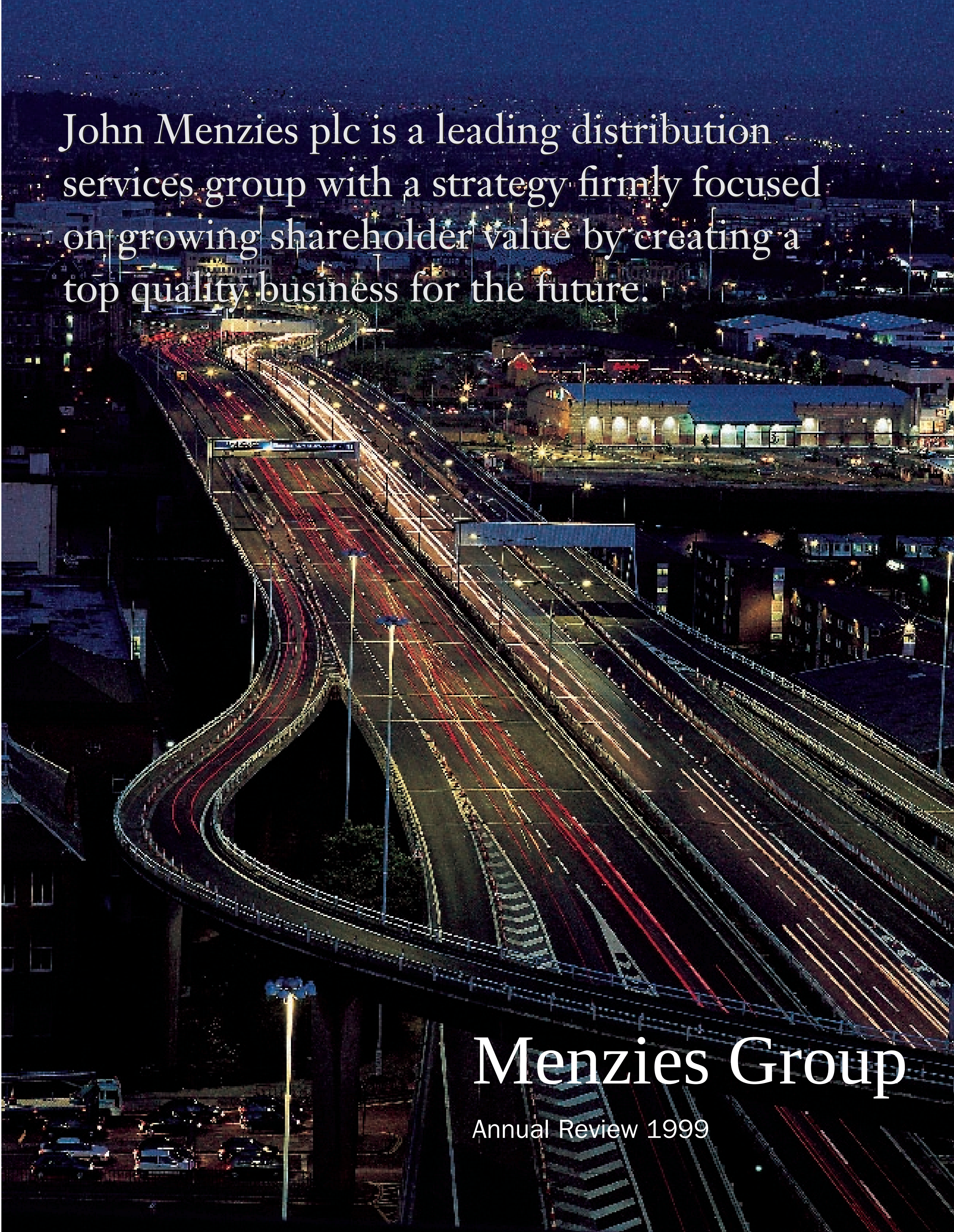

John Menzies plc is a leading distribution services group with a strategy firmly focused on growing shareholder value by creating a top quality business for the future.

Menzies Group

Annual Review 1999

CONTENTS

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Highlights of the Year

Turnover	£1,280.8m	up	2.0%
Profit before tax*	£28.6m	down	£5.4m
Earnings per share*	31.8p	down	8.2p
Final dividend	11.0p	up	5.8%

**before exceptional items*

- Important progress made in creating a focused distribution services Group
- Balance sheet gearing cut from 53 per cent to nil
- Recovery under way at Early Learning Centre
- Significant expansion in airport services

Chairman's Statement

"The past year has seen us continue the restructuring necessary to develop a focused distribution services Group. I remain confident that this strategy will deliver sustainable growth in shareholder value in the years ahead."

Last year I reported that following an extensive strategic review your Board had instituted an ambitious and far-reaching process of change. This process entailed a combination of business disposal, strategic acquisition and operational restructuring, all of which are intended to enhance our organic growth.

We have taken some significant steps towards achieving our objective: in November we sold Smythson of Bond Street, whilst several important acquisitions were made by Menzies Transport Services, our fast expanding airport services business.

Within our core distribution operations, John Menzies Wholesale continues to provide the Group with a strong and predictable cash flow, while THE has redefined its existing business following a major reassessment of its trading strategy, product range and stock levels. Good progress has been made in restoring Early Learning Centre to health, and our strategy remains to realise this retail operation.

BOARD

I wrote in my interim statement that management changes were underway at all levels of the Group, including within your Board.

In November 1998 Ranald Noel-Paton, our Deputy Chairman, retired from the Board after twelve years with the Group, ten of them as Managing Director. James Bennett, who has been Financial Director since 1981, will retire on health grounds on 31st July 1999. I would like to thank them for the important contribution that both have made to the Group.

Dermot Jenkinson stepped down as an executive director on 30th April 1999 but I am delighted that he has agreed to remain on the Board. I welcome Martyn Smith, previously Group Financial Controller of Inchcape plc, to the Board as Finance Director.

OUTLOOK AND DIVIDEND

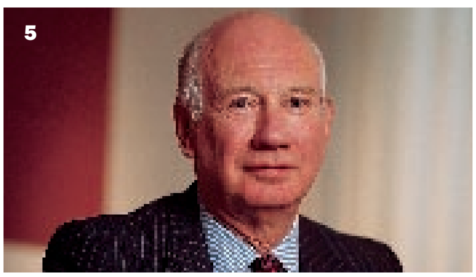
The past year has seen the Group tackle the initial disadvantages which change brings. Our overall performance has now begun to respond positively, and we are in a better position to exploit opportunities in the distribution and airport services sectors than we were 12 months ago. This is encouraging.

