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## Sir Noel Stockdale

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**S**ir Noel retires as Group Chairman in October this year, after 47 years of distinguished service to the Group, and as Chairman for the last 17 years.



Sir Noel has been deeply involved in all stages of developing the Group from its quite small beginnings. In 1965, he was instrumental in acquiring a local Yorkshire food retailer, which has developed into the country's leading superstore retailer, ASDA. And more recently he played a key role in the merger which led to the formation of the current ASDA-MFI Group.

Sir Noel not only has led the Group so successfully he also leaves with ASDA-MFI in excellent shape for the future.

The board, on behalf of all shareholders, management and staff, congratulate Sir Noel on the Knighthood so deservedly awarded to him, which very appropriately recognises his very wide achievements.



# ASDA-MFI GROUP PLC

## DIRECTORS

**Sir Noel Stockdale DFM**  
*Chairman*

**D S Hunt**  
*Chief Executive & Deputy Chairman*

**E G Bousfield MA**  
*Deputy Chairman*

**J N Hardman B COMM (Hons) FCA**  
*Deputy Chairman*

**P R Baines MA FCIS**

**A E Gardiner**

**D M Gransby BA (Hons) M Phil**

**E W Lea FCA**

**E E Binns FCA**  
*Non-executive*

**D L Donne MA**  
*Non-executive*

## SECRETARY

**P R Baines MA FCIS**

## AUDITORS

**Ernst & Whinney**  
Becket House, 1 Lambeth Palace Road  
London SE1 7EU

## REGISTERED OFFICE

**Craven House, Kirkstall Road**  
**Leeds LS3 1JE**

## REGISTRARS AND TRANSFER OFFICE

**National Westminster Bank PLC**  
Registrar's Department  
37 Broad Street, Bristol BS99 7NH

## BANKERS

**National Westminster Bank PLC**  
Leeds City Office  
8 Park Row, Leeds LS1 1QS

## STOCKBROKERS

**Scrimgeour Vickers & Co**  
20 Copthall Avenue, London EC2R 7JS

## FINANCIAL HIGHLIGHTS

53 weeks to 3 May 1986

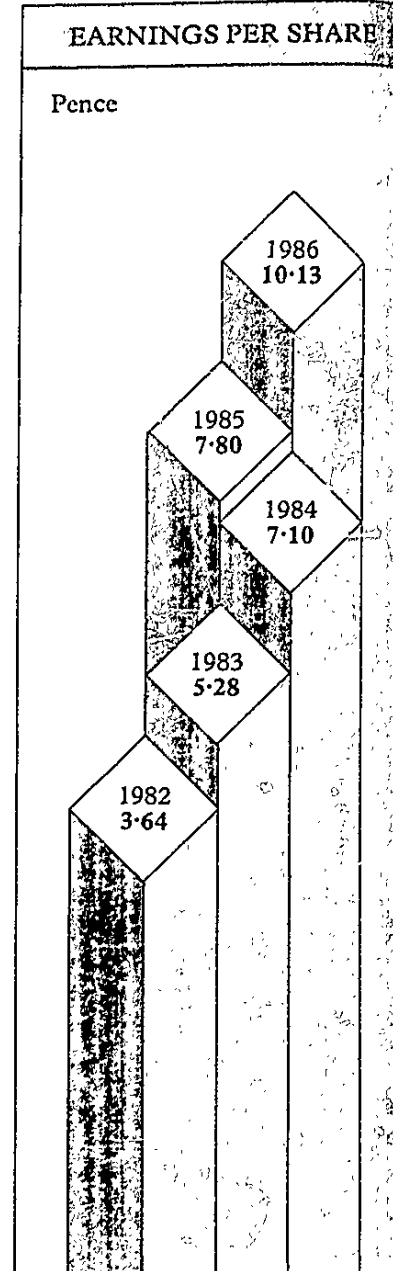
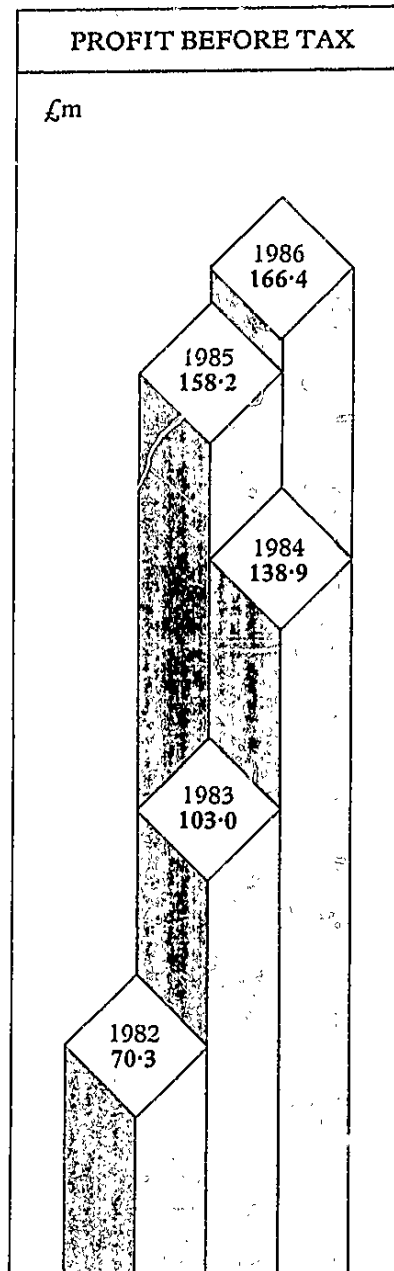
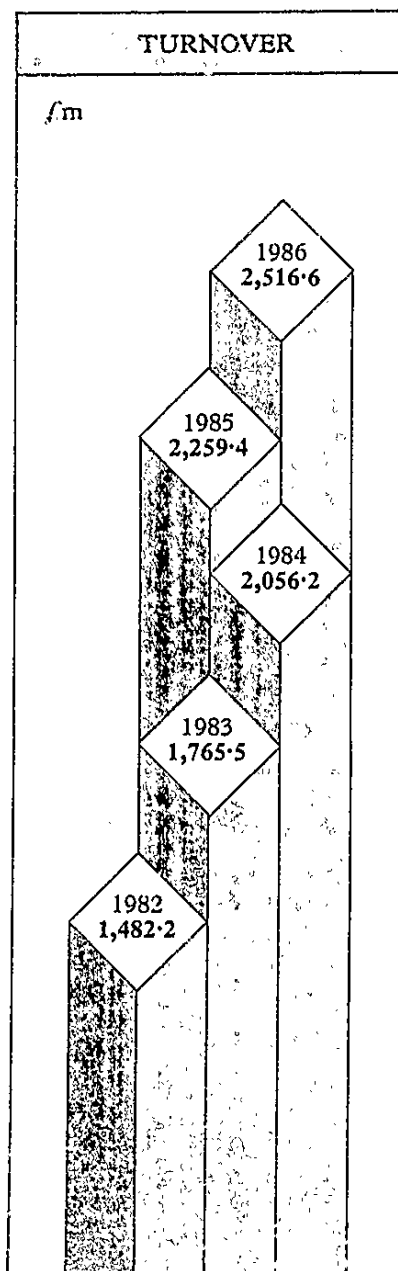
	1986 (53 Weeks) £m	1985 (52 Weeks) £m	% increase
TURNOVER	2,516.6	2,259.4	11.4
OPERATING PROFIT	165.1	157.3	5.0
PROFIT BEFORE TAX AND PROFIT SHARING	169.5	158.2	7.1
PROFIT SHARING	3.1	—	—
PROFIT BEFORE TAX	166.4	158.2	5.2
DIVIDEND PER SHARE—FINAL	1.90p	1.60p	18.7
—TOTAL	3.15p	2.76p*	14.1
EARNINGS PER SHARE	10.13p	7.80p	29.9

\* Comprises the total of individual Dividends paid by ASSOCIATED DAIRIES GROUP PLC and MFI Furniture Group plc.

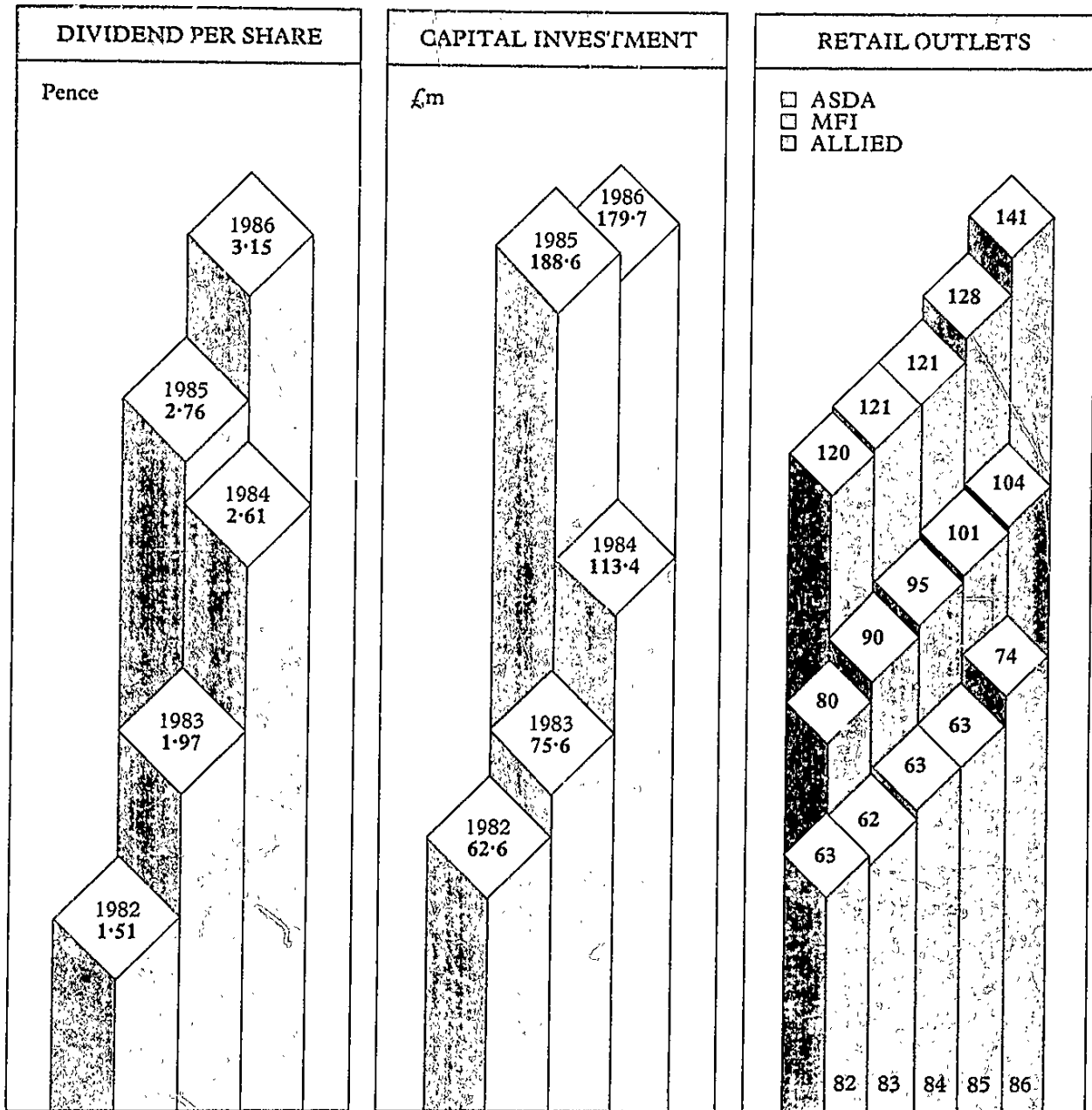
## FINANCIAL DIARY

ANNUAL GENERAL MEETING	29 October 1986
FINAL ORDINARY DIVIDEND	Payable 30 October 1986 to shareholders on the register at the close of business on 1 September 1986.
HALF YEAR RESULTS TO 15 NOVEMBER 1986	Announced January 1987
INTERIM ORDINARY DIVIDEND	Paid March 1987
PREFERENCE DIVIDENDS	Payable 1 January and 1 July

