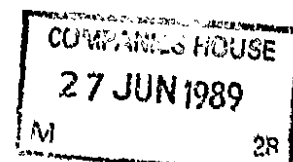


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LINNCO LIMITED

Directors' Report and Accounts  
Year ended 31 December 1988



## LINNCO LIMITED

### DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Company for the period 1 January 1988 to 31 December 1988. Corresponding figures are for the period 20 April 1987 to 31 December 1987.

#### PRINCIPAL ACTIVITIES

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

#### REVIEW OF BUSINESS

During 1988 management emphasis was to bed in systems, improve store standards and assemble the management team necessary for future expansion.

1988 was a year of consolidation during which four stores were opened and at year end two stores which failed to meet trading requirements were closed, leaving 51 stores operating.

In November 1988 agreement was reached with the Administrative Receiver of Youngs Freezer Centres Ltd., trading as Naymers, to acquire the assets of the business. The 11 shops involved will provide the nucleus of the store opening programme for the first half of 1989.

Trading progress was satisfactory following the extensive refurbishment programme that was completed by the end of the first quarter of 1988.

#### RESULTS AND DIVIDENDS

Turnover for the period was £28,984,000 (1987: £17,253,000). The loss for the period after taxation and extraordinary items amounted to £3,675,000 (1987: £3,997,000). The Directors do not propose the payment of a dividend.

#### FIXED ASSETS

The changes in fixed assets during the year are shown on Note 10 to the accounts on page 12.

## DIRECTORS

The present Directors of the Company are:-

M.T. Radmore	- Managing Director
M.S. Henderson	
N.G.H. Seys-Phillips	
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)

In accordance with Article 77, Mr. R.H. Morris, Mr. M.D. Linnell and Ms C.E. Doherty retire at the Annual General Meeting at which time they will offer themselves for re-election.

Mr. M.S. Henderson retires by rotation at the Annual General Meeting at which time he will offer himself for re-election.

## DIRECTORS' INTERESTS

No Director or their families had any interest in the securities of the Company at either 31 December 1988 or 31 December 1987 which require notification in accordance with the provisions of Section 324 of the Companies Act 1985.

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.

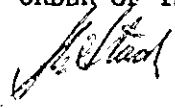
(2) Communications and consultation with employees

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

A resolution to re-appoint Spicer & Oppenheim will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

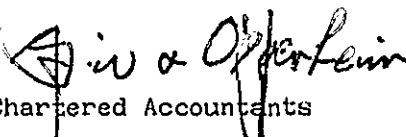
A handwritten signature in dark ink, appearing to be 'J. C. Stach', is written over the typed text 'BY ORDER OF THE BOARD'.

AUDITORS' REPORT TO THE MEMBERS OF LINNCO LIMITED

We have audited the financial statements on pages 5 to 16 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 1988 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.

3rd May 1989

  
Chartered Accountants

LINNCO LIMITED

PROFIT AND LOSS ACCOUNT

For the 52 weeks ended 31 December 1988

	Note	52 weeks ended 31 December 1988 £'000	36 weeks ended 31 December 1987 £'000
Turnover	2	28,984	17,253
Operating costs	3	(32,631)	(18,947)
Operating loss		( 3,647)	( 1,694)
Net interest payable	4	( 28)	( 29)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		( 3,675)	( 1,723)
Taxation on ordinary activities	6	-	400
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		( 3,675)	( 1,323)
Extraordinary items	7	-	( 2,674)
LOSS FOR THE FINANCIAL PERIOD ATTRIBUTABLE TO THE MEMBERS OF LINNCO LIMITED	18	( 3,675)	( 3,997)

The notes on pages 8 to 16 form an integral part of these financial statements.