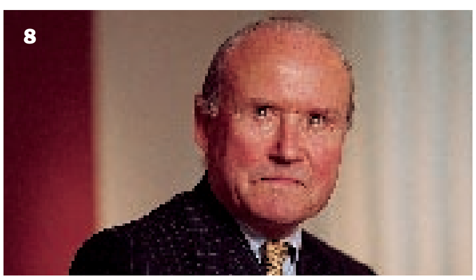
As a reflection of this confidence your Board is recommending an increased final dividend of 11.0p making a total for the year of 15.8p, a rise of 3.9 per cent over last year. This is covered two times by earnings before exceptional items.

Gavin Reed
Chairman

Board of Directors

** Non-executive director*
† Member of Audit Committee
‡ Member of Remuneration Committee
§ Member of Nomination Committee





1 Gavin Reed*‡§ Chairman
Gavin Reed (64) was appointed a non-executive director in 1992 and is Chairman of the Remuneration and Nomination Committees. Previously Vice Chairman of Scottish & Newcastle, he is Chairman of Hamilton & Inches Ltd and holds a number of other directorships.

2 David Mackay§ Chief Executive
David Mackay (56) joined the Group in 1964. He was appointed to the Board as Wholesale Managing Director in 1984 and became the Group's Chief Executive in 1997.

3 James Bennett
James Bennett (57) was appointed Group Financial Director in 1981, a position he held until his retirement on 31st July 1999. He held a non-executive directorship at Scottish Provident Institution to May 1999.

4 Iain Callaghan
Iain Callaghan (52) joined the Group in 1965 and was appointed to the Board on 1st January 1997. He is Managing Director of John Menzies Wholesale.

5 William Thomson*†‡§
William Thomson (59) has been a non-executive director since 1987 and is Chairman of the Audit Committee. He is Chairman of E G Thomson (Shipping) Ltd and British Assets Trust plc and a director of several other UK companies.

6 Dermot Jenkinson*
Dermot Jenkinson (44) was appointed to the Board in 1986 where he held various executive responsibilities prior to assuming a non-executive role on 30th April 1999.

7 Ian Harrison*†‡
Ian Harrison (42) was appointed as a non-executive director in 1987. He is a director of Record Treasury Management Ltd.

8 Charles Ramsay*†‡
Charles Ramsay (62) was appointed a non-executive director in 1990. He is Chairman of Cockburns of Leith plc and holds several other directorships.

9 Michael Walker*†‡
Michael Walker (46) was appointed a non-executive director in 1995. He is Managing Partner of solicitors Maclay Murray & Spens.

10 Martyn Smith
Martyn Smith (44) joined the Group and was appointed to the Board as Group Finance Director on 5th July 1999. He was previously Group Financial Controller of Inchcape plc.

Chief Executive's Review

"The past two years have seen the Group undergo considerable change as we establish a secure base upon which future growth can be built. Important progress has been made. Our key news wholesale business provides the security of earnings necessary to exploit the many opportunities presented by our rapidly expanding airport services business.

Our priority in the current year is to develop these opportunities and restore the Group's record of consistent profit growth."

RESULTS

Sales in Distribution Services grew by 2.6 per cent to £1,134.5m, affected by the loss of sales to the John Menzies Retail chain which was sold in May 1998. In our remaining Retailing business, Early Learning Centre, sales were up 9.1 per cent on a like-for-like basis, although 3.0 per cent down overall as a result of its withdrawal from the nursery market. Sales from continuing businesses were up 2.0 per cent in total at £1,280.8m.

Group profit before taxation and exceptional items benefited from a £2.9m improvement in interest costs, resulting from the sale of John Menzies Retail, but was nevertheless £5.4m down on last year at £28.6m.

Within operating profits, the reduction in John Menzies Wholesale's profits had been fully anticipated – as a result of the renewal of long-term contracts – but losses in THE were only partly offset by improvements at THE Games and Menzies Transport Services. Samas Universal Office Supplies, the Dutch based office supplies business in which we hold a 36 per cent interest, continues to make a valuable contribution to profits at £5.1m, £0.8m up on last year. Overall profits in Distribution Services fell by £6.3m to £34.8m. In Retailing, losses in Early Learning Centre were reduced by £2.7m to £4.0m, as the benefits from improved sales offset the costs of returning this business to health.

Exceptional items of £15.2m arise mainly from the implementation of the change in strategy at THE announced in January, and include a significant reduction in its range and stockholding.

DISTRIBUTION SERVICES

John Menzies Wholesale remains the dominant business within the Group, providing a solid platform for reinvestment in itself and in the rest of the Group. Newspaper sales form the greater part of its turnover, and the continuing decline in this market, combined with the ongoing use of strategic price reductions by publishers, has restricted the division's overall sales increase to 1.1 per cent, at £814.4m. Within this total, magazines achieved a creditable 6.3 per cent increase.

The division's record in adding value through its range of services, exemplified by its space and range planning initiatives, has assisted many of its customers to achieve sales increases ahead of its market and to target new sales opportunities.

A major achievement during the year was the successful rationalisation of several distribution territories with other wholesalers, complementing our focus on bigger and more effective branches. Further investment is planned for the current year, reducing the number of full branches as we continue the drive to achieve optimum cost-effectiveness. A key element of this is our IT development programme, which helps reduce unnecessary administration for our retail customers and publishers, underpinning our business' role in a changing world.

Menzies Transport Services (MTS) is the focus of the Group's drive for growth, and has almost doubled in size in recent months. Its core air cargo handling operation continues to win contracts, filling the capacity of its new facility. The purchase of BOC Cargo Services for £4.9m in June 1999, has enhanced capacity and geographic spread – with operations at Heathrow, Manchester and Birmingham airports – and brings important synergy benefits. Real progress is being made in creating a major business that now handles 320,000 tonnes of air cargo for 60,000 flights per year.

Our international freight forwarders AMI suffered from the slowdown in activity resulting from the Far East trading situation earlier in the year, and the strong pound. However, with the demise of two of its competitors and the enthusiasm of its new Managing Director this business is targeted to re-establish suitable levels of net profit performance.

On 1st May 1999, MTS commenced its contract to provide a passenger and baggage transfer service between the Heathrow terminals, worth some £5 million in revenue annually. The purchase of the executive aircraft handler Execair for £3.5m in March 1999 brings an immediate benefit to earnings. The recent launch of an airport security service is also expected to enhance profits at an early stage.

