ARTHUR
ANDERSEN

ARTHUR ANDERSEN & Co. SC

Tates Limited

Accounts 30 April 1996
together with directors' and auditors' reports

Registered number: 149518

Chairman's statement

The Company has just completed a very successful year after the preceding two years of rapid growth and acquisitions. Turnover grew from £78 million to £123 million and the Company returned to profitability with pre-tax profits of £1.1 million after a £0.3 million loss in the previous year. This improvement is anticipated to continue in the current financial year.

We have successfully integrated management and systems from three different backgrounds to operate as a single unified Company for all 154 stores. It is intended that all stores will after conversion trade under the Spar Fascia. We have embarked upon a refurbishment programme of our older and ex Lo-Cost stores. We are also starting to acquire further stores.

I would like to thank all members of staff for their considerable efforts in the last years task of consolidation and integration and for producing such an excellent financial improvement.

P.F. Blakemore
Chairman

27 September 1996

Directors' report

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 30 April 1996.

Principal activity and business review

The principal activity of the company continues to be the operation of grocery based convenience stores.

The company achieved turnover during the year of £122,703,000 (1995 - £78,184,000) generating a profit before tax of £1,077,000 (1995 - loss £277,000).

Results and dividends

The results of the company and transfers from (to) reserves are as follows:

	£'000
Retained profit, beginning of year	54
Profit for the financial year	727
Transfer from revaluation reserve	26
Transfer to goodwill write-off reserve	(96)
Retained profit, end of year	711

The directors do not recommend the payment of a dividend.

Directors and their interests

The directors who served during the year are as shown below:

P. F. Blakemore (Chairman)
C. Ellis (Managing Director)
A.D. Pannell
J.W. Giles
E. Davies
G. Hallam
C. Woodward (retired 30 August 1996)
B.W. Myers (resigned 25 August 1995)

None of the directors who served during the year had any interests in the share capital of the company at 30 April 1996 as it is a wholly owned subsidiary of A.F. Blakemore and Son Limited.

P.F. Blakemore, J.W. Giles, C. Ellis and C. Woodward are also directors of A.F. Blakemore and Son Limited, and their interests in that company's share capital are disclosed in its accounts. None of the other directors who served during the year had any interests in the share capital of A.F. Blakemore and Son Limited.

Directors' report (continued)

Directors' responsibilities
Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employment of disabled persons
It is the company's policy to give full and fair consideration to applications for employment by disabled persons. It is also the company's policy where appropriate to train and develop the careers of, and promote, disabled employees. If employees become disabled while they are in the company's employment, it is the company's policy to continue to employ them where practical or if necessary and feasible to rehabilitate them in appropriate alternative employment.

Directors' report (continued)

Employee consultation
The company ensures that there is effective communication with members of its staff so that they are fully aware of key aspects of the company's business strategy and environment.

Auditors
The directors will place a resolution before the annual general meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

8 Cleethorpe Road
Grimsby
South Humberside
DN31 3LY

By order of the Board

A.D. Pannell
Secretary

27 September 1996

Auditors' report

Birmingham

To the Shareholders of Tates Limited:

We have audited the accounts on pages 6 to 19 which have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 30 April 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Victoria Square
Birmingham
B1 1BD

27 September 1996

Profit and loss account

For the year ended 30 April 1996

	Notes	1996 £'000	1995 (Note 19) £'000
Turnover	2	122,703	78,184
Cost of sales		(96,724)	(61,722)
Gross profit		25,979	16,462
Distribution costs		(23,551)	(15,573)
Administrative expenses		(1,488)	(1,246)
Other operating income	3	145	59
Operating profit (loss)		1,085	(298)
Interest receivable		1	27
Interest payable and similar charges	4	(9)	(6)
Profit (loss) on ordinary activities before taxation	5	1,077	(277)
Tax on profit (loss) on ordinary activities	7	(350)	79
Retained profit (loss) for the year		727	(198)
Retained profit beginning of period		54	234
Transfer from revaluation reserve		26	114
Transfer to goodwill write-off reserve		(96)	(96)
Retained profit, end of period		711	54

The profit and loss accounts for both years relate entirely to continuing activities.

There were no recognised gains or losses in either year other than the profit for each year.

A statement of movement on reserves is given in note 16.

The accompanying notes are an integral part of these statements.