## FIVE YEAR PERFORMANCE CHARTS



## FIVE YEAR PERFORMANCE CHARTS



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## CHAIRMAN'S STATEMENT

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**I**t gives me great pleasure to announce profits, before tax and profit sharing, of £169.5m for the year to 3 May 1986. This is a very significant year for our Group since these profits include for the first time the results of MFI Furniture Group following the merger in May 1985. The comparable figure for profits last year was £158.2m after restatement in accordance with merger accounting policies. Turnover in the period was a record £2,516m, an increase of over 10%.

We have allocated £3.1m to our Group Share Participation Schemes and I am very happy to welcome as shareholders 21,269 of our employees, who benefit under the scheme for the first time. This scheme is a milestone in the Group's relations with our employees and constitutes a very significant step in the development of employee shareholders in our Group.

Your directors will recommend to shareholders at the Annual General Meeting on 29 October 1986 a final dividend of 1.9p per share. If approved, this dividend will be paid on 30 October 1986 to members appearing on the register on 1 September 1986, and will result in a total dividend payment for the year of 3.15p, compared to 2.76p for the previous year, an increase of 14%.

### Earnings per share

Earnings per share have advanced very significantly to 10.13p compared with 7.8p for the corresponding period last year, an increase of 30%.

Our taxation charge for the period of £51.5m compares with £69.9m last year, and gives an effective tax rate of 30% compared with 44%. You will see in the notes to the accounts that there is a significant prior year adjustment of £11m and deferred tax credit, which results from the Group's significant future capital expenditure plans.

We have also decided this year to capitalise interest on borrowings to finance specific property developments, to an amount of £7.6m before tax relief.

### Management

After the Annual General Meeting, Eric Binns will retire as a Non-Executive Director of the Group. From 1962 to 1977 during his 15 years in office as Group Managing Director, Eric played a prominent role in the growth of the Dairy and Asda Stores. It is my wish to pay a personal tribute for the enormous contribution he made to the growth of your Group.

In view of his increasing commitments, Harold Plotnek considered he could not easily fulfil his duties required as a Non-Executive Director, therefore regretfully tendered his resignation from the board with effect from 30 June 1986. Harold was determined to serve the Company until such times as Allied Carpets—which he founded—re-established itself on a firm trading foundation. I am extremely grateful for his support during his period in office.

Over the last year or so, we have made a series of new management appointments, to create a vigorous, talented and proven management team. This team has already made important changes in our business, to make us better able to meet the fast changing requirements of our customers.

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## CHAIRMAN'S STATEMENT continued

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We are fortunate that David Donne, a member of our board since early 1984, becomes non-executive Chairman in October this year. Derek Hunt, who has a remarkable track record of broad retailing achievement,



*Derek Hunt, Chief Executive and Deputy Chairman*

most recently as Chairman and Managing Director of MFI, was appointed Chief Executive in February. We are again fortunate in being able to deploy his talent and experience against the entirety of the ASDA-MFI Group.

I cannot mention all the individuals who have taken important management roles in the Group, because there have been so many of them. But I particularly wish to pay tribute to John Hardman and the management of ASDA. John took over at a most critical time and has created a very new look board, comprising a tough group of retailing professionals, and there have been substantial positive management changes at lower levels as well. The whole of the management is proud of the achievements they have made over the last year, and they are properly enthusiastic and confident about the future they are creating for the Company.

Finally, I wish to mention two appointments which further strengthen the Group's top management. In February of this year, Edward Lea was appointed Group Finance Director and John O'Connell, Managing Director of MFI.

### **Customer service**

We live in a time of rapid change and development in the needs, tastes and expectations of our customers. One vital area in which our customers are properly becoming much more demanding relates to the care, friendliness and efficiency of the service we provide.

To make sure we stay ahead in customer service, all member companies of the Group have placed top priority on training and motivating staff to attain and maintain the very highest standards of service. This programme of 'Customer Care' is now a permanent programme, aimed at achieving even higher levels of skills in customer service in the years ahead.

### **Product development**

1985/86 was, without doubt, the year in which throughout the Group the greatest efforts were made, and the greatest achievements recorded, in the development of the range of products we offer to our customers.

As already mentioned, the needs and tastes of our customers are constantly changing, and this fact offers enormous opportunities to us. We have, therefore, made substantial investments both in consumer research to establish exactly what products our customers wish to buy from us, and in market analysis, to identify the trends which will show up product areas with particular potential for growth.

We have then, in all parts of our business, developed new products and modified and extended product ranges, to satisfy the new customer requirements we have identified. This whole process will, of course, be permanent. Nonetheless, we envisage substantial improvements in sales and profits over the next few years as a result of the major efforts made during the last year or so.

### **Store design and layout**

ASDA, Allied and MFI have each made major progress in improving the design and layout of their stores. As a result, the new stores of each chain are more attractive and more convenient for our customers, and at the same time enable us to merchandise the products we sell more effectively.

The new design concepts will be applied to all new stores in the future, and to the high

## CHAIRMAN'S STATEMENT continued

proportion of our store network which is refurbished each year.

### Store network

During 1985/86, we increased the number of locations from which our retail companies trade from 292 to 319 representing an increase in total trading area from some 11 million sq. ft. to 12.2 million sq. ft. For the current year, we plan to achieve even greater growth, both in numbers of new stores and in total square footage.

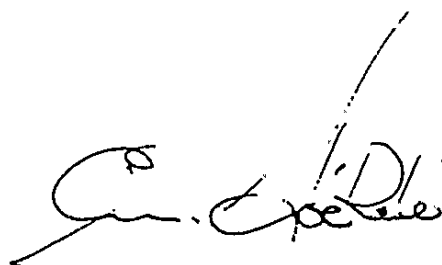
But it is not simply in terms of size that our store network has improved over the year. We remain committed to a massive, continuing refurbishment programme for our existing stores, to maintain their attractiveness to our customers, whose expectations increase permanently in this as in other areas.

### Conclusions

I retire as Chairman in October this year, and I wish to place on record in this statement my heart-felt thanks to all shareholders, managers, employees and suppliers, and my fellow directors, who have all supported me so ably over the last seventeen years.

In particular, I wish to congratulate the Group's management and staff on their efforts and achievements in the last full year of my Chairmanship. I have characterised this year as a year of positive change throughout the Group. The major advances recorded in so many aspects of our business were only possible as a result of the enthusiasm, flexibility and dedication of all.

I obviously experience many regrets at relinquishing the Chairmanship of ASDA-MFI. But I am happy to be able to do so with complete confidence in the future of the Group. I wish David Donne, who takes up the post of Chairman after the Annual General Meeting, Derek Hunt, our Chief Executive and all my colleagues every success in the future.



Sir NOEL STOCKDALE *Chairman*



**ASDA-MFI GROUP PLC**

**DIVISIONAL  
TRADING REVIEWS**

## ASDA STORES



John Hardman, *Managing Director and Group Deputy Chairman*

	1986 £m	1985 £m
Turnover	1,933.2	1,729.8
Operating profit	103.0	96.3

In 1985/86, Asda made substantial strides forward with the implementation of its Development Plan. This Plan was based on a fundamental re-examination of the Company's strengths and weaknesses and of its position in the marketplace. It involved a wide-ranging programme of market research, to ensure Asda is precisely positioned to meet

the needs of the modern consumer, today and in the future.

### Management

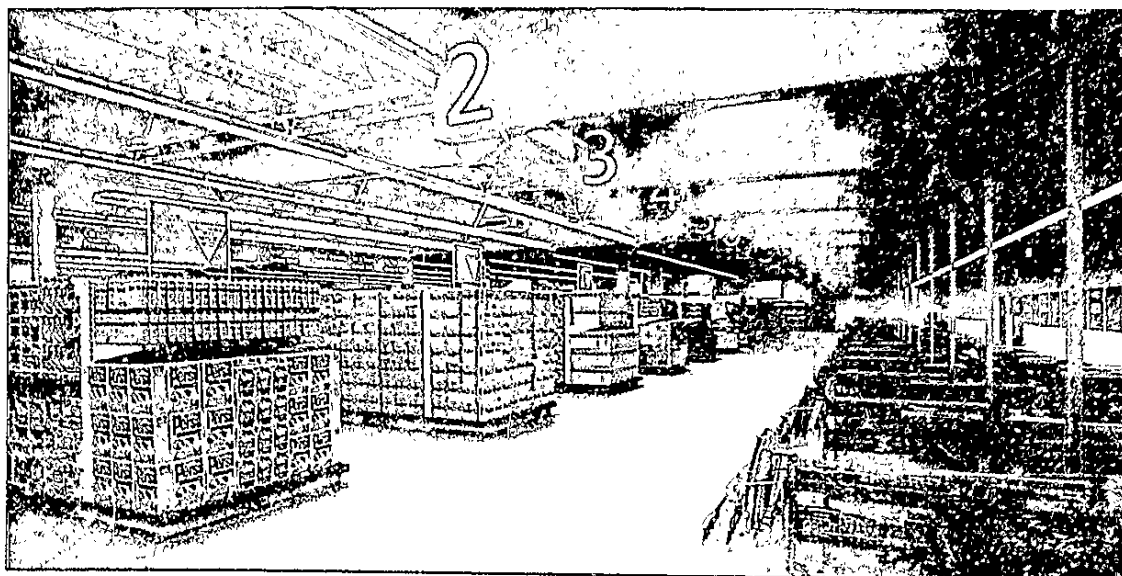
The strengthening of Asda's top management was a vital pre-requisite to the successful development and implementation of our Plan. Appointments to complement the existing team, at Board level and at Divisional Director level, were largely completed a year ago, so we now have a group of young yet experienced retailers at the head of the Company, who are committed to use all their talent and energy to drive forward our business aggressively.