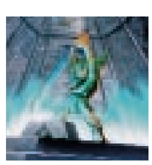
Our partnership with Lufthansa's ground handling subsidiary, GlobeGround, continues to develop in close harmony, and is a key to our successful expansion in air cargo, in ground handling, and onwards into other activities "behind the scenes" at airports. In its first year of joint operation the London Cargo Centre has exceeded our expectations, despite the limited growth in cargo traffic resulting from the difficulties currently being experienced in the UK export market. GlobeGround's operation at Manchester airport, in which MTS acquired a 49 per cent share in November 1998, won an early contract from Aer Lingus. A full ramp and passenger handling service was also recently launched at Stansted airport.

From fuelling or de-icing, through management of passenger lounges or cargo load planning, to airport security or trolley management, the tasks to be performed at airports and in support of airlines are legion. MTS is dedicated to providing a range of these as part of a quality and seamless service.

Using a fleet of specially designed vans and coaches Menzies Transport Services provides a transfer service for over 3 million passengers and 6.5 million bags between Heathrow airport's four terminals annually.

Many of these new developments occurred at the end of the 1998/99 financial year and are therefore not yet fully reflected in our results. Nevertheless MTS' sales, including the Group's share of the London Cargo Centre, showed an increase of 10.7 per cent, at £47.6m. Profits for the past year have been constrained by the short term costs that are always a consequence of rapid growth. The current year will be similarly affected, with initial losses of £0.5m including rationalisation costs expected from the former BOC operation before it returns to profit in the following year. The outlook for MTS, with its strong management team in place, is most encouraging.

THE's performance has been disappointing with sales of £152.2m, down £42.7m, due to the loss of a major contract and a reduction in sales to the John Menzies Retail chain following its sale to WH Smith. As I highlighted in the Interim Results in January, we have implemented significant changes in strategy and control, and have also made a number of important management changes. A new Chairman, and Managing, Operating and Finance Directors were appointed in 1998, and a full review of the range and level of stock and of operational methods has been completed. This has confirmed that the



Zelda became the UK's fastest selling video game of all time, achieving sales of 250,000 games in the two weeks to Christmas 1998.

business can support its customers to a high standard with much reduced range, and has led to the disposal of the excess stock at an exceptional loss.

Other trading opportunities are emerging for THE. The internet is one such opportunity, and we are in advanced negotiations with several on-line retailers for the provision of order fulfilment services. Additional investment is also being directed at THE, with £1m in system improvements in the past year and £1.3m in automated conveyor and packaging systems in the current year. This, together with the reduction in warehouse space needed to support the business, will drive reduced staffing levels and should contribute significantly to the division's return to profitability.

THE Games' principal product, the N64, has a typical life cycle. Launched in March 1997, hardware sales in the current year have been lower than in its first, highly successful, year. Reduced hardware prices, reflecting the normal trends in this market, were offset by increased software and Game Boy sales, resulting in a slight increase in turnover at £120.3m. However the higher software margins, favourable currency, and a growing user base have contributed to increased profits from this business.

Modern systems are key to ensuring that THE provides high levels of customer service at low cost.

The N64 will also benefit in the coming year from a strong release programme of quality games targeted not only at current users but also at widening the user base.

Game Boy hardware and software sales continue to go from strength to strength. Launched in 1990, sales in 1997 broke all records, and did so again in 1998 with the launch of Game Boy colour. The outlook for this product remains healthy, with more developments planned.

Consumers are now beginning to look forward to the next generation of machines. Nintendo, in partnership with Panasonic and IBM, is preparing to take a major share in this market through the launch of Dolphin by Christmas 2000. This support combined with competitive pricing and a wide range of third party software should ensure significant market presence.

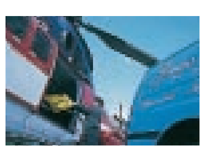
As the sales curve of the key N64 console matures the current year will be one in which our skill at stimulating and then managing product demand will be even more important. In the circumstances the division's profits are expected to be reduced.

RETAILING

The recovery in **Early Learning Centre's** toy sales is particularly encouraging, as is its increase in market share. Since the appointment of the new Managing Director in September 1997, almost all the senior management team has been replaced, its chain of nursery and childrenswear stores has been closed, and significant changes have been made to its product lines. The new range, with greater emphasis on learning through technology, hit the shops just in time for the Christmas season, leading to like-for-like sales increases of 15 per cent during December. Since then, toy sales have consistently shown increases well above both the previous year and the market in general, and ended the year 9.1 per cent up.

ELC is also extending its customer base and the ways of reaching its customers. Sales through over 200 Sainsbury stores have increased significantly, and trials for concessions and brand extension through other high profile retailers such as Debenhams and Granada are in hand. Mail order sales increased by 60 per cent in the year, based on better catalogue design and support. The internet presents new and exciting potential to extend further the ELC brand, and plans are well advanced to ensure we exploit the opportunities it offers.

Improvements are also being made to the structure of the



Jones Yarrell Aberdeen supplies the newspapers which are delivered daily to North Sea oil rigs.

The Group's management development programme encourages employees at all levels to reach that bit further working as a team.

business. A complete change to the store management and control structure will encourage excellence at all levels and enhance promotional and career opportunities for managers. ELC's warehouse and logistics function has been outsourced, and, with an increase in own-label product sourcing from the Far East, attention is now focusing on fine-tuning the management of its supply chain.

The extent of the changes being undertaken at ELC has inevitably delayed the point at which the business returns to profit. However, the benefits involved have now begun to feed through to the bottom line, and following a profitable second half of 1998/99 we expect that it will show a profit for the current year.

PEOPLE

The commitment and enthusiasm of our employees is fundamental to the success of the Group. We will continue to recruit and develop management and staff at all levels so that we have the capacity to go on developing our business.

This year has been one of challenge for all our employees, as we continue to lay the foundations for future growth. I thank them all for their hard work, and extend a welcome to all new employees.

OUTLOOK

For the last two years the Group has been undergoing fundamental and far-reaching change as we implement our strategy of turning John Menzies into a focused distribution Group. Management across all our businesses is responding well to the challenges which this change presents and much progress has been made, with a secure base now established from which long-term growth can flow.

