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TESCO CAPITAL LIMITED

REPORT AND ACCOUNTS

24 FEBRUARY 1996



TESCO CAPITAL LIMITED

DIRECTORS' REPORT

The directors present their report and audited accounts for the 52 weeks ended 24 February 1996.

REVIEW OF THE BUSINESS

The company is a wholly owned subsidiary of Tesco PLC and is incorporated in Jersey.

The company has engaged in the raising of funds for other members of the Tesco Group.

During the year the £200m 9% Convertible Capital Bonds were converted into fully paid 9% exchangeable redeemable preference shares in Tesco Capital Limited which were subsequently exchanged for fully paid ordinary shares in Tesco PLC.

RESULTS FOR THE PERIOD

The net loss of the company after tax for the period was £81,000 (1995 - loss of £31,000). The directors do not recommend payment of a dividend (1995 - £Nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the period were:-

Sir Ian MacLaurin
V W Benjamin
A D Malpas
D E Reid
R S Ager

The directors had no disclosable interests in any contract with the company during the year.

The directors are all directors of Tesco PLC, the company's ultimate holding company, and as such the disclosable interests in Tesco PLC are declared in the accounts of that company.

TESCO CAPITAL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Jersey Company Law requires the Directors to prepare financial statements for each financial year which shall be in accordance with generally accepted principles and show a true and fair view of the profit or loss of the Company for the period and of the state of the Company's affairs at the end of the period.

In preparing financial statements the Directors should:

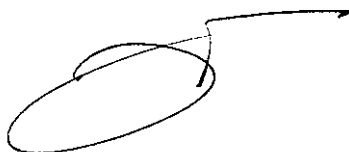
- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * prepare financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain the Company's transactions and to disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. 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.

AUDITORS

Price Waterhouse have expressed their willingness to continue in office.

By order of the Board



J A Bailey, FCIS, ACIB
Secretary
22 Grenville Street
St Helier
Jersey
JE4 8 PX
Channel Islands

Tesco Capital Limited
Registered Number 47581

18 December 1996

TESCO CAPITAL LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF TESCO CAPITAL LIMITED

We have audited the financial statements on pages 4 to 9 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2 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 financial statements and to report our opinion to you.

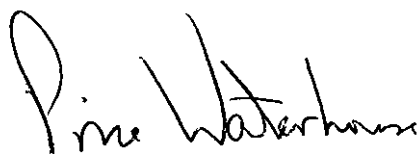
BASIS OF OPINION

We conducted our audit in accordance with the 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 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 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 adequacy 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 at 24 February 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies (Jersey) Law 1991.



PRICE WATERHOUSE
10 Bricket Road
St Albans
Herts AL1 3JX
Chartered Accountants and
Registered Auditors

18 December 1996

TESCO CAPITAL LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE 52 WEEKS ENDED 24 FEBRUARY 1996

	<u>1996</u> £'000	<u>1995</u> £'000
Administration Expenses	(116)	(48)
	<hr/>	<hr/>
Operating Loss (Note 2)	(116)	(48)
Interest received and receivable from group undertakings	8,304	18,006
Other interest received and receivable	1	2
Interest paid and payable on the 9% Convertible Capital Bond 2005	(8,304)	(18,006)
	<hr/>	<hr/>
Loss on ordinary activities before taxation	(115)	(46)
Tax on loss on ordinary activities (Note 3)	34	15
	<hr/>	<hr/>
Retained deficit for the financial year (Note 9)	(81)	(31)
	<hr/>	<hr/>

All company operations for the financial year are continuing.

The company's recognised gains and losses comprise only the loss reported in the Profit and Loss Account above.

The notes on pages 6 to 9 form part of these accounts.

TESCO CAPITAL LIMITED

BALANCE SHEET AT 24 FEBRUARY 1996

	<u>1996</u> £'000	<u>1995</u> £'000
DEBTORS: AMOUNTS DUE AFTER MORE THAN ONE YEAR (Note 4)	<u>-</u>	<u>200,000</u>
CURRENT ASSETS		
Debtors (Note 4)	12,246	12,179
Cash	-	17
	<u>12,246</u>	<u>12,196</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (Note 5)	<u>(2,407)</u>	<u>(4,276)</u>
NET CURRENT ASSETS	<u>9,839</u>	<u>7,920</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	9,839	207,920
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (Note 6)	-	(200,000)
PROVISION FOR LIABILITIES AND CHARGES (Note 7)	<u>(2,480)</u>	<u>(2,480)</u>
	<u>7,359</u>	<u>5,440</u>
CAPITAL & RESERVES		
Called up Share Capital (Note 8)	2,000	-
Profit & Loss Account (Note 9)	5,359	5,440
	<u>7,359</u>	<u>5,440</u>

Approved by the Board on 18 December 1996

D E REID DIRECTOR 

The notes on pages 6 to 9 form part of these accounts.

