m was realised on the sale of the freehold interest in Hanover Buildings, Edinburgh in September 1999;

- on 31st March 2000 the Group sold its 36% interest in SUOS for £43.6m in cash. The disposal yielded an exceptional gain of £7.0m, after writing off £24.8m of goodwill previously charged to reserves. The Group's share of the operating results of SUOS up to the date of disposal has been treated as discontinued;
- a gain of £2.0m was realised on the sale of the Group's interest in Funsoft; and
- as part of a strategic alignment in the UK a 20% interest in our air cargo operations was sold to GlobeGround on 2nd May 2000. The transaction yielded an exceptional gain of £0.3m, after writing off £1.7m of goodwill previously charged to reserves.

In total, £26.5m of historic goodwill has been written off through the profit and loss account on the above disposals but this has no impact on Group net assets as the amount had previously been charged to reserves.

Financial Review (continued)

Cash Flow

	2000	1999
£m	£m	£m
EBITDA (underlying)	49.4	44.3
Net current asset increase	(4.5)	(7.2)
Operating exceptionals	(11.0)	(14.9)
Non cash items	(0.1)	(4.1)
Operating cash flow	33.8	18.1
Purchase of fixed assets	(19.0)	(18.2)
Sale of fixed assets	7.6	0.6
Net capital expenditure	(11.4)	(17.6)
Interest and preference dividends paid less dividend from associate	(1.5)	(1.5)
Tax paid	(0.2)	(7.9)
Free cash flow	20.7	(8.9)
Dividends paid	(8.9)	(8.5)
Acquisitions	(16.6)	(7.1)
Disposals	48.0	70.2
Shares issued and share trusts	0.2	0.8
Total movement	43.4	46.5
Opening net cash/(debt)	0.6	(45.9)
Closing net cash	44.0	0.6

Operating cash flow was well ahead of 1999, driven by the underlying growth in operating profits together with a lower operating exceptional charge, much of which represented accelerated depreciation – a non cash item.

Stock reduced by £22.1m, the majority of which was through the managing down of Nintendo N64 stocks. Debtors increased by £22.3m, of which approximately half was in Menzies Wholesale and largely due to the effect of the 53rd week. The balance was due to stronger Easter sales at both THE and THE Games together with the non cash movement of the pension credit. Creditors reduced by £4.3m reflecting a distortion last year on the timing of a substantial Nintendo shipment, which was offset by an increase in creditors at Menzies Wholesale, again as a result of the 53rd week.

Gross capital expenditure of £19.0m included £5.3m of property investment, mainly freehold investments at Menzies Wholesale, and £12.9m invested in plant and equipment. The sale of the Group's freehold interest in

Hanover Buildings, Edinburgh generated gross proceeds of £7.5m.

Tax paid was only £0.2m, as a result of utilising Early Learning Centre's trading losses and the exceptional stock disposal programme at THE in 1999. Payments are expected to increase during the year to April 2001, but will still benefit from relief on the current year operating exceptional charges.

Acquisition expenditure, mainly in the Aviation Services segment, totalled £16.6m during the year.

The Group generated £48.0m from the sale of various investments and businesses, with the sale of the interest in SUOS representing £43.6m of this amount. The prior year comparative amount of £70.2m included £67.9m proceeds from the disposal of John Menzies Retail, which were received in May 1998.

Net cash of £44.0m at 6th May 2000 comprised gross cash of £80.9m and borrowings of £36.9m, of which £34.8m was at a fixed interest rate of 7.362% and is repayable from 2007 to 2009.

Interest

The net interest charge is analysed as follows:

	2000 £m	1999 £m
Bonds	(2.6)	(2.6)
Cash/overdrafts	0.6	0.9
Joint ventures and associates	(0.5)	(0.2)
Other	(0.1)	(0.3)
Net interest payable	(2.6)	(2.2)

Despite the Group commencing the financial year with £0.6m and ending with £44.0m net cash, net debt during the year averaged some £29m – around £13m higher than the previous year. This cash and debt profile is driven by the Group's seasonal working capital requirements, with last year benefiting from higher levels of purchases and, consequently, interest free supplier credit from Nintendo. This effect was mitigated by lower trade debtors.

Interest in joint ventures and associates was higher, largely on their acquisition and start-up activity. Due to timing there was no material benefit to the interest charge in the year arising from disposal proceeds.

Treasury Operations

Financial instrument risks faced by the Group are funding, interest rate and foreign exchange exposures. The Board has agreed policies for each of these risks, which are managed, on a day-to-day basis, by the Group Treasury function. The purpose of these policies is to ensure that adequate funds are available to the Group at all times and that risks arising from the Group's operating and investment activities are carefully managed. Transactions of a speculative nature are not permitted. Treasury activities are subject to periodic independent review by treasury consultants.

Operations are financed by a mixture of bank borrowings and long term loans. The Group borrows in a range of currencies, when appropriate, and at both fixed and floating rates of interest, using derivatives where appropriate, to generate the desired effective currency profile and interest rate basis.

The derivatives used for this purpose are principally interest rate swaps, interest rate caps, currency options and forward currency contracts.

Financial Review (continued)

For major deposits, the Group's policy is to use only relationship banks, all of which have good long term credit ratings.

Disclosure in respect of the above and in accordance with FRS 13 - *Derivatives and Other Financial Instruments*, is included in Note 18 to the Accounts.

Taxation

The tax rate on Headline profit reduced to 28.1% from 31.1% in 1999. The following table analyses this year's overall tax rate:

	%
Tax due at UK rate	30.0
Non tax-deductible items	0.9
Overseas rate effect	0.5
Prior year adjustments	(3.3)
Headline tax rate	28.1
Exceptional items	(13.7)
Overall tax rate	14.4

The overseas tax impact results from the higher Dutch tax rate on the Group's share of SUOS profits prior to disposal. The prior year adjustments relate mainly to property provisions.

The exceptional gains from disposals were non-taxable, being shielded by capital losses brought forward. A net credit of £4.0m arose on the exceptional charges as restructuring the Group's existing operations attracts full tax relief. Exceptional items therefore improved the tax rate by 13.7 percentage points.

Pensions

The results of the Group are sensitive to the results and financial position of its defined benefit pension scheme. The latest valuation update, prepared by the Group's independent actuarial consultants, was at 31st March 2000. The actuarial value of the assets represented 177% of the value of the benefits that had accrued to members, yielding a surplus of £79.8m, an increase of £17.2m over the 1999 valuation.

The effect of this surplus is to eliminate both the cash and accounting cost of pensions, which would otherwise be some £4m per year.

Year 2000

Our plans to manage any possible effects of the date change at the start of the calendar year were successfully implemented and no disruptions were experienced.



Martyn Smith
Group Finance Director

Corporate Information

Directors

The names of the directors at the date of this report, together with biographical details, are listed on pages 6 and 7. Mr M R Smith was appointed Group Finance Director on 5th July 1999 and Mr P S Smith was appointed a director on 3rd December 1999. Mr J D S Bennett retired as a director on 31st July 1999. All other directors held office throughout the year.

The directors who retire by rotation at the Annual General Meeting are Mr G B Reed, Mr W R E Thomson and Mr I M Callaghan who, being eligible, offer themselves for re-election. Mr P S Smith, having been appointed a director since the last Annual General Meeting, will retire and offer himself for election.

Of the directors proposed for election or re-election Mr I M Callaghan, and Mr M R Smith and Mr P S Smith have service contracts as set out on page 32. Mr Reed and Mr Thomson, as non-executive directors, do not have service contracts.

Transactions with directors

Except as detailed below none of the directors has a material interest in any contract, other than a service contract, with the Company or any subsidiary during the year:

- (i) Mr M J Walker, for fees of £70,000 paid to Maclay Murray & Spens, of which he is a partner.
- (ii) During the year, the Company purchased 50% of the share capital of Dolphin International Freight Services (UK) Ltd ("Dolphin"), specialists in logistics management providing services predominately from the Far East, for major UK retailers. Mr W R E Thomson, a non-executive director of John Menzies plc, is a director and the chairman of Dolphin, and has an interest in E G Thomson (Shipping) Ltd, which previously owned 52%, now 50%, of Dolphin.

The consideration payable in cash was £300,000 with a further potential consideration of £50,000. The Company also subscribed £412,000 of subordinated non-interest bearing loan notes at par in cash which matched the finance put in place by E G Thomson (Shipping) Ltd.

Substantial shareholdings

In addition to the directors' interests, the Company has been notified of the following interests of 3% or more in its issued ordinary share capital at 24th July 2000.