I said last year that 1998/99 would be a year of consolidation and strengthening. This process will continue in the current year as we reshape and reposition our core distribution activities, and develop the many investment opportunities which exist in the fast growing airport services sector. We have managed many of the early disadvantages which change often generates and now the benefits of our strategy are beginning to feed through to the financial results. I am therefore confident that we will see progress in the current year and beyond.

David Mackay
Chief Executive

Menzies Group

With sales in excess of £1.2 billion, and over 8,000 employees, the Menzies Group is a major force in distribution services.

John Menzies plc

Menzies Distribution

Menzies Distribution is one of the UK's leading wholesale and distribution businesses supplying the news and home entertainment markets.

Menzies Transport Services

Menzies Transport Services provides a range of services supporting freight distribution and ground handling operations within the growing airport services market.

THE Games

The exclusive distributor of Nintendo product in the United Kingdom and the Republic of Ireland.

Early Learning Centre

The UK's leading retailer of quality learning toys, games and books for the pre-school market. It operates from 220 stores in the UK and Ireland and has a franchise chain which extends to 37 stores in 11 countries.

Samas Universal Office Supplies (36%)

Samas Universal Office Supplies BV was formed in 1996 from the merger of the office supplies businesses of the Menzies Group and Samas-Groep. It is Europe's third largest supplier of office stationery and equipment and operates from bases in The Netherlands, Germany and the UK.

John Menzies Wholesale

The only business involved in the distribution and marketing of news and magazines operating throughout Great Britain and Northern Ireland.

Jones Yarrell

Jones Yarrell specialises in the delivery of news and magazines direct to businesses from branches in London, Edinburgh, Aberdeen and Leeds.

THE

A leading independent wholesaler of music, video and multimedia product for the home entertainment market and a major wholesaler of books.

Concorde Express

Based at Heathrow and now with operations at Birmingham and Manchester airports, Concorde Express are specialists in the provision of cargo handling, air and landside trucking and contract labour services to the airline industry.

Connect

Connect provides an inter-terminal passenger and baggage transfer service at Heathrow airport.

AMI

The UK's market leader in wholesale air cargo services, providing a comprehensive international network for independent freight forwarders and couriers from its base at Gatwick.

Execair Aviation Services

Based in Scotland, Execair is an executive aircraft handling and fuelling company operating at four UK airports. Through its subsidiary Express Handling it also provides a cargo handling service at Edinburgh airport.

Menzies Security Services

Formed in May 1999 Menzies Security Services provides quality security services to the air transport industry.

GlobeGround

GlobeGround is a venture between Menzies Transport Services and GlobeGround GmbH, the worldwide ground handling subsidiary of Lufthansa which provides ground handling services at several UK airports.

London Cargo Centre

London Cargo Centre is a 50/50 venture between Menzies Transport Services and GlobeGround GmbH. It handles cargo for Lufthansa and several other airlines at Heathrow.

Menzies Distribution

The Group's distribution businesses provide customers with a fast, efficient service which meets their product and service needs. John Menzies Wholesale is a major distributor of newspapers and magazines serving the UK news market. THE is a leading independent wholesaler of music, video and multimedia product for the home entertainment market and one of the UK's largest wholesalers of books.

JOHN MENZIES WHOLESALE

John Menzies Wholesale is dedicated to moving huge quantities of product in a large number of small transactions quickly and at minimum cost. Its ability to add value to this process secures its leading position in the market, and contributes to its objective of meeting customer needs whilst managing publisher aspirations.

The sheer volume of "paper" handled by the division underlines its skill: distributing a perishable commodity from competing suppliers to over 21,500 customers within a few hours. Over six million items, whether newspapers, magazines or periodicals, are handled every day – including Sundays – through its network of 32 branches, 11 newspaper handling satellites and three units devoted mainly to the processing of unsold copies.

This massive volume is backed by investment in systems for processing the information which adds value for customers, whether retailer or publisher, to ensure that deliveries are effectively targeted. For instance, in the computer magazine market, which recorded a 53 per cent increase in sales last year, the division's ability to analyse quickly the sales patterns throughout the UK for each of the 120-plus titles involved, and to adjust deliveries in response, enables it to contribute significantly to the matching of supply with demand.

The growth of the multiples in customers' shopping preferences, including supermarkets, means that 40 per cent of sales are now achieved through this sector, providing an opportunity for publishers to extend their brands and make the most of the consumer's penchant for buying magazines on impulse. The analysis provided by John Menzies Wholesale's unique space planning and range management service enables it to create a display tailored to a retailer's customer profile.

John Menzies Wholesale's commitment to adding value in the supply of news and magazines extends to offering training to retail customers as well as its own staff.

This allows improved matching of supply to demand, thereby maximising the retailer's potential to achieve sales through impulse and multiple purchases. Over 85 per cent of multiples, UK-wide, now use this service.

As well as information systems the division is also investing heavily in process management and control systems. Through the use of sophisticated tools these systems enable it to analyse, understand and control costs at all levels, achieving additional efficiency.

THE

The role of the wholesaler in the music, video and books market is one of continual balance between range and fulfilment rates. This is backed by effective IT systems, recent developments in which have enabled **THE** to optimise its range and stockholding whilst maintaining high levels of efficiency in support of retailers, small and large alike.

THE's business is centred on its overnight delivery service – orders taken by 6pm will be delivered next day, with 95 per cent target fulfilment. Many of its 8,500 customers order electronically. Quick and cost-effective handling of orders is key to the division's profitability, and will be enhanced in September 1999 as investments in automatic conveyor and packing systems in its distribution centre become operational.

The division's market is ever changing, with music and other lines influenced by film and TV successes. THE captured over 12 per cent of the video sales of the film *Titanic*, and Delia Smith's *How to Cook* TV series generated significant sales of the book. Support for the independent retailer is offered through THE's "Bookshop Connection", which provides added benefits such as point-of-sale material, carrier bags and shopfitting services.

John Menzies Wholesale distributes over six million newspapers and magazines every day, 364 days a year. Continual investment in branch infrastructure ensures that they retain their leading position in this fast moving, high volume business.

The success of the *Titanic* compilation underlines THE's unique position as a "one-stop-shop" for all forms of home entertainment, able to fulfil its customers audio, video and books needs.


ansa

Menzies Transport Services

Menzies Transport Services is now a major force in airport services. It is the largest handler of air cargo in the UK after British Airways, and is using this base to expand its range of airport ground handling operations.

