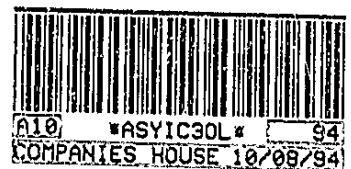


SAFEWAY STORES plc

ACCOUNTS TOGETHER WITH THE REPORTS  
OF THE DIRECTORS AND AUDITORS  
FOR THE YEAR ENDED 2 APRIL 1994



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SAFEWAY STORES plc

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**SAFEWAY STORES plc**  
**DIRECTORS AND ADMINISTRATION**

Country of Registration	England
Registered Number	746956
Registered Office	6 Millington Road, Hayes, Middlesex, UB3 4AY.
Directors	C.D. Smith — Chairman P.O. Kieran — Managing Director D.B. Bootle L.R. Christensen F.N. Glen D.J.H. Huber J.P. Kinch A.R. Morris R.E. Partington M.L. Taylor R.G. Williams M.J. Winch G. Wotherspoon
Company Secretary	J.P. Kinch, FCIS
Solicitors	Clifford Chance
Auditors	Arthur Andersen

## SAFEGWAY STORES plc

### REPORT OF THE DIRECTORS

The directors present their annual report on the affairs of the group together with the audited accounts for the year ended 2 April 1994.

#### PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the group continues to be food retailing. The company is the principal operating subsidiary of Argyll Group PLC. During the year, the group has extended its food retail interests through its new store opening programme and this is planned to continue in the current year.

The company acquired all the business and assets of its subsidiary company English Real Estates plc with effect from 4 April 1993 for a total consideration of £250,000,000, being the net asset value at 3 April 1993.

#### RESULTS AND DIVIDENDS

The group's profit on ordinary activities before taxation was £334,211,000 (1993 - £288,474,000). Sales for the year were £4,867,787,000 (1993 - £4,423,864,000).

The profit attributable to ordinary shareholders for the year amounted to £237,661,000 (1993 - £213,193,000).

A first interim dividend of 15.2481p per ordinary share totalling £35,000,000 was paid on 11 February 1994 (1993 - £30,000,000) and a second interim dividend of 27.51092p per ordinary share totalling £62,000,000 (1993 - £65,500,000) was paid on 31 March 1994. The directors do not recommend the payment of a final dividend in respect of the year ended 2 April 1994 (1993 - £Nil).

#### DIRECTORS

The directors of the company during the year were:-

Sir Alistair Grant - Resigned 7 December 1993	C.S. Lawrie - Retired 31 March 1994
C.D. Smith	M.L. Taylor
P.O. Kieran	D.G.C. Webster - Resigned 7 December 1993
D.B. Bootle	M.J. Winch
L.R. Christensen	G. Wotherspoon
P.A. Frendo - Resigned 31 January 1994	R.E. Partington - Appointed 13 January 1994
F.N. Glen	A.R. Morris - Appointed 3 March 1994
D.J.H. Huber	
J.P. Kinch	

Mr R.G. Williams was appointed as a director of the company on 28 April 1994.

## REPORT OF THE DIRECTORS (Continued)

### DIRECTORS' INTERESTS

The company is a wholly-owned subsidiary of Argyll Group PLC and consequently none of the directors have any interest in the shares of the company.

The following directors who are not also directors of the company's ultimate holding company were interested in the ordinary 25p shares of Argyll Group PLC at the end of the year as indicated below:—

	2 April 1994		3 April 1993	
	<u>Shares</u>	<u>Share options</u>	<u>Shares</u>	<u>Share options</u>
D.B. Bootle	6,888	128,333	6,568	128,333
L.R. Christensen	3,236	192,711	6,888	142,711
F.N. Glen	6,925	167,282	6,874	140,903
D.J.H. Huber	5,000	177,166	—	138,516
J.P. Kinch	31,884	170,616	7,706	167,453
A.R. Morris	—	114,399	—*	114,399*
R.E. Partington	—	—	—*	—*
M.J. Winch	5,066	178,603	3,807	179,953

\* at date of appointment

At the date of his appointment as a director on 28 April 1994, Mr R.G. Williams held nil ordinary 25p shares of Argyll Group PLC and 74,956 share options to acquire ordinary 25p shares of Argyll Group PLC.