LINNCO LIMITED

BALANCE SHEET

At 31 December 1988

	Note	£'000	31 December 1988 £'000	31 December 1987 £'000
<b>Fixed Assets</b>				
Tangible assets	10		6,536	6,042
Investments	11		<u>1</u>	<u>1</u>
			6,537	6,043
<b>Current assets</b>				
Stock	12	2,717		2,229
Debtors	13	1,505		1,340
Cash at bank and in hand		<u>436</u>		<u>116</u>
		4,658		3,685
Creditors: (amounts falling due within one year)	14	<u>5,620</u>		<u>5,090</u>
Net current liabilities			( 962)	(1,405)
Total assets less current liabilities			5,575	4,638
Creditors: (amounts falling due after more than one year)	14	12,922		7,794
Provisions for liabilities and charges	15	<u>323</u>	<u>(13,243)</u> <u>( 7,670)</u>	<u>(8,633)</u> <u>(3,995)</u>
<b>Capital and Reserves</b>				
Called up share capital	17		-	-
Capital reserve	18		10,000	10,000
Profit and loss account - deficit	18		<u>(17,670)</u> <u>( 7,670)</u>	<u>(13,995)</u> <u>( 3,995)</u>

Approved by the Board of Directors on 3rd May 1989.

Directors:

M.T. Radmore

*M.T. Radmore*

A.D. Tennant

*A.D. Tennant*

The notes on pages 8 to 16 form an integral part of these financial statements.

LINNCO LIMITED

SOURCE AND APPLICATION OF FUNDS STATEMENT

For the 52 weeks ended 31 December 1988

	52 weeks to 31 December 1988 <u>£'000</u>	36 weeks to 31 December 1987 <u>£'000</u>
<b>Source of Funds</b>		
Loss on ordinary activities before taxation	( 3,675)	( 1,723)
Extraordinary items before taxation	-	( 2,774)
	<u>( 3,675)</u>	<u>( 4,497)</u>
Adjustment for items not involving the movement of funds:		
Extraordinary fixed asset write off	-	769
Extraordinary depreciation	-	292
Depreciation	781	560
(Profit)/Loss on sale of fixed assets	( 114)	254
Extraordinary provision for liabilities and charges	-	789
Provision for store closure	188	-
Total source of funds from operations	<u>( 2,820)</u>	<u>( 1,833)</u>
<b>Funds from other sources</b>		
Proceeds of sale of tangible assets	379	292
Loans from Group company	5,322	1,406
Gift from holding company	-	10,000
Total source of funds	<u>2,881</u>	<u>9,865</u>
<b>Application of funds</b>		
Repayment of finance leases	( 213)	( 237)
Purchase of fixed assets	( 1,707)	( 1,723)
Repayment of Group loan	-	(10,000)
Store refurbishment expenses	( 429)	-
Store closure costs	( 108)	( 371)
Decrease in working capital	<u>421</u>	<u>( 2,466)</u>
<b>Represented by:</b>		
Movement in working capital:		
Increase/(Decrease) in stock	488	372
Increase/(Decrease) in debtors	165	344
(Increase)/Decrease in creditors	<u>( 552)</u>	<u>( 3,017)</u>
	101	( 2,301)
Movement in net liquid funds:		
Increase/(Decrease) in cash at bank and in hand	<u>320</u>	( 165)
	<u>421</u>	<u>( 2,466)</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 10.

(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 the 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 16.

(6) Pension funding

Contributions to pension funds are charged against profits as they fall due.

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**

		52 weeks ended 31 December 1988	36 weeks ended 31 December 1987
	Note	£'000	£'000
Change in stocks of goods purchased for resale and other stocks		488	372
Raw materials and consumables		21,811	12,756
Staff costs	8	5,151	3,001
Depreciation	10	781	560
Exceptional items	5	( 20)	25
Other operating charges		4,420	2,233
		<u>32,631</u>	<u>18,947</u>
Net operating costs after taking account of:			
Operating lease rentals:			
Land and buildings		985	798
Other		118	40
		<u>1,103</u>	<u>838</u>
Auditors' remuneration		<u>20</u>	<u>16</u>
Depreciation:			
Leased	10	116	83
Owned	10	665	477
		<u>781</u>	<u>560</u>
4 <b>NET INTEREST PAYABLE</b>			
Bank interest payable		5	2
Interest on finance leases		23	27
		<u>28</u>	<u>29</u>

