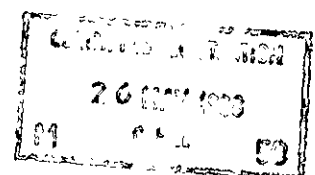


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LINNCO LIMITED
DIRECTORS' REPORT AND ACCOUNTS

36 weeks ended
31 December 1987



LINNCO LIMITED

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Company for the period 20 April 1987 to 31 December 1987. Corresponding figures are for the period 29 December 1986 to 19 April 1987.

PRINCIPLE ACTIVITIES

The principle activities of the Company are in retailing and distribution operating "7-Eleven" convenience stores under licence from the USA.

REVIEW OF BUSINESS

As previously reported, the Company's holding company, Neighbourhood Stores PLC, was purchased by Neighbourhood Stores (Holdings) Limited (formerly Blendmatic Limited) on 23 July 1987, the shareholding of which is owned 75% by Matheson & Co. Limited (a wholly owned subsidiary of Jardine Matheson Holdings Limited) and 25% by the Southland Corporation of America (the franchisor of "7-Eleven"). Jardine Matheson & Co. Limited have extensive experience of "7-Eleven", operating the area Licences for Hong Kong, Singapore and Malaysia and the Southland Corporation, who originated the concept, operate some 8000 stores in the United States of America. The Southland Corporation also co-ordinates the activities of an additional 4000 "7-Eleven" stores operated by area Licensees and affiliates in the United States and eleven other countries.

Immediately following the acquisition an extensive review of the tangible assets of the Company was undertaken to ascertain whether they were of the standard expected for trading under the "7-Eleven" concept. The action instigated by this review resulted in an extensive store refurbishment programme covering some forty-five stores over a two year period. Twenty-four stores were refurbished by the end of 1987 with a further six completed by the end of February 1988. The costs associated with this programme are detailed in Note 8 of the accounts.

One store which failed to meet trading requirements was closed during the period. The expected loss on disposal of this store has been fully provided in the accounts to 31 December 1987.

RESULTS AND DIVIDENDS

Turnover for the period was £17,253,000 (19 April 1987 £6,716,000). The loss for the period after taxation and extraordinary items amounted to £3,997,000 (19 April 1987 £1,076,000) which has been transferred to reserves. The Directors do not propose the payment of a dividend.

FIXED ASSETS

The changes in fixed assets during the year are shown on Note 11 to the accounts on page 13.

SHARE CAPITAL

On 3 December 1987 Neighbourhood Stores PLC gifted to the Company the sum of £10,000,000 on the proviso that this sum be shown as a capital reserve in the accounts of the Company (see Note 19 page 16).

DIRECTORS

The present directors of the Company are:-

M.T. Radmore	Managing Director (appointed 23 July 1987)
M.S. Henderson	(appointed 23 July 1987)
N.G.H. Seys-Phillips	(appointed 23 July 1987)
A.D. Tennant	
M.J. Goring	
R.H. Morris	(appointed 1 January 1988)
M.D. Linnell	(appointed 1 January 1988)
C.E. Doherty	(appointed 1 January 1988)

The following also served as Directors during the period:

R.J. Smith	(resigned 23 July 1987)
F. Cook	(resigned 23 July 1987)
J.S. Osbourne	(resigned 22 April 1987)
D.G.T. Linnell	(resigned 1 July 1987)

In accordance with Article 77, Mr. M.T. Radmore, Mr. M.S. Henderson and Mr. N.G.H. Seys-Phillips retire at the Annual General Meeting at which time they will offer themselves for re-election.

Mr. A.D. Tennant and Mr. M.J. Goring retire by rotation at the Annual General Meeting at which time they will offer themselves for re-election.

DIRECTORS' INTERESTS

No Director or their families had any interest in the securities of the Company or any Group company at either 31 December 1987 or 19 April 1987.

No Director had, during or at the end of the period, any material interest in a contract which was significant in relation to the Company's business.

EMPLOYMENT POLICIES

(1) Disabled persons

The policy of the Company is to give full and fair consideration to applications made by disabled persons where possible subject to inherent limitations of the operating environment. Where any employee becomes disabled whilst in the employment of the Company, then every effort is made to find continuing employment, either in the same or an alternative job; re-training and appropriate facilities are provided as necessary. Disabled persons share equally in the opportunities for training, career development and promotion which are available in the Company.

(2) Communication and consultation with employees

The Company is committed to a policy of the continuing development of effective means of communication, consultation and involvement with employees. Communication is achieved through the availability of the Annual Report and Accounts and through news bulletins. Other matters affecting the interests of employees were discussed with employees or their representatives.