Share options granted to and exercised by directors during the year are set out below:—

	<u>Granted</u>	<u>Exercised</u>		<u>Granted</u>	<u>Exercised</u>
D.B. Bootle	—	—	J.P. Kinch	35,000	31,837
L.R. Christensen	50,000	—	A.R. Morris	—*	—*
F.N. Glen	50,000	23,621	R.E. Partington	—*	—*
D.J.H. Huber	50,000	11,350	M.J. Winch	50,000	51,350

\* since date of appointment

Mr.C.D.Smith, Mr.P.O.Kieran, Mr.M.L.Taylor, and Mr.G.Wotherspoon are directors of Argyll Group PLC and their interests in the shares of Argyll Group PLC are disclosed in the accounts of that company.

## REPORT OF THE DIRECTORS (Continued)

The share options referred to above relate to options granted under The Argyll Group Executive Share Option Scheme and/or The Argyll Savings Related Share Option Scheme and enable the option holder to subscribe for ordinary 25p shares of Argyll Group PLC. Details of options currently outstanding are:-

Date of Grant	Subscription Price	Exercise Period		
1 October 1986	153.81 p	1 October 1989	to	30 September 1996
7 December 1987	166.48 p	7 December 1990	to	6 December 1997
15 December 1988	157.72 p	15 December 1991	to	14 December 1998
29 August 1989	191.79 p	17 November 1994	to	17 May 1995
18 December 1989	196.66 p	18 December 1992	to	17 December 1999
14 June 1990	181.08 p	1 September 1995	to	29 February 1996
29 November 1990	234.63 p	29 November 1993	to	23 November 2000
21 June 1991	227.00 p	1 September 1996	to	28 February 1997
23 December 1991	272.00 p	23 December 1994	to	22 December 2001
18 June 1992	279.00 p	1 September 1997	to	28 February 1998
26 November 1992	363.00 p	26 November 1995	to	25 November 2002
15 July 1993	264.00 p	1 September 1998	to	28 February 1999
6 December 1993	255.00 p	6 December 1996	to	5 December 2003

At no time during the year or subsequently had any director a material interest in any contract or arrangement with the company or its subsidiaries which was significant in relation to the group's business.

### DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During the year, liability insurance has been maintained for the company's directors and officers as permitted by Section 310 of the Companies Act 1985.

### CASH FLOW STATEMENT

Under the provisions of Financial Reporting Standard No. 1, the company has not presented a cash flow statement because its ultimate holding company has prepared consolidated accounts which include the company and which contain a cash flow statement.

### TANGIBLE FIXED ASSETS

The movement in tangible fixed assets during the year is set out in Note 9 on page 16.

### EMPLOYMENT POLICIES

It is the group's policy to give full and fair consideration to applications for employment by people who are disabled, to continue wherever possible the employment of staff who become disabled and to provide equal opportunities for the training and career development of disabled employees.

The health and safety of the group's employees, customers and members of the general public who may be affected by the group's activities is a matter of primary concern. Accordingly, it is the group's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to the health and safety of employees and members of the public.

## REPORT OF THE DIRECTORS (Continued)

### EMPLOYMENT POLICIES (Continued)

The number and wide geographic distribution of the group's operating locations make it difficult but essential to communicate effectively with employees. Communications and consultation within the group's retail activities are principally through the operational structure of store, district and regional management, and particular use is made of a company magazine.

### RESEARCH AND DEVELOPMENT

We are committed to the continuing development of our product range and own brand products in particular. We work in close co-operation with our suppliers on the provision of a comprehensive range of good value products whilst emphasising quality and innovation. We have a continuous programme of product research and development and we undertake considerable investment in operational and systems related improvements. During the year, the company invested around £5 million on these activities to support our already high standards of customer service, hygiene and general safety levels.

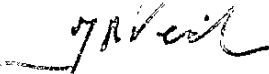
### CLOSE COMPANY STATUS

The directors have been advised that the company is not a close company within the meaning of the provisions of the Income and Corporation Taxes Act 1988.

### AUDITORS

Arthur Andersen have indicated their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the forthcoming annual general meeting.

### BY ORDER OF THE BOARD



J.P. Kinch  
Secretary  
23 June 1994

## **SAFEWAY STORES plc**

### **DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit for the year. In preparing the financial statements the directors are required:

- \* to select suitable accounting policies and then apply them consistently;
- \* to make judgements and estimates that are reasonable and prudent;
- \* to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- \* to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that these financial statements comply with these requirements.

### **AUDITORS' RESPONSIBILITIES**

Company law requires the auditors to form an independent opinion on the financial statements presented by the directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- \* that the company and the group have maintained proper accounting records and that proper returns adequate for the audit have been received from branches not visited by them;
- \* that the financial statements are in agreement with the accounting records and returns.
- \* that directors' emoluments and other transactions with directors are properly disclosed in the financial statements; and
- \* that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of their audit.

Additionally, the Companies Act 1985 requires the auditors to report to the shareholders if the matters contained in the report of the directors are inconsistent with the financial statements.

**SAFEWAY STORES plc**

**REPORT OF THE AUDITORS**

**TO THE SHAREHOLDERS OF SAFEWAY STORES plc:**

We have audited the financial statements on pages 8 to 23 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

**Respective responsibilities of directors and auditors**

As described on page 6, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 2 April 1994 and of the group's 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 Surrey Street,  
London, WC2R 2PS

23 June 1994

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## SAFeway STORES plc

### STATEMENT OF ACCOUNTING POLICIES

#### BASIS OF ACCOUNTING

The accounts have been prepared on the historical cost basis and in accordance with applicable accounting standards, using the following accounting policies:-

#### PRINCIPLES OF CONSOLIDATION

The group accounts comprise the accounts of the company and its subsidiary undertakings, all of which are wholly-owned subsidiaries. The results of subsidiaries acquired or disposed of in the year are included in the group profit and loss account as from or up to their effective date of acquisition or disposal.

Goodwill arising in connection with the acquisition of subsidiaries and businesses has been written off against reserves.

No profit and loss account is presented for the company, as provided by Section 230 of the Companies Act 1985.

#### INVESTMENTS IN SUBSIDIARIES

In the company's accounts, investments in subsidiaries are stated at cost, less amounts written off. Only dividends received and receivable are credited to the company's profit and loss account.

#### TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation. Plant, equipment and vehicles which are leased but provide the group with substantially all the benefits and risks of ownership are capitalised at the original cost to the lessor.

The costs of operating leases of land and buildings and other assets are charged to the profit and loss account as incurred. Surpluses on sale and operating leaseback of properties are recognised as income in the year of disposal.

Interest costs relating to the financing of freehold and long leasehold developments are capitalised at the weighted average cost of the related borrowings up to the date of completion of the project.

Freehold land is not depreciated unless, in the opinion of the directors, a permanent diminution in value has occurred.

Depreciation is provided to write off the cost of other tangible fixed assets over their estimated economic lives on a straight-line basis as follows:-

- |                                       |  |
|---------------------------------------|--|
| Freehold and long leasehold buildings | - maximum of 40 years                          |
| Short leasehold buildings             | - maximum of 40 years or term of lease if less |
| Plant, equipment and vehicles         | - 4 years to a maximum of 8 years              |

In the case of poor performing or proposed replacement stores, additional depreciation is provided over the remaining estimated life to write them down to net realisable value.

## STATEMENT OF ACCOUNTING POLICIES (Continued)

The group's policy is to maintain its properties to a high standard through a continual programme of refurbishment and maintenance. Last year, depreciation was not provided on freehold and long leasehold buildings where, in the opinion of the directors, the residual values (in terms of original cost) were such that any depreciation charge would have been immaterial. The directors have reviewed the need to recognise in accounting terms the finite life of superstore developments and also, given the pace of change in store formats, the rate of obsolescence of store fixtures. As a result, the group now provides for depreciation on these buildings, including capitalised interest thereon, at an annual rate of 2 1/2 %. In addition, the estimated economic lives of certain store, depot and office fixtures and fittings have been reduced from 10 years to a maximum of 8 years.

The effect of the changes outlined above was to reduce operating profit in the current year by £32,045,000 (Note 1 on page 12).

### STOCKS

Stocks are stated at the lower of cost and net realisable value. For stocks at retail stores, cost is calculated by reference to selling price less appropriate trading margins.

### TAXATION

Corporation tax is provided on the taxable profits for the year at the rate current during the year. Deferred taxation is provided, using the liability method, in respect of tax allowances for fixed assets in excess of depreciation provided in the accounts and other timing differences, only to the extent that it is probable that a liability will crystallize.

### FOREIGN CURRENCY

Transactions in foreign currencies are translated into sterling at the rates of exchange current at the dates of the transactions. Foreign currency monetary assets and liabilities in the balance sheet are translated into sterling at the rates of exchange ruling at the end of the year. Resulting exchange gains and losses are taken to the profit and loss account.

### PENSION SCHEME CONTRIBUTIONS

Contributions to pension schemes are charged to the profit and loss account so as to spread the cost of pensions at a substantially level percentage of payroll costs over employees' working lives with the group.

### SALES

Sales represent proceeds from external customers, less returns and allowances, and are inclusive of value added tax.

### COST OF SALES AND DISTRIBUTION COSTS

Cost of sales represents the purchase cost of goods for resale and includes the cost of transfer to the point of sale.

Distribution costs represent the cost of holding goods at the point of sale, selling costs and the costs of transferring goods to the customer and include store operating expenses.

### RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to the profit and loss account as incurred.

# SAFeway STORES plc

## GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 2 APRIL 1994

	Notes	1994 £'000	1993 £'000
SALES	1	4,867,787	4,423,864
Value added tax		(302,179)	(270,889)
TURNOVER, excluding value added tax		4,565,608	4,152,975
Cost of sales		(3,489,862)	(3,143,715)
GROSS PROFIT		1,075,746	1,009,260
Net operating expenses	2	(746,847)	(673,515)
OPERATING PROFIT		328,899	335,745
Property profits	3	271	1,905
Net interest receivable/(payable)	4	5,041	(49,176)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	334,211	288,474
Tax on profit on ordinary activities	7	(96,550)	(75,281)
PROFIT FOR THE FINANCIAL YEAR		237,661	213,193
Dividends paid and proposed	8	(97,000)	(95,500)
RETAINED PROFIT FOR THE YEAR		140,661	117,693
RETAINED PROFIT, beginning of year		464,280	346,587
RETAINED PROFIT, end of year		604,941	464,280

There are no recognised gains or losses other than those shown in the profit and loss account above.

The accompanying notes and statement of accounting policies form part of this profit and loss account.

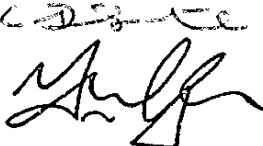
# SAFEWAY STORES plc

## BALANCE SHEETS AT 2 APRIL 1994

		GROUP		COMPANY	
	Notes	1994 £'000	1993 £'000	1994 £'000	1993 £'000
<b>FIXED ASSETS</b>					
Tangible fixed assets	9	2,366,658	2,008,982	2,314,279	1,085,812
Investments	10	370	370	250,810	257,375
		2,367,028	2,009,352	2,565,089	1,343,187
<b>CURRENT ASSETS</b>					
Stocks	11	215,973	215,708	213,013	212,476
Debtors	12	145,755	96,582	197,635	734,259
Cash at bank and in hand		164,532	392,392	155,829	390,698
		526,260	704,682	566,477	1,337,433
<b>CREDITORS, due within one year</b>					
Bank overdrafts		(10,247)	(74,105)	(10,247)	(74,022)
Loans	14	(12,589)	(11,850)	(12,589)	(11,850)
Other creditors	13	(1,081,873)	(967,572)	(1,321,658)	(934,909)
<b>NET CURRENT ASSETS/ (LIABILITIES)</b>		(578,449)	(348,845)	(778,017)	316,652
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,788,579	1,660,507	1,787,072	1,659,839
<b>CREDITORS, due after one year</b>					
Loans	14	(943,901)	(956,490)	(943,901)	(956,490)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>					
Deferred taxation	15	(10,200)	(10,200)	(10,200)	(10,200)
<b>NET ASSETS</b>		834,478	693,817	832,971	693,149
<b>CAPITAL AND RESERVES</b>					
Called-up share capital	16	229,537	229,537	229,537	229,537
Profit and loss account		604,941	464,280	603,434	463,612
<b>TOTAL CAPITAL EMPLOYED</b>	17	834,478	693,817	832,971	693,149

Approved by the Board of Directors on 23 June 1994.

C.D. SMITH )  
F.N. GLEN ) DIRECTORS



The accompanying notes and statement of accounting policies form part of these balance sheets.

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**SAFWAY STORES plc**  
**NOTES TO THE ACCOUNTS**

**1. TRADING INFORMATION**

The principal activity of the group is food retailing. Substantially all contributions to sales and profit on ordinary activities before taxation arose in the United Kingdom.

During the year, the directors have reviewed the need to recognise in accounting terms the finite life of superstore developments and also, given the pace of change in store formats, the rate of obsolescence of store fixtures. As a result, the group now provides for depreciation on freehold and long leasehold buildings at an annual rate of 2 1/2 %. In addition, the estimated economic lives of certain store, depot and office fixtures and fittings have been reduced from 10 years to a maximum of 8 years. The effect has been to reduce operating profit by £32,045,000.

**2. NET OPERATING EXPENSES**

	1994 £'000	1993 £'000
Distribution costs	(655,422)	(585,646)
Administrative expenses	(88,293)	(86,678)
Net expense from non-trading properties	(3,132)	(1,191)
	<u>(746,847)</u>	<u>(673,515)</u>

Distribution costs and administrative expenses are net of allocations of costs incurred by the company and recharged to Presto and Lo-Cost Stores Limited, a fellow subsidiary company of Argyll Group PLC.