TESCO CAPITAL LIMITED

NOTES TO THE ACCOUNTS - 24 FEBRUARY 1996

1. ACCOUNTING POLICIES

Basis of Accounting

The accounts have been prepared in accordance with applicable United Kingdom accounting standards, under the historical cost convention.

In accordance with paragraph 8c of FRS1, the company being the wholly owned subsidiary of another company which prepares a cash flow statement including the cash flow of this company, has not prepared such a statement itself.

Deferred Taxation

Deferred taxation is provided on timing differences only to the extent that it is probable that a liability will crystallise.

Interest

Interest is accounted for on a receivable basis.

2. OPERATING LOSS

The company had no employees during the year (1995 - Nil).

The auditors' remuneration is paid by another group company.

The directors received no emoluments in respect of their office.

3. TAXATION

	<u>1996</u>	<u>1995</u>
	<u>£'000</u>	<u>£'000</u>
United Kingdom taxation at 33% (1995 - 33%):-		
Group relief	(34)	(15)
	<hr/>	<hr/>

The company is resident for tax purposes in the UK.

TESCO CAPITAL LIMITED

NOTES TO THE ACCOUNTS - 24 FEBRUARY 1996 / cont'd

4. <u>DEBTORS</u>	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Debtors falling due within one year:		
Amounts owed by group undertakings	12,246	12,179
	<hr/>	<hr/>
Debtors falling due after one year:-		
Tesco PLC unsecured loan notes 2005	-	200,000
	<hr/>	<hr/>

Following the conversion of the £200m 9% Convertible Capital Bond 2005 during the year, the Tesco PLC unsecured loan notes 2005 were repaid (refer note 6).

5. <u>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</u>	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Trade creditors	69	-
Tax credit on Capital Bond Interest Payment	-	1,209
Convertible Capital Bond Interest	-	696
Amounts owed to group undertakings	2,338	2,371
	<hr/>	<hr/>
	2,407	4,276
	<hr/>	<hr/>

6. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Convertible Capital Bond 2005	-	200,000
	<hr/>	<hr/>

During the year the Convertible Capital Bonds were converted into fully paid 9% exchangeable redeemable preference shares in Tesco Capital Limited which were subsequently exchanged for fully paid ordinary shares in Tesco PLC.

TESCO CAPITAL LIMITED

NOTES TO THE ACCOUNTS - 24 FEBRUARY 1996 / cont'd

7. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>Amount Provided</u>		<u>Potential Deferred Taxation on all Timing Differences</u>	
	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Deferred Taxation				
Short term timing differences	<u>2,480</u>	<u>2,480</u>	<u>2,480</u>	<u>2,480</u>

8. CALLED UP SHARE CAPITAL

	<u>1996</u> <u>£</u>	<u>1995</u> <u>£</u>
<u>Authorised:</u>		
1,000 Founders shares of £1 each	1,000	1,000
300,000,000 unclassified shares of 1p each	<u>3,000,000</u>	<u>3,000,000</u>
	<u>3,001,000</u>	<u>3,001,000</u>
Issued at 26 February 1995	9	9
Issue of redeemable preference shares	2,000,000	-
Redemption of preference shares	(2,000,000)	-
Issue of unclassified shares	2,000,000	-
Issued at 24 February 1996	<u>2,000,009</u>	<u>9</u>

9. PROFIT & LOSS ACCOUNT

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Balance as at 25 February 1995	5,440	5,471
Retained deficit for the period	(81)	(31)
Balance as at 24 February 1996	<u>5,359</u>	<u>5,440</u>

TESCO CAPITAL LIMITED

NOTES TO THE ACCOUNTS - 24 FEBRUARY 1996 / cont'd

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Shareholder's funds at 25 February 1995	5,440	5,471
Loss for the year	(81)	(31)
Redeemable preference shares issued in year	2,000	-
Unclassified shares issued in year	2,000	-
Share premium on issue of £2m redeemable preference shares	198,000	-
Redemption of preference shares	(200,000)	-
Shareholders funds at 24 February 1996	<u>7,359</u>	<u>5,440</u>

11. ULTIMATE HOLDING COMPANY

The company is a wholly owned subsidiary of Tesco PLC which is incorporated in Great Britain and registered in England and Wales, and is the ultimate holding company. Copies of the group accounts can be obtained from the Company Secretary, Tesco PLC, Tesco House, PO Box 18, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL.