

annual report & accounts

for year ended 27 January 2001

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Directors, Officers and Advisors

Central Board of Directors

President Mr John P Cronan (8)

Vice President Mr Gerard Hill (7)

Minute Secretary Mr James Duffy (8)

Directors

Mr R Brown (8), Mr H Cairney (7), Mrs J Cronan (8), Mr J Gilchrist (9), Mrs M Hume (8), Mr P Kane (9), Mrs C Kerr (8), Mr G Manderson (7), Mrs A Middleton (8), Mr D Moon Snr (9), Mr D Moon Jnr (9), Mr H Smallman (8), Mr D Todd (8), Mrs M Wilkinson (7), Miss A Williamson (8)

Nine Board meetings held. The figure after each name indicates the number of meetings attended.

Officers and Advisors

Chief Executive Officer and Secretary Mr Colin S Bird, FFA

Depute Chief Executive Officer and Head of Finance Mr John R Brodie, CA

Auditors Deloitte & Touche

Bankers Royal Bank of Scotland plc

Registered Office 92 Fountainbridge, Edinburgh, EH3 9QE

Area Committees

EAST

*Mr J P Cronan (Chairman) (4), Miss A Williamson (Vice Chairman) (4), Mr J Duffy (Minute Secretary) (4), Mr H Smallman (Treasurer) (3), *Mr R Brown (4), Mr H Cairney (2), Mrs J Cronan (4), Mr G Hill (3), *Mr J Hill (4), Mr D Jamieson (4), *Mrs C Kerr (4), Mr J Lynch (4), *Mr G Manderson (4), Mr G O'Brien (3), *Mr D Paterson (4), Mr R Robinson (4), Mrs G Smallman (3), Mrs M Wilkinson (4).

Four Area Committee meetings held. The figure after each name indicates the number of meetings attended. Those marked * retire by rotation and eligible for re-election.

WEST

Mr D Moon Snr (Chairman) (5), Mr P Kane (Vice Chairman) (5), *Mr T McKnight (Minute Secretary) (4), Mr J A Bailey (5), Mr D Bryson (3), Mr P Devenney (5), Mr A Dewson (5), Mrs M Flynn (3), Mr J Gilchrist (Treasurer) (5), Mrs M Hume (5), *Mr R Kelt (5), Mrs A Middleton (4), *Mr J Middleton (4), Mr D Moon Jnr (5), Mr J Reid (5), *Mr J Watson (3) .

NORTH

Mr D Todd (Chairman) (5), Mr R Gilbert (Vice Chairman), (4) Mr J Anderson (Minute Secretary) (5), Mrs E Morton (5), Mrs M Smith (4).

Five Area Committee meetings held. The figure after each name indicates the number of meetings attended. Those marked * retire by rotation and are eligible for re-election.

Directors' Report

The past year has once again been exciting and challenging for Scotmid. Structural change has taken place in the Food and Funeral Departments in order to align responsibilities with the needs of the business and Semi-Chem have experienced rapid expansion with the acquisition of the Options chain in Northern Ireland. Sadly the remaining Non Food stores have closed during the year but a Non Food presence is being maintained through selected food stores.

Both the Food division and Semi-Chem showed a strong performance during Christmas trading. However, the effects of the ongoing supermarket price wars have been felt, with Semi-Chem particularly affected by the focus on the Health and Beauty sector.

With the ongoing advances in technology, the retail environment in the 21st Century is faster paced than ever before. It is vital that Scotmid recognises this and that we develop our business to ensure today's customers and members remain with us in the future.

Food

Trading conditions have been very difficult but sales for the year met budget expectations with seasonal performance being extremely encouraging. The past year has seen an increase in major competition from the leading supermarket chains, particularly in South and West Edinburgh. A strategy is being developed for the stores affected to address this challenge.

The store refit programme continued throughout the year incorporating the introduction of extended non food ranges which have driven sales in the non food category and contributed significantly to the overall sales achievement. Over 40 stores now have the benefit of the new Scotmid corporate fascia identity. All advertising support has been changed to reflect the new style.

There has been a major restructuring of the food department to align job responsibilities with the business process changes already implemented and those planned to be introduced progressively throughout the year. New technology will be employed to facilitate the transition from task orientation in stores to a more customer focused culture.

During the year all store management teams participated in competency based development centres to equip them with the skills required to manage change within the food retail operations.

Semi-Chem

Acquisition of the Options chain in Northern Ireland contributed to major growth in the division in the year with its 27 stores situated across the province. In Scotland, 11 new stores were opened and 2 stores were successfully relocated.

Options was loss making at the point of take over and the purchase price reflected this. Northern Ireland brought in a very strong Christmas trading performance and the prospects are good but it has been a major undertaking for the management of Semi-Chem.

A new store system has been developed for the Northern Irish sites which automates certain store processes giving staff more time on sales focused activities. This system will be rolled out to all stores in future.

Sales have increased year on year however competition from the supermarkets has been fierce. A new

Directors' Report

marketing initiative “low prices every minute of every day” has been launched to counteract this threat and the buying strategy is being directed to ensure Semi-Chem can maintain its competitive pricing.