Included in administrative expenses is a management fee of £7,829,900 (1993 - £9,575,000) payable to the ultimate holding company for services provided.

**3. PROPERTY PROFITS**

Property profits are stated net of property losses totalling £6,461,000 (1993 - £3,173,000). Additionally, provisions totalling £2,600,000 have been made against certain poor performing or proposed replacement stores likely to be closed (1993 - £708,000).

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#### 4. NET INTEREST PAYABLE

	1993 £'000	1992 £'000
Interest payable:		
Loans repayable by instalments within five years	(3,340)	(4,079)
Bank overdrafts and loans repayable other than by instalments within five years	(19,177)	(57,540)
Loans not wholly repayable within five years	(3,875)	(4,604)
	(26,442)	(66,223)
Interest capitalised on freehold and long leasehold developments	16,067	15,950
	(10,375)	(50,273)
Interest receivable	15,416	1,097
	5,041	(49,176)

The interest element of charges payable under finance leases amounted to £5,807,000 (1993 – £6,120,000).

**5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

Profit on ordinary activities before taxation is stated after charging the following items:—

	<u>1994</u>	<u>1993</u>
	£'000	£'000
Depreciation of tangible fixed assets	112,466	65,338
Hire charges under operating leases		
Plant and equipment	12,435	10,874
Property	53,993	52,474
Other hire charges	944	1,218
Auditors' remuneration – audit	290	282
– other	70	34
Staff costs (Note 6 below)	506,388	475,921

#### 6. STAFF COSTS AND DIRECTORS' EMOLUMENTS

(a) The average weekly number of persons employed by the group was as follows:—

	1994 Number	1993 Number
Total employed	54,150	50,955
Full time equivalent	39,949	37,705

At 2 April 1994, the total number of employees was 54,581 (1993 - 52,906) and the full time equivalent number was 40,288 (1993 - 39,047).

## NOTES TO THE ACCOUNTS (Continued)

(b) Staff costs during the year amounted to:—

	1994 £'000	1993 £'000
Wages and salaries	458,457	431,561
Social security costs	36,927	34,315
Other pension costs	11,004	10,045
	<u>506,388</u>	<u>475,921</u>

(c) Long term incentive plan

A performance related incentive plan was introduced in April 1988 for directors of the company and executive directors of the ultimate holding company. Payments under the first two cycles of the plan covering the financial years 1989 to 1991 and 1991 to 1993 were related to cumulative growth in the ultimate holding company's fully taxed earnings per share and increase in share price. The payment due under the third cycle of the plan covering the financial years 1993 to 1995 will be based on the ultimate holding company's total shareholder return, including reinvested dividends, compared against an index consisting of a predetermined list of comparator companies.

Last year's accounts included an amount of £1,507,355 in respect of the second cycle of the plan covering the financial years 1991 to 1993 and is included in staff costs above. The total value of entitlements received by participants under this second cycle, which vested during the financial year amounted to £950,885, and has been included in the analysis of directors' emoluments below.

This year's accounts include an amount of £Nil (1993 — £780,844) in respect of the second year's performance of the third cycle of the plan covering the financial years 1993 to 1995 and is included in staff costs above. Payments under the third cycle of the plan will not vest until the 1996 financial year.

(d) Directors' emoluments:—

The staff costs above include the following emoluments in respect of directors of the company:—

	1994 £'000	1993 £'000
Fees	—	—
Other emoluments, including pension contributions	<u>1,394</u>	<u>877</u>

The directors emoluments shown above, excluding pension contributions, included:—

	1994 £'000	1993 £'000
Chairman	<u>—</u>	<u>—</u>
Highest paid director	<u>279</u>	<u>151</u>

## NOTES TO THE ACCOUNTS (Continued)

The emoluments, excluding pension contributions, of the directors of the company including the Chairman and the highest paid director fell within the following bands:—

	1994 Number	1993 Number
£ Nil — £ 5,000	9	10
£ 20,001 — £ 25,000	1	—
£ 30,001 — £ 35,000	1	—
£120,001 — £125,000	—	1
£130,001 — £135,000	—	2
£135,001 — £140,000	—	1
£145,001 — £150,000	—	1
£150,001 — £155,000	—	1
£230,001 — £235,000	1	—
£245,001 — £250,000	1	—
£260,001 — £265,000	1	—
£270,001 — £275,000	1	—
£275,001 — £280,000	1	—

Certain of the directors are remunerated by and as directors or officers of the ultimate holding company. In addition, during the year the company purchased a property from Mr R.E. Partington, under the terms of the executive relocation scheme, for £178,500.