The expansion of Menzies Transport Services accelerated in 1997, when **Concorde Express** opened its new air cargo transit shed at Heathrow with the capacity to handle over 40,000 tonnes of air cargo per annum. In July 1998 MTS took another significant step forward when its partnership with Lufthansa began operations as the **London Cargo Centre**, adding a further 130,000 tonnes of capacity, and establishing close links between MTS and Lufthansa. Although this partnership brings to MTS the recognition of a close connection with the Star airline alliance, it in no way restricts its ability – and success – in attracting business from airlines whether unaligned or within other alliances.

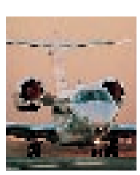
MTS' profile has been further enhanced by the acquisition, in June 1999, of the air cargo handling business of BOC, effectively doubling MTS' existing cargo handling capacity and adding to its business at other UK airports. This activity provides the underlying foundation for MTS' expansion into other ground handling activities, and leaves it well-placed to benefit from the continuing deregulation of airport services now occurring throughout the European Union.

Over the past 12 months MTS has also expanded rapidly outside Heathrow. In November 1998 it extended its partnership with Lufthansa's ground handling business, **GlobeGround**, into Manchester airport, where it provides passenger and ramp-handling services covering over 1.1m passengers per year. A full passenger and ramp handling service was also launched at Stansted airport in May 1999. In March 1999 it purchased the specialist executive aircraft handler **Execair Aviation Services**. From its bases at Edinburgh, Glasgow, Birmingham and Aberdeen airports Execair offers significant scope for MTS to expand its range of services and its presence at UK airports.

In May 1999 several additional activities were launched, including a five year contract to provide a passenger and baggage transfer service within Heathrow. Under the trading name ***Connect,*** MTS operates the fleet of coaches and vans needed to transfer efficiently some three million passengers and their baggage between the airport's four terminals within strict pre-set time limits. At the same time **Menzies Security Services** started operations to provide a comprehensive security package.

In addition to these services, MTS is the UK's leading international air cargo wholesaler through its subsidiary **AMI**. Its core activity is the consolidation of cargo space in aircraft operating out of the UK, and filling this through 30,000 bookings per month from over 1,700 customers. ***AMI Quality Express*** ensures fast delivery of the smaller packages to the recipient in over 900 destinations worldwide.

Menzies Transport Services' partnership with Lufthansa is opening new doors in cargo handling, where MTS is now the UK's largest independent air cargo handler covering 60,000 flights and 320,000 tonnes of cargo annually.



The acquisition of executive aircraft handler Execair has significantly expanded Menzies Transport Services' range of airport services. MTS now operates at eight UK airports, employing 1,400 staff.

THE Games

THE Games, the exclusive distributor of Nintendo product in the UK and Republic of Ireland, is a major player in the video games business. It has responsibility for all aspects of Nintendo's sales including marketing, distribution and customer support.

The video games business still retains the excitement of a developing market. Initially targeted at 8-15 year olds, mainly boys, the market has since expanded to include enthusiasts up to 35, with a core in the financially independent 16-24 age range. Their demands have kept pace with the ability of programmers to understand and extract more from computer technology, resulting in overall market growth far exceeding the expectations of the participants in this field.

THE Games' principal product is the N64, which has sold over 1.3 million console units, representing a 23 per cent market share, and five million games since its launch in March 1997. Software support for the N64 was initially restricted due to the exacting quality standards set by Nintendo, but developers have now adapted to this, providing most of the 70 new titles launched in the past year.

Nintendo's other main product is the Game Boy, which dominates its market sector. Continued investment by Nintendo over the last ten years, combined with the launch of the colour Game Boy during 1998, have extended its life well beyond market expectations. Recent developments are expected to produce further sales growth. Pokemon has proved a huge success in the USA since its launch in September 1998, supported by a successful TV cartoon series. In the UK this series is currently being broadcast on SkyOne in advance of Pokemon's UK launch in Autumn 1999.

Effective stock management and the efficient distribution of product during the peak Christmas season are key to THE Games' success.

After nine years Game Boy remains a best seller in the UK. Following the launch of the new colour version more than 700,000 consoles were sold in 1998 – a new record.

Early Learning Centre

With 220 shops across the UK and Ireland, and a presence in 220 Sainsbury stores, Early Learning Centre is the UK's leading retailer of quality learning toys. Its brand remains one of the best known in the High Street.

Clear product differentiation and the creation of an environment in which children are encouraged to play are central to ELC's new store designs.

Forty-five million visits were made to **Early Learning Centre** stores last year.

The significant change made to ELC's range, resulting from a combination of innovation and customer feedback, has fed its increase in market share. Sales of toys which lead the child into, or make use of, computer-based technology are running at over 50 per cent up on last year. ELC sold more *Furbies*, the cult toy of 1998, than any other UK retailer. And at a higher price-point, it has now sold over 20,000 *Barneys*, the interactive learning toy retailed at £100 each.

These changes have not been made at the expense of ELC's focus on quality, safety, and the early development of the child. The business continues to feature well in awards for Best Toy Retailer (Rightstart, BBC Toybox) and for individual product awards. ELC's store at the Bluewater shopping centre in Kent, opened in May 1999, sets a new standard in layout and customer service for the business.

Key to the new layouts being developed for ELC's stores is the clear definition of categories. Colour is used to reinforce this, supported by "pods" in which the product is displayed out of its box for adults and children to play with. Play is further encouraged through the environment and by the staff.

Significant investment in product development continues to be an important element in ELC's brand strength, both in the UK and internationally. Toys are a worldwide product, enabling the business to expand and to benefit from its chain of 37 franchises in 11 countries.

Equally important is the development of the business infrastructure to support the sales effort in the most cost-effective manner. Mail order sales are fast outgrowing the capacity of its support function, and this will be relocated to bigger and better premises during the course of the year to maximise returns from this key activity.

Early Learning Centre is the No. 1 retailer of *Furby*, accounting for over 30 per cent of its UK sales at Christmas 1998.

Financial Review

“Close control over cash management remains a key priority. We are well positioned to take advantage of suitable investment opportunities.”

ACCOUNTING POLICIES

The requirements of six new accounting standards have been incorporated, where applicable, into the Group Accounts this year (Financial Reporting Standards 9 through to 14). In addition, the recommendations of the Urgent Issues Task Force have been adopted in disclosure of Year 2000 (UITF 20) and the Euro (UITF 21) issues. The impact of these changes is covered in the notes on accounts, with prior year re-statements also applied as necessary.