The disposal of the pharmacies took place allowing management to concentrate on the core business.

The Christmas campaign in Semi-Chem leads to a significant peak in trading and even at its height the warehouse capacity was not reached. This considerable surplus capacity will allow for continued major expansion.

Closure of the Non Food Business

Following the continued pressure on the Non Food business by market changes and severe competition, the decision was taken to close the remaining stores. Major job losses have largely been prevented due to the disposal of five sites to Robertson Electrical. Other staff were placed in vacancies elsewhere in the business. Several food stores are offering an extended range on Non Food lines and during the year the Going Going Gone non food promotions in store increased the offer. While this does not compensate for the loss of the Non Food business it is a more viable option going forward as the losses being generated were no longer sustainable.

Funeral

The funeral department underwent major restructuring this year in order to support its intended growth and to ensure the staffing structure suits the needs of the business. The monumental headstone business is being developed further to enable Scotmid Funerals to provide a complete range of services. The focus of the department is the provision of affordable dignity to our customers.

Through the provision of an extremely professional service, backed by excellent marketing we are striving to increase our share within the marketplace in what continues to be a profitable area of the business.

Property Department

The Property Department is now acknowledged as a core activity of Scotmid and has been working towards goals set in its Strategy. Some properties highlighted as non-profitable have been sold. All were offered to existing tenants in the first instance. A site in Edinburgh has been developed during the year, to turn unused space above a food store into twelve residential flats in a popular area. This has created a valuable asset for the Society and is the first of many developments that will take place in the future. The property assets of the Society are considerable and are now to be more actively managed to generate a return.

Service Departments

In order for the trading departments to generate the required returns, they need support which is provided by the various Head Office functions. These cover many activities from the provision of a wide range of management information by Finance to the creation of point of sale material by Corporate Affairs. Central functions handle areas where specialist expertise is required that is not unique to one department and where it is more cost effective to provide one source rather than spread the function or expertise throughout the business.

This year for example, Human Resources have been heavily involved in the management competency programme for Food Store managers. They have provided a resource and skill level to achieve the outcomes required by the Food Department in this exercise.

Directors' Report

In addition, a Scotmid Web site is being developed by our Computer Services and Corporate Affairs Departments using information provided by our trading departments. This will give the Society a presence on the Internet for the first time.

Community activities

Scotmid is committed to providing assistance to communities across its geographical area and this year the activities have been diverse. The final sum raised for Macmillan Cancer Relief was an astounding £186k. Credit is due to the commitment and imagination of the staff across the business and to the many members and customers who have taken part in a variety of fund raising programmes.

Many other community based ventures have taken place. Examples include Semi Chem's recently launched road safety vest campaign and the breakfast club scheme supported by Scotmid's Food Department.

The Food Department are also involved in a home shopping initiative that has been launched in partnership with West Lothian Council to provide an ordering and home delivery facility to elderly or incapacitated residents in the West Lothian area who are unable to leave their homes to shop for food necessities. If this is successful then other councils may follow this model.

Appreciation

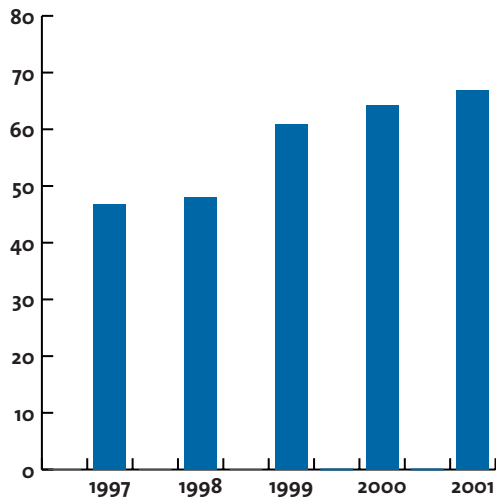
The directors feel the Society is clearly focused and well positioned to move forward and strengthen our core businesses. The Directors wish to thank our members, customers and staff for their continued support.

Five Year Summary

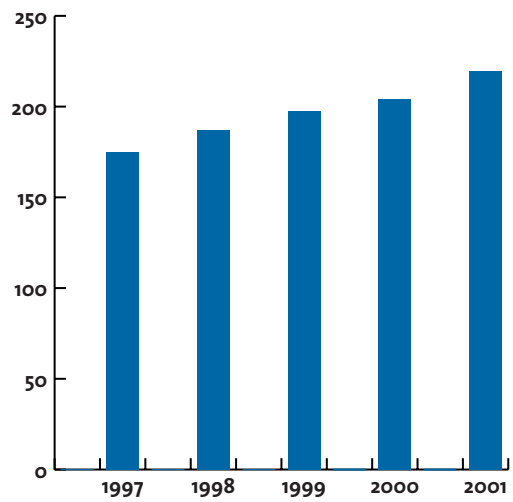
	2001	2000	1999	1998	1997
Number of Members	273,417	272,906	270,006	242,538	241,073
	£'000	£'000	£'000	£'000	£'000
Turnover	219,475	203,930	197,770	187,228	174,931
Operating surplus	4,039	4,237	4,362	2,647	3,477
Surplus before tax	1,903	1,149	4,304	558	2,001
Retained surplus	1,651	1,797	3,734	712	2,019
Depreciation	4,187	4,171	4,130	4,280	3,969
Net finance costs	1,423	1,335	1,624	2,115	1,747
Purchase of fixed assets	7,229	5,693	3,834	3,499	11,145
Fixed assets at net book value	82,903	81,735	78,584	74,229	75,107
Net current liabilities	(2,130)	(5,151)	(4,008)	(4,663)	(5,034)
Total assets less current liabilities	80,773	76,584	74,576	69,566	70,073
Less long term liabilities	13,793	12,357	13,605	21,474	23,283
Net assets	66,980	64,227	60,971	48,092	46,790
Share capital	3,613	3,544	3,470	2,982	2,898
Revenue reserves	39,658	38,054	36,084	26,646	25,537
Revaluation reserve	23,709	22,629	21,417	18,464	18,355
Net worth	66,980	64,227	60,971	48,092	46,790