	Number of Shares	Percentage of Issued Capital
D C Thomson & Co Ltd	4,990,000	8.83
Mr J M Menzies	4,929,000	8.73
Mrs K P Slater	2,645,552	4.68
Mr D F Ramsay	2,639,878	4.67
Mrs S J Speke	2,449,920	4.34
Legal & General Investment Management Ltd	1,750,253	3.10

Corporate governance

The Board recognises the importance of high standards of corporate governance and supports the Principles of Good Governance contained in the Combined Code published in June 1998 ("the Code"). The majority of these principles have been part of the Company's normal practice for many years and have been documented by way of a Code of Practice. This code is regularly reviewed by the Board. Other than as disclosed, the Group has been in compliance throughout the year with the Code.

Board of Directors

The Board comprises six non-executive directors, including the Chairman, and four executive directors, providing a wide range of skills and experience. The roles of the Chairman, who is non-executive, and Chief Executive are separate and clearly defined, and the Board considers the majority of its non-executives to be independent. The Board has considered the appointment of a senior independent non-executive director but has decided not to do so as it does not believe that this would be helpful, either to the functioning of the Board or the Company's relationship with its shareholders.

The Board meets regularly to review financial performance and strategy and has a formal schedule of matters specifically reserved to it for decision. The main Board papers comprising an agenda and formal Board reports together with briefing papers on specific matters are sent to the directors in advance of each meeting. All members of the Board have access to the advice and services of the Company Secretary and may take independent professional advice as required at the expense of the Company.

Group Executive Committee

The Group Executive Committee is chaired by the Chief Executive and comprises the executive directors together with certain senior executives. It is responsible for the implementation of strategy and plays a central role in the planning, budgeting and co-ordination of the Group's operations.

Nominations Committee

The Board as a whole is responsible for the appointment of its own members, and for nominating them for election by shareholders on first appointment and thereafter for re-election at three yearly intervals. A Nominations Committee comprising a majority of non-executive directors under the chairmanship of Mr G B Reed is responsible for recommending new members to the Board for appointment.

Remuneration Committee

The Report on Directors' Remuneration on pages 31 to 35 details the constitution and role of the Remuneration Committee, and how the principles of the Code relating to directors' remuneration have been applied. The committee is chaired by Mr G B Reed.

Audit Committee

The Audit Committee has a formal written constitution and consists of four non-executive directors and is chaired by Mr W R E Thomson. The committee receives reports from management, and from the external auditors on the external audit, on a regular basis and reviews the financial controls of the Group and the scope of, and matters arising out of, the audit. It considers annually whether the Group should set up an internal audit function in addition to its use of external controls review specialists. It also keeps under review the nature and extent of non-audit services provided to the Group by the external auditors.

Communication

The Group has developed a comprehensive programme to ensure that communication with major shareholders, analysts and the financial press is maintained throughout the year. Through its annual and interim reports, results announcements, presentations to institutional shareholders and AGM statement the Group seeks to present its trading position and prospects in an objective and balanced manner. Information is also available through the Group's website at www.menziesgroup.com. Shareholders attending the Annual General Meeting are invited to ask questions and to meet the directors after the formal business of the meeting has concluded.

Corporate Information (continued)

Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Code introduced a requirement that the directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management.

Guidance for directors, *Internal Control: Guidance for Directors on the Combined Code* (the "Turnbull guidance") was published in September 1999. The Board has established procedures necessary to comply fully with the Turnbull guidance for the accounting period commenced on 7th May 2000. For the year ended 6th May 2000 the Board adopted the transitional approach provided by the London Stock Exchange and has continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance, *Internal Control and Financial Reporting*.

Internal financial control

The Group's system of internal financial control is designed to provide reasonable, but not absolute, assurance that:

- the financial information within the business is reliable;
- proper accounting records are maintained; and
- assets are safeguarded against unauthorised use or disposition.

The key elements are:

Control environment

The Code of Practice outlines the role and responsibilities of the Board. A Statement of Group Policies sets out the responsibilities of divisional management. It includes authority levels, financial reporting disciplines and responsibility for internal financial control.

Risk identification

Risk assessment is carried out at business unit level with each division reviewing its major exposures and the controls in place to address these.

Planning

Each year, the Group reviews the strategy and the medium and long term funding requirements of each of its businesses.

Financial reporting

There is a comprehensive Group-wide system of financial reporting. Each division prepares an annual budget which is approved by the Board. Thereafter a formal re-forecasting exercise is undertaken twice during the year. Actual monthly results are monitored against budget, forecasts and the previous year's results. Significant variances are investigated and acted upon as appropriate.

Investment appraisal

There are clearly defined investment guidelines for capital expenditure. All such expenditure is subject to formal authorisation procedures, with major proposals being considered by the Board. Post investment appraisals are conducted for all major capital projects.

Monitoring

The Group monitors its internal financial control system through regular management reviews involving senior Group and divisional management. In addition, compliance statements on internal financial control are completed by the management of each division.

Report

An internal report on the internal financial control system within the Group, together with a report from the external auditors, is considered by the Audit Committee prior to the approval of the Annual Report.

The directors confirm that they have reviewed the effectiveness of the Group's system of internal financial control.

Going concern

On the basis of current financial projections and facilities available, the directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing the accounts.

Employees

The Group recognises that its success depends on the quality and performance of its employees. The principles of equal opportunities are recognised in the formulation and development of employment policies which are designed to attract, retain and motivate quality staff.

Employees are encouraged to become involved in the financial performance of the Group. Over 4,500 current and past employees are shareholders in the Company through membership of the Company's share participation scheme. In addition the Group operates a savings-related share option scheme in which over 2,000 employees are members.

Internal communications are designed to ensure that employees throughout the Group are kept informed of developments and plans, both in their own division and in the Group as a whole. The Group magazine 'The Reporter' is issued on a regular basis and the interim and final results are publicised extensively throughout the business.

Training programmes have been introduced throughout the Group which provide for the continuous improvement of employee performance through personal development.

Supplier payment policy

The Group does not operate a standard code in respect of payments to suppliers. Each operating business is responsible for agreeing the terms and conditions under which business transactions with its suppliers are conducted, including the terms of payment. It is Group policy that payments to suppliers be made in accordance with the agreed terms, provided that the supplier has performed in accordance with all relevant terms and conditions.

At the balance sheet date £132.6m (1999: £139.9m) was due by the Group to trade creditors, which represented 44 days credit (1999: 46 days). The Company does not have any significant trade creditors enabling it to produce creditor information for this purpose.

Donations

The Group made no political donations during the year. Donations to various charitable, community and arts organisations totalling £120,000 were made during the year, and Early Learning Centre supported the NSPCC by the donation of £73,000 raised through product sales and in-store collections.

Corporate Information (continued)

Annual General Meeting

A separate document has been sent to all shareholders containing the Notice of Meeting and explaining the Special Business to be transacted at the Annual General Meeting on 8th September 2000. This includes the adoption of a new Memorandum and Articles of Association which includes increased borrowing powers, and the adoption of new employee share schemes.

Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office and resolutions proposing their re-appointment and authorising the Board to set their remuneration will be submitted at the Annual General Meeting.

By order of the Board

A handwritten signature in blue ink, appearing to read 'C A Anderson', with a long horizontal flourish extending to the right.

C A Anderson
Secretary
24th July 2000

Report on Directors' Remuneration

Remuneration Committee

The Remuneration Committee deals with the remuneration of the executive directors on behalf of the Board and shareholders. It has a formal written constitution and comprises six non-executive directors under the chairmanship of Mr G B Reed. In addition, the Chief Executive, together with the Director of Group Personnel who is not a member of the Board, attend meetings as appropriate. The Company Secretary is secretary of the committee.

Members of the Remuneration Committee have no personal financial interest other than as shareholders in the matters to be decided and no day-to-day involvement in the running of the business of the Group.

In considering and determining suitable remuneration packages for the executive directors the Remuneration Committee has given full consideration to the best practice provisions on directors' remuneration appended to the Listing Rules.

Remuneration policy

The Group recognises that its continuing success depends on the quality and motivation of its employees. The policies followed by the Group aim to ensure that its remuneration practices are competitive, thereby enabling it to attract, retain and motivate executives who are expected to perform at the highest levels. These practices are reviewed each year to ensure that they support the Group's business objectives and the creation of shareholder value. The Remuneration Committee follows these principles with regard to the executive directors, and also reviews the principles underlying the remuneration of senior executives.

The main components of the Group's remuneration packages for executive directors are:

Basic salary and benefits

In setting the basic salary for the executive directors, the Remuneration Committee takes account of the rates of salary being paid by companies of similar size, complexity and diversity, and independent advice is taken as required. The principal benefits-in-kind are the provision of a car, fuel, private medical and health insurance. In addition, the executive directors participated in the Group's Profit Related Pay Schemes which were approved by the Inland Revenue and open to most employees.

Performance related bonuses

The executive directors participate in a bonus scheme which is linked to the achievement of performance targets set by the Remuneration Committee at the start of each financial year. The maximum potential payment under the scheme is limited to 50% of basic salary for the Chief Executive and to 40% for other directors.

Share options

The Group believes that share ownership by executives strengthens the link between their personal interests and those of shareholders. Under the John Menzies Executive Share Option Scheme options have been granted to executive directors on a regular basis at a level determined by the Remuneration Committee. The options are normally exercisable over a period of three to ten years from the date of grant.

As the current executive share option scheme is due to expire this year, shareholders are being asked to approve the adoption of a replacement scheme at this year's Annual General Meeting. The scheme will incorporate one or more performance targets which must be satisfied before options can be exercised. These targets allow the Group to provide competitive remuneration packages and at the same time meet shareholder requirements. The total of issued shares which can be used in this scheme, together with all the Company's other share schemes, over a ten year period, must not exceed 10% of the issued share capital. Full details of the scheme are set out in the Chairman's letter to shareholders which accompanies the Notice of the Annual General Meeting.

In addition, the Group operates a savings-related share option scheme which all UK employees, including executive directors, are entitled to join.

Report on Directors' Remuneration (continued)

Share Participation Scheme

The executive directors are included in the John Menzies Share Participation Scheme which is open to all employees of the Group who satisfy the relevant eligibility criteria on length of service. The scheme permits a portion of the Group's annual profit to be used for the acquisition of ordinary shares in the Company. These are held in trust and apportioned equitably among participating employees based on their grade and qualifying salary.

There were no appropriations made to directors in the year to 6th May 2000.

Service contracts

Each of the executive directors has a service contract with the Company. In May 1996 all directors' service contracts were changed to provide for two instead of three years' notice. This change included a transitional provision which provided for a payment, to be made to the directors whose contracts were affected, of two years' salary and benefits on any termination of their contract by the Company before May 2001. This transitional provision applied to Mr D J Mackay, Mr J D S Bennett and Mr D J Jenkinson. Mr J D S Bennett retired on 31st July 1999.

Mr I M Callaghan has a service contract which is terminable by the Company on two years' notice.

Mr M R Smith who joined the Group on 5th July 1999 and Mr P S Smith who was appointed to the Board on 3rd December 1999 have entered into service contracts which are terminable by the Company on two years' notice if terminated within twelve months from their date of appointment, reducing thereafter to one year's notice.

The Remuneration Committee considers that the notice periods stated above are reasonable, and in the interests of both shareholders and the Group, having regard to prevailing market conditions and practice among companies of comparable size.

Mr D J Jenkinson, who relinquished his executive responsibilities on 30th April 1999, has continued as a non-executive director with additional roles for which a consultancy fee of £89,232 was paid during the year and £21,835 is payable in 2000/01.

Non-executive directors

The remuneration of the Chairman and the non-executive directors is determined by the Board on an annual basis, within the limits contained in the Articles of Association, and takes account of market rates based on independent advice as required. They do not have service contracts nor do they participate in any of the Group's bonus or share schemes.

Pensions

Scheme benefits

The executive directors are members of the Menzies Pension Fund, a contributory scheme which provides pension on retirement at age 60 of up to two-thirds of pensionable earnings. Pensionable earnings are based on salary excluding bonuses.

Unfunded arrangement

The pensionable salaries for Mr M R Smith and Mr P S Smith are restricted as a consequence of the Finance Act 1989 and each has an unfunded pension promise to provide in total the same level of pension as applicable to the other executive directors. This entitlement is effective from their date of appointment as a director.

Pension details are as follows:

Director	Age	Members' contributions £'000	Increase in accrued pension during year		Total accrued pension entitlement at 6th May 2000		Total £'000
			Scheme £'000	Unfunded £'000	Scheme £'000	Unfunded £'000	
D J Mackay	57	13	22	Nil	155	Nil	155
I M Callaghan	53	10	18	Nil	102	Nil	102
M R Smith	45	7	3	2	3	2	5
P S Smith	56	6	3	1	14	1	15

Note:

Mr J D S Bennett resigned from the Board on 31st July 1999. At that date his pension entitlement was £145,000 and this amount was disclosed in the 1999 accounts. Accordingly there is no change to be disclosed for the current year.

The following additional information relates to the directors' pensions:

- Normal retirement age - The normal retirement age is 60, although members may retire after the age of 50 with reduced benefits.
- Spouses and dependants' benefits - The member's pension is guaranteed for ten years from date of retiral. Thereafter, the dependant's pension is two-thirds of the member's pension before any reduction in lieu of a cash sum.
- Pension increases after retirement - Pensions in payment are increased in line with the movements in the Retail Price Index subject to a minimum of 3% per annum and a maximum of 8.5% per annum.
- Inflation - The increase in accrued pension excludes any increase for inflation.

Report on Directors' Remuneration (continued)

Directors' emoluments

	Salary/fees £'000	Bonus £'000	Benefits £'000	Total 2000 £'000	Total 1999 £'000
G B Reed	93	–	–	93	90
D J Mackay	268	54	16	338	277
D J Jenkinson	110	–	23	133	190
W R E Thomson	36	–	–	36	28
I C L Harrison	21	–	–	21	20
C A Ramsay	21	–	–	21	20
M J Walker	21	–	–	21	20
I M Callaghan	208	42	13	263	199
M R Smith	143	34	10	187	–
P S Smith	65	57	4	126	–
J D S Bennett (1)	43	–	5	48	234
F R Noel-Paton (2)	–	–	–	–	201
				1,287	1,279

(1) Mr J D S Bennett retired from the Board on 31st July 1999.

(2) The Hon F R Noel-Paton retired from the Board on 7th November 1998.

Share options

Share options held by the Directors as at 6th May 2000 were as follows:

Name	At 1st May 1999	Granted during year	Lapsed during the year	At 6th May 2000	Exercise price (p)	Date exercisable from	Expiry date
D J Mackay	25,000	–	–	25,000	501	27/2/98	26/2/05
	25,000	–	–	25,000	520	1/3/99	28/2/06
	30,000	–	–	30,000	461	21/2/00	20/2/07
	123,000	–	–	123,000	492	7/4/01	6/4/08
	2,310*	–	2,310*	–	422	1/12/01	1/5/02
	–	3,186*	–	3,186*	304	1/10/02	1/4/03
	–	18,549	–	18,549	391	28/1/03	27/1/10
M R Smith	–	84,224	–	84,224	407	5/10/02	4/10/09
	–	2,549*	–	2,549*	304	1/10/02	1/4/03
	–	25,000	–	25,000	391	28/1/03	27/1/10
I M Callaghan	15,000	–	–	15,000	653	25/2/97	24/2/04
	10,000	–	–	10,000	501	27/2/98	26/2/05
	10,000	–	–	10,000	520	1/3/99	28/2/06
	25,000	–	–	25,000	461	21/2/00	20/2/07
	70,300	–	–	70,300	492	7/4/01	6/4/08
	2,310*	–	2,310*	–	422	1/12/01	1/5/02
	–	3,186*	–	3,186*	304	1/10/02	1/4/03
–	25,000	–	25,000	391	28/1/03	27/1/10	
P S Smith	10,000	–	–	10,000	596	16/10/98	15/10/05
	5,000	–	–	5,000	520	1/3/99	28/2/06
	5,000	–	–	5,000	461	21/2/00	20/2/07
	5,000	–	–	5,000	404	10/10/00	9/10/07
	15,000	–	–	15,000	492	7/4/01	6/4/08
	10,000	–	–	10,000	348	18/2/02	17/2/09
	2,310*	–	2,310*	–	422	1/12/01	1/5/02
	–	3,186*	–	3,186*	304	1/10/02	1/4/03
–	25,000	–	25,000	391	28/1/03	27/1/10	
D J Jenkinson	25,000	–	25,000	–	501	27/2/98	30/4/00
	25,000	–	25,000	–	520	1/3/99	30/4/00
	25,000	–	–	25,000	461	30/4/99	28/8/00
	59,000	–	–	59,000	492	30/4/99	7/10/01

Note:

(a) All the above options were issued under the executive share option scheme with the exception of those items marked* which have been issued under the Group's savings related share option scheme.

(b) The market price for shares in John Menzies plc ranged from 417.5p to 321.5p during the year, and was 349p at 6th May 2000.

(c) No options were exercised during the year.