### Product Offer

We have made wide-ranging changes to the food and grocery products we sell in our stores, based on consumer research to establish the rapidly changing needs and tastes of consumers, and on thorough market analysis to pin-point growth areas for the future.

We began with manufacturer brands, because there is no doubt that many of our customers wish to buy those manufacturer brands which offer excellent quality and value.

The results of this work has been the



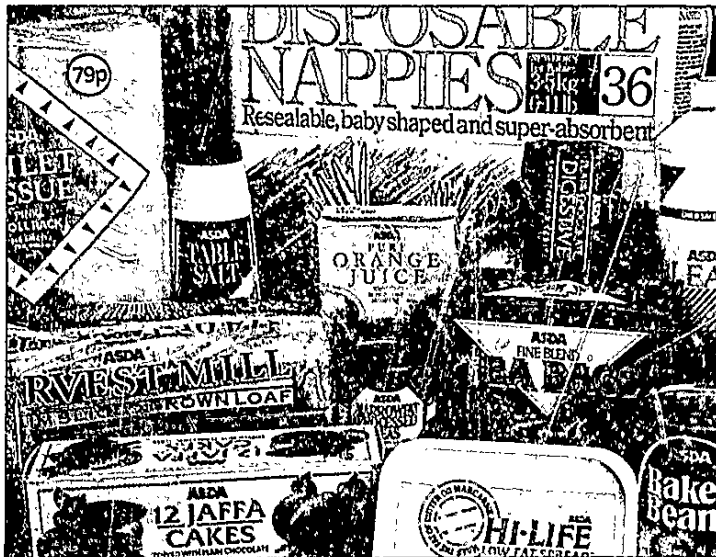
## ASDA STORES

continued improvement of healthy relationships with manufacturers to provide the range of brands, sizes and variants which our customers wish to buy. We remain committed to offering our customers the widest choice of manufacturer branded products at highly competitive prices.

We have also made major improvements to the total range of products we offer our customers with the initial launch of Asda Brands. These are all top quality, excellent value products, and we are confident that in many cases they are ahead of competitors' products in these vital areas.

This is the most comprehensive and rapid launch by any retailer of its own range of products, especially bearing in mind our continuing commitment to the highest quality standards.

The benefits to Asda of this range of Asda Brand products are very significant. They enlarge the choice of products to our customers and also offer them improved value for their money. This, in turn, works further to increase Asda's existing considerable customer loyalty. At the same time, they yield to Asda improved gross profit margins on the products themselves.



So the launch of the Asda Brand product range is proving to be very positive in its effect on our business. There are of course some significant extra costs, for example in packaging development, quality control and distribution, as well as in the teams of extra Buying and Marketing personnel required. In the past financial year, we successfully absorbed a major proportion of the pre-launch costs of Asda Brand, and the on-going costs pale in comparison with the benefits we are already gaining from the introduction of this important range.

*With 700 quality Asda Brand products already selling superbly, the launch of 1,800 more is being accelerated*

Our original plans were very ambitious, involving the launch of one thousand Asda Brand products by December 1986, and a further thousand by December 1987. We are in fact well ahead of that schedule, with seven hundred products already successfully launched since our start date in February, and with at least one thousand five hundred launched by December this year. By December next year, we will launch a further one thousand products, to give an Asda Brand range of at least two thousand five hundred products by that date.



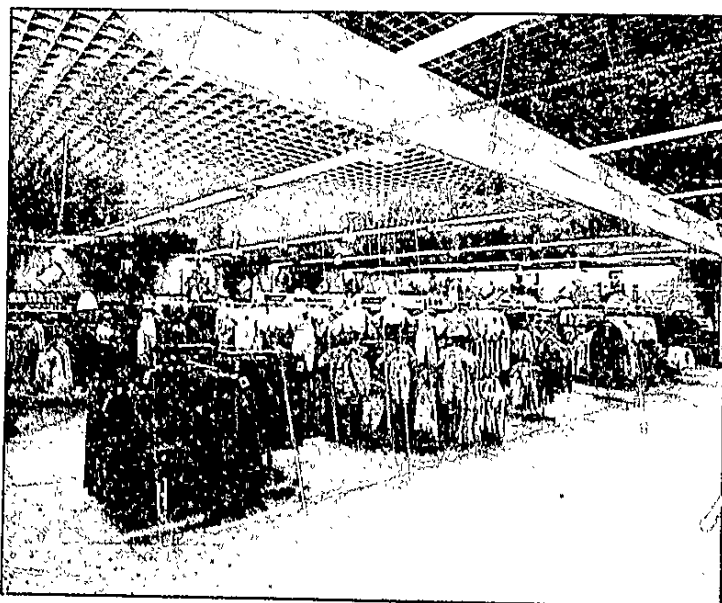
## ASDA STORES

In addition to the ambitious Asda Brand programme, we have made major gains in market share in fresh foods where our range and quality has been both expanded and improved. We are committed to the further development of this very important area of our business.

So we have already achieved much in the whole area of food and groceries and confidently expect continued rapid growth in the months ahead. More recently, we have focused attention on the vigorous development of non-food business, and the result in the form of a much improved product range will be evident later this year and into 1987.

continuing training programme on Customer Care to ensure that we stay well ahead in this vital area of our business.

One reason why we introduced this year the Share Participation Scheme within Asda is the importance we attach to motivating our staff to serve our customers in the friendliest and most efficient way possible. It is our conviction, and is clearly supported by the experience in MFI, that employees who have an equity stake in the Company are themselves much more committed to the Company's success and recognise the opportunity to help in that success, particularly by providing the best possible service to our customers.



### Store Layout and Design

A further substantial achievement by Asda during the year was the development of a much improved store layout and design which was tested in our Leamington Store.

The three main benefits from this new layout and design are improved product siting, shopping convenience and store environment.

As already discussed, research has shown clearly what products our customers want to buy from us, and which are

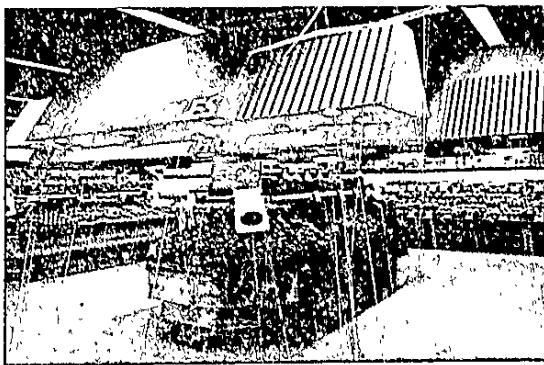
the growth areas within each range. The new store layout we have introduced enables us to allocate the appropriate amount of space to each product category in order to maximise the total sales potential from the whole store.

To make shopping more convenient for customers we have created three separate and distinctive shopping areas within the store. The non-food area is designed to encourage browsing, and products are merchandised in attractive surroundings. The second area is a straightforward, very clearly marked Hall which makes it easier for shoppers to

### Customer Care

One vital area where our customers are properly becoming more demanding is in customer service. Asda launched, less than a year ago, a major staff training and motivation scheme called Customer Care, and during the year every single member of store management and staff received initial and then follow up training under this programme. This has without doubt already contributed to much improved service to our customers and much improved standards in our stores. Furthermore, we will maintain a

## ASDA STORES



*Our new design provides extra space for the attractive display of an increased range of fresh foods*



find and buy their regular grocery requirements. The third area is for fresh food, and the design enhances the attractiveness of the products on sale and provides space for increased ranges.

I should also say that whilst carrying out these changes to store layout we have taken great care to improve the preparation areas as well so that we can ensure the very highest quality standards for the fresh food products which are prepared on our premises.

Finally, we have improved the attractiveness of the total shopping environment because that is exactly what today's demanding consumer expects. We conducted extensive research into different design approaches and from that research we developed the design approach which is now clearly right for Asda in the late Eighties and Nineties.

The changes in design and layout which we have achieved have proved to be very successful, as evidenced by the fact that our Leamington store has already satisfactorily

increased sales by 10%, compared with last year and continues to thrive. We are now planning the refurbishment of each of our stores, to the extent justified by its potential. We expect this level of refurbishment to be completed throughout our store network within the next three years.

## One-Stop Shopping

In many instances we have spacious lobbies and shopping units in our stores and in these areas we are successfully developing the concept of adjacent retailing by making available space to independent retailers of services and goods which are complementary to those we provide within the store.

We are also involved in two joint ventures—Asdadrive and Asda Property Shops—which demonstrate our interest in further broadening the base of our business, while increasing the range of goods and services available to our customers in one location.



## Store Network Development

We are committed to the aggressive development of our store network, and have substantially increased our efforts in this area over the last two years. However, lead times for new stores are usually quite lengthy because of the planning process, so last year we were only able to open three stores in new locations and relocate a fourth store to bigger



better premises. This programme increased our total square footage from under 6.7 million to just over 7 million sq. ft.

In 1986/87, our increased efforts will bear more fruit. We will open a minimum of eight stores in new locations, and increase gross square footage by nearly 800,000 sq. ft. to some 7.8 million sq. ft. We already have a building programme of eleven stores for 1987/88, and we may well be able to add to that number in the intervening period.

Very importantly, this building programme incorporates an increasing shift to excellent sites in the South of England. This area offers great opportunities to us, not only because of the averagely higher disposable incomes, but also because of the much lower superstore development in the South of England. So we are very optimistic indeed about the prospects for increased sales and profits from such high potential sites as the M1-M25 interchange at Watford; Finchley Road, on the main Northern exit from London; the A5 Edgware Road site at Colindale; the Slough exit on the M4; the Hillingdon by-pass; the A3 Kingston by-pass at Roehampton; the Ipswich by-pass; Bedminster in Bristol; and Brighton.

## Conclusion

The management and staff of Asda have made major achievements during the year, thanks to their thorough planning and enthusiasm and commitment to the business. The results of their efforts are already showing through, and we are confident of even greater successes in the future.

## MFI FURNITURE GROUP



John O'Connell, *Managing Director*

	1986 £m	1985 £m
Turnover	386.0	325.2
Operating profit	46.3	43.2

MFI achieved, by its own standards, only modest growth in operating profits—up 7.1%, turnover was up 18.7%. These results reflect substantial investments in building and launching new and relocated stores, in extending smaller stores, and

refurbishing older stores. Further heavy investment for the future was incurred in extending the range of products stocked, in line with our intention of becoming complete home furnishing superstores.