Note of historical cost profits and losses

For the year ended 30 April 1996

	1996 £'000	1995 £'000
Reported profit (loss) on ordinary activities before taxation	1,077	(277)
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	26	114
Historical cost profit (loss) on ordinary activities before taxation	1,103	(163)
Historical cost retained profit (loss) for the period	753	(84)

Balance sheet

30 April 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	8	19,482	18,774
Current assets			
Stocks	9	6,719	7,528
Debtors	10	1,658	1,376
Investments	11	-	509
Cash at bank and in hand		1,939	697
		10,316	10,110
Creditors: Amounts falling due within one year	12	(14,604)	(6,954)
Net current (liabilities) assets		(4,288)	3,156
Total assets less current liabilities		15,194	21,930
Creditors: Amounts falling due after more than one year	13	(9,986)	(17,449)
Provisions for liabilities and charges	14	(207)	(207)
Net assets		5,001	4,274
Capital and reserves			
Called-up share capital	15	1,006	1,006
Profit and loss account	16	711	54
Other reserves	16	3,284	3,214
Shareholders' funds - all equity	17	5,001	4,274

Signed on behalf of the Board

P. F. Blakemore Director

C. Ellis Director

27 September 1996

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

30 April 1996

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below:

a) Basis of accounting

The company prepares accounts under the historical cost convention, modified to include the revaluation of certain tangible fixed assets. The accounts have been prepared in accordance with applicable accounting standards.

b) Cash flow statement

Under the provisions of Financial Reporting Standard No. 1, the company has not prepared a cash flow statement because its parent undertaking, A.F. Blakemore and Son Limited, has prepared consolidated accounts which include a consolidated cash flow statement.

c) Tangible fixed assets

Tangible fixed assets are shown at original cost or subsequent valuation, less accumulated depreciation.

Retail stores

In the case of retail stores acquired as going concerns, cost is based upon the fair value of the separable net assets acquired, including an element of trading potential attached to the property. Any excess of the purchase price paid for such stores over the fair value of the separable net assets determined on this basis will be treated as goodwill and written-off directly to reserves.

Leasehold property interests in retail stores are depreciated by writing-off the cost or valuation (including trading potential), less estimated residual value, over the period of the lease. For short leases, a minimum period of 20 years is applied from the date of acquisition where the directors expect to be able to renew the existing leases at the end of the current lease period.

Fixtures and fittings held within retail stores are depreciated as for other assets, as described below.

Other assets

Depreciation is provided at the following annual rates in order to write-off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life as follows:

Leasehold property interests	over the term of the lease
Fixtures, fittings and computers	3 - 10 years
Motor vehicles	4 - 7 years

Freehold property is not depreciated.

Notes to accounts (continued)

1 Accounting policies (continued)

d) Goodwill

Goodwill arising on businesses acquired as going concerns (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against the goodwill write-off reserve on acquisition.

e) Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further costs expected to be incurred. Provision is made for obsolete slow moving or defective items where appropriate.

f) Current asset investments

The company purchases retail stores for refurbishment and conversion before sale. These stores are recorded within current asset investments at the lower of cost and net realisable value. Cost comprises the purchase cost of the store, excluding the element relating to stocks, but including amounts attributable to the freehold or leasehold property interest, fixtures and fittings and goodwill, together with any subsequent refurbishment costs.

Net realisable value is based upon the directors assessment of likely sales proceeds for each store less anticipated disposal costs.

g) Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods and services provided in the normal course of business.

h) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

The company is part of a UK group and accordingly may utilise the group relief provisions whereby current taxable profits can be offset by current tax losses arising in other group companies in the UK. The group has a policy that no payment is made or received for tax losses received from, or surrendered to, other group companies.

Deferred taxation is calculated on the liability method and is provided on timing differences which will probably reverse at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

Notes to accounts (continued)

1 Accounting policies (continued)

i) Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

j) Pension costs

The company provides defined benefit pensions to certain eligible employees. The assets of the pension scheme are held independently of the company. The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working lives of scheme members.

k) Revaluation reserve

Surpluses arising on the revaluation of individual fixed assets are credited to a non-distributable reserve known as the revaluation reserve. Revaluation deficits in excess of the amount of prior revaluation surpluses on the same asset are charged to the profit and loss account. Where depreciation charges are increased following a revaluation, an amount equal to such an increase is transferred annually from this reserve to the profit and loss account reserve. On the disposal of a revalued fixed asset, any remaining revaluation surplus corresponding to the item is also transferred to the profit and loss account.

Notes to accounts (continued)

2 Segment information

All the company's turnover and profit before taxation arose from the principal activity within the UK.

3 Other operating income

Other operating income comprises:

	1996 £'000	1995 £'000
Net rental income from property lettings and concessions	145	59

4 Interest payable and similar charges

Interest payable and similar charges comprised:

	1996 £'000	1995 £'000
Interest on bank loans and overdrafts repayable within five years not by instalments	2	-
Charges payable under finance leases and hire purchase contracts	7	6
	9	6

5 Profit (loss) on ordinary activities before taxation

Profit (loss) on ordinary activities is stated after charging:

	1996 £'000	1995 £'000
Depreciation on tangible fixed assets:		
- owned	1,432	918
- held under finance leases	28	33
Exceptional write down of carrying value of closed stores	264	-
Operating lease rentals (note 18)	3,030	1,865
Staff costs (note 6)	13,959	9,530
Auditors' remuneration		
- audit services	18	19
- other services	-	-

Notes to accounts (continued)

6 Staff costs

Particulars of employees (including executive directors) are as shown below:

Employee costs during the year amounted to:

	1996 £'000	1995 £'000
Wages and salaries	13,138	8,877
Social security costs	681	530
Other pension costs (note 18)	140	123
	13,959	9,530

The average number of employees, including part-time employees, was 2,369 (1995 - 1,595).

Remuneration was paid in respect of directors of the company as follows:

	1996 £'000	1995 £'000
Emoluments (including pension contributions)	204	151
Compensation for loss of office	61	-
	265	151

The directors' remuneration (excluding pension contributions) included:

	1996 £'000	1995 £'000
Chairman	Nil	Nil
Highest paid director	68	55

Directors received emoluments (excluding pension contributions and compensation for loss of office) in the following ranges:

			1996 Number	1995 Number
Up to	-	£5,000	4	5
£15,001	-	£20,000	1	-
£40,001	-	£45,000	-	2
£45,001	-	£50,000	1	-
£50,001	-	£55,000	1	-
£55,001	-	£60,000	-	1
£65,001	-	£70,000	1	-

Notes to accounts (continued)

7 Tax on profit (loss) on ordinary activities

The tax charge (credit) is based on the profit (loss) for the period and comprises:

	1996 £'000	1995 £'000
Corporation tax at 33%	350	(79)

Had the company been providing in full for deferred taxation the charge for the year would have been higher by £188,000 (1995 - higher by £45,000).

8 Tangible fixed assets

The movement in the year was as follows:

	Freehold property £'000	Leasehold property interests £'000	Fixtures, fittings & computers £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
Beginning of year	217	11,426	11,805	366	23,814
Additions	3	891	1,267	94	2,255
Transferred from current assets	-	509	-	-	509
Disposals	-	(207)	(174)	(69)	(450)
End of year	220	12,619	12,898	391	26,128
Depreciation					
Beginning of year	-	691	4,137	212	5,040
Charge	-	243	1,162	55	1,460
Write-off of closed stores	-	75	189	-	264
Disposals	-	(8)	(45)	(65)	(118)
End of year	-	1,001	5,443	202	6,646
Net book value					
Beginning of year	217	10,735	7,668	154	18,774
End of year	220	11,618	7,455	189	19,482

Notes to accounts (continued)

8 Tangible fixed assets (continued)

Leased assets included in the above:

	Freehold property £'000	Leasehold property interests £'000	Fixtures, fittings & computers £'000	Motor vehicles £'000	Total £'000
Net book value					
Beginning of year	-	-	36	-	36
End of year	-	-	18	80	98

Leasehold property interests in retail convenience stores were valued by the directors as of 7 January 1994 on the basis of their fair value having regard to trading potential. Leasehold interests are stated at cost or valuation as follows:

	1996 £'000	1995 £'000
Valued by directors - January 1994	6,587	6,672
At cost	6,032	4,754
	12,619	11,426

The original cost, and aggregate depreciation based on cost, of leasehold property interest is as follows:

	1996 £'000	1995 £'000
Original cost	8,619	7,426
Depreciation based on cost	(861)	(577)
	7,758	6,849

9 Stocks

Stocks represent goods available for resale.

In the opinion of the directors there is no material difference between the replacement cost and the balance sheet value of stocks at either year end.