Directors' Interests

The interests, all ordinary shares, of the directors in the share capital of the Company at 6th May 2000 and 1st May 1999 or at the date of appointment were as follows:

		2000	1999
G B Reed	Beneficial	8,650	8,650
D J Mackay	Beneficial	14,728	14,728
D J Jenkinson	Beneficial	3,013,706	3,013,706
		2,640,539*	2,640,539*
	Non-beneficial	5,508,360	5,508,360
W R E Thomson	Beneficial	2,000	2,000
I C L Harrison	Beneficial	2,786,832	2,786,832
		2,640,539*	2,640,539*
	Non-beneficial	82,350	100,350
C A Ramsay	Beneficial	1,991,867	2,026,151
	Non-beneficial	514,303	514,303
M J Walker	Beneficial	1,000	1,000
I M Callaghan	Beneficial	6,884	6,884
M R Smith	Beneficial	3,000	–
P S Smith	Beneficial	315	315
J D S Bennett #	Beneficial	–	13,182

* Joint beneficial interests.

Mr J D S Bennett retired from the Board on 31st July 1999.

There have been no subsequent changes to these interests as at 24th July 2000.

Directors' Responsibilities

in respect of the preparation of accounts

The directors are required by law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and cash flows of the Group for the financial year then ended.

In preparing the accounts the directors are required to:

- Maintain adequate accounting records;
- Apply suitable accounting policies in a consistent manner and make reasonable and prudent judgements and estimates where necessary;
- Comply with the provisions of the Companies Act 1985 and all applicable accounting standards; and
- Prepare the accounts on a going concern basis.

The directors confirm that these accounts comply with these requirements. The directors are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention of fraud and other irregularities.

Report of the Auditors

to the Members of John Menzies plc

We have audited the Financial Statements on pages 38 to 57.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 36, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and 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 United Kingdom 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 or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 27 to 29 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

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 affairs of the Company and the Group at 6th May 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Edinburgh

24th July 2000

Group Profit and Loss Account

for the 53 weeks ended 6th May 2000 (1999: 52 weeks ended 1st May)

	Notes	Before exceptional items 2000 £m	Exceptional items (Note 5) 2000 £m	Total 2000 £m	Before exceptional items 1999 £m	Exceptional items (Note 5) 1999 £m	Total 1999 £m
Turnover							
(including share of joint ventures and associates)							
Continuing operations	2	1,316.5	–	1,316.5	1,282.4	–	1,282.4
Discontinued operations	2	79.3	–	79.3	80.4	–	80.4
		1,395.8	–	1,395.8	1,362.8	–	1,362.8
Less: share of joint ventures	2	(7.0)	–	(7.0)	(5.2)	–	(5.2)
Less: share of associates	2	(90.7)	–	(90.7)	(78.3)	–	(78.3)
Group turnover		1,298.1	–	1,298.1	1,279.3	–	1,279.3
Net operating costs	3	1,270.4	10.5	1,280.9	1,253.8	14.9	1,268.7
Group operating profit							
Continuing operations	2	27.7	(10.5)	17.2	25.5	(14.9)	10.6
Share of operating profit/(loss) in							
Joint ventures	2	0.9	(0.5)	0.4	0.2	–	0.2
Continuing associates	2	(0.2)	–	(0.2)	–	–	–
Discontinued associate	2	5.5	–	5.5	5.1	–	5.1
Total operating profit		33.9	(11.0)	22.9	30.8	(14.9)	15.9
Exceptional items							
Gain on disposal of fixed assets	5	–	12.7	12.7	–	–	–
Gain on disposal of businesses	5	–	0.3	0.3	–	0.4	0.4
Profit/(loss) on ordinary activities before interest		33.9	2.0	35.9	30.8	(14.5)	16.3
Net interest payable	7	2.6	–	2.6	2.2	0.7	2.9
Profit/(loss) on ordinary activities before taxation		31.3	2.0	33.3	28.6	(15.2)	13.4
Taxation	8	8.8	(4.0)	4.8	8.9	(5.0)	3.9
Profit/(loss) for the financial year		22.5	6.0	28.5	19.7	(10.2)	9.5
Dividends (including non-equity)	9	11.4	–	11.4	10.6	–	10.6
Retained profit/(loss) for the financial year		11.1	6.0	17.1	9.1	(10.2)	(1.1)
Earnings per ordinary share							
Headline	10	37.2p			32.3p		
FRS 3	10			48.0p			13.9p
Diluted	10	37.2p		48.0p	32.2p		13.9p

Statement of Total Recognised Gains and Losses

for the 53 weeks ended 6th May 2000 (1999: 52 weeks ended 1st May)

	2000 £m	1999 £m
Profit for the financial year	28.5	9.5
Movement on currency reserve in respect of discontinued associate	–	1.3
Total recognised gains	28.5	10.8

Group and Company Balance Sheets

as at 6th May 2000 (1999: 1st May)

	Notes	Group		Company	
		2000 £m	1999 £m	2000 £m	1999 £m
Fixed assets					
Intangible assets	11	9.2	3.8	–	–
Tangible assets	12	100.6	79.2	5.8	8.5
Investments	15				
– joint ventures		0.4	5.0	–	–
– associates		1.0	11.2	–	–
– other		–	0.1	51.3	51.4
		1.4	16.3	51.3	51.4
		111.2	99.3	57.1	59.9
Current assets					
Stocks		58.1	80.2	–	–
Debtors – amounts due within one year	16	107.3	82.3	73.0	40.3
– amounts due after more than one year	16	40.3	35.2	42.6	63.5
Cash at bank and in hand	18	80.9	52.4	1.2	1.2
		286.6	250.1	116.8	105.0
Creditors: amounts falling due within one year					
Bank loans and overdrafts	18	1.1	14.6	–	–
Other	17	198.6	193.0	80.1	72.9
Net current assets		86.9	42.5	36.7	32.1
Total assets less current liabilities		198.1	141.8	93.8	92.0
Creditors: amounts falling due after more than one year					
Loans and other borrowings	18	35.1	35.4	34.8	34.8
Other	17	5.9	1.8	–	–
Provision for liabilities and charges					
Deferred taxation	19	11.2	10.9	–	–
Other	19	9.7	5.7	–	–
Net assets		136.2	88.0	59.0	57.2
Capital and reserves					
Called up share capital	20	14.1	14.1	14.1	14.1
Share premium account	20	3.8	3.5	3.8	3.5
Reserves					
Profit and loss account	21	89.7	45.0	18.1	15.5
Revaluation reserve	21	–	1.1	–	1.1
Other reserves	21	1.4	2.9	1.6	1.6
Equity shareholders' funds		109.0	66.6	37.6	35.8
Non-equity share capital	20	21.4	21.4	21.4	21.4
Shareholders' funds		130.4	88.0	59.0	57.2
Minority interests		5.8	–	–	–
		136.2	88.0	59.0	57.2

The accounts were approved by the Board of Directors on 24th July 2000 and signed on its behalf by:
David Mackay, Chief Executive
Martyn Smith, Group Finance Director

Group Cash Flow Statement

for the 53 weeks ended 6th May 2000 (1999: 52 weeks ended 1st May)

	Notes	2000 £m	1999 £m
Net cash inflow from operating activities	23a	33.8	18.1
Dividend from associate		3.0	2.2
Returns on investments and servicing of finance			
Interest received		1.9	1.4
Interest paid		(4.6)	(3.3)
Preference dividend paid		(1.8)	(1.8)
Net cash outflow from returns on investments and servicing of finance		(4.5)	(3.7)
Tax paid		(0.2)	(7.9)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(19.0)	(18.2)
Sale of tangible fixed assets		7.6	0.6
Employee share ownership (advances)/realisations		(0.1)	0.3
Net cash outflow from capital expenditure and financial investment		(11.5)	(17.3)
Acquisitions and disposals			
Investment in joint ventures and associates		(5.7)	(5.5)
Disposal of associate		43.6	–
Disposal of investment		2.2	–
Purchase of subsidiaries		(12.9)	(1.7)
Net cash acquired with subsidiaries		2.0	0.1
Disposal of subsidiaries		2.2	70.2
Net cash inflow from acquisitions and disposals		31.4	63.1
Equity dividends paid		(8.9)	(8.5)
Management of liquid resources			
Increase in short term deposits		(20.1)	–
Net cash outflow from management of liquid resources		(20.1)	–
Net cash inflow before financing		23.0	46.0
Financing			
Proceeds from share issues		0.3	0.5
Finance leases		(0.7)	(0.9)
Unsecured loans advanced/(repaid)		0.8	(30.0)
Loan stock redeemed		(0.7)	–
Loan capital raised		–	0.2
Net cash outflow from financing		(0.3)	(30.2)
Increase in cash in the year	23c	22.7	15.8

Notes on Accounts

1 Accounting policies

Accounting periods

These accounts cover the 53 weeks to 6th May 2000 (1999: 52 weeks to 1st May).