### Product Developments

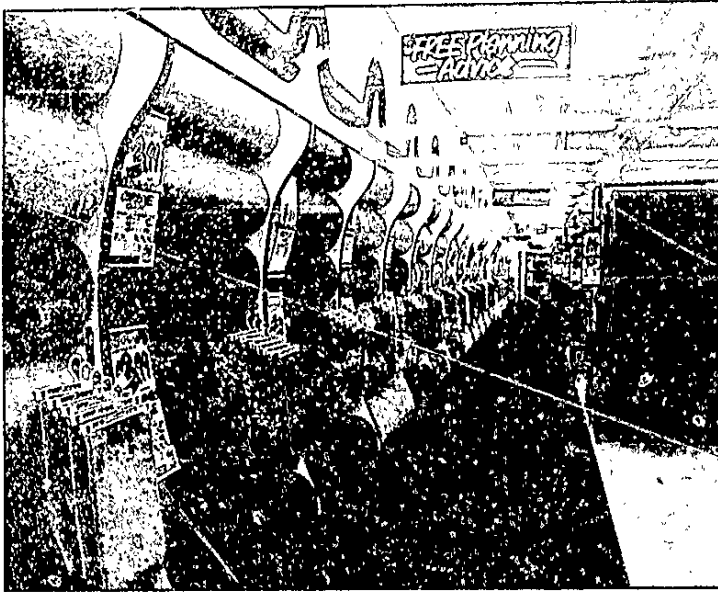
At the beginning of the year, carpets were sold in just seven MFI stores; by the year end, the number of carpet stores had increased to seventy seven. The range of carpets had likewise been extended substantially, with a number of carpet ranges now being exclusively designed and manufactured for MFI. The range of vinyl flooring, bought largely for use in kitchens, was also developed to take advantage of the opportunities offered to sell this range along with kitchens, where MFI enjoys a dominant position.

MFI successfully launched lighting and textile sections into fourteen stores. These products will be extended to the majority of all stores during the current year.

*The new superstore at Liverpool*



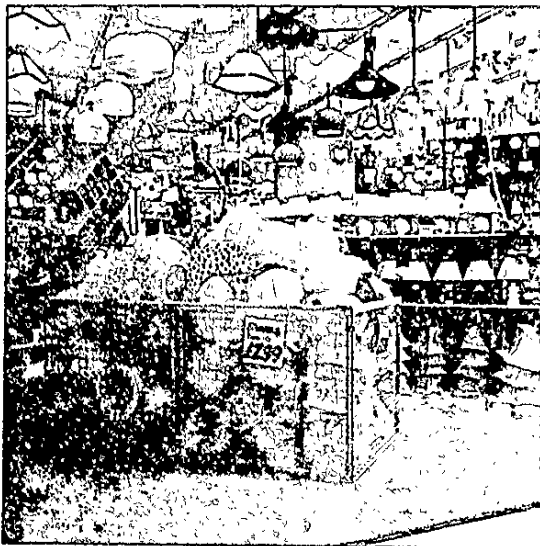
## MFI FURNITURE GROUP



*Carpets were extended to seventy-seven stores during the year*

A new range of very attractive bedrooms was introduced on a test basis in Spring 1986, with highly encouraging results. Further tests confirmed their wide appeal to our customers, so the new bedrooms are being rapidly launched to all stores at the present time.

A further innovation has been the launch of a



*Lighting sections were successfully tested in fourteen stores*

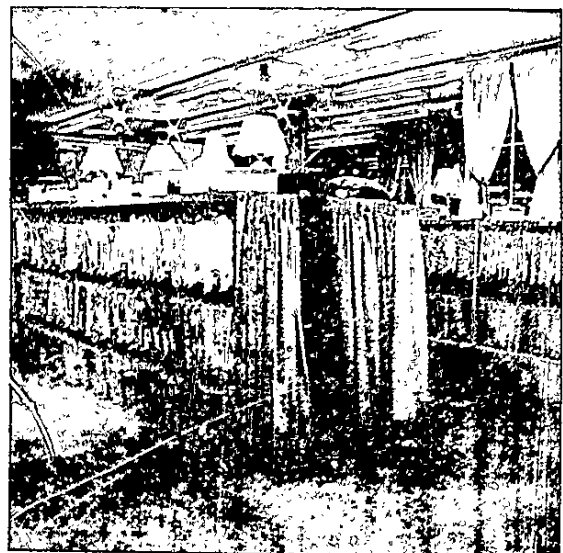
kitchen fitting service, in which customers buy ready-to-assemble kitchens, and use carefully selected and supervised fitters appointed by MFI to install the kitchens. We have already conducted one advertising campaign for this service, which has been effective in enlarging our market by attracting customers who previously would not have bought from MFI. Based on the success of this service, a similar bedroom fitting service will be introduced during the current year.

### Store Design

MFI has achieved major advances in store layout and design during the year, with the

objectives of improving the quality and convenience of the shopping environment for our customers while at the same time ensuring more effective display of our merchandise, to build sales and profits.

Experimental layouts and decor have been introduced into two stores, and a thorough



*Textile sections are a further step towards becoming complete home furnishing superstores*



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## MFI FURNITURE GROUP

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research programme has shown a very positive response from both customers and staff. Further design work based on the lessons learnt already will be reflected in stores to be opened during the current year.

### **Store Network Development**

During the year, MFI maintained its vigorous programme of extending and improving its network of superstores. Eleven stores were opened in new locations, and in a further eleven locations, MFI moved from unsatisfactory premises into larger, better stores. In addition, eight stores were extended, and fourteen stores were extensively refitted.

So, by the end of the year, around one third of the current network was located in stores which were newly opened during the year, or were refurbished or extended during the year.

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*The new bedroom ranges have met with an enthusiastic response*

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A similar expansion and improvement of the store network is planned for the current year.

### **USA**

Four further stores were opened in the Philadelphia area, towards the end of the year, making a total of five, which gives us sufficient presence to conduct a meaningful test operation in this vast and highly attractive market. We will need to trade in Philadelphia for some time before we can be certain of the potential.

### **Staff**

It will be clear from the foregoing that we made enormous demands on all our staff during the year, particularly as a result of developments in our store network, and of

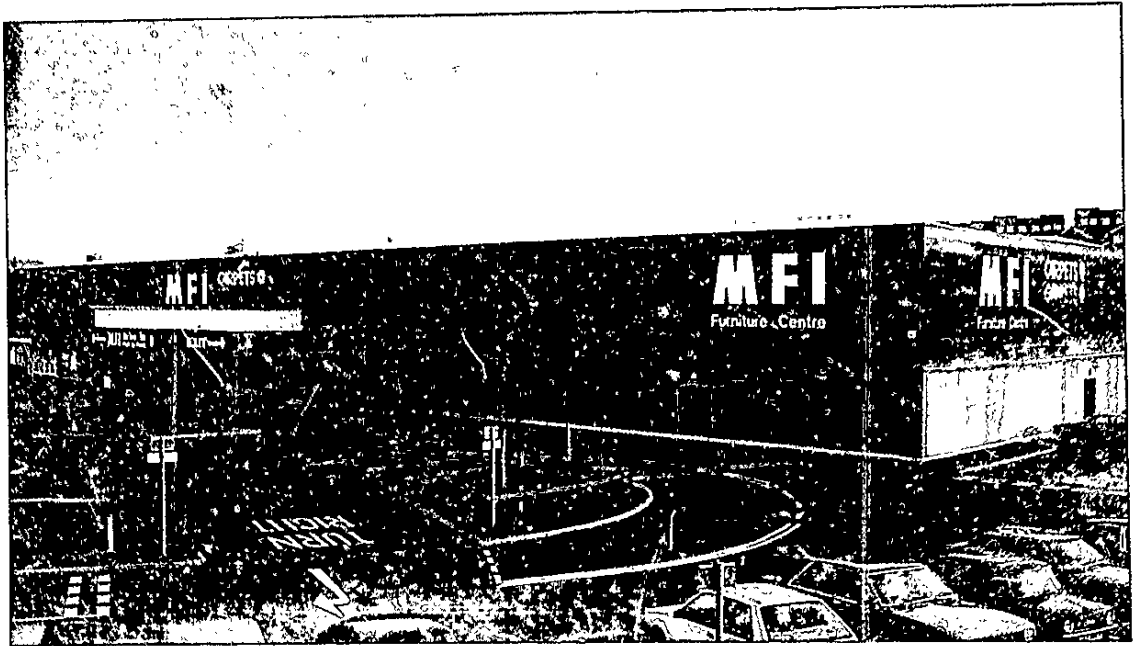
## MFI FURNITURE GROUP

new product introductions. As we have grown to expect, they responded superbly to the challenges placed before them.

### Conclusion

1985/86 was a year of substantial achievement for MFI, particularly in the areas of extending and improving both the product range and the store network. We look forward to continued growth in the coming years.

*The new superstore at Dudley*



## ASSOCIATED FRESH FOODS



Tony Gardiner, *Managing Director*

	1986 £m	1985 £m
Turnover	178.0	173.3
Operating profit	12.3	11.4

For Associated Fresh Foods, 1985/86 was, as expected, a year of continued change: change in consumer tastes and preferences; change in retailer requirements, particularly regarding their own brands; change resulting from EEC action to reduce surpluses of milk products.

This business climate imposed great demands on our management and staff, particularly in the areas of adaptability and flexibility, as well as requiring a sustained new product development programme. It is greatly to their credit that they achieved increased sales and profits in these circumstances, and we offer them our thanks for their continuing dedication and commitment to the business.

### Liquid Milk

Total milk consumption declined a little further during the year, and the proportion of milk delivered to the doorstep also reduced somewhat. Our liquid milk

business adapted well to this changing market, particularly by promoting a wider range of products appropriate to doorstep delivery. The resulting sales improvement coupled with effective cost control led to higher profits, and we view the future of this business with confidence.

### Milk Products

Availability of milk to our creameries was somewhat depressed for much of the year, although this situation improved significantly by the end of the year. However, further EEC action appears likely to further reduce milk supplies slightly in the current year.

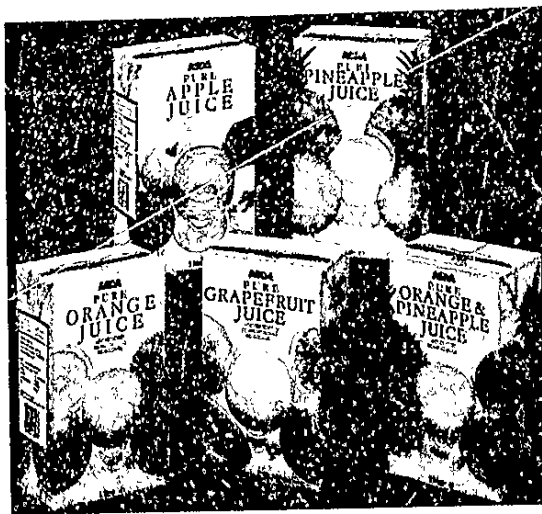
Lakeland Creameries has now brought onstream new facilities for increased production of ice cream and yogurts.



*Luxury yogurt range recently introduced into Asda*



# ASSOCIATED FRESH FOODS



*Range of Asda 'own-label' fruit juices*

Towards the end of the year, we contributed substantially to the successful development and launch of Asda Brand products, and we expect this addition to our range of products will considerably increase our sales volume in the future.

## Meat Products

In 1985/86, Meat Products traded in a highly competitive market, created by over-capacity in the industry, and rapid changes in consumer eating habits.

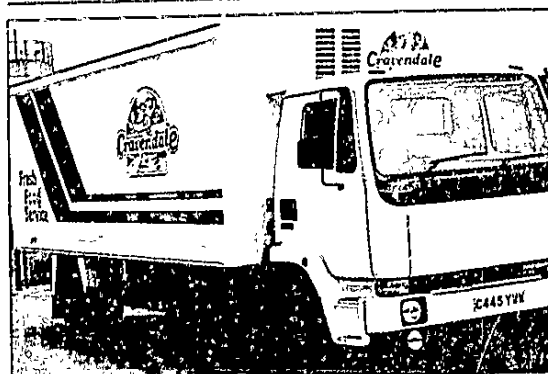
We have been heavily involved in the development of meat products in the growth areas created by these changed eating habits, while at the same time creating products for Asda Brand.

## Sales and Distribution

The division increased profits substantially, as a result of the rationalisation programme within van sales of the previous year. Costs were also cut during the year by a further series of productivity improvements, including for example the amalgamation of

the vehicle fleets at Normanton, Warwick and Lofthouse. We are already benefiting from the distribution of Asda Brand products, manufactured both by Associated Fresh Foods and by external suppliers, and in view of the planned growth of Asda Brand we look to this source for additional growth in the future.

*New livery for Cravendale Brand distribution*



## Conclusion

Adaptability and flexibility have been the cornerstone of our profit performance in 1985/86. We are confident that these characteristics, coupled with the exploitation of the opportunities created by the changes taking place in our markets, justify an optimistic view of the year ahead.



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## ALLIED

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Joe Saracine, *Managing Director*

	1986 £m	1985 £m
Turnover	94.7	82.0
Operating profit	7.5	7.3

For Allied, 1985/86 was a year of investment for the future, when major advances were made in transforming the Company from a predominantly High Street retailer of carpets, to a more aggressive chain, incorporating larger premises, many of them

out-of-town, and selling a much wider range of home furnishings than just carpets. Shopfitting and launch costs were substantial, particularly in the second half. These costs, coupled with low demand throughout the carpet market, meant that in this first year there was little increase in profits. Nonetheless, we are confident that the investments already made promise well for the future.

### Product Developments

We have supported our basic carpet business strongly during the year, by increasing and improving the range and depth of the carpet collection.

Curtain sales continued to grow strongly, so the range of curtains was also increased to capitalise on this success.

Beds are selling so well in eighteen of our larger stores, that we will certainly stock this product in all our larger new stores. A test of lounge suites in our new Blackpool superstore

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*The new superstore at Bradford*

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relocated. With three closures, the network increased from sixty-three to seventy-four. Additionally, fourteen stores were refurbished.

Of particular significance was the opening in Blackpool of our first superstore. Results have been up to our highest expectations, and we have subsequently opened a further three similar superstores.

For the current year, we plan broadly similar levels of activity in further developing our store network.

was so encouraging that we have already extended them to several other stores. Lounge suites will be sold by over thirty Allied stores by the end of the current year.

## Store Design

Our new store design has proved to be very popular with customers and with staff, and has been applied to all stores opened during the year. All new stores will feature the new design, which will be extended progressively to all existing stores as well.

## Store Network Development

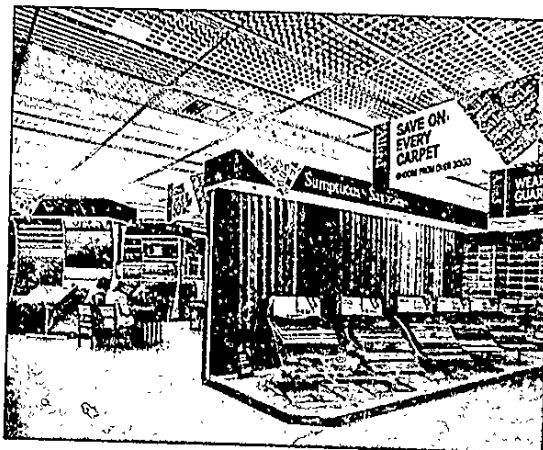
The Allied store network was developed vigorously during the year. Twelve totally new stores were opened, and two others

## Staff

We wish to thank our staff for coping so enthusiastically and effectively with all the changes we have introduced throughout the year. Their response has been particularly heartening in view of the difficult trading conditions experienced.

## Conclusion

This has been a tough year for Allied, with demand in our main carpets market subdued. Nonetheless, expansion of our product range, and improvements to and enlargement of our store network have created a very soundly based business, with great potential for substantial future growth.



ASDA-MFI GROUP PLC

**DIRECTORS' REPORT  
AND ACCOUNTS**

## DIRECTORS' REPORT

The directors submit their report and the Company's balance sheet at 3 May 1986 together with the Group accounts for the fifty-three week period ended on that date.

### Change of name

On 1 November 1985 the name of the Company changed from ASSOCIATED DAIRIES GROUP PLC to ASDA-MFI GROUP PLC.

### Group profit and loss account and dividends

The Group profit and loss account appears on page 29. Profit for the period after allocation to share participation schemes, taxation and extraordinary items amounted to **£114.9 million** (1985: £88.7 million) and there remains a net profit attributable to the Group of **£114.7 million** (1985: £88.5 million) after payment of preference dividend of **£0.2 million** (1985: £0.2 million).

The directors recommend that this amount be dealt with as follows:

	1986	1985
	£m	£m
Ordinary dividends		
Interim paid	14.2	13.1
Proposed final	21.6	18.1
Transfer to reserves	78.9	57.3

On 21 July 1986 the directors recommended a payment of a final dividend on the ordinary shares of **1.90p** per share for the period. If approved this dividend will be posted on 30 October 1986 to members appearing on the register on 1 September 1986.

### 9½% Bond issue due 2002

On 15 May 1986, the Company issued £100 million of 9½% Bonds at 99½% of nominal value, redeemable on 15 May 2002. The principal amount is payable in two instalments as to 35% on 15 May 1986 and 64½% on 30 July 1986.

The definitive Bonds in bearer form will be in denominations of £1,000 and £10,000 and will attract interest from 15 May 1986. Interest will be payable annually in arrears.

The Bonds are subject to a Trust Deed dated 15 May 1986 between the Company and The Law Debenture Trust Corporation p.l.c. and are listed on the London Stock Exchange.

The net proceeds of the issue of the Bonds, amounting to £97 million will be used by the Group to finance the expansion of its activities.

### Principal activities and review of business developments

The principal activities of the Group are the retailing of food and related non-food products, furniture, carpets and other furnishings, together with the processing of dairy and other food products.

A review of the development and activities of the business of the Company and its subsidiaries during the financial period is contained in the chairman's report and the trading reviews which are adopted as part of this report.

On 14 May 1985, the Company made unconditional its offer to acquire the whole of the issued ordinary share capital of MFI Furniture Group plc. The terms of the offer were 15 ordinary shares of 25p each in the Company for 8 ordinary shares of 10p each held in MFI with a cash alternative of 270p per ordinary share in that company. The transaction involved the issue of 338.2 million ordinary shares in the Company, together with cash payments totalling £53.3 million.

### Future developments

The Group continues to expand into new areas of merchandise where considered appropriate and plans to continue physical expansion of retail stores and manufacturing units as and when the opportunity arises. Reference is made to these matters in the chairman's report and the trading reviews.

### Research and development

Group policy is to invest in product innovation and process improvement at a level designed to enable it to retain and enhance its market position.



## DIRECTORS' REPORT

### Fixed assets

The following net additions have been made during the period to the fixed assets of the Group:

	£m
Freehold land and buildings	41.8
Leasehold property	34.5
Plant, equipment, machinery and vehicles	41.2

Capital work in progress increased during the year by £30.6 million.

The movements of fixed assets are set out in note 14 in the notes to the accounts on page 37.

### Directors and their interests

The following is a list of present directors of the Company who were directors during the period, together with their beneficial interests, including family interests in the ordinary shares of 25p each fully paid of the Company.

	July 1986	May 1986	April 1985 (or date of appointment, if latter)
Sir Noel Stockdale	2,568,992	2,568,992	2,560,958
D S Hunt	128,570	128,570	128,570
P R Baines	150,000	150,000	168,000
E E Binns	52,967	52,967	152,967
E G Bousfield	637,164	647,164	651,164
D L Donne	4,200	4,200	4,200
A E Gardiner	92,320	92,320	92,320
D M Gransby	6,000	6,000	12,000
J N Hardman	10,000	10,000	47,664
E W Lea	128,569	128,569	128,569

In addition to the above, Sir Noel Stockdale beneficially holds 220 9-75% cumulative preference shares of £1 each fully paid and Mr E G Bousfield has a non-beneficial interest in 150,037 ordinary shares of 25p each.

Messrs D S Hunt and E W Lea respectively held 19,532 and 17,419 ordinary shares in the Company as a result of their interest in the MFI Share Participation Scheme.

Options held by directors not exercised at 3 May 1986 were as follows:

	Executive Share Option Schemes			Savings Related Share Option Scheme
	1974	1981	1984	
D S Hunt	—	—	226,382	—
P R Baines	—	17,778	50,000	1,446
E G Bousfield	—	17,778	—	7,233
A E Gardiner	—	35,555	166,955	12,285
D M Gransby	51,812	48,117	148,130	4,978
J N Hardman	—	95,288	194,792	7,154
E W Lea	—	—	187,304	—

Messrs D S Hunt and E W Lea were appointed directors of the Company on 14 May 1985.

Messrs D Drew and H Plotnek resigned as directors of the Company on 30 January 1986 and 30 June 1986 respectively.

Pursuant to Article 94 of the Company's articles of association Messrs E G Bousfield and P R Baines retire by rotation and being eligible offer themselves for re-election at the forthcoming annual general meeting.

Messrs E G Bousfield and P R Baines have service contracts subject to two years' notice, not to expire before 31 August 1986.

Having served as Group Managing Director and Vice Chairman of the Company for 15 years and as a Non-executive director for 9 years, Mr E E Binns is retiring from the office of director at the conclusion of the annual general meeting on 29 October 1986.

## DIRECTORS' REPORT

At the conclusion of the annual general meeting Sir Noel Stockdale retires as Chairman and will cease to hold the office of director. He will be succeeded as Chairman by Mr D L Donne. Sir Noel Stockdale has agreed to accept the honorary title of President.

No director had any interest during the period in any significant contract with the Company or any subsidiary.

### Employees

The average number of persons employed by the Group during the period including part time employees was 41,305 (1985: 39,425).

### Employee policies

It is the Group's policy that employees should be kept as fully informed as is feasible and practicable about what and how the Group is doing through the media of its management associations, trade union consultative machinery, 'team briefings', Company newspapers, the annual employee financial report and regular visits by directors.

The Group is committed to the continuing development of its Equal Opportunities Policies.