INVESTMENTS AND CAPITAL EXPENDITURE

FRS 10, *Goodwill and Intangible Assets*, requires goodwill paid on acquisitions to be carried as an asset on the balance sheet and written off over the life of the asset. This disallows the previous general practice of immediately writing off goodwill to reserves. During 1998/99 £3.8m goodwill relating to the acquisition of Sigma Aviation (now GlobeGround Manchester) and Execair Aviation Services has been included on the balance sheet. Since the year end the purchase of BOC Air Cargo Services has been announced for £4.9m. Goodwill of circa £2.2m relating to this will be included in the 1999/00 accounts.

Goodwill previously written off to reserves has not been re-instated in the balance sheet as permitted under FRS 10 transitional arrangements. The Group has £76.4m of goodwill to which this treatment applies.

Division	Goodwill (£m)
John Menzies Wholesale	17.4
THE	12.5
Menzies Transport Services	13.2
Samas Universal Office Supplies	24.8
Early Learning Centre	8.5
	76.4

On a disposal, any goodwill to which these transitional arrangements have been applied would require to be reflected in that year’s profit and loss account.

Net capital expenditure in the year at £17.6m was down from £19.3m last year. This reflects the changing strategic direction in the Group towards less capital intensive distribution activities. Acquisitions in Menzies Transport Services have been essentially revenue driven.

CASH MANAGEMENT, WORKING CAPITAL AND INTEREST

Close monitoring of divisional performance throughout the year has been instrumental in ensuring that cash remains tightly controlled in all divisions.

Net interest payable at £2.2m, down from £5.1m represents a decrease in the year of 56.9 per cent. The following table outlines the main components of this charge.

	1998/99	1997/98
	£m	£m
Bond interest	**(2.6)**	(0.7)
Bank interest	**0.9**	(3.9)
Hedge costs	**(0.3)**	(0.3)
Interest on leases	**(0.2)**	(0.2)
	(2.2)	(5.1)

Whilst the prevailing rate of interest has fallen steadily throughout 1998/99, an element of the bond interest charge reflects the cost of prudence on the part of the Group in restructuring its debt profile away from asset backed covenants. The £0.9m interest credit is largely the result of reduced bank borrowings following the receipt of disposal proceeds from John Menzies Retail and Smythson of Bond Street.

Interest cover improved to 14.0 times (1998: 7.7 times).

The Group's debt has moved from a £45.9m borrowed position to £0.6m in funds, with gearing on the balance sheet decreased from 53 per cent to an ungeared position. This gives strong support for acquisitions and capital investment, which totalled £35.2m in the year, including deferred elements of £8.1m.

TREASURY OPERATIONS

The main 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. Full disclosure, in accordance with FRS 13 *Derivatives and Other Financial Instruments*, is included in Note 18 to the Group Accounts.

TAXATION

The exceptional item included in this year's Group Accounts (for THE) relates to a stock reduction and therefore attracts full tax relief. This is in contrast with the exceptional items posted last year which were largely capital asset disposals and write offs and therefore attracted minimal relief. Overall the Group has an effective tax rate of 29 per cent, marginally below the standard rate.

PENSIONS

Our staff enjoy membership of a first class pension scheme. Aon Consulting were appointed consultants to the Pension Fund during the year. Aon produced an updated actuarial valuation, based on the existing market related assumptions, at 31st March 1999. This revealed an increase in surplus of £7.7m to £62.6m. Under accounting standard SSAP No.24 the Group's profit and loss account is credited with £7.6m, turning the regular cost of £3.6m into a credit of £4.0m. This is added to the prepayment balance carried on the balance sheet.

The pension fund is a contributory scheme with the company guaranteeing the benefits to members. The surplus of £62.6m represents a prepayment of the company's future costs. At 1st May 1999 £31.7m of this prepayment is recognised in the Group's accounts and £30.9m is accounted for outside the balance sheet and transferred to the profit and loss account over the future years of service of the membership.

EXCEPTIONAL ITEMS

An operating exceptional charge of £14.9m was made in the year related to the restructuring at THE. This mainly comprised write down of stocks. A further operating exceptional charge of £0.7m arose on exit costs from certain interest hedge arrangements. A gain of £0.4m was made on the disposal of Smythson of Bond Street.

ABORTIVE TRANSACTION COSTS

The Group's focus on distribution and exit from retailing mean that there are a number of opportunities explored which do not come to fruition and incur abortive revenue costs. These are contained within the overall trading performance of the Group, and for 1998/99 are estimated at £0.7m.

MILLENNIUM AND EUROPEAN MONETARY UNION

The Group's progress in addressing these two areas is fully covered within the Directors' Report to the Group Accounts.

J S Bennett

James Bennett
Group Financial Director

Summary Group Profit and Loss Account

	1999 Before exceptional items £m	1999 Exceptional items £m	1999 Total £m	1998 Before exceptional items £m	1998 Exceptional items £m	1998 Total £m
TURNOVER						
Distribution Services	**1,134.5**	**–**	**1,134.5**	1,105.3	–	1,105.3
Retailing	**146.3**	**–**	**146.3**	150.9	–	150.9
	1,280.8	**–**	**1,280.8**	1,256.2	–	1,256.2
Less: share of Joint Venture	**(5.2)**	**–**	**(5.2)**	–	–	–
Discontinued operations	**3.7**	**–**	**3.7**	286.8	–	286.8
	1,279.3	**–**	**1,279.3**	1,543.0	–	1,543.0
OPERATING PROFIT						
Distribution Services	**29.5**	**(14.9)**	**14.6**	36.8	–	36.8
Share of :						
Joint Venture – London Cargo Centre	**0.2**	**–**	**0.2**	–	–	–
Associate – SUOS	**5.1**	**–**	**5.1**	4.3	–	4.3
	34.8	**(14.9)**	**19.9**	41.1	–	41.1
Retailing	**(4.0)**	**–**	**(4.0)**	(6.7)	(10.9)	(17.6)
Discontinued operations	**–**	**0.4**	**0.4**	4.7	(51.7)	(47.0)
Profit/(loss) before interest	**30.8**	**(14.5)**	**16.3**	39.1	(62.6)	(23.5)
Interest	**(2.2)**	**(0.7)**	**(2.9)**	(5.1)	–	(5.1)
Profit/(loss) before taxation	**28.6**	**(15.2)**	**13.4**	34.0	(62.6)	(28.6)
Taxation	**(8.9)**	**5.0**	**(3.9)**	(9.7)	(0.1)	(9.8)
Profit/(loss) attributable to shareholders	**19.7**	**(10.2)**	**9.5**	24.3	(62.7)	(38.4)
DIVIDENDS						
Preference			**£1.8m**			£1.8m
Ordinary			**£8.8m**			£8.5m
PER ORDINARY SHARE						
Dividend			**15.8p**			15.2p
Earnings	**31.8p**		**13.7p**	40.0p		(71.4p)
COVER (times)						
Dividend	**2.0**			2.6		
Interest	**14.0**			7.7		