AUDITORS

Spicer and Pegler changed their name on 18 January 1988 to Spicer & Oppenheim and accordingly have signed their report in their new name. A resolution to re-appoint Spicer & Oppenheim will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD


18th March 1988


SECRETARY

AUDITORS' REPORT TO THE MEMBERS OF LINNCO LIMITED

We have audited the financial statements on pages 5 to 17 in accordance with approved Auditing Standards.

In our opinion the financial statements, which have been prepared under the historical cost convention, give a true and fair view of the state of affairs of the company at 31 December 1987 and of the loss and source and application of funds of the company for the period then ended and comply with the Companies Act 1985.


Chartered Accountants
18th March 1988

LINNCO LIMITED

PROFIT AND LOSS ACCOUNT

For the 36 weeks ended 31 December 1987

	<u>Note</u>	36 weeks ended 31 December 1987 <u>£'000</u>	16 weeks ended 19 April 1987 <u>£'000</u>
Turnover	2	17253	6716
Operating Costs	3	18947	7750
Operating loss		<u>(1694)</u>	<u>(1034)</u>
Net interest payable	4	<u>(29)</u>	<u>(42)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1723)	(1076)
Taxation on ordinary activities	5	<u>400</u>	<u>-</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(1323)	(1076)
Extraordinary items	8	<u>(2674)</u>	<u>-</u>
LOSS FOR THE FINANCIAL PERIOD ATTRIBUTABLE TO THE MEMBERS OF LINNCO LIMITED		<u>(3997)</u>	<u>(1076)</u>

STATEMENT OF COMPANY DEFICIT

Balance brought forward:

As previously reported		(9824)	(6973)
Prior year adjustment	7	<u>(174)</u>	<u>(1949)</u>
Restated balance brought forward		(9998)	(8922)
Retained loss for the period		<u>(3997)</u>	<u>(1076)</u>
Balance carried forward	19	<u>(13995)</u>	<u>(9998)</u>

The notes on pages 8 to 17 form an integral part of these financial statements.

LINNCO LIMITED

BALANCE SHEET

AT 31 December 1987

	Note	£'000	31 December 1987 £'000	19 April 1987 £'000
Fixed assets				
Tangible assets	11		6042	6486
Investments	12		<u>1</u>	<u>1</u>
			6043	6487
Current assets				
Stock	13	2229		1857
Debtors	14	1340		496
Cash at bank and in hand		<u>116</u>		<u>281</u>
		3685		2634
Creditors: (amounts falling due within one year)	15	<u>5090</u>		<u>18271</u>
Net current liabilities			(1405)	(15637)
Total assets less current liabilities			4638	(9150)
Creditors: (amounts falling due after more than one year)	15	7794		427
Provision for liabilities and charges	16	<u>839</u>	(8633)	<u>421</u>
Total net assets			<u>(3995)</u>	<u>(9998)</u>
Capital and Reserves				
Called up share capital	18		-	-
Capital reserve	19		10000	-
Profit and loss account - deficit	19		(13995)	(9998)
Total shareholders' funds			<u>(3995)</u>	<u>(9998)</u>

The financial statements were approved by the Board of Directors on 18 March 1988.

Directors:

M.T. Radmore

A.D. Tennant

The notes on pages 8 to 17 form an integral part of these financial statements.

LINNCO LIMITED

SOURCE AND APPLICATION OF FUNDS

For the 36 weeks ended 31 December 1987

	36 weeks to 31 December 1987 <u>£'000</u>	16 weeks to 19 April 1987 <u>£'000</u>
Source of Funds		
Loss on ordinary activities before taxation		
Extraordinary items before taxation	(1723)	(1076)
	<u>(2774)</u>	<u>-</u>
Adjustment for items not involving the movement of funds:	(4497)	(1076)
Extraordinary fixed asset write off		
Fixed asset write off	769	-
Extraordinary depreciation	-	190
Depreciation	292	-
Loss on sale of fixed assets	560	265
Extraordinary provision for liabilities and charges	254	46
Total source of funds from operations	<u>789</u> <u>(1833)</u>	<u>-</u> <u>(575)</u>
Funds from other sources		
Proceeds of sale of tangible assets	292	68
Loans from Group company	1406	1511
Gift from holding company	10000	-
Total source of funds	<u>9865</u>	<u>1004</u>
Application of funds		
Repayment of finance leases	(237)	(97)
Purchase of fixed assets	(1723)	(107)
Repayment of Group loan	(10000)	-
Store closure costs	(371)	(206)
Decrease in working capital	<u>(2466)</u>	<u>594</u>
Represented by:		
Movement in working capital:		
Increase/(Decrease) in stock	372	(719)
Increase/(Decrease) in debtors	344	80
(Increase)/Decrease in creditors	<u>(3017)</u> <u>(2301)</u>	<u>738</u> <u>99</u>
Movement in net liquid funds:		
(Increase)/Decrease in bank loans	-	377
Increase/(Decrease) in cash at bank and in hand	<u>(165)</u> <u>(2466)</u>	<u>118</u> <u>594</u>

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

(1) Basis of accounting

The financial statements have been prepared under the historical cost convention.

(2) Depreciation

Tangible assets are depreciated on a straight line basis at annual rates estimated to write off their book value over the term of their useful lives. Details of depreciation rates are given in Note 11.

(3) Leased assets

An asset acquired under a lease that transfers substantially all the risks and rewards of ownership to the Company is capitalised as a tangible asset and depreciated over the shorter of the term of the lease or its useful life. Outstanding obligations due under the leases, net of finance charges, are included as a liability. The finance element of the rental payments is charged to the profit and loss account over the term of the lease.

All other leases are operating leases and annual rentals are charged to the profit and loss account.

(4) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents the invoiced cost of goods purchased for resale.

(5) Deferred taxation

Deferred taxation is provided only to the extent that a liability is expected to crystallise within the foreseeable future. Details of the full potential liability for deferred taxation are given in Note 17.

(6) Pension funding

Contributions to pension funds are charged against profits as they fall due. Full actuarial valuations will be made regularly.

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 **TURNOVER**

Turnover represents the amount receivable for the sale of goods excluding value added tax. All sales were made in the United Kingdom and are attributable to retailing activities.

3 **OPERATING COSTS**

	Note	36 weeks ended 31 December 1987 <u>£'000</u>	16 weeks ended 19 April 1987 <u>£'000</u>
Change in stocks of goods purchased for resale and other stocks		372	(719)
Raw materials and consumables		12756	5988
Staff costs		3001	1199
Depreciation		560	264
Exceptional items		25	186
Other operating charges		<u>2233</u>	<u>832</u>
		<u>18947</u>	<u>7750</u>
Net operating costs after taking account of:			
Operating lease rentals:			
Land and buildings		798	256
Other		40	6
Auditors' remuneration		16	-
Depreciation:			
Leased	11	83	47
Other	11	477	217
Exceptional items	5	<u>25</u>	<u>186</u>

4 **NET INTEREST PAYABLE**

Bank interest payable	(2)	(.)
Interest on finance leases	<u>(27)</u>	<u>(41)</u>
	<u>(29)</u>	<u>(42)</u>

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

	36 weeks to 31 December 1987 <u>£'000</u>	16 weeks to 19 April 1987 <u>£'000</u>
5	EXCEPTIONAL ITEMS	
	Fixed asset write off following physical count at 12 July 1987	
	<u>25</u>	<u>186</u>
6	TAXATION	
	Taxation recoverable at 35% on normal activities	
	<u>400</u>	<u>-</u>

Taxable losses of 35% for the period 23 July 1987 to 31 December 1987 are surrendered to other companies within the Matheson & Co. Ltd., Group for full consideration. For the period to 19 April 1987 taxable losses of 35% were surrendered to other companies within the Guinness Group for nil consideration.

7 PRIOR YEAR ADJUSTMENT

The prior year adjustment represents the effect of a change in the accounting policy for depreciation. As per Guinness PLC policy no depreciation was charged in the year of acquisition of an asset but a full charge was levied in the year of disposal. Following the purchase of Neighbourhood Stores PLC (of which the Company is a subsidiary) by Neighbourhood Stores (Holdings) Ltd., on 23 July 1987, depreciation is now charged from the date of acquisition of an asset. Accordingly the comparatives for the period to 19 April 1987 have been restated and the amount of £174,000 representing the effect of the nil depreciation in the year of acquisition has been written off against the deficit on the profit and loss account at the beginning of that financial period. The comparatives for the period to 19 April 1987 also include a prior year adjustment of £1,775,000 relating to Development expenditure written off following a change in accounting policy. Full details of this amount were given in the financial statements for the period ended 19 April 1987.

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 **EXTRAORDINARY ITEMS**

Following the purchase of Neighbourhood Stores PLC (of which the Company is a subsidiary) by Neighbourhood Stores (Holdings) Ltd., (formerly Blendmatic Ltd.) on 23 July 1987 from Guinness PLC a review of the tangible assets of the group was undertaken to ascertain if they were of the standard expected when trading under the 7-Eleven concept. The action instigated by the review in this respect is detailed below:-

Store Refurbishment Programme

24 store completely refurbished in 1987; 12 further refurbishments in 1988 and a further 9 in 1989.

Computer Equipment

All computer equipment to be replaced as soon as possible in 1988 following a detailed information systems review.

Asset Lives

The useful lives of all tangible assets have been reassessed. Details of new rates are given in Note 11.

	36 weeks ended 31 December 1987 <u>£'000</u>	16 weeks ended 19 April 1987 <u>£'000</u>
Costs:		
Fixtures and fittings write off	345	-
Store closure	50	-
Refurbishment expenses	1625	-
Computer write off	424	-
Depreciation	292	-
Termination payments at 23 July 1987	<u>38</u>	<u>-</u>
	2774	-
Less taxation recoverable	<u>100</u>	<u>-</u>
	<u>2674</u>	<u>-</u>

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

	36 weeks ended 31 December 1987 <u>£'000</u>	16 weeks ended 19 April 1987 <u>£'000</u>
9 STAFF COSTS AND EMPLOYEES		
(1) Staff Costs		
Wages and salaries	2758	1088
Social Security costs	208	93
Other pension costs	35	18
	<u>3001</u>	<u>1199</u>
(2) Average number of employees employed by the group, including Directors, within each category of persons was:		
Retail	552	426
Distribution	74	81
Administration	65	76
	<u>691</u>	<u>582</u>
10 DIRECTORS' EMOLUMENTS		
Fees	4	6
Other Emoluments	101	72
	<u>105</u>	<u>78</u>
Compensation for loss of office	36	30
	<u>141</u>	<u>108</u>
Emoluments (excluding pension contribution)		
Chairman	4	6
Emoluments of highest paid Director	25	18
Other Directors:		
Nil to £5000	2	1
£5001 to £10000	2	3
£10001 to £15000	1	2
£15001 to £20000	1	-
£20001 to £25000	1	-

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 TANGIBLE ASSETS

	<u>Note</u>	<u>Land & Buildings</u>	<u>Fixtures & Fittings</u>	<u>Motor Vehicles</u>	<u>Total</u>
Cost					
At 19 April 1987		1963	5765	242	7970
Reclassification		(3)	3	-	-
Additions		57	1666	-	1723
Disposals	8	(155)	(1468)	(235)	(1858)
At 31 December 1987		<u>1862</u>	<u>5966</u>	<u>7</u>	<u>7835</u>
Depreciation					
At 19 April 1987		288	947	75	1310
Depreciation policy change	7	-	174	-	1174
At 19 April 1987 as restated		<u>288</u>	<u>1121</u>	<u>75</u>	<u>1484</u>
Reclassification		(1)	1	-	-
Charge for period		87	451	22	560
Extraordinary item		-	292	-	292
Disposals	8	(26)	(425)	(92)	(543)
At 31 December 1987		<u>348</u>	<u>1440</u>	<u>5</u>	<u>1793</u>
Net Book Value					
At 19 April 1987 as restated		<u>1675</u>	<u>4644</u>	<u>167</u>	<u>6486</u>
At 31 December 1987		<u>1514</u>	<u>4526</u>	<u>2</u>	<u>6042</u>

Land and buildings - net book value at 31 December 1987 includes the following:-

	<u>31 December 1987</u>	<u>19 April 1987</u>
Freehold	146	146
Short leaseholds	<u>1368</u>	<u>1529</u>
	<u>1514</u>	<u>1675</u>

The net book value and depreciation charge for the period attributable to assets held under finance leases within fixtures and fittings are £627,000 (19 April 1987 £905,000) and £83,000 (19 April 1987 £47,000) respectively.

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

- 11 The following table shows the principle rates of depreciation used in the period together with the new rates following the review of tangible asset lives:-

	<u>Old Rate</u>	<u>New Rate</u>
Freehold	Nil	Nil
Leasehold	Straight line over period of lease	Straight line over period of lease
Structural	10 years(10% per annum)	10 years(10% per annum)
Fittings	10 years(10% per annum)	7 years(14.3% per annum)
Equipment	10 years(10% per annum)	7 years(14.3% per annum)
Motor Vehicles	4 years(25% per annum)	4 years(25% per annum)

12 INVESTMENTS

	<u>31 December 1987</u> <u>£'000</u>	<u>19 April 1987</u> <u>£'000</u>
Cost	<u>1</u>	<u>1</u>

The investment held is in respect of shares in a trade buying association.