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the profit for the year and comprises:—

	1994 £'000	1993 £'000
United Kingdom corporation tax at 33% (1993 — 33%)	97,140	74,163
Overseas taxation	1,860	1,118
Prior year adjustments	(2,450)	—
	96,550	75,281

The principal reasons for the lower than standard tax charge are tax relief for capital allowances on fixed assets exceeding related depreciation by £7,430,000 (1993 — £13,801,000) and the tax relief for interest capitalised on freehold and long leasehold developments of £5,302,000 (1993 — £5,264,000).

### 8. DIVIDENDS PAID AND PROPOSED

	1994 £'000	1993 £'000
Interim dividends paid	97,000	95,500
Final dividend proposed	—	—
	97,000	95,500

# NOTES TO THE ACCOUNTS (Continued)

## 9. TANGIBLE FIXED ASSETS GROUP

	Land and buildings			Plant, equipment and vehicles	Total
	Freehold £'000	Long leasehold £'000	Short leasehold £'000	£'000	£'000
Cost:—					
Beginning of year	1,239,489	230,007	159,031	681,937	2,310,464
Additions	350,313	34,166	6,376	109,250	500,105
Transferred to group companies, net	—	—	—	(1,122)	(1,122)
Disposals	(21,266)	(4,938)	(1,496)	(16,456)	(44,156)
Other adjustments	57,648	6,287	2,308	(66,243)	—
End of year	<u>1,626,184</u>	<u>265,522</u>	<u>166,219</u>	<u>707,366</u>	<u>2,765,291</u>
Depreciation:—					
Beginning of year	14,104	5,628	38,438	243,312	301,482
Charged during the year	19,861	4,443	9,223	78,939	112,466
Transferred to group companies, net	—	—	—	(147)	(147)
Disposals	(2,095)	(185)	(991)	(11,397)	(15,168)
Other adjustments	2,485	81	348	(2,914)	—
End of year	<u>34,355</u>	<u>9,967</u>	<u>47,018</u>	<u>307,293</u>	<u>398,633</u>
Net book value:—					
Beginning of year	<u>1,225,385</u>	<u>224,379</u>	<u>120,593</u>	<u>438,625</u>	<u>2,008,982</u>
End of year	<u>1,591,829</u>	<u>255,555</u>	<u>119,201</u>	<u>400,073</u>	<u>2,366,658</u>
Assets in course of construction included in cost above:—					
Beginning of year	<u>202,021</u>	<u>41,816</u>	<u>—</u>	<u>1,984</u>	<u>245,821</u>
End of year	<u>229,456</u>	<u>22,716</u>	<u>—</u>	<u>2,898</u>	<u>255,070</u>

At 2 April 1994, the net book value of tangible fixed assets included £56,198,000 of leased plant, equipment and vehicles (1993 – £67,557,000). The depreciation charged in respect of leased plant, equipment and vehicles during the year amounted to £12,506,000 (1993 – £9,937,000).

Interest capitalised on freehold and long leasehold developments included in additions during the year amounted to £16,067,000 (1993 – £15,950,000). The cumulative amount of interest capitalised in the total cost above amounts to £81,425,000 (1993 – £65,749,000).

Freehold land included in the total cost above amounts to £692,361,000 (1993 – £536,361,000).

# NOTES TO THE ACCOUNTS (Continued)

## 9. TANGIBLE FIXED ASSETS (Continued)

### COMPANY

	Land and buildings			Plant, equipment and vehicles	Total
	Freehold £'000	Long leasehold £'000	Short leasehold £'000	£'000	£'000
<b>Cost:—</b>					
Beginning of year	484,431	93,491	153,624	636,459	1,368,005
Additions	348,456	29,671	6,359	107,265	491,751
Transferred from group companies, net	735,948	114,894	4,111	38,239	893,192
Disposals	(21,266)	(4,938)	(1,473)	(16,402)	(44,079)
Other adjustments	57,648	6,287	2,308	(66,243)	—
End of year	<u>1,605,217</u>	<u>239,405</u>	<u>164,929</u>	<u>699,318</u>	<u>2,708,869</u>
<b>Depreciation:—</b>					
Beginning of year	5,686	109	37,721	238,677	282,193
Charged during the year	19,491	4,315	9,063	78,078	110,947
Transferred from group companies, net	8,418	5,516	351	2,322	16,607
Disposals	(2,095)	(185)	(989)	(11,888)	(15,157)
Other adjustments	2,485	81	348	(2,914)	—
End of year	<u>33,985</u>	<u>9,836</u>	<u>46,494</u>	<u>304,275</u>	<u>394,590</u>
<b>Net book value:—</b>					
Beginning of year	<u>478,745</u>	<u>93,382</u>	<u>115,903</u>	<u>397,782</u>	<u>1,085,812</u>
End of year	<u>1,571,232</u>	<u>229,569</u>	<u>118,435</u>	<u>395,043</u>	<u>2,314,279</u>
<b>Assets in course of construction included in cost above:—</b>					
Beginning of year	<u>202,021</u>	<u>41,816</u>	<u>—</u>	<u>1,984</u>	<u>245,821</u>
End of year	<u>229,456</u>	<u>10,661</u>	<u>—</u>	<u>2,462</u>	<u>242,579</u>