Accounting convention and presentation

The accounts have been prepared under the historical cost convention adjusted for revaluations of certain fixed assets and in accordance with accounting standards applicable in the UK. There were no material differences between reported profits and historical profits on ordinary activities of the Group before and after taxation. In accordance with Section 230 of the Companies Act 1985 no profit and loss account is presented for the Company. A summary of the more important accounting policies, which have been consistently applied, is given below.

Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and its subsidiaries, joint ventures and associates from the effective date of acquisition or to the date of deemed disposal.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, including acquisition expenses, less accumulated depreciation. Depreciation is provided on a straight line basis at the following rates:

Freehold and long leasehold properties	–	over 50 years.
Short leasehold properties	–	over the remaining lease term.
Fixtures, fittings and equipment	–	over 4 to 17 years according to the estimated life of the asset.

Stocks

Stocks, being goods for resale, are stated at the lower of cost and net realisable value.

Pensions

The Group's pension scheme provides defined benefits based on the employee's years of service and final pensionable salary. The cost of pensions is charged to the profit and loss account over the period of the employee's service. Any variations to pension costs, caused by differences between the original assumptions used and actual experience at each actuarial valuation date, are spread over the average remaining service lives of current employees.

Deferred taxation

Provision is made for deferred taxation where such taxation is expected to crystallise in the foreseeable future.

Goodwill

Goodwill, representing the excess of purchase consideration over the fair value of net assets acquired, is capitalised and amortised over its useful life. Goodwill arising on acquisitions prior to April 1998 (Note 21) has been set off directly against reserves and not been reinstated, in line with the provisions of FRS 10.

Foreign currencies

Profit and loss accounts of overseas subsidiaries and associates are translated into sterling at average exchange rates. Balance sheets are translated at exchange rates ruling at the year end date.

Exchange differences arising on consolidation and on long term funding of subsidiaries are dealt with through reserves. Foreign currency contracts are accounted for as hedges, the impact on profit being deferred until the underlying transaction is recognised in the profit and loss account.

All other exchange differences are dealt with through the profit and loss account.

Leases

Assets acquired under finance leases are capitalised in the balance sheet and are depreciated over their useful lives or over the lease term, whichever is shorter. The interest element of the rental obligations is charged to the profit and loss account as incurred.

Rental payments under operating leases are charged to the profit and loss account on a straight line basis over applicable lease periods.

2 Segmental analysis

	Turnover		Profit/(Loss)		Net Assets	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Distribution	1,081.4	1,086.9	30.7	31.5	22.8	20.4
Aviation Services	76.8	49.2	1.8	1.7	40.3	17.5
Logistics Support Services	1,158.2	1,136.1	32.5	33.2	63.1	37.9
Retail	158.3	146.3	(2.0)	(4.6)	26.9	32.4
	1,316.5	1,282.4	30.5	28.6	90.0	70.3
Central costs	–	–	(7.1)	(6.9)	–	–
Pension credit/prepayment	–	–	5.0	4.0	36.7	31.7
Continuing operations	1,316.5	1,282.4	28.4	25.7	126.7	102.0
Discontinued operations	79.3	80.4	5.5	5.1	–	11.3
	1,395.8	1,362.8	33.9	30.8	126.7	113.3
Reconciliation of net assets:						
Unallocated assets/(liabilities)					9.5	(25.3)
Net assets					136.2	88.0

Turnover in the above includes Group share of the joint ventures and associates turnover of which £9.2m is included within Distribution, £9.2m is included within Aviation Services and £79.3m is included within discontinued operations – (1999: £nil, £6.8m and £76.7m respectively). Overseas turnover of subsidiaries was not significant.

The Aviation Services activity is now separately reported as a business segment reflecting its growing significance to the Group.

Discontinued operations include SUOS BV (1999: Smythson of Bond Street).

Turnover is analysed by origin. Turnover analysed by destination is not significantly different.

There were no material acquisitions in either year.

3 Net operating costs

	Continuing £m	Discontinued £m	2000 £m	Continuing £m	Discontinued £m	1999 £m
Goods for resale and consumables	1,112.6	–	1,112.6	1,114.8	2.2	1,117.0
Other operating charges	38.0	–	38.0	29.3	0.5	29.8
Employment costs (Note 4)	104.3	–	104.3	92.7	0.8	93.5
Goodwill amortisation (Note 11)	0.4	–	0.4	–	–	–
Depreciation (Note 12)	15.1	–	15.1	13.3	0.2	13.5
Exceptional items (Note 5)	10.5	–	10.5	14.9	–	14.9
	1,280.9	–	1,280.9	1,265.0	3.7	1,268.7
Other operating charges include:						
Hire charges – plant and machinery	3.6	–	3.6	3.3	–	3.3
Remuneration of auditors (parent company £10,000, 1999: £10,000)	0.4	–	0.4	0.3	–	0.3
Rent of properties	28.4	–	28.4	24.3	0.4	24.7

The auditors also received £0.4m (1999: £0.4m) in respect of non-audit services during the year.

4 Employees

	2000 £m	1999 £m
Wages and salaries	101.3	90.3
Social security costs	8.0	7.2
	109.3	97.5
Pension credit	(5.0)	(4.0)
	104.3	93.5

The average number of employees during the year was:

	2000 number	1999 number
Distribution	4,861	4,959
Aviation Services	988	456
Retail	1,831	1,868
	7,680	7,283

Pension credit

The credit to the profit and loss account for pensions was assessed in accordance with independent actuarial advice using the projected unit method. The credit is analysed as follows:

	2000 £m	1999 £m
Regular pension cost	4.0	3.6
Interest on balance sheet prepayment	(2.2)	(2.2)
Amortisation of, and interest on, additional surplus	(6.8)	(5.4)
	(5.0)	(4.0)

Aon Consulting, the Group's independent actuarial consultants, have prepared a valuation update as at 31st March 2000 when the market value of the scheme assets was £183.0m, an increase of £28.1m in the period. The actuarial value of the assets represented 177% (1999: 174%) of the value of the benefits that had accrued to members, yielding a surplus of £79.8m (1999: £62.6m).

Interest on the balance sheet prepayment is calculated using a market related rate of investment return of 7%. The additional surplus over the balance sheet prepayment, which also earns interest at this rate, is amortised on a straight line basis over the remaining service lives of the current members. The assumptions used reflect the economic conditions prevailing at the valuation date. The use of market related assumptions could, in the future, result in increased volatility in accounting for pension costs. The principal long term assumptions used in the actuarial valuations to determine the valuation results were:

	%
Rate of return on investments	7.0
Rate of increase in salaries	3.5
Rate of increase in pensions	3.25

In view of the substantial surplus no employer contributions were payable in 2000 and 1999.

5 Exceptional items

	Notes	2000 £m	1999 £m
Exceptional operating expenses			
Distribution restructuring	a	(4.9)	–
Distribution impairment	b	(3.2)	–
Retail restructuring	c	(2.4)	–
Aviation Services restructuring within joint venture	d	(0.5)	–
Distribution stock disposal	e	–	(14.9)
Interest hedge exit cost	f	–	(0.7)
Total		(11.0)	(15.6)
Non-operating exceptional items			
Net profit on disposal of fixed assets	g	12.7	–
Net profit on disposal of businesses	h	0.3	0.4
Total		13.0	0.4
Total exceptional items		2.0	(15.2)

a Cost of restructuring Menzies Wholesale's distribution operations in Central Scotland and London, primarily relating to asset write downs, property costs and related staff costs.

b Fixed asset diminution in respect of THE.

c Cost of restructuring certain of Early Learning Centre's operations.

d The Group's share of the restructuring costs, mainly redundancies, incurred by the London Cargo Centre Ltd.

e Cost of surplus stock disposal programme at THE in 1999.

f Cost of exiting from onerous interest rate swap agreements in 1999.

g Gain of £3.7m arising on the sale of the freehold interest in Hanover Buildings, Edinburgh on 15th September 1999.

On 31st March 2000 the Group sold its 36% interest in SUOS BV for a gain of £7.0m, after writing off goodwill of £24.8m previously charged to reserves.

On 31st January 2000 the Group sold its 37% interest in Funsoft Holding GmbH for a gain of £2.0m.

h On 2nd May 2000 the Group sold a 20% interest in its UK air cargo subsidiaries to GlobeGround GmbH. The transaction resulted in a gain of £0.3m after writing off goodwill of £1.7m previously charged to reserves.

On 30th November 1998 Smythson of Bond Street was sold for a gain of £0.4m.

6 Directors

A detailed analysis of directors' remuneration, together with shareholdings and options, is provided in the Report of the Remuneration Committee on pages 31 to 35.