Summary Group Balance Sheet

	1999 £m	1998 £m
FIXED ASSETS		
Intangible	**3.8**	–
Tangible	**79.2**	77.0
Investments	**16.3**	8.6
	99.3	85.6
CURRENT ASSETS		
Stocks	**80.2**	82.7
Debtors – due within one year	**82.3**	161.2
– due outwith one year	**35.2**	31.2
Net cash/(borrowings)	**36.0**	(9.9)
Creditors: amounts due within one year	**(191.2)**	(209.2)
Net current assets	**42.5**	56.0
Total assets less current liabilities	**141.8**	141.6
Creditors: amounts due after one year – borrowings	**(35.4)**	(36.0)
Provisions for liabilities and charges	**(18.4)**	(18.3)
Net assets	**88.0**	87.3
CAPITAL AND RESERVES		
Share capital – ordinary	**14.1**	14.1
– preference	**21.4**	21.4
Reserves	**52.5**	51.8
Shareholders' funds	**88.0**	87.3

Approved by the Board of Directors on 5th July 1999 and signed on its behalf by Gavin Reed and James Bennett.

Capital employed per ordinary share	**118.1p**	117.1p
Gearing	**Nil**	52.6%

Movement in Shareholders' Funds

	1999 £m	1998 £m
Profit/(loss) attributable to shareholders	**9.5**	(38.4)
Dividends	**(10.6)**	(10.3)
Goodwill previously written off to reserves	**–**	52.0
New share capital subscribed	**0.5**	–
Other	**1.3**	(0.1)
Net increase to shareholders' funds	**0.7**	3.2
Shareholders' funds at beginning of year	**87.3**	84.1
Shareholders' funds at end of year	**88.0**	87.3

Summary Group Cash Flow Statement

	£m	1999 £m	1998 £m
INFLOWS			
Operating profit before interest		**15.9**	28.2
Depreciation		**13.5**	19.2
Movements in working capital		**(7.2)**	(21.4)
Other items		**(1.9)**	5.9
Cash from operations		**20.3**	31.9
Loans to share trusts repaid/(increased)		**0.3**	(0.4)
Proceeds from share issues		**0.5**	–
Cash inflow from disposals		**70.6**	–
		91.7	31.5
OUTFLOWS			
Repayment of/(inflow from) financing		**30.7**	(3.6)
Capital expenditure (net)		**17.6**	19.3
Investment and acquisitions	**15.6**		–
Less: Deferred payments	**(8.1)**	**7.5**	–
Interest and dividends paid		**12.2**	13.8
Tax paid		**7.9**	8.3
		75.9	37.8
Net cash inflow/(outflow)		**15.8**	(6.3)
Decrease/(increase) in bank loans and finance debt		**30.7**	(8.9)
Loan notes repaid		**–**	5.3
Movement in net debt in the year		**46.5**	(9.9)
Opening net debt		**(45.9)**	(36.0)
Closing net balance in funds/(debt)		**0.6**	(45.9)

Summary Directors' Report

The directors present this Summary Directors' Report and Financial Statement for the year ended 1st May 1999. It is a summary of the information contained in the Group Accounts.

This Summary Financial Statement does not contain sufficient information to allow for a full understanding of the results and state of affairs of the company and the Group. For further details the Group Accounts, which includes the directors' report and the auditors' report on the financial statements, should be consulted. Copies are available free of charge on request from the Company Secretary.

PRINCIPAL ACTIVITIES

The principal activities of the Group, including details on trading over the period and future prospects, are contained in the Chairman's Statement, Chief Executive's Review and Business Review on pages 2 to 15. The Financial Review on pages 16 and 17 comments on the Group's financial position including post-balance sheet events.

DIVIDEND

The directors recommend a final dividend of 11.0p (1998: 10.4p) per ordinary share to be paid on 29th October 1999 to shareholders on the register at the close of business on 8th October 1999. That dividend together with the interim dividend of 4.8p (1998: 4.8p) paid on 8th April 1999, will make a total distribution on the ordinary shares for the year of 15.8p (1998: 15.2p).

DIRECTORS

The names of the directors at the date of this report, together with biographical details, are listed on page 3.

On 7th November 1998 The Hon F R Noel-Paton retired as Deputy Chairman of the company. Mr D J Jenkinson relinquished his executive duties with effect from 30th April 1999. Mr M R Smith was appointed Group Finance Director on 5th July 1999. All the other directors held office throughout the year. Mr J D S Bennett will retire as a director on 31st July 1999.

CORPORATE GOVERNANCE

The Board supports the Principles of Good Governance contained in the Combined Code published in July 1998. Details of how the Group has applied these principles are contained in the Group Accounts.

DONATIONS

During the year donations totalling £172,107 to various charitable, community and arts organisations were made by the Group. In addition Early Learning Centre supported Save The Children Fund by the donation in October 1998 of £104,330 raised through product sales and in-store collections.

AUDITORS

The report of the auditors, PricewaterhouseCoopers, on the annual accounts of the Group for the year ended 1st May 1999 was unqualified and did not contain a statement under either sections 237(2) or 237(3) of the Companies Act 1985.

By order of the Board

Adair Anderson
Secretary
5th July 1999

Statement by the Auditors

to the members of John Menzies plc

We have examined the Summary Financial Statement set out on pages 18 to 21.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Summary Financial Statement is the responsibility of the directors. Our responsibility is to report to you our opinion on its preparation and consistency with the Group Accounts and Directors' Report.

BASIS OF OPINION

We conducted our work in accordance with Auditing Guideline *The Auditors' Statement on the Summary Financial Statement* adopted by the Auditing Practices Board.

OPINION

In our opinion the Summary Financial Statement is consistent with the Group Accounts and the Directors' Report of John Menzies plc for the year ended 1st May 1999 and complies with the requirements of Section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh
5th July 1999

Summary 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 five 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.