At 2 April 1994, the net book value of tangible fixed assets included £56,198,000 of leased plant, equipment and vehicles (1993 — £67,556,000). The depreciation charged in respect of leased plant, equipment and vehicles during the year amounted to £12,506,000 (1993 — £9,936,000).

Freehold land included in the total cost above amounts to £678,729,000 (1993 — £522,729,000).

## NOTES TO THE ACCOUNTS (Continued)

### 10. INVESTMENTS

(a) Fixed asset investments at cost comprise:—

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Subsidiaries	—	—	250,440	257,005
Other — Unlisted	370	370	370	370
	<u>370</u>	<u>370</u>	<u>250,810</u>	<u>257,375</u>

Unlisted investments comprise the company's shareholding (33.33%) in European Retail Alliance, a Belgian company, which provides a forum for the review and implementation of future co-operation in areas such as marketing, distribution, production and information technology.

(b) Investments in Subsidiaries

The movement on this account during the year was:—

	1994 £'000	1993 £'000
Beginning of year	257,005	7,005
Acquisition from immediate parent company	—	250,000
Disposal to ultimate holding company	(6,565)	—
End of year	<u>250,440</u>	<u>257,005</u>

By an agreement dated 4 April 1993, the company sold its investment in Safeway Properties Limited to its ultimate holding company, Argyll Group PLC, for a total consideration of £6,565,000 being the net asset value at 3 April 1993.

The company's principal trading subsidiary is Safeway (Overseas) Limited, a company registered in England, with operations in the Channel Islands, Gibraltar and the Isle of Man. Safeway (Overseas) Limited is a wholly-owned subsidiary operating as a food retailer.

In addition to the above, the company has a number of other subsidiary companies, particulars of which will be annexed to the next annual return of the company.

## NOTES TO THE ACCOUNTS (Continued)

### 11. STOCKS

There is no significant difference between the balance sheet value and replacement cost of stocks.

### 12. DEBTORS

	GROUP		COMPANY	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Amounts falling due within one year:—				
Trade debtors	2,831	939	2,831	939
Due from ultimate holding company	20	—	20	—
Due from subsidiaries	—	—	52,667	638,858
Due from other group companies	46,927	15,396	46,927	15,396
VAT	6,971	9,675	6,971	9,675
Prepayments and accrued income	21,031	17,545	21,031	17,545
Other debtors	64,722	51,473	63,935	50,292
Tax certificates of deposit	3,253	1,554	3,253	1,554
	<u>145,755</u>	<u>96,582</u>	<u>197,635</u>	<u>734,259</u>

The amounts due from other group companies are non interest bearing.

### 13. OTHER CREDITORS

	GROUP		COMPANY	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Amounts falling due within one year:—				
Trade creditors	483,679	400,264	482,671	398,308
Due to ultimate holding company	286,195	243,506	286,195	243,506
Due to other group companies	743	67	743	67
Due to subsidiaries	—	—	250,000	6,565
Social security and PAYE	11,607	16,802	11,607	16,802
Corporation tax payable	120,723	100,214	115,990	68,341
Accruals and deferred income	55,539	50,172	51,065	44,773
Other creditors	123,387	156,547	123,387	156,547
	<u>1,081,873</u>	<u>967,572</u>	<u>1,321,658</u>	<u>934,909</u>

The amount due to the ultimate holding company includes £284,430,000 (1993 — £238,000,000) bearing interest at current market rates which may be repayable on demand.

# NOTES TO THE ACCOUNTS (Continued)

## 14. LOANS

	Interest rate %	GROUP AND COMPANY	
		1994 £'000	1993 £'000
Due to ultimate holding company	Interest free	960,000	900,000
Lease loan capital	Various	56,490	68,340
		956,490	968,340
Less: Amount repayable within one year		(12,589)	(11,850)
		943,901	956,490

Lease loan capital is repayable as follows:—

	GROUP AND COMPANY	
	1994 £'000	1993 £'000
Due within one year	12,589	11,850
Due within one to two years	13,396	12,589
Due within two to five years	24,757	35,199
Due after five years	5,748	8,702
	56,490	68,340

The amount due to the ultimate holding company has no fixed repayment date.