13 STOCKS

	<u>31 December 1987</u> <u>£'000</u>	<u>19 April 1987</u> <u>£'000</u>
Goods purchased for resale	2215	1840
Other stocks	<u>14</u> <u>2229</u>	<u>17</u> <u>1857</u>

14 DEBTORS

	<u>31 December 1987</u> <u>£'000</u>	<u>19 April 1987</u> <u>£'000</u>
Trade debtors	149	111
Others	253	39
Prepayments and accrued income	438	346
Taxation recoverable from Group companies	<u>500</u> <u>1340</u>	<u>-</u> <u>496</u>

All debtors are due within one year.

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 CREDITORS: amounts falling due within one year.

	31 December 1987 <u>£'000</u>	19 April 1987 <u>£'000</u>
Obligations under finance leases	216	238
Trade creditors	2733	1062
Social Security and other taxes	252	202
Other creditors	1432	167
Accruals	427	426
Loans from Group company	-	16176
	<u>5090</u>	<u>18271</u>

CREDITORS: amounts falling due after more than one year.

Obligations under finance leases	212	427
Loans from Group company	<u>7582</u>	-
	<u>7794</u>	<u>427</u>

All obligations under finance leases are due between two and five years.

16 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 1987 <u>£'000</u>	19 April 1987 <u>£'000</u>
Provisions for costs associated with closure of seven stores	50	364
Termination charges	-	57
Provision for costs associated with store refurbishment programme	<u>789</u>	-
	<u>839</u>	<u>421</u>

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 DEFERRED TAXATION

No deferred taxation has been provided (refer Note 1) at 31 December 1987 (19 April 1987 nil). The full potential liability analysed between the major categories is as follows:-

	31 December 1987 <u>£'000</u>	19 April 1987 <u>£'000</u>
Excess of capital allowances over accumulated depreciation	370	843
Other timing differences	<u>57</u>	<u>42</u>
	427	885
Provisions allowable in future years	(186)	(159)
Cumulative losses brought forward	<u>(355)</u>	<u>(273)</u>
	<u>(114)</u>	<u>453</u>

18 CALLED UP SHARE CAPITAL

	31 December 1987 <u>£'000</u>	19 April 1987 <u>£'000</u>
Authorised: 100 ordinary shares of £1 each	<u>0.1</u>	<u>0.1</u>
Allotted called up and fully paid: 100 ordinary shares of £1 each	<u>0.1</u>	<u>0.1</u>

19 RESERVES

	<u>Capital Reserve</u>	<u>Profit and Loss</u>	<u>Total</u>
At 19 April 1987	-	(9824)	(9824)
Prior year adjustment	-	(174)	(174)
At 19 April 1987 as restated	<u>-</u>	(9998)	(9998)
Gift from holding company	10000		10000
Loss in period	-	(3997)	(3997)
At 31 December 1987	<u>10000</u>	<u>(13995)</u>	<u>(3995)</u>

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 OPERATING LEASE COMMITMENTS

The payments under operating leases which are due to be made in the next year, analysed over the periods when the leases expire, are as follows:-

	<u>Land and Buildings</u>		<u>Others</u>	
	<u>31 December</u>	<u>19 April</u>	<u>31 December</u>	<u>19 April</u>
	<u>1987</u>	<u>1987</u>	<u>1987</u>	<u>1987</u>
Expiring within one year	-	-	28	16
Expiring within two and five years	22	37	65	-
Expiring thereafter	<u>933</u>	<u>998</u>	<u>-</u>	<u>-</u>
	<u>955</u>	<u>1035</u>	<u>93</u>	<u>16</u>

21 HOLDING COMPANY

The holding company at the balance sheet date was Neighbourhood Stores PLC and the ultimate holding company is Jardine Matheson Holdings Limited which is incorporated in Bermuda.

22 CAPITAL COMMITMENTS

The following capital commitments had been authorised but not incurred at 31 December 1987:

	<u>31 December 1987</u>	<u>19 April 1987</u>
	<u>£'000</u>	<u>£'000</u>
Refurbishment of stores	160	-
New London offices	-	80
New stores	<u>-</u>	<u>90</u>
	<u>160</u>	<u>170</u>

23 FINANCIAL SUPPORT

The holding company, Neighbourhood Stores PLC, has confirmed that it will continue to make finance available to the Company to enable it to meet its liabilities for at least the next twelve months.