Employees are encouraged to be involved in the Group's performance through the Executive Share Option Schemes, the Savings Related Share Option Scheme and the newly introduced Share Participation Schemes.

Details of the shares issued and options to subscribe for shares outstanding under the Executive Share Option Schemes and the Savings Related Share Option Scheme are shown in note 23 to the accounts on page 41.

### Share participation

Following the passing of the ordinary resolution at the extraordinary general meeting on Wednesday 30 October 1985, the Group's Share Participation Schemes have received approval by the Inland Revenue under the Finance Act 1978 and appropriations representing 24% of relevant earnings of eligible employees will be made under the schemes out of profits for the financial year ended 3 May 1986.

### Disabled persons policy

It is Group policy to give full consideration to suitable applications for employment by disabled persons. Opportunities also exist for the Group's employees who become disabled to continue in their employment or to be trained for other positions in the Group's employment.

### Charitable donations

During the period charitable donations amounting to £216,494 (1985: £85,585) were made by the Group.

### Substantial holdings

So far as the directors are aware, no person, company or group of companies holds or is beneficially interested in 5% or more of the issued capital of the Company.

### Income and Corporation Taxes Act 1970

The 'Close Company' provisions of the Income and Corporation Taxes Act 1970 do not apply to this Company.

### Auditors

The Company's auditors Ernst & Whinney have expressed their willingness to continue in office. In accordance with Section 384 of the Companies Act 1985 a resolution proposing the re-appointment of Ernst & Whinney as auditors of the Company will be put to the members at the annual general meeting.

## DIRECTORS' REPORT

### Annual General Meeting—Special Business

The notice of annual general meeting on page 44 includes a resolution relating to the Company's share capital. This is similar to a resolution passed at the last shareholders' meeting.

Under Section 80 of the Companies Act 1985 the directors are not allowed to allot shares unless they are authorised to do so by shareholders and this authority was given for 5 years at last year's annual general meeting.

Section 89 of the Act gives shareholders the right to participate on a pro rata basis in all issues of equity shares for cash unless they agree that this right should be excluded. The effect of resolution number 5 of the agenda is that this right will be excluded to a limited degree. The directors consider that it is appropriate for this authority to be granted and recommend shareholders to vote accordingly.

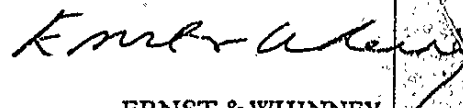
21 July 1986

By order of the board  
P R BAINES Secretary

## AUDITORS' REPORT

**W**e have examined the accounts of ASDA-MFI GROUP PLC set out on pages 29 to 43. These have been prepared under the historical cost convention as explained in note 1(a). Our audit has been carried out in accordance with approved auditing standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group, so far as concerns members of the Company, at 3 May 1986, and of the profit and source and application of funds of the Group for the 53 weeks then ended and comply with the Companies Act 1985.



London  
21 July 1986

ERNST & WHINNEY  
Chartered Accountants

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the fifty-three weeks ended 3 May 1986

		1986	52 weeks ended 27 April 1985
	Note	£m	£m
Turnover	3	2,516.6	2,259.4
Change in stocks		26.3	25.1
Other operating income		16.6	15.9
		<u>2,559.5</u>	<u>2,300.4</u>
Raw materials and consumables		1,957.6	1,752.2
Staff costs		220.5	192.5
Depreciation of tangible fixed assets		34.9	30.2
Other operating charges		181.4	168.2
		<u>2,394.4</u>	<u>2,143.1</u>
Operating profit	4	165.1	157.3
Other income	6	5.8	7.9
Interest payable and similar charges	7	(1.4)	(7.0)
Profit before tax and profit sharing		169.5	158.2
Profit sharing	8	3.1	—
Profit on ordinary activities before taxation		166.4	158.2
Taxation	9	51.5	69.9
Profit after taxation		114.9	88.3
Extraordinary items	10	—	0.4
Profit available for appropriation		114.9	88.7
Dividends	11	36.0	31.4
Retained profit	24	78.9	57.3
Earnings per ordinary share	12	10.13p	7.80p

# BALANCE SHEETS

at 3 May 1986

		Group		Company	
	Note	1986 £m	1985 £m	1986 £m	1985 £m
<b>Fixed assets</b>					
Intangible assets	13	1.7	1.7	—	—
Tangible assets	14	650.0	528.9	2.2	0.2
Investments	15	0.4	0.4	266.0	172.6
		<u>652.1</u>	<u>531.0</u>	<u>268.2</u>	<u>172.8</u>
<b>Current assets</b>					
Stocks	16	184.8	158.5	—	—
Debtors	17	39.8	44.0	247.8	182.1
Debtors on deferred terms		1.1	5.5	—	—
Investments	18	8.0	39.8	4.0	18.5
Cash at bank and in hand		28.3	28.2	—	—
		<u>262.0</u>	<u>276.0</u>	<u>251.8</u>	<u>200.6</u>
<b>Creditors—amounts falling due within one year</b>	19	(404.3)	(380.9)	(127.3)	(79.5)
<b>Net current (liabilities)/assets</b>		<u>(142.3)</u>	<u>(104.9)</u>	<u>124.5</u>	<u>121.1</u>
<b>Total assets less current liabilities</b>		<u>509.8</u>	<u>426.1</u>	<u>392.7</u>	<u>293.9</u>
<b>Creditors—amounts falling due after more than one year</b>	20	(49.9)	(42.2)	(0.3)	(5.9)
<b>Provisions for liabilities and charges</b>	21	(30.4)	(35.1)	(1.2)	(0.1)
<b>Accruals and deferred income</b>	22	(2.1)	(2.1)	—	—
		<u>427.4</u>	<u>346.7</u>	<u>391.2</u>	<u>287.9</u>
<b>Capital and reserves</b>					
Called up share capital	23	285.9	284.9	285.9	200.3
Reserves	24				
Share premium account		2.8	1.1	2.8	0.9
Revaluation reserve		—	—	38.8	40.7
Related company reserves		0.3	0.3	—	—
Profit and loss account		138.4	60.2	63.7	46.0
		<u>427.4</u>	<u>346.5</u>	<u>391.2</u>	<u>287.9</u>
<b>Shareholders' funds</b>					
		<u>427.4</u>	<u>346.5</u>	<u>391.2</u>	<u>287.9</u>
<b>Minority interests</b>		—	0.2	—	—
		<u>427.4</u>	<u>346.7</u>	<u>391.2</u>	<u>287.9</u>

SIR NOEL STOCKDALE  
EDWARD LEA

} Directors

21 July 1986

# STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the fifty-three weeks ended 3 May 1986

Source of funds	1986		52 weeks ended 27 April 1985	
	£m	£m	£m	£m
<b>From operations</b>				
Profit before taxation		166.4		158.2
Extraordinary items excluding taxation		—		1.8
		<u>166.4</u>		<u>160.0</u>
Adjustment for items not involving movement of funds				
Goodwill written off directly to reserves	—		(2.8)	
Depreciation	34.9		30.2	
Government grant credit	(0.3)		(0.2)	
		<u>34.6</u>		<u>27.2</u>
<b>Total generated from operations</b>		<u>201.0</u>		<u>187.2</u>
<b>From other sources</b>				
Shares issued for value		1.8		8.9
Government grants received		0.3		0.3
		<u>203.1</u>		<u>196.4</u>
<b>Funds applied</b>				
Dividends paid	32.5		30.5	
Taxation paid	69.5		50.4	
Net purchases of fixed assets	156.1		165.8	
Intangible assets	—		0.2	
		<u>(258.1)</u>		<u>(246.9)</u>
		<u>(55.0)</u>		<u>(50.5)</u>
<b>Decrease in working capital</b>				
Increase in stocks		26.2		25.0
Decrease in debtors excluding taxation		(5.5)		(26.6)
Decrease in debtors on deferred terms		(4.4)		(7.8)
Increase in creditors excluding taxation, bank overdrafts and dividend		(10.6)		(53.1)
Movement in net liquid funds		(28.7)		50.7
Increase/(decrease) in cash and bank balances		(32.0)		(38.7)
Decrease in short term investments		<u>(55.0)</u>		<u>(50.5)</u>

In accordance with the principles of merger accounting the above statement incorporates MFI Furniture Group plc.

## NOTES ON THE ACCOUNTS

### 1 Accounting policies

#### (a) Basis of accounts

The accounts are prepared under the historical cost convention except for the revaluation of interests in subsidiaries and the related company.

#### (b) Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and its subsidiaries for the fifty-three week period ended 3 May 1986 and also include the Group's share of post-acquisition profits less losses of the related company. In accordance with the exemptions given by Section 228 (7) of the Companies Act 1985, the Company has not presented its own profit and loss account.

#### (c) Depreciation

Depreciation is provided to write off the cost or valuation of tangible fixed assets, excluding freehold land, over their estimated useful lives, as follows:—

Freehold buildings and long leasehold property	50–67 years
Short leasehold property	over period of lease
Plant and equipment	3–20 years
Motor vehicles	4–10 years

#### (d) Capitalisation of interest

Interest incurred on borrowings to finance specific property developments is capitalised net of tax relief.

#### (e) Leased assets

Assets held under finance leases are capitalised and depreciation is provided over the shorter of the lease term and their estimated useful lives. The capital element of the related rental obligation is included in creditors. The interest element of the rental obligation is charged to the profit and loss account at a constant periodic rate of charge.

Other leasing costs are charged to the profit and loss account as they are incurred.

#### (f) Government grants

Government grants in respect of expenditure on fixed assets are credited to a separate account and credit is taken in the profit and loss account over the estimated average life of the relevant assets.

#### (g) Stocks

Stocks comprise goods held for resale and are valued at the lower of cost and net realisable value.

#### (h) Deferred taxation

Provision is made for deferred taxation, using the liability method, on short term timing differences and all other material timing differences which are not expected to continue in the foreseeable future.

#### (i) Research and development

Expenditure on research and development is written off in the period in which it is incurred.

#### (j) Goodwill

Goodwill arising upon the acquisition of subsidiaries is written off directly to reserves in the period of acquisition.



## NOTES ON THE ACCOUNTS continued

### 1. Accounting Policies (continued)

#### (k) Foreign currency

Assets and liabilities denominated in foreign currency are translated into sterling at rates ruling at the balance sheet date. Differences arising on the retranslation of opening net assets are taken direct to reserves. Foreign exchange profits and losses arising during the period are included in profit on ordinary activities before taxation.

#### (l) Turnover

Turnover comprises value of sales exclusive of VAT and inter-company transactions.

### 2 Basis of presentation

On 14 May 1985, the Company made its offer to acquire the whole of the issued ordinary share capital of MFI Furniture Group plc ("MFI") unconditional. The terms of the offer were fifteen ordinary shares of 25p each in the Company for eight ordinary shares of 10p each held in MFI with a cash alternative of 270p per ordinary share in that company. The transaction involved the issue of 338.2 million ordinary shares in the Company together with cash payments totalling £53.3 million, in exchange for 200.1 million MFI ordinary shares.