## 15. DEFERRED TAXATION

(a) Deferred taxation in the balance sheets comprises:—

	GROUP AND COMPANY	
	1994 £'000	1993 £'000
Tax allowances in excess of recorded depreciation	10,200	10,200

(b) The movement on deferred taxation during the year was:—

	GROUP AND COMPANY	
	1994 £'000	1993 £'000
Beginning of year	10,200	10,200
Transfer on acquisition of subsidiary	—	5,200
Transfer to current taxation	—	(5,200)
End of year	10,200	10,200

# NOTES TO THE ACCOUNTS (Continued)

- (c) The total potential liability for deferred taxation calculated at 33% (1993 - 33%) comprises:-

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Tax allowances in excess of recorded depreciation	135,098	120,440	135,016	119,201
Other timing differences	(796)	(1,267)	(796)	(1,267)
Capital gains deferred by roll-over relief	13,566	12,050	13,566	12,050
	<u>147,868</u>	<u>131,223</u>	<u>147,786</u>	<u>129,984</u>

## 16. CALLED-UP SHARE CAPITAL

	1994 £'000	1993 £'000
Authorised:-		
250,000,000 Ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>
Allotted, called-up and fully paid:-		
229,536,776 Ordinary shares of £1 each	<u>229,537</u>	<u>229,537</u>

## 17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Profit for the financial year	237,661	213,193	236,822	212,525
Dividends paid and proposed	(97,000)	(95,500)	(97,000)	(95,500)
Net addition to shareholders' funds	140,661	117,693	139,822	117,025
Shareholders' funds, beginning of year	<u>693,817</u>	<u>576,124</u>	<u>693,149</u>	<u>576,124</u>
Shareholders' funds, end of year	<u>834,478</u>	<u>693,817</u>	<u>832,971</u>	<u>693,149</u>

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off against the group's reserves is £581,288,000 (1993 - £581,288,000).

## NOTES TO THE ACCOUNTS (Continued)

### 18. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments at the year end are:—

	GROUP		COMPANY	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Contracted for	112,999	130,088	109,491	126,805
Authorised but not contracted for	62,536	33,435	60,965	31,065
	<u>175,535</u>	<u>163,523</u>	<u>170,456</u>	<u>157,870</u>

(b) Lease commitments

The group's aggregate minimum annual rentals under non-cancellable leases inclusive of unconditional future obligations are as follows:—

	PROPERTY		PLANT AND EQUIPMENT	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Operating leases which expire:—				
Within one year	631	185	7,640	3,680
Within two to five years	1,111	2,173	6,634	7,432
After five years	54,223	52,784	—	—
	<u>55,965</u>	<u>55,142</u>	<u>14,274</u>	<u>11,112</u>

(c) Guarantees

At 2 April 1994, the company together with other group companies, has jointly and severally guaranteed certain of the group bank overdraft and loan facilities.

(d) Pension schemes

The Argyll group maintains pension schemes for all eligible employees. Scheme funds are administered by trustees and are independent of group finances. Investment of pension scheme assets in group companies is not permitted by the trustees.

The principal scheme, the Safeway Pension Scheme, is a defined benefit scheme. The pension cost relating to this scheme is assessed in accordance with the advice of independent actuaries and is such as to spread the cost of pensions over the working lives of the group employees who are scheme members.

## NOTES TO THE ACCOUNTS (Continued)

The latest valuation of the scheme was carried out as at 1 April 1992 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries, pensions and dividends. It was assumed that the investment return would be 9% per annum, that salary increases would average 7% per annum, that pensions (in excess of the Guaranteed Minimum Pension) would increase at the rate of 5% per annum and that dividends on United Kingdom equity investments would increase at 4½% per annum.

The actuarial value of the assets was assessed by assuming that their market value was invested in the Financial Times Actuaries All Share Index at the valuation date and discounting the anticipated future dividend income at the valuation rate of return.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £294,400,000 and the actuarial value of the assets was sufficient to cover 120% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The excess is being eliminated as a uniform annual percentage of pensionable pay over approximately 12 years being the average remaining service lives of scheme members.

The total pension cost for the year amounted to £11,004,000 (1993 – £10,045,000).

### 19. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Argyll Group PLC, which is registered in England and heads the smallest and largest group in which the accounts are consolidated. These consolidated accounts are available to the public and may be obtained from its registered office at 6 Millington Road, Hayes, Middlesex, UB3 4AY.