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.

DIRECTORS' REMUNERATION

Details of each director's remuneration including share options held and their shareholdings are set out in the table below.

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 The Hon F R Noel-Paton, Mr D J Mackay, Mr J D S Bennett and Mr D J Jenkinson.

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

The Hon F R Noel-Paton retired on 7th November 1998. A payment of £100,000 was made to him on retirement as a result of variations to arrangements made when he stepped down as Group Managing Director and was appointed Deputy Chairman in 1997. In addition, he purchased his company car at its net book value of £10,500.

Mr D J Jenkinson relinquished his executive responsibilities on 30th April 1999, and will continue as a non-executive director with additional roles involving consulting fees of up to £80,000 in 1999/00 and £20,000 in 2000/01.

Mr J D S Bennett will retire on 31st July 1999 on the grounds of ill health. Mr M R Smith, who joined the Group on 5th July 1999, has entered into a service contract which is terminable by the company on two years' notice if terminated before July 2000, reducing thereafter to one year's notice.

In addition to the above cash payments, the pension entitlements of each of the above directors who ceased office during the year have been increased within Inland Revenue limits as disclosed in the table below.

PENSIONS

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.

DIRECTORS' EMOLUMENTS

	Remuneration				Share options		Shareholding
	Salary/fees & benefits £'000	Bonus £'000	**Total 1999 £'000**	Total 1998 £'000	Granted in year	Total at 1st May 1999	at 1st May 1999
G B Reed	90	–	**90**	66	–	–	8,650
D J Mackay	277	–	**277**	448	2,310 *(3)*	205,310	14,728
J D S Bennett	189	45 *(1)*	**234**	237	2,310 *(3)*	136,310	13,182
D J Jenkinson	190	–	**190**	212	–	134,000	3,013,706
							2,640,539 *(4)*
							5,508,360 *(5)*
W R E Thomson	28	–	**28**	24	–	–	2,000
I C L Harrison	20	–	**20**	19	–	–	2,786,832
							2,640,539 *(4)*
							100,350 *(5)(6)*
C A Ramsay	20	–	**20**	19	–	–	2,026,151
							514,303 *(5)*
M J Walker	20	–	**20**	19	–	–	1,000
I M Callaghan	199	–	**199**	274	2,310 *(3)*	132,610	6,884
F R Noel-Paton *(2)*	201	–	**201**	177	–	N/a	N/a
			1,279	1,495			

(1) A special bonus of £45,000 was awarded during the year to Mr J D S Bennett in relation to the achievement of certain key operational targets.
(2) The Hon F R Noel-Paton retired from the Board on 7th November 1998.
(3) Options issued under the John Menzies savings related share option scheme.
(4) Joint beneficial interest.
(5) Non-beneficial interest.
(6) On 2nd June 1999 the non-beneficial holding of Mr I C L Harrison was reduced by 18,000 shares.

Shareholder Information

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 12.15pm on Friday 3rd September 1999 at the Adam Suite, George Hotel, 21 George Street, Edinburgh. A circular containing the Notice of Meeting has been sent to all shareholders, together with a proxy card.

INTERNET

The Group operates a website which is regularly updated to provide information about the company and each division. Copies of the Group's accounts together with recent announcements may also be found on this website. The address of the site is www.john-menzies.co.uk

SHARE PRICE

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

LOW COST DEALING

The company has arranged a low cost dealing service for those who wish to buy or sell John Menzies shares. For further details please telephone 0345 334 488 or write to:

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

REGISTRARS

Any enquiries concerning shareholdings in the company should be addressed to the company's Registrars:

IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent
BR3 4TU
Tel: 0208 639 2000

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

PAYMENT OF DIVIDENDS

It is in the interest of the shareholder 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:

Ordinary shares - interim	early April
Ordinary shares - final	end October
9% Preference shares	1st April and 1st October
8.58% Preference shares	20th June and 20th December

SHAREHOLDER ANALYSIS

At 6th July 1999	Ordinary shares Number	%
Directors	10,513,672	18.65
Substantial shareholders:		
D C Thomson & Co. Ltd	4,990,000	8.85
Mr J M Menzies	4,929,000	8.74
Mrs K P Slater	2,645,552	4.69
Mr D F Ramsay	2,639,878	4.68
Phillips & Drew Life Ltd	2,571,111	4.56
Mrs S J Speke	2,449,920	4.34
Legal & General Investment Management Ltd	1,750,253	3.10
Institutional and corporate holdings	18,318,674	32.49
Individuals	4,608,790	8.18
Employee benefit trusts	971,516	1.72
Total	56,388,366	100

INVESTOR RELATIONS

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

Adair Anderson, Company Secretary
John Menzies plc
Executive Offices
108 Princes Street
Edinburgh
EH2 3AA
Tel: 0131 225 8555
Fax: 0131 226 3752
E-mail: Cosec@menzies.force9.co.uk

Five Year Summary

Year to April	**1999* £m**	1998* £m	1997 £m	1996† £m	1995 £m
TURNOVER					
Continuing operations	**1,275.6**	1,256.2	1,130.1	1,121.0	975.3
Discontinued operations	**3.7**	286.8	287.3	292.4	282.7
	1,279.3	1,543.0	1,417.4	1,413.4	1,258.0
OPERATING PROFIT					
Continuing operations	**30.8**	34.4	35.4	35.8	39.1
Discontinued operations	**–**	4.7	(0.1)	3.0	(0.4)
PROFIT BEFORE INTEREST	**30.8**	39.1	35.3	38.8	38.7
Interest payable	**(2.2)**	(5.1)	(4.7)	(2.9)	(0.6)
PROFIT BEFORE TAXATION	**28.6**	34.0	30.6	35.9	38.1
SHAREHOLDERS' FUNDS	**88.0**	87.3	84.1	81.4	91.3
PER ORDINARY SHARE:					
Earnings after tax	**31.8p**	40.0p	33.6p	40.1p	44.6p
Dividends per ordinary share	**15.8p**	15.2p	13.8p	13.8p	13.2p
Dividend cover (times)	**2.0**	2.6	2.4	2.9	3.4
Capital employed	**118.1p**	117.1p	111.4p	106.1p	125.3p

* *Profits and calculations shown before exceptional items of £15.2m (1998: £62.6m)*

† *53 week year*

Note: Discontinued operations contain the results of Smythson of Bond Street (discontinued in 1999) and John Menzies Retail and Funsoft (discontinued in 1998).

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