

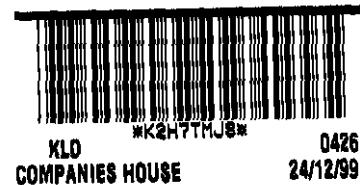
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TESCO CAPITAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 27 FEBRUARY 1999



TESCO CAPITAL LIMITED

DIRECTORS' REPORT

The directors present their report and audited financial statements for the year ended 27 February 1999.

PRINCIPAL ACTIVITY

The company is a wholly owned subsidiary of Tesco PLC and is incorporated in Jersey. The company is engaged in the raising of funds for other members of the Tesco Group.

RESULTS AND DIVIDENDS

The net profit of the company after taxation for the year was £18,099,000 (1998 : £12,334,000) . During the year , preference dividends of £14,575,000 (1998 : £11,260,000) were paid. *The directors do not recommend the payment of dividend on ordinary shares (1998 : £588,000).*

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were :

D E Reid
R S Ager

The directors had no disclosable interests in any contract with the company during the year, nor any interest in the company.

D E Reid and R S Ager are also directors of Tesco PLC, the company's ultimate holding company , and as such their disclosable interests in Tesco PLC are all declared in the financial statements of that company.

The secretary who served during the year was J A Bailey.

TESCO CAPITAL LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS' RESPONSIBILITIES

The Companies (Jersey) Law 1991 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:

- * state where all applicable standards have been applied;
- * 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, error and non-compliance with laws and regulations.

YEAR 2000

The group has been working on the Year 2000 issue for over three years with the specific objective of ensuring business continuity.

It has worked closely with Government and Action 2000 as well as the Retail Industry bodies. The group has made the necessary changes and re-tested all its business critical computer systems.

The cost of the programme is being incurred by the group and more detail can be obtained from the group financial statements.

EURO

It is believed that the introduction of the Euro will not impact the business now, or in the future.

AUDITORS

The auditors PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board on 23 December 1999


J A Bailey
Secretary

Tesco Capital Limited
Registered Number F0015640

AUDITORS' REPORT TO THE SHAREHOLDERS OF TESCO CAPITAL LIMITED

We have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention, and the accounting policies set out on page 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 2 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

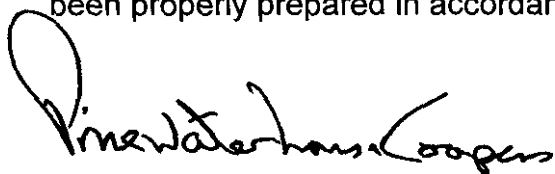
BASIS OF AUDIT OPINION

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 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 the company's affairs at 27 February 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies (Jersey) Law 1991.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
10 Bricket Road
St Albans, Herts, AL1 3JX

23 December 1999

TESCO CAPITAL LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 27 FEBRUARY 1999

	<u>Note</u>	<u>1999</u> £'000	<u>1998</u> £'000
Income from shares in group undertakings		15,747	14,144
Administration expenses		<u>-</u>	<u>(9)</u>
Operating profit	2	15,747	14,135
Interest received		<u>29</u>	<u>29</u>
Profit on ordinary activities before tax		15,776	14,164
Tax credit / (charge) on ordinary activities	3	2,323	(1,830)
Profit on ordinary activities after tax		<u>18,099</u>	<u>12,334</u>
Dividends payable - equity and non equity	4	(14,575)	(11,848)
Retained profit for year		<u>3,524</u>	<u>486</u>

All company operations for the financial period are continuing.

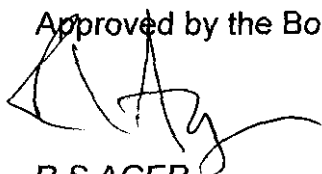
The company's recognised gains and losses comprise only the profit reported in the profit and loss account above.

The notes on pages 6 to 10 form part of these financial statements.

TESCO CAPITAL LIMITED**BALANCE SHEET AS AT 27 FEBRUARY 1999**

	<u>Note</u>	<u>1999</u> £'000	<u>1998</u> £'000
FIXED ASSETS			
Investments	5	259,000	259,000
CURRENT ASSETS			
Debtors	6	6,331	6,666
Cash at bank and in hand		1,281	76
		<u>7,612</u>	<u>6,742</u>
CREDITORS : Amounts falling due within one year	7	(4,955)	(5,277)
NET CURRENT ASSETS		<u>2,657</u>	<u>1,465</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		261,657	260,465
PROVISION FOR LIABILITIES AND CHARGES	8	-	(2,332)
		<u>261,657</u>	<u>258,133</u>
CAPITAL AND RESERVES			
Called up share capital (equity and non-equity)	9	2,536	2,536
Share premium	10	249,750	249,750
Profit and loss account	11	9,371	5,847
SHAREHOLDERS' FUNDS	12	<u>261,657</u>	<u>258,133</u>

Approved by the Board on 23 December 1999

R S AGER
DIRECTOR

The notes on pages 6 to 10 form part of these financial statements.

TESCO CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 27 FEBRUARY 1999

1. ACCOUNTING POLICIES

Basis of Accounting

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

In accordance with FRS1 (revised), the company being the wholly owned subsidiary of another company which prepares a cash flow statement including the cash flows 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.