Notes to accounts (continued)

10 Debtors

The following are included in the net book value of debtors, all falling due within one year:

	1996 £'000	1995 £'000
Trade debtors	119	112
VAT	426	-
Other debtors	334	157
Prepayments and accrued income	686	1,037
Corporation tax recoverable	93	70
	1,658	1,376

11 Current asset investments

The following amounts are included in the net book value of current asset investments:

	1996 £'000	1995 £'000
Retail stores held for resale	-	509

12 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	1996 £'000	1995 £'000
Obligations under finance leases and hire purchase contracts	41	18
Bank overdraft (secured)	2,001	-
Trade creditors	4,437	5,428
Amounts payable to group undertakings	5,812	-
Other creditors		
- social security and PAYE	204	229
- UK corporation tax payable	350	-
- VAT	-	440
- other	886	252
Accruals and deferred income	873	587
	14,604	6,954

The bank overdraft is secured by an unlimited debenture over the assets of the company.

Notes to accounts (continued)

13 Creditors: Amounts falling due after more than one year

The following are included in creditors falling due after more than one year:

	1996 £'000	1995 £'000
Obligations under finance leases and hire purchase contracts (expiring within 5 years)	52	13
Loans from parent company	9,934	17,436
	9,986	17,449

The interest-free loans payable to the parent company have no fixed repayment date but the parent company has indicated that payment will not be sought in the current financial year.

14 Provisions for liabilities and charges

Provisions for liabilities and charges comprise deferred taxation attributable to:

	1996 £'000	1995 £'000
Accelerated capital allowances	207	207

The amount of deferred taxation not provided for is as follows:

	1996 £'000	1995 £'000
Accelerated capital allowances	433	185
Other timing differences	(40)	20
	393	205

15 Called-up share capital

	1996 £'000	1995 £'000
Authorised		
1,010,000 Ordinary shares of £1 each	1,010	1,010
Allotted, called-up and fully-paid		
1,006,151 Ordinary shares of £1 each	1,006	1,006

Notes to accounts (continued)

16 Movement on reserves

	Revaluation reserve £'000	Goodwill write-off reserve £'000	Total other reserves £'000	Profit and loss account £'000
Beginning of year	3,886	(672)	3,214	54
Retained profit for the year	-	-	-	727
Transfers	(26)	96	70	(70)
End of year	3,860	(576)	3,284	711

The cumulative amount of goodwill written-off in these accounts since 29 March 1986 amounts to £2,361,048.

17 Reconciliation of movement in shareholders' funds

The movement in shareholders' funds was as follows:

	1996 £'000	1995 £'000
Profit (loss) attributable to shareholders	727	(198)
Shareholders' funds, beginning of period	4,274	4,472
Shareholders' funds, end of period	5,001	4,274

18 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments of the company were as follows:

	1996 £'000	1995 £'000
Contracted for but not provided for	490	-

Notes to accounts (continued)

18 Guarantees and other financial commitments (continued)

b) Lease commitments

The company leases buildings on short-term and long-term operating leases. The aggregate rentals relating to these premises in the year to 30 April 1996 were £3,030,000 (1995 - £1,865,000). The rentals under these leases are subject to renegotiation at various intervals specified in the lease agreements.

The minimum annual rentals under these and other leases are as follows:

	1996		1995	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire				
- within 1 year	46	-	30	2
- between 2-5 years	291	16	258	12
- after 5 years	2,624	-	2,606	-
	2,961	16	2,894	14

c) Pension arrangements

The company operates a defined benefit pension scheme for certain of its employees.

The pension cost charge for the year (which represented the regular cost) was £140,000 (1995 - £123,000). There were outstanding contributions of £11,000 (1995 - £Nil) which are included in accruals and deferred income.

The pension cost and employer's contributions are assessed in accordance with the advice of a professionally qualified actuary. The latest actuarial review was at 1 April 1992. The principal actuarial assumptions were that pensionable earnings would increase by 7% p.a. and the return on scheme investments would be 9% p.a.

At the date of the latest actuarial review, the market value of the assets of the scheme was £1,169,000 and the actuarial value of the assets was sufficient to cover 97% of the benefits that had accrued to members after allowing for expected future increases in earnings.

d) Debentures

The bank loans and overdrafts of the ultimate parent company, A.F. Blakemore and Son Limited, are secured by an unlimited debenture over the assets of the group, which includes the assets of Tates Limited.

19 Prior year comparatives

Prior year profit and loss account comparatives have been restated for consistency with current year cost allocations, with nil effect on retained profit for the year. The directors believe the current cost allocations represent a fairer allocation of expenses.