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

	52 weeks to 31 December 1988 <u>£'000</u>	36 weeks to 31 December 1987 <u>£'000</u>
5 EXCEPTIONAL ITEMS		
Profit on sale of freehold property	(114)	-
Provision for loss on closure of two stores	188	-
Provision for refurbishment expenses not required	( 94)	-
Fixed asset write off following physical count at 12 July 1987	- <u>( 20)</u>	<u>25</u> <u>25</u>
6 TAXATION		
Taxation recoverable at 35% on normal activities	- <u>-</u>	<u>400</u>
Taxable losses arising in the period have not been surrendered to other companies within the Matheson & Co. Ltd., Group. As a result the Company has taxable losses of £5,135,000 (1987: £1,055,000) available to carry forward against future trading profits.		
7 EXTRAORDINARY ITEMS		
	52 weeks to 31 December 1988 <u>£'000</u>	36 weeks to 31 December 1987 <u>£'000</u>
Provision for store refurbishment expenses on acquisition of the Group	-	2,774
Less taxation recoverable	- <u>-</u>	<u>100</u> <u>2,674</u>

# LINNCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

52 weeks ended 31 December 1988	36 weeks ended 31 December 1987
<u>£'000</u>	<u>£'000</u>

### 8 EMPLOYEES

- (1) The average number employed by the group, which includes Directors, within each category of person was:-

Retail	499	552
Distribution	69	74
Administration	80	65
	<u>648</u>	<u>691</u>

- (2) The costs incurred in respect of these employees were:-

Wages and salaries	4,671	2,758
Social security costs	413	208
Other pension costs	67	35
	<u>5,151</u>	<u>3,001</u>

### 9 DIRECTORS

Emoluments of Directors of the holding company were as follows:-

Fees	-	4
Management Remuneration	320	101
Compensation for loss of office	-	36
	<u>320</u>	<u>141</u>

Emoluments (excluding pension contribution) of Directors were as follows:-

Chairman	-	4
Highest paid Director	<u>57</u>	<u>25</u>

Other Directors:

Nil to £5,000	1	2
£5,001 to £10,000	-	2
£10,001 to £15,000	-	1
£15,001 to £20,000	-	1
£20,001 to £25,000	-	1
£30,001 to £35,000	2	-
£40,001 to £45,000	3	-
£45,001 to £50,000	1	-

LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 TANGIBLE ASSETS

	Land & Buildings £'000	Fixtures & Fittings £'000	Motor Vehicles £'000	Total £'000
Cost				
At 31 December 1987	1,862	5,966	7	7,835
Additions	438	1,269	-	1,707
Disposals	( 178 )	( 344 )	( 7 )	( 529 )
At 31 December 1988	<u>2,122</u>	<u>6,891</u>	<u>-</u>	<u>9,013</u>
Depreciation				
At 31 December 1987	348	1,440	5	1,793
Charge for period	142	639	-	781
Disposals	( 4 )	( 88 )	( 5 )	( 97 )
	<u>486</u>	<u>1,991</u>	<u>-</u>	<u>2,477</u>
Net Book Value				
At 31 December 1988	<u>1,636</u>	<u>4,900</u>	<u>-</u>	<u>6,536</u>
At 31 December 1987	<u>1,514</u>	<u>4,526</u>	<u>2</u>	<u>6,042</u>

Land and buildings - net book value at 31 December 1988 includes the following:-

	31 December 1988 £'000	31 December 1987 £'000
Freehold	-	146
Short leaseholds	<u>1,636</u>	<u>1,538</u>
	<u>1,636</u>	<u>1,514</u>

The net book value and depreciation charge for the period attributable to assets held under finance leases within fixtures and fittings are £371,000 (1987: £627,000) and £116,000 (1987: £83,000) respectively.

# LINNCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

- 10 The following table shows the principal rates of depreciation used in the period.

Freeholds	- Nil
Leasehold	- Straight line over period of lease or 21 years whichever is the shorter
Structural and Fittings	- 10 years (10% per annum)
Equipment	- 7 years (14.3% per annum)
Motor Vehicles	- 4 years (25% per annum)

### 11 INVESTMENTS

	31 December 1988	31 December 1987
	<u>£'000</u>	<u>£'000</u>
Cost	<u>1</u>	<u>1</u>

The investment is in respect of stores in a trade buying association.