2. OPERATING PROFIT

The company had no employees during the year (1998 - Nil).

The auditors' remuneration is borne by another group company.

The directors received no emoluments in respect of their office (1998 - Nil).

3. TAXATION

	<u>1999</u>	<u>1998</u>
	£'000	£'000
Corporation taxation at 31% (1998 - 33%)		
-Group relief	9	6
Deferred tax (Note 8)	(2,332)	(150)
Taxation on franked investment income	-	1,974
	<u>(2,323)</u>	<u>1,824</u>

The company is resident for tax purposes in the UK.

4. DIVIDENDS PAYABLE

	<u>1999</u>	<u>1998</u>
	£'000	£'000
Non-equity preference dividends	14,575	11,260
Equity ordinary dividends	-	588
	<u>14,575</u>	<u>11,848</u>

TESCO CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 27 FEBRUARY 1999 / (continued)

5. INVESTMENTS

	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>
Shares in group undertaking	<u>259,000</u>	<u>259,000</u>

The investment represents 259,000,000 £1 preference shares in Tesco Stores Limited which were issued at par. The shares are non-voting and attract a net dividend of 6.08% payable to the company for 10 years to 2007.

6. DEBTORS

	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>
Debtors falling due within on year :		
Amounts owed by group undertakings	<u>6,331</u>	<u>6,666</u>

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>
Amounts owed to group undertakings	<u>4,955</u>	<u>5,277</u>

8. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>Amount Provided</u>		<u>Potential Deferred Taxation on all Timing Differences</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Deferred Taxation				
Short term timing differences	-	2,332	-	2,332
	<u>-</u>	<u>2,332</u>	<u>-</u>	<u>2,332</u>

The movement in the deferred taxation provision during the year has been as follows :

	<u>£'000</u>
Balance at 28 February 1998	2,332
Released during the year (Note 3)	(2,332)
Balance at 27 February 1999	<u>-</u>

TESCO CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 27 FEBRUARY 1999 /(continued)

9. <u>CALLED UP SHARE CAPITAL</u>	<u>1999</u> £'000	<u>1998</u> £'000
<u>Authorised:</u>		
1,000 founders shares of £1 each	1	1
21,441,307 unclassified shares of £0.01 each	214	214
228,558,693 nominal shares of £0.01 each	2,286	2,286
50,000,000 guaranteed fixed rate cumulative preference shares of £0.01 each	500	500
	<hr/>	<hr/>
	3,001	3,001
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 <u>Issued and fully paid :</u>	 <u>1999</u> £'000	 <u>1998</u> £'000
9 founders shares of £1 each	-	-
228,558,693 nominal shares of £0.01 each	2,286	2,286
25,000,000 guaranteed fixed rate cumulative preference shares of £0.01 each	250	250
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	2,536	2,536
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The holders of founders' and nominal shares are entitled to attend and vote at General Meetings of the company.

The holders of preference shares are only able to vote in the following circumstances:

- (i) if preference share dividends have not been paid for two consecutive dividend periods or,
- (ii) if there is a proposed resolution to abrogate, vary or modify any of the rights or privileges of the holders of the preference shares or for winding up the company, in which case they are entitled to vote on such a resolution.

Dividends voted by the company are used firstly to provide a 5.83% dividend to the preference shares with any balance paid equally to the ordinary shares.

If the company is wound up, the preference shares will be repaid their called-up amount, then the ordinary shares will be repaid their called-up amount, with any balance allocated equally between the ordinary shares.

The preference shares shall be redeemed by the company by service of a written notice upon the preference shareholders at any time on or after the tenth anniversary of the subscription date.

TESCO CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 27 FEBRUARY 1999 / (continued)

10. <u>SHARE PREMIUM ACCOUNT</u>	1999 £'000	1998 £'000
Premium on issue of preference shares	249,750	249,750

11. PROFIT & LOSS ACCOUNT

	1999 £'000
Balance as at 28 February 1998	5,847
Retained profit for the year	3,524
Balance as at 27 February 1999	9,371

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £'000	1998 £'000
Profit for the financial year	18,099	12,334
Dividends paid	(14,575)	(11,848)
	3,524	486
Redeemable preference shares issued in the year	-	250,000
Issue of nominal shares	-	286
Net addition to shareholders' funds	3,524	250,772
Opening shareholders' funds	258,133	7,361
Closing shareholders' funds	261,657	258,133

TESCO CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 27 FEBRUARY 1999 / continued

The shareholders' funds are split as follows :

	<u>1999</u>	<u>1998</u>
	£'000	£'000
Equity	11,657	8,133
Non-equity	250,000	250,000
	<u>261,657</u>	<u>258,133</u>

13. ULTIMATE HOLDING COMPANY

The parent and ultimate holding company is Tesco PLC, which is incorporated in Great Britain and registered in England and Wales, and which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Tesco PLC financial statements can be obtained from the Company Secretary, Tesco PLC, Tesco House, PO Box 18, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL.

14. RELATED PARTY DISCLOSURES

Transactions with other companies within the group are not disclosed as the company has taken advantage of the exemption under Financial Reporting Standard No. 8 "Related Party Disclosures", as the consolidated financial statements of Tesco PLC in which the company is included are available at the address noted above.