7 Interest

	2000 £m	1999 £m
Payable:		
Bank loans and overdrafts	3.9	3.1
Unsecured loan stock	–	0.1
Finance leases	0.1	0.2
Joint ventures and associates	0.5	0.2
Exceptional operating expense (Note 5)	–	0.7
	4.5	4.3
Receivable	(1.9)	(1.4)
Net interest payable	2.6	2.9

8 Taxation

	2000 £m	1999 £m
UK corporation tax at 30% (1999: 31%)	4.5	(0.6)
Deferred tax – current year (credit)/charge	(0.3)	2.9
Adjustments to prior year liabilities		
– corporation tax	(1.5)	–
– deferred tax	0.4	–
Joint ventures and associates	1.7	1.6
	4.8	3.9

The tax charge includes a credit of £4.0m (1999: £5.0m) in respect of exceptional items.

9 Dividends

	2000 £m	1999 £m
Dividends on equity shares		
Ordinary		
– interim paid 5.0p (1999: 4.8p) per share	2.8	2.6
– final proposed 12.1p (1999: 11.0p) per share	6.8	6.2
Dividends on non-equity shares		
Preference shares	1.8	1.8
	11.4	10.6

Dividends of £0.1m (1999: £0.1m) were waived by Trusts (Note 16) during the year.

10 Earnings per share

	Headline		Post Exceptional Items	
	2000 £m	1999 £m	2000 £m	1999 £m
Operating profit	33.9	30.8	33.9	30.8
Exceptional items	–	–	2.0	(15.2)
Interest (excluding exceptional item)	(2.6)	(2.2)	(2.6)	(2.2)
Profit before taxation	31.3	28.6	33.3	13.4
Taxation	(8.8)	(8.9)	(4.8)	(3.9)
Preference dividend	(1.8)	(1.8)	(1.8)	(1.8)
Earnings for the year	20.7	17.9	26.7	7.7
Earnings per ordinary share (pence)	37.2	32.3	48.0	13.9
Diluted earnings per ordinary share (pence)	37.2	32.2	48.0	13.9
Number of ordinary shares in issue (millions)				
Weighted average	55.625	55.464		
Diluted weighted average	55.645	55.541		

Headline earnings is defined as the profit on ordinary activities before exceptional items and after taxation, minority interest and dividends in respect of non-equity shares.

The weighted average number of fully paid shares in issue during the year excludes those held by the employee share trusts (Note 16). The diluted weighted average is calculated by adjusting for all outstanding share options, which are dilutive potential ordinary shares.

11 Intangible assets – goodwill

	2000 £m	1999 £m
Cost		
At beginning of year	3.8	–
Acquisitions (Note 24)	2.2	–
Additions (Note 24)	4.2	3.8
Disposals	(0.6)	–
At end of year	9.6	3.8
Amortisation		
At beginning of year	–	–
Charge for the year	0.4	–
At end of year	0.4	–
Net book value		
At end of year	9.2	3.8
At beginning of year	3.8	–

12 Fixed assets – tangible assets

	Group					Company			
	Free- hold £m	Long lease- hold £m	Short lease- hold £m	Fixtures and fittings £m	Total £m	Free- hold £m	Long lease- hold £m	Short lease- hold £m	Total £m
Cost or valuation									
at 1st May 1999	26.0	0.4	12.0	108.5	146.9	9.3	0.4	0.2	9.9
Exchange differences	–	–	–	(0.2)	(0.2)	–	–	–	–
Acquisitions	–	13.9	5.1	8.7	27.7	–	–	–	–
Additions	4.9	–	0.4	12.9	18.2	–	–	–	–
Transfers	(0.2)	(0.3)	–	0.5	–	–	(0.3)	0.3	–
Disposals	(3.2)	–	(0.5)	(13.3)	(17.0)	(3.0)	–	(0.1)	(3.1)
at 6th May 2000	27.5	14.0	17.0	117.1	175.6	6.3	0.1	0.4	6.8
Depreciation									
at 1st May 1999	2.0	0.1	5.9	59.7	67.7	1.1	0.1	0.2	1.4
Charge for the year	0.4	–	1.0	13.7	15.1	0.1	–	–	0.1
Exceptional operating expense	–	–	0.3	5.0	5.3	–	–	–	–
Transfers	–	–	–	–	–	–	(0.1)	0.1	–
Disposals	(0.4)	–	(0.5)	(12.2)	(13.1)	(0.4)	–	(0.1)	(0.5)
at 6th May 2000	2.0	0.1	6.7	66.2	75.0	0.8	–	0.2	1.0
Net book value									
at 6th May 2000	25.5	13.9	10.3	50.9	100.6	5.5	0.1	0.2	5.8
at 1st May 1999	24.0	0.3	6.1	48.8	79.2	8.2	0.3	–	8.5

The historical cost of property assets, which were revalued on an open market basis in 1979 was £Nil (1999: £1.7m) and accumulated depreciation based thereon would have amounted to £Nil (1999: £0.2m).

At 6th May 2000 the net book value of fixed assets acquired under finance leases amounted to £0.7m (1999: £1.1m). The depreciation charge for the year was £0.9m (1999: £1.3m).

13 Operating lease commitments

	Group		Company	
	Property £m	Other £m	Property £m	Other £m
Annual commitments in respect of leases which expire:				
within one year	0.8	0.5	–	–
between one and five years	2.7	0.6	–	–
after five years	24.3	–	–	–
	27.8	1.1	–	–

14 Capital commitments

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Contracted but not provided	5.1	9.4	–	–

15 Fixed assets – investments

	Group					Company		
	Joint ventures £m	Continuing associates £m	Discontinued associate £m	Other £m	Total £m	Subsidiary Companies £m	Other £m	Total £m
At 1st May 1999	5.0	–	11.2	0.1	16.3	51.3	0.1	51.4
Share of profits/(losses) after tax	0.1	(0.2)	3.5	–	3.4	–	–	–
Dividend received	–	–	(3.0)	–	(3.0)	–	–	–
New investments	4.2	1.2	–	–	5.4	–	–	–
Reclassification (Note 24)	(8.9)	–	–	–	(8.9)	–	–	–
Disposals	–	–	(11.7)	(0.1)	(11.8)	–	(0.1)	(0.1)
At 6th May 2000	0.4	1.0	–	–	1.4	51.3	–	51.3

Joint ventures

On 31st December 1999 the Group paid £3.75m to Lufthansa Cargo AG as part of its contractual obligation on acquiring 50% of the London Cargo Centre Ltd.

On 2nd May 2000 the Group acquired an additional 30% of the London Cargo Centre Ltd. On this date it ceased to be a joint venture and is now accounted for as a subsidiary (Note 5).

During the year the Group acquired 50% of Dolphin International Freight Services (UK) Ltd (Note 26) and invested £0.4m in subordinated non-interest bearing loan notes.

Continuing associates

During the year the Group acquired 49% of GlobeGround (UK) Ltd, a subsidiary of GlobeGround GmbH, 33.3% of Focus Magazine Distribution Ltd and 33.3% of TC Cox and Son (Tonbridge) Ltd.

Discontinued associate

On 31st March 2000 the Group sold its 36% interest in SUOS BV (Note 5).

Other

On 31st January 2000 the Group sold its 37% interest in Funsoft Holding GmbH (Note 5).

16 Debtors

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Due within one year				
Trade debtors	85.7	65.9	–	–
Other debtors	10.8	7.9	–	–
Prepayments and accrued income	10.8	8.5	–	–
Amounts owed by group companies	–	–	73.0	40.3
	107.3	82.3	73.0	40.3
Due after more than one year				
Own shares held	3.6	3.5	–	–
Pension prepayment (Note 4)	36.7	31.7	–	–
Amounts owed by group companies	–	–	42.6	63.5
	40.3	35.2	42.6	63.5

Own shares held

The Company's ordinary shares are held in trust and are treated as assets of the Company held for use in the Company's employee share scheme. The trusts are funded by loans from a Group subsidiary. At 6th May 2000 the trusts held 807,770 (1999: 878,870) shares with a market value of £2,827,195 (1999: £3,119,989).

17 Creditors

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Due within one year				
Trade creditors	132.6	139.9	–	–
Accruals and deferred income	44.7	38.1	4.4	3.3
Corporation tax	6.2	3.2	–	–
Other taxes and social security costs	6.9	3.2	–	–
Dividends	7.5	6.8	7.5	6.8
Unsecured loan stock	0.1	0.8	–	–
Obligations under finance leases	0.6	1.0	–	–
Amounts owed to group companies	–	–	68.2	62.8
	198.6	193.0	80.1	72.9
Due after more than one year				
Accruals and deferred income	5.9	1.8	–	–
	5.9	1.8	–	–

18 Financial instruments

An outline of the objectives, policies and strategies pursued by the Group in relation to financial instruments is given within the Treasury operations section of the Financial Review on page 20.