### 12 STOCKS

	31 December 1988	31 December 1987
	<u>£'000</u>	<u>£'000</u>
Goods purchased for resale	2,689	2,215
Other stocks	<u>28</u>	<u>14</u>
	<u>2,717</u>	<u>2,229</u>

### 13 DEBTORS

	31 December 1988	31 December 1987
	<u>£'000</u>	<u>£'000</u>
Trade debtors	288	149
Others	189	253
Prepayments and accrued income	528	438
Taxation recoverable from Group companies	<u>500</u>	<u>500</u>
	<u>1,505</u>	<u>1,340</u>

LYNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 CREDITORS: amounts falling due within one year.

	31 December 1988	31 December 1987
	<u>£'000</u>	<u>£'000</u>
Obligations under finance leases	194	216
Trade creditors	3,950	2,733
Social security and other taxes	164	252
Other creditors	1,019	1,462
Accruals	293	427
	<u>5,620</u>	<u>5,090</u>

CREDITORS: amounts falling due after more than one year.

Obligations under finance leases	18	212
Loans from Group company	12,904	7,582
	<u>12,922</u>	<u>7,794</u>

All obligations under finance leases are due between two and five years. Loans from Group companies have no fixed repayment date and carry no interest.

15 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 1988	31 December 1987
	<u>£'000</u>	<u>£'000</u>
Provisions for cost associated with closure of two stores	188	50
Provisions for costs associated with store refurbishment programme	135	789
	<u>323</u>	<u>839</u>

# LINNCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 16 DEFERRED TAXATION

No deferred taxation has been provided (refer Note 1) at 31 December 1988 (31 December 1987 nil). The full potential liability analysed between the major categories is as follows:-

	31 December 1988	31 December 1987
	<u>£'000</u>	<u>£'000</u>
Excess of capital allowances over accumulated depreciation	291	370
Other timing differences	<u>79</u>	<u>57</u>
	370	427
Provisions allowable in future years	( 47)	(186)
Cumulative losses brought forward	<u>(1,797)</u>	<u>(355)</u>
	<u>(1,474)</u>	<u>(114)</u>

### 17 CALLED UP SHARE CAPITAL

	31 December 1988	31 December 1987
	<u>£'000</u>	<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>

### 18 RESERVES

	Capital Reserve <u>£'000</u>	Profit and Loss <u>£'000</u>	Total <u>£'000</u>
At 31 December 1987	10,000	(13,995)	(3,995)
Loss in period	-	( 3,675)	(3,675)
At 31 December 1988	<u>10,000</u>	<u>(17,670)</u>	<u>(7,670)</u>



LINNCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 OPERATING LEASE COMMITMENTS

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

	<u>Land and Buildings</u>		<u>Others</u>	
	<u>31 December 1988</u>	<u>31 December 1987</u>	<u>31 December 1988</u>	<u>31 December 1987</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Expiring within one year	48	-	23	28
Expiring within two and five years	15	22	83	65
Expiring thereafter	<u>1,149</u>	<u>933</u>	<u>-</u>	<u>-</u>
	<u>1,212</u>	<u>955</u>	<u>106</u>	<u>93</u>

20 HOLDING COMPANY

The ultimate holding company is Jardine Matheson Holdings Limited which is incorporated in Bermuda.

21 CAPITAL COMMITMENTS

The following capital commitments had been authorised but not provided as at 31 December 1988:-

	<u>31 December 1988</u>	<u>31 December 1987</u>
	<u>£'000</u>	<u>£'000</u>
New stores	1,150	-
New computer system	563	-
Refurbishment of stores	<u>-</u>	<u>160</u>
	<u>1,713</u>	<u>160</u>

22 CONTINGENT LIABILITY

A floating charge over the assets of the company has been given to the landlord of the company at its Woking office as security for all monies due or to become due under the terms of the lease.