In accordance with the principles of merger accounting, the consolidated accounts for the Group include the results of MFI from 28 April 1985 and the results and balance sheet for 1985 have been restated. The results of the merged Group for the 53 weeks ended 3 May 1986 are not materially affected by the results of MFI in the 17 days prior to the merger on 14 May 1985.

The Company has recorded the cost of its investment in MFI at the nominal value of the shares issued together with the cash element of the consideration including merger expenses. The fair value of the consideration is estimated to amount to £585 million, being the cost of shares acquired for cash, the mid-market value on 14 May 1985 of shares issued, and the merger expenses.

### 3 Analysis of turnover and profits between activities

	1986		1985	
	Turnover	Operating profit	Turnover	Operating profit
	£m	£m	£m	£m
Asda Stores	1,933.2	103.0	1,729.8	96.3
Associated Fresh Foods	178.0	12.3	173.3	11.4
MFI Furniture Group	386.0	46.3	325.2	43.2
Allied Carpet Stores	94.7	7.5	82.0	7.3
Miscellaneous trading	—	0.4	—	0.1
	<hr/>	<hr/>	<hr/>	<hr/>
	2,591.9	169.5	2,310.3	158.3
Discontinued businesses	3.1	0.4	31.9	2.0
	<hr/>	<hr/>	<hr/>	<hr/>
	2,595.0	169.9	2,342.2	160.3
Less Inter-company sales	(78.4)	—	(82.8)	—
Group overheads	—	(4.8)	—	(3.0)
	<hr/>	<hr/>	<hr/>	<hr/>
	2,516.6	165.1	2,259.4	157.3

The turnover of the Group substantially relates to UK sales.

## NOTES ON THE ACCOUNTS continued

<b>4 Operating profit is arrived at after charging</b>	<b>1986</b>	<b>1985</b>
	<b>£m</b>	<b>£m</b>
(a) Operating lease charges for plant and machinery	2.5	2.8
(b) Auditors' remuneration	0.2	0.2
(c) Staff costs		
Wages and salaries	199.2	177.0
Social security costs	15.3	11.5
Other pension costs	6.0	4.0
	<b>220.5</b>	<b>192.5</b>
The average number of employees during the year was 41,305 (1985: 39,425) and is broken down into the following categories:		
Asda Stores	31,615	29,750
Associated Fresh Foods	2,853	2,770
MFI Furniture Group	4,998	4,254
Allied Carpet Stores	1,470	1,379
Group and miscellaneous	246	230
	<b>41,182</b>	<b>38,383</b>
Discontinued businesses	123	1,042
	<b>41,305</b>	<b>39,425</b>
<b>5 Emoluments of directors of ASDA-MFI GROUP PLC</b>		
	<b>£000</b>	<b>£000</b>
Fees	—	—
Management remuneration	1,047	763
Compensation to former director	275	112
	<b>1,322</b>	<b>875</b>
Nine (1985: Nine) directors waived fees due from a subsidiary amounting to £4,250 (1985: £4,250).		

## NOTES ON THE ACCOUNTS continued

### 5 Emoluments of directors of ASDA-MFI GROUP PLC (continued)

Additional information in respect of emoluments of directors, excluding pension contributions and compensation to former director:

	1986	1985
	£000	£000
Chairman	99	71
Highest paid director	101	105
Other directors in scale:	Number of directors	
	1986	1985
£5,001 to £10,000	1	—
£10,001 to £15,000	2	4
£55,001 to £60,000	1	—
£60,001 to £65,000	—	5
£65,001 to £70,000	3	—
£70,001 to £75,000	—	2
£80,001 to £85,000	1	1
£85,001 to £90,000	1	—
£90,001 to £95,000	1	—

### 6 Other income

	£m	£m
Income from listed investments	—	1.7
Income from other short-term investments	4.9	5.6
Sundry income	0.9	0.6
	<u>5.8</u>	<u>7.9</u>

### 7 Interest payable and similar charges

Repayable within 5 years		
Short term loans and bank overdrafts	8.8	2.1
Finance leases	0.1	—
Repayable after 5 years		
Debenture and mortgage interest	0.1	0.1
	<u>9.0</u>	<u>2.2</u>
Interest capitalised (before tax relief of £3.0 million)	(7.6)	—
Merger interest adjustment	—	4.8
	<u>1.4</u>	<u>7.0</u>

An adjustment has been made in the 52 weeks ended 27 April 1985 for interest payable on the cash used to acquire 9.99% of MFI share capital. No adjustment has been made to the results for the 52 weeks ended 27 April 1985 in respect of interest capitalised as the amount involved is immaterial.

### 8 Profit Sharing

The Group's Share Participation Schemes were introduced in October 1985. Appropriations representing 2½% of earnings of employees with two years service or more at 3 May 1986 will be made under the scheme. A provision amounting to £3.1 million (1985: £ Nil) has been made in the period in respect of this scheme.

## NOTES ON THE ACCOUNTS continued

9 Taxation	1986 £m	1985 £m
The charge based on the profit for the period comprises:		
UK corporation tax at 39.58% (1985: 44.58%)	65.6	64.6
Deferred taxation	(3.1)	8.1
	<hr/> 62.5	<hr/> 72.7
Prior period adjustments	(11.0)	(2.8)
	<hr/> 51.5	<hr/> 69.9

The net amount of tax payable is £62.7 million after deducting tax relief of £3.0 million on interest capitalised. The charge to deferred taxation has been calculated in accordance with the Group accounting policy and takes into account the current plans for future capital expenditure. The credit to deferred taxation of £3.1 million has been calculated after allowing for a credit of £6.3 million in relation to capital allowances on which deferred tax has not been provided.

### 10 Extraordinary items

	£m	£m
Profit on sale of B. A. Turner and Capital Collections Limited	—	2.7
Loss on sale of Wades Departmental Stores Limited (plus attributable tax—£1.4 million)	—	(2.3)
	<hr/> —	<hr/> 0.4

### 11 Dividends

Preference	0.2	0.2
Ordinary—interim of 1.25p per share (1985: 1.15p)	14.2	13.1
Ordinary—proposed final of 1.90p per share (1985: 1.60p)	21.6	18.1
	<hr/> 36.0	<hr/> 31.4

The proposed final dividend has been provided in respect of the ordinary shares in issue at 3 May 1986. The 1985 interim dividends paid by the Company and MFI were £9.1 million and £4.0 million respectively. The total was £13.1 million as disclosed above.

### 12 Earnings per ordinary share

The calculation of earnings per ordinary share is based on earnings of £114.7 million (1985: £88.1 million) and on the weighted average of 1,132.8 million shares in issue and ranking for dividend during the period (1985: 1,128.4 million shares).

The earnings per share for 1985 has been restated to take account of the merger with MFI and the shares issued in consideration thereof.

## NOTES ON THE ACCOUNTS continued

### 13 Intangible fixed assets

	1986	1985
	£m	£m
Milk rounds	1.7	1.7

The cost of milk rounds is capitalised upon purchase.

### 14 Tangible fixed assets

	Group Freehold properties £m	Leasehold properties £m	Plant, machinery, equipment and vehicles £m	Total £m	Company Plant, machinery, equipment and vehicles £m
Cost					
At 27 April 1985	252.0	172.8	186.7	611.5	0.3
Reclassifications	(0.1)	0.1	—	—	—
Additions	57.0	41.4	50.8	149.2	0.9
Transfers to current assets	(0.2)	—	—	(0.2)	—
Disposals	(14.9)	(7.0)	(9.6)	(31.5)	(0.1)
At 3 May 1986	293.8	207.3	227.9	729.0	1.1
Depreciation					
At 27 April 1985	9.8	13.2	85.0	108.0	0.1
Charge	3.1	4.4	27.4	34.9	0.3
Disposals	(0.3)	(0.9)	(6.7)	(7.9)	—
At 3 May 1986	12.6	16.7	105.7	135.0	0.4
Net book amounts 3 May 1986	281.2	190.6	122.2	594.0	0.7
Capital work in progress (1985: Group £25.4 million Company £ Nil)				56.0	1.5
				650.0	2.2
Net book amounts 27 April 1985				528.9	0.2

An amount of £4.6 million (after deducting tax relief of £3.0 million) has been included in additions in respect of interest capitalised during the period ended 3 May 1986 (1985: £ Nil).

The net book amount of plant, machinery, equipment and vehicles for the Group includes £3.7 million (1985: £ Nil) in respect of leased assets after charging depreciation of £0.6 million (1985: £ Nil).

## NOTES ON THE ACCOUNTS continued

### 14 Tangible fixed assets (continued)

The cost of freehold land included within freehold properties is £127.2 million (1985: £103.7 million). The net book amount of leasehold property comprises:

	Group 1986 £m	Group 1985 £m
Leases with fifty years or more unexpired	171.8	144.7
Leases with less than fifty years unexpired	21.8	16.6
	193.6	161.3

### 15 Fixed asset investments

Group	£m	£m
Related company		
Share of net assets at 27 April 1985 and 3 May 1986	0.4	0.4
<b>Company</b>		
Subsidiaries	172.2	76.4
Additions	95.4	61.2
Revaluation	—	40.4
Disposals	(2.0)	(5.8)
	265.6	172.2
Related company	0.4	0.4
	266.0	172.6

(a) The investments in subsidiary and related companies are stated at brought forward valuation plus the cost of acquiring MFI as explained in note 2. The surplus arising from the revaluation of these assets is £38.8 million (1985 £40.7 million).

(b) The trading subsidiaries of ASDA-MFI GROUP PLC, owned directly and indirectly, incorporated in England, wholly-owned and engaged in the business of retailing, except where otherwise stated, are:

Associated Dairies Limited  
 MFI Furniture Centres Limited  
 MFI (Ireland) Limited (incorporated in Eire)  
 Priceless Kitchens Inc. (incorporated in USA)  
 Allied Carpet Stores Limited  
 ADG Insurance Co Limited (incorporated in Bermuda)  
 Lakeland Creameries Limited (dairymen)  
 Mullard Leasing Services Limited (leasing)  
 MFI Properties Limited (property)  
 Pupilrose Limited (property)  
 Forest Park Motorway Services Limited (property)  
 Wexdell Limited (property)

## NOTES ON THE ACCOUNTS continued

### 15 Fixed asset investments (continued)

(c) The Group holds 50% of the ordinary share capital of Manorcroft Limited, formerly Eden Vale (North) Limited. The company is engaged in the wholesale distribution of dairy products in the UK.

### 16 Stocks

In the directors' opinion the replacement cost of stocks does not materially exceed the balance sheet value.

### 17 Debtors

	Group		Company	
	1986	1985	1986	1985
	£m	£m	£m	£m
Amounts falling due within one year				
Trade debtors	23.9	24.1	—	4.6
Taxation recoverable	—	—	—	1.6
Amounts owed by subsidiary companies	—	—	244.2	172.1
Other debtors	7.4	12.2	2.2	3.2
Prepayments and accrued income	7.2	7.6	—	0.6
	<u>38.5</u>	<u>43.9</u>	<u>246.4</u>	<u>182.1</u>
Amounts falling due after more than one year				
Advance corporation tax recoverable in respect of proposed dividend	1.3	0.1	1.4	—
	<u>39.8</u>	<u>44.0</u>	<u>247.8</u>	<u>182.1</u>

### 18 Investments

Investments include vacant properties awaiting disposal written down to net realisable value of £2.8 million (1985: £3.7 million).

### 19 Creditors—amounts falling due within one year

	Group		Company	
	1986	1985	1986	1985
	£m	£m	£m	£m
Bank overdrafts	83.1	54.2	79.1	41.5
Trade creditors	188.6	172.5	—	—
Amounts owed to subsidiary companies	—	—	10.5	12.8
Taxation	33.8	56.5	9.5	—
Social security	5.6	4.6	—	—
Other creditors	49.3	60.9	5.7	12.5
Accruals	21.5	14.1	0.9	—
Obligations under finance leases	0.8	—	—	—
Proposed dividend	21.6	18.1	21.6	12.7
	<u>404.3</u>	<u>380.9</u>	<u>127.3</u>	<u>79.5</u>

## NOTES ON THE ACCOUNTS continued

20 Creditors—amounts falling due after more than one year	Group		Company	
	1986	1985	1986	1985
	£m	£m	£m	£m
Taxation, payable 1 January 1988	46.5	35.8	—	—
Obligations under finance leases within two to five years	2.7	—	—	—
Loans repayable within five years (interest rates Nil to 14%)	—	5.5	—	5.5
7½% Debenture Stock 1988/93	—	0.2	—	—
Loan notes repayable up to 1994 (interest rates ½% above base lending rate)	0.3	0.4	0.3	0.4
Loans repayable 1995 to 2022 (interest rates 9½% to 10½%)	0.4	0.3	—	—
	<u>49.9</u>	<u>42.2</u>	<u>0.3</u>	<u>5.9</u>

### 21 Provisions for liabilities and charges

Deferred taxation	1986	1985
	£m	£m
Potential liability:		
Capital allowances	48.1	43.7
Capital gains	4.5	1.4
Short-term timing differences	—	1.0
	<u>52.6</u>	<u>46.1</u>

### Provision retained:

	Group		Company	
	Capital allowances	Short term timing differences	Total	Short term timing differences
	£m	£m	£m	£m
At 27 April 1985	34.1	1.0	35.1	0.1
Charge for the year	(3.7)	(1.0)	(4.7)	1.1
At 3 May 1986	<u>30.4</u>	<u>—</u>	<u>30.4</u>	<u>1.2</u>

The amount recoverable in respect of advance corporation tax on the proposed dividend is included in debtors (note 17).

### 22 Accruals and deferred income

	1986	1985
	£000	£000
Government grants	<u>2.1</u>	<u>2.1</u>



## NOTES ON THE ACCOUNTS continued

### 23 Called up share capital

	Authorised	
	1986	1985
	£m	£m
9½% Cumulative preference shares of £1 each	1.9	1.9
Ordinary shares of 25p each	375.0	210.0
	<u>376.9</u>	<u>211.9</u>

	Issued and fully paid			
	Group		Company	
	1986	1985	1986	1985
	£m	£m	£m	£m
9½% Cumulative preference shares of £1 each	1.9	1.9	1.9	1.9
Ordinary shares of 25p each	284.0	283.0	284.0	198.4
	<u>285.9</u>	<u>284.9</u>	<u>285.9</u>	<u>200.3</u>

The authorised share capital was increased on 8 May 1985 by the creation of 660 million ordinary shares of 25p each in connection with the merger of the Company with MFI. The merger resulted in the issue of 338.2 million such ordinary shares to MFI's former shareholders. In the Group balance sheet these shares have been treated as being in issue throughout the 1984/85 and 1985/86 periods.

On 8 November 1985, 0.8 million ordinary shares were issued in connection with the Group's share participation scheme.

Following calls made on shares under the various Option Schemes, 3.2 million ordinary shares were issued.

Under the terms of the various Option Schemes of ASDA-MFI GROUP PLC, the following options are outstanding at 3 May 1986:

Senior Executive Share Option Scheme (exercisable by September 1988)		Senior Executive Share Option Scheme (1981) (exercisable by November 1990)		Savings Related Share Option Scheme (exercisable by April 1992)		Executive Share Option Scheme 1984 (exercisable by February 1996)	
Share Options	Price per share p	Share Options	Price per share p	Share Options	Price per share p	Share Options	Price per share p
67,205	39.420	4,472,940	59.063	4,255,062	53.907	10,130,077	158.000
235,924	68.295	808,557	98.750	846,237	65.157	8,245,807	141.000
47,410	56.954	2,326,368	116.667	947,733	96.375		
				1,976,258	130.000	18,375,884	
				1,102,667	123.000		
<u>350,539</u>		<u>7,607,865</u>		<u>9,127,957</u>			

## NOTES ON THE ACCOUNTS continued

### 24 Reserves

	Capital Reserve £m	Share Premium Account £m	Profit and Loss Account £m
<b>Group</b>			
At 28 April 1985 as previously reported	—	1.1	86.1
Merger with MFI	0.1	—	71.7
Merger adjustments	(0.1)	—	(97.6)
	<hr/>	<hr/>	<hr/>
At 28 April 1985 restated	—	1.1	60.2
	<hr/>		
Transfers		(0.2)	0.2
Premium on shares issued		1.9	—
Capitalisation issue		—	(1.1)
Exchange rate fluctuations		—	0.2
Retained profit		—	78.9
		<hr/>	<hr/>
At 3 May 1986		2.8	138.4
	<hr/>	<hr/>	<hr/>
	Revaluation Reserve £m		
<b>Company</b>			
At 28 April 1985	40.7	0.9	46.0
Premium on shares issued	—	1.9	—
Capitalisation issue	—	—	(1.1)
Revaluation realised	(1.9)	—	1.9
Retained profit	—	—	16.9
	<hr/>	<hr/>	<hr/>
At 3 May 1986	38.8	2.8	63.7
	<hr/>	<hr/>	<hr/>

The Group's share of retained reserves of the related company was £0.3 million at both 27 April 1985 and 3 May 1986.

### 25 Financial commitments

The directors have authorised future capital expenditure for the Group which, without taking account of government grants, amounts to:

	1986 £m	1985 £m
Contracted	40.0	35.3
Not contracted	153.1	109.0

The annual commitment under non-cancellable operating leases which relates to land and buildings is as follows:

	Group 1986 £m	Group 1985 £m
Leases expiring:		
Within one year	0.2	0.1
Within two to five years	0.9	1.6
Thereafter	18.4	15.8
	<hr/>	<hr/>
	19.5	17.5
	<hr/>	<hr/>

## NOTES ON THE ACCOUNTS continued

### 26 Pensions

The Group operates contributory pension schemes covering the majority of its permanent employees. The schemes' funds are administered by trustees and are independent of the Group's finances. The schemes are fully funded and contributions are paid in accordance with the recommendations of independent actuaries.

The Group's contributions are charged against profits in the period in which they are made.

### 27 Contingent Liabilities

	1986	1985
	£m	£m
Amounts outstanding against letters of credit and counter-indemnities	10.5	15.8

# NOTICE OF MEETING

**N**OTICE IS HEREBY GIVEN to the ordinary shareholders of the Company that the Eighth Annual General Meeting of the Company will be held at the Pudsey Civic Hall, Dawsons Corner, Pudsey, Leeds LS28 5TA, on Wednesday 29 October 1986 at 2.30 in the afternoon for the following purposes:

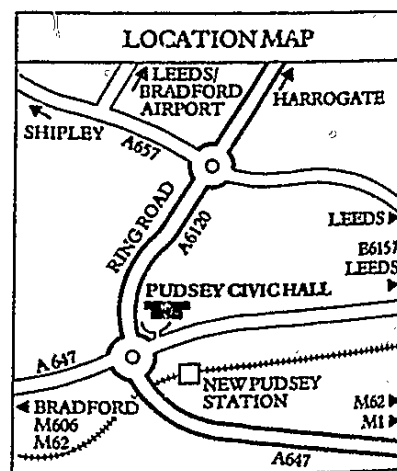
- |  |              |
|--|--------------|
| 1 To receive the report of the directors and the accounts for the fifty-three weeks to 3 May 1986 with the report of the auditors thereon and declare a dividend.  | RESOLUTION 1 |
| 2 To re-elect the following directors:<br>Mr E G Bousfield   | RESOLUTION 2 |
| Mr P R Baines  | RESOLUTION 3 |
| 3 To re-appoint Messrs Ernst & Whinney auditors of the Company and to authorise the directors to fix their remuneration.   | RESOLUTION 4 |
| 4 As special business to consider and if thought fit, pass the resolution which will be proposed as a special resolution that:   | RESOLUTION 5 |
| <ul style="list-style-type: none"> <li>i subject to and in accordance with Article 19 of the Company's Articles of Association, the directors be empowered to allot equity securities for cash;</li> <li>ii for the purposes of the limitation on the said power referred to in paragraph (c) of the said Article the nominal amount therein mentioned shall be £18,750,000; and</li> <li>iii the date on which such power shall expire (save as mentioned in the said Article) shall be the date of the next Annual General Meeting of the Company after the passing of this resolution.</li> </ul> |              |

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and on a poll vote on his behalf; a proxy need not be a member. A proxy form is enclosed.

By order of the board  
P R BAINES Secretary

Craven House, Kirkstall Road, Leeds LS3 1JE.  
19 August 1986.

The register of directors' interests in shares will, together with directors' service agreements, be available for inspection during usual business hours on any weekday (Saturdays and Public Holidays excluded) at the registered office from this date until the date of the annual general meeting and at the place of the meeting for fifteen minutes prior to and until the termination of the meeting.



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# ANALYSIS OF SHAREHOLDINGS

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at 29 July 1986

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**Number of Shareholders**     35,447

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Shareholdings Range	Shareholders	Shares
	%	%
1 - 999	30.75	0.47
1,000 - 9,999	56.23	5.01
10,000 - 49,999	8.41	5.46
50,000 - 99,999	1.60	3.44
100,000 - 249,999	1.51	7.14
250,000 - 999,999	1.00	15.88
Over 1,000,000	0.50	62.60
	<hr/>	<hr/>
	100.00	100.00
	<hr/>	<hr/>

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Category of Shareholders	Shareholders	Shares
	%	%
Pension Funds	0.51	7.45
Insurance Companies	1.05	13.44
Investment Trusts	0.25	0.54
Banks and Nominee Companies	16.16	55.79
Other Corporate Bodies	2.09	6.23
Other Shareholders	79.94	16.55
	<hr/>	<hr/>
	100.00	100.00
	<hr/>	<hr/>