	2000	1999
	£m	£m
Maturity profile		
Borrowings due within one year:		
Bank loans and overdrafts	1.1	14.6
Finance leases	0.6	1.0
Unsecured loan stock	0.1	0.8
Total borrowings due within one year	1.8	16.4
Borrowings due after one year:		
Finance leases repayable between one and two years	0.3	0.4
Finance leases repayable between two and five years	–	0.1
Loans repayable after five years (including finance leases)	34.8	34.9
Total borrowings due after one year	35.1	35.4
Total borrowings	36.9	51.8
Cash at bank and in hand	(80.9)	(52.4)
Net cash	(44.0)	(0.6)

There are no financial assets or liabilities (other than trade debtors and creditors) excluded from the above analysis.

No financial assets or liabilities were held or issued for trading purposes.

Borrowing facilities

At 6th May 2000, the Group had undrawn committed facilities of £45.1m (1999: £36.2m) with the following expiry profile:

	2000	1999
	£m	£m
Less than one year	35.1	26.2
Between two and five years	10.0	10.0
Total	45.1	36.2

In addition to these undrawn committed facilities, the Group has undrawn uncommitted facilities totalling £7.0m (1999: £17.0m).

18 Financial instruments (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities.

Interest rate risk

The Group's policy is to arrange core debt with fixed rate borrowings of up to ten years. Variable debt is covered by short term floating rate instruments.

Of the £36.9m total borrowings, £35.7m (including finance leases of £0.9m) is at fixed rates with the remaining £1.2m at floating rates.

The floating rate financial liabilities comprise bank borrowings bearing interest at rates fixed in advance for periods ranging from three to six months by reference to the six-month LIBOR.

Currency risk

The Group has transactional currency exposures as both THE Games and Early Learning Centre purchase stock in currencies other than sterling for resale within the UK. The Group ensures that such exposures are covered by either forward currency contracts or currency option contracts.

At the balance sheet date, there were no material foreign currency monetary assets and liabilities that will produce exchange differences in the profit and loss account.

Fair values and hedges

Set out below is an analysis of the fair and book value of the Group's financial instruments as at 6th May 2000.

	2000 Book value £m	2000 Fair value £m	1999 Book value £m	1999 Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Cash and deposits	(80.9)	(80.9)	(52.4)	(52.4)
Short term borrowings	1.2	1.2	15.4	15.4
Finance leases	0.9	0.9	1.6	1.6
Long term borrowings	34.8	34.8	34.8	34.8
Derivative financial instruments held to manage interest rate profile and currency transaction exposure:				
Interest rate caps	0.1	–	0.1	–
Currency options	1.0	0.9	0.4	0.1
Forward foreign exchange contracts	–	2.9	–	0.3

The fair values of the interest rate caps, currency options and forward foreign exchange contracts have been determined by reference to prices available from the markets on which the instruments involved are traded.

The fair value of the Group's provisions, preference shares and other financial liabilities are not considered to be materially different from the book value.

18 Financial instruments (continued)

Gains and losses on hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains £m	Losses £m	Total net gains/ losses £m
Unrecognised gains and losses on hedges arising before 1st May 1999 that were not recognised by 1st May 1999	0.3	–	0.3
Gains and losses arising in the year to 6th May 2000 that were not recognised in the year	2.9	–	2.9
Gains and losses recognised in this year's profit and loss account that arose in previous years and were unrecognised at 1st May 1999	(0.3)	–	(0.3)
Unrecognised gains and losses on hedges as at 6th May 2000	2.9	–	2.9
Of which:			
Gains and losses expected to be recognised in the year ending 5th May 2001	2.9	–	2.9

Interest rate and currency risk profile of financial assets and liabilities

Financial assets

The interest rate and currency profile of the Group's financial assets (excluding trade debtors) at 6th May 2000 is shown below.

Currency	Floating rate financial assets £m	Fixed rate financial assets £m	Total financial assets £m
Sterling	55.7	20.1	75.8
US dollar	2.6	–	2.6
Hong Kong dollar	0.5	–	0.5
Japanese yen	0.1	–	0.1
German mark	1.2	–	1.2
French franc	0.2	–	0.2
Irish punt	0.5	–	0.5
	60.8	20.1	80.9

The floating rate assets of £60.8m are at interest rates linked to LIBOR. The fixed rate assets of £20.1m are at interest rates based on 1 month LIBOR.

Financial liabilities

Fixed rate financial liabilities comprise loans repayable after five years of £34.8m (1999:£34.8m), raised by John Menzies plc, on which interest is at a fixed rate of 7.362%. These loans are repayable from 2007 to 2009.

Floating rate financial liabilities, which are all denominated in sterling, comprise bank loans and overdrafts, finance leases and unsecured loan stock. Interest on these liabilities is determined by reference to short term bank rates, linked to LIBOR.

19 Provisions for liabilities and charges

	2000	1999		
	£m	£m		
Deferred taxation				
Provided:				
Accelerated capital allowances and other timing differences	0.2	1.4		
Pension prepayment	11.0	9.5		
	11.2	10.9		
Movement in year:				
Profit and loss charge (Note 8)	0.1	2.9		
Acquisitions (Note 24)	0.2	–		
Recoverable advance corporation tax	–	1.5		
	0.3	4.4		
Other				
	Property related £m	Disposal of John Menzies Retail £m	Other £m	Total £m
At 1st May 1999	4.3	1.2	0.2	5.7
Provided during year	4.6	–	–	4.6
Transferred	1.1	(1.1)	–	–
Utilised during year	(0.3)	(0.1)	(0.2)	(0.6)
At 6th May 2000	9.7	–	–	9.7

The property provision is in respect of obligations for vacated leasehold properties where applicable sublet income may be insufficient to meet obligations under head leases.

Contingent liabilities

Nintendo and certain of its present and previous European distributors are currently under investigation by the European Commission for alleged restriction of cross-border trading in Nintendo products, with a formal Statement of Objections having been issued on 26th April 2000. The Group is the exclusive distributor of such product in the UK and the Republic of Ireland. In the opinion of the directors, it is too early at this stage to form a clear view on the likelihood or extent of any liability which may result from this action.

There were other contingent liabilities, including those in respect of disposed businesses, which are not expected to give rise to any significant loss to the Group. In addition, in the normal course of business the Company has guaranteed certain trading obligations of its subsidiaries.

20 Share capital

	2000 £m	1999 £m
Authorised		
73,056,248 Ordinary shares of 25p each	18.3	18.3
20,000,000 8.58% Cumulative redeemable preference shares of £1 each redeemable at par on 20th June 2003	20.0	20.0
1,735,938 9% Cumulative preference shares of £1 each	1.7	1.7
	40.0	40.0
Issued		
56,488,366 Ordinary shares of 25p each, fully paid (1999: 56,388,366 shares)	14.1	14.1
20,000,000 8.58% Cumulative redeemable preference shares of £1 each, fully paid, redeemable at par on 20th June 2003	20.0	20.0
1,394,587 9% Cumulative preference shares of £1 each, fully paid (1999: 1,394,587 shares)	1.4	1.4
	35.5	35.5

100,000 ordinary shares having a nominal value of £25,000 were issued during the year at a share premium of £0.3m.

At 6th May 2000 options granted and outstanding under the Company's executive share option schemes amounted to 2,610,460 ordinary shares (1999: 2,616,300). These options are exercisable at varying dates up to 18th February 2009 and at prices varying from 334p to 653p per share (1999: 334p to 653p).

21 Reserves

	Revaluation reserve £m	Currency reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
Group					
At 1st May 1999	1.1	1.3	1.6	45.0	49.0
Movement during the year	–	(1.5)	–	–	(1.5)
Profit for the financial year	–	–	–	28.5	28.5
Realisation of property revaluation surplus	(1.1)	–	–	1.1	–
Dividends	–	–	–	(11.4)	(11.4)
Goodwill previously written off to reserves	–	–	–	26.5	26.5
At 6th May 2000	–	(0.2)	1.6	89.7	91.1
Company					
At 1st May 1999	1.1	–	1.6	15.5	18.2
Profit for the financial year	–	–	–	0.9	0.9
Realisation of property revaluation surplus	(1.1)	–	–	1.1	–
Dividends	–	–	–	0.6	0.6
At 6th May 2000	–	–	1.6	18.1	19.7

The cumulative amount of goodwill resulting from acquisitions which has been written off to reserves is £49.9m.

22 Reconciliation of movements in shareholders' funds

	2000 £m	1999 £m
Retained profit/(loss) for the financial year	17.1	(1.1)
Goodwill previously written off to reserves	26.5	–
New share capital issued (Note 20)	0.3	0.5
Other	(1.5)	1.3
Net increase to shareholders' funds	42.4	0.7
Shareholders' funds at beginning of year	88.0	87.3
Shareholders' funds at end of year	130.4	88.0

23 Cash flow

	2000 £m	1999 £m	
a Reconciliation of operating profit to net cash inflow from operating activities			
Total operating profit	22.9	15.9	
Depreciation	15.1	13.5	
Accelerated depreciation - exceptional operating expense	5.3	–	
Goodwill amortised	0.4	–	
Share of operating profit in associates	(5.3)	(5.1)	
Share of operating profit in joint ventures	(0.4)	(0.2)	
Other items not involving the movement of cash	0.3	1.2	
Decrease in stock	22.1	1.1	
(Increase)/decrease in debtors	(22.3)	6.3	
Decrease in creditors	(4.3)	(14.6)	
Net cash inflow from operating activities	33.8	18.1	
The operating cash flows relating to acquisitions and disposals during the year were not material.			
	2000 £m	1999 £m	
b Reconciliation of net cash flow to movement in net debt			
Increase in cash in the year	22.7	15.8	
Increase in short term deposits	20.1	–	
(Increase)/decrease in debt and finance leases	(0.1)	30.7	
Loan notes redeemed	0.7	–	
Movement in net debt in the year	43.4	46.5	
Net cash/(debt) at beginning of year	0.6	(45.9)	
Net cash at end of year	44.0	0.6	
	2000 £m	1999 £m	Cash flows £m
c Analysis of changes in net debt			
Cash at bank and in hand	60.8	52.4	8.4
Bank overdrafts	(0.3)	(14.6)	14.3
	60.5	37.8	22.7
Short term deposits	20.1	–	20.1
Bank loans due within one year	(0.8)	–	(0.8)
Loan stock due within one year	(0.1)	(0.8)	0.7
Current portion of finance leases	(0.6)	(1.0)	0.4
Debt due after one year	(35.1)	(35.4)	0.3
	44.0	0.6	43.4

24 Acquisitions

	Aviation Services			Joint Venture	Total £m
	London Cargo Centre £m	BOC £m	Other £m	Dolphin £m	
Net assets acquired:					
Tangible fixed assets	18.0	3.6	6.1	–	27.7
Intangible assets - goodwill (Note 11)	2.2	–	–	–	2.2
Debtors	3.8	3.9	–	–	7.7
Cash	1.7	0.3	–	–	2.0
Creditors	(10.8)	(3.5)	–	–	(14.3)
Deferred taxation (Note 19)	(0.2)	–	–	–	(0.2)
	14.7	4.3	6.1	–	25.1
Fair value adjustment	–	(0.3)	–	(0.1)	(0.4)
	14.7	4.0	6.1	(0.1)	24.7
Satisfied by:					
Cash	–	6.5	6.4	0.3	13.2
Previous investment in joint venture (Note 15)	8.9	–	–	–	8.9
Minority interest	5.8	–	–	–	5.8
Deferred consideration	–	1.0	–	–	1.0
Goodwill (Note 11)	–	3.5	0.3	0.4	4.2

Note 15 provides further information on the acquisition of the majority interest in London Cargo Centre Ltd.

On 4th June 1999 the Group acquired the UK air cargo handling operations of the BOC Group plc for £5.3m in cash. The Australian BOC air cargo handling operations were also acquired on 29th July 1999 for £2.2m, of which £1.0m was deferred until 4th June 2000.

Other includes the acquisition, on 10th January 2000, of the cargo terminal of Aer Lingus at Heathrow for a consideration of £6.1m in cash.

25 Post balance sheet event

On 24th July 2000 the Company entered into a conditional agreement to acquire the global ground handling operations of Ogden Aviation Services, a subsidiary of Ogden Corporation of the USA. The consideration for the acquisition will be US\$117.8m (£79m), payable in cash on completion.

26 Related party transactions

During the year the Group purchased 50% of the share capital of Dolphin International Freight Services (UK) Ltd, specialists in logistics management. Details of the transaction are given in the Corporate Information Report on page 26.

During the year the Group incurred fees for legal services amounting to £0.1m (1999: £0.6m) to Maclay Murray & Spens, of which Mr M J Walker, a director of the Company, is a partner.

During the year the Group purchased goods on an arm's length basis from Samas Universal Office Supplies BV £0.9m (1999: £1.0m).

27 Subsidiary companies

The principal subsidiaries, John Menzies Distribution Ltd, John Menzies (UK) Ltd, Menzies Transport Services Ltd and John Menzies (108) Ltd are ultimately wholly owned by the Company and operate mainly in the United Kingdom. The issued share capital of these subsidiaries is in the form of equity shares. Details of all subsidiary companies are given in the Annual Return.

Five Year Summary

Year to April	2000* £m	1999 £m	1998 £m	1997 £m	1996* £m
Turnover (excluding joint ventures and associates)					
Continuing operations	1,298.1	1,275.6	1,256.2	1,130.1	1,121.0
Discontinued operations	–	3.7	286.8	287.3	292.4
	1,298.1	1,279.3	1,543.0	1,417.4	1,413.4
Operating profit					
Continuing operations	28.4	25.7	28.3	28.4	33.4
Discontinued operations	5.5	5.1	10.8	6.9	5.4
Total operating profit	33.9	30.8	39.1	35.3	38.8
Exceptional items	2.0	(15.2)	(62.6)	–	–
Profit before interest	35.9	15.6	(23.5)	35.3	38.8
Interest payable	(2.6)	(2.2)	(5.1)	(4.7)	(2.9)
Profit before taxation	33.3	13.4	(28.6)	30.6	35.9
Per ordinary share					
Dividends	17.1p	15.8p	15.2p	13.8p	13.8p
Headline earnings	37.2p	32.3p	40.0p	33.6p	40.1p
Post exceptional earnings	48.0p	13.9p	(71.4)p	33.6p	40.1p

* 53 week year

Shareholder Information

Internet

The Group operates a website which can be found at www.menziesgroup.com. This site is regularly updated to provide information about the Group and each of its operating divisions. In particular all of the Group's press releases and announcements can be found on the site together with copies of the Group accounts.

Registrars

Any enquiries concerning your shareholding should be addressed to the Company's Registrars:

Capita IRG plc, Attn Simon Stafford, Bourne House,
34 Beckenham Road, Beckenham, Kent BR3 4TU

Tel: 020 8639 2473 Fax: 020 8639 2487

E-mail: ssd@capita-irg.com

The Registrar should be notified promptly of any change in a shareholder's address.

Share price

The current share price of John Menzies plc ordinary shares can be obtained from the Group's website and on FT Cityline by dialling 0891 433 339 (calls cost 50p per minute).

Low cost dealing service

The Group has arranged a low cost dealing service for those wishing to buy or sell shares in John Menzies plc.

To use this service please call 0845 601 0995 and quote ref: LOW C0014.

Alternatively, write to:

Menzies Group Share Dealing Service, Stocktrade, PO Box 1076, 10 George Street, Edinburgh EH2 2PZ

Payment of dividends

It is in the interests of shareholders and the Company for dividends to be paid directly into bank or building society accounts.

Any shareholder who wishes to receive dividends in this way should contact the Company's Registrar to obtain a dividend mandate form.

Dividends are paid as follows:	Interim	Final
Ordinary shares	Early April	31st October
9% Preference shares	1st April	1st October
8.58% Preference shares	20th June	20th December

The final dividend on ordinary shares will be payable to shareholders on the register at 13th October 2000.

Investor relations

For further copies of the Annual Accounts or other investor relations enquiries, please contact:

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Hanover Buildings, Rose Street, Edinburgh EH2 2YQ

Tel: 0131 459 8181 Fax: 0131 226 3752

E-mail: cosec@menziesgroup.com

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Menzies World Cargo	Building 557, Shoreham Road West, Heathrow Airport, Middlesex, TW6 3RJ Tel +44 (0) 208 750 3001 Fax +44 (0) 208 750 3005
Menzies Aviation Support Services	Building 559, Shoreham Road West, Heathrow Airport, Middlesex, TW6 3TU Tel +44 (0) 208 754 9051 Fax +44 (0) 208 754 9058
THE Games	Parham Drive, Boyatt Wood, Eastleigh, Hampshire, SO50 4NU Tel +44 (0) 2380 653 377 Fax +44 (0) 2380 652 239
THE	Rosevale Business Park, Newcastle-under-Lyme, Staffordshire, ST5 7QT Tel +44 (0) 1782 566 566 Fax +44 (0) 1782 565 400
Early Learning Centre	South Marston Park, Swindon, Wiltshire, SN3 4TJ Tel +44 (0) 1793 831 300 Fax +44 (0) 1793 824 114