Five Year Summary

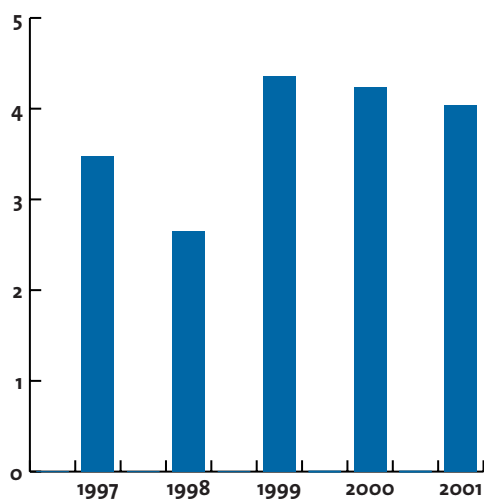
Net worth (millions)



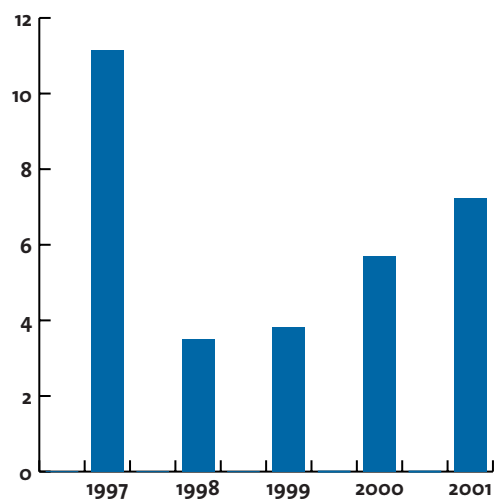
Turnover (millions)



Operating surplus (millions)



Purchase of fixed assets (millions)



Directors' Responsibilities

Industrial and Provident Society 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 Society at the end of the year, and of the income and expenditure of the Society for that period. In preparing those financial statements, the Directors should

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business

The Directors are responsible for keeping proper books of account with respect to the Society's transactions and its assets and liabilities as necessary to give a true and fair view of the state of affairs of the Society. They are also responsible for establishing a satisfactory system of control of the Society's books of account, its cash holdings, and all its receipts and remittances, and for taking adequate precautions for guarding against falsification of the books of account and facilitating its discovery.

Going Concern

After making all appropriate enquiries, the Directors have an expectation that the Society has adequate resources to continue in operational existence for the foreseeable future.

Corporate Governance

Internal Control

The Board is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Co-operative Union's amended (May 2000) Corporate Governance Code of Best Practice introduced a requirement, that the directors' review the effectiveness of the Society's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management.

The Sub Committee of the Board confirms that the Society is establishing procedures necessary to implement the Turnbull guidance, as adopted by the Co-operative Union Corporate Governance code of best practice, issued in May 2000, to ensure compliance at an early date.

Corporate Governance *continued*

Key elements in the Society's system of internal financial controls are as follows

Control environment

The Society is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. The Society has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Society objectives. Lines of responsibility and delegations of authority are documented.

Risk identification

Society management are responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

Information and communication

The Society undertakes periodic strategic reviews which include consideration of long term financial projections and the evaluation of business alternatives. Annual capital and revenue budgets are approved by the Board. Trading performance is actively monitored and reported to the Board on a regular basis. All significant capital projects and Society acquisitions require Board approval.

Through these mechanisms, Society performance is continually monitored, risk identified in a timely manner, their financial implications assessed, control procedures re-evaluated and the corrective actions agreed and implemented.

Control procedures

The Society and its operating units have implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties, reviews by management and internal audit, and external audit to the extent necessary to arrive at their audit opinions.

Monitoring and corrective action

There are clear and consistent procedures in place for monitoring the system of internal financial controls. The Sub Committee of the Board meets several times a year and, within its remit, reviews the effectiveness of the Society's system of internal financial controls. The committee receives reports from the Society's internal audit function, external auditors and management where appropriate.

Auditors' Report

Auditors' Report to the Members of Scottish Midland Co-operative Society Limited

We have audited the financial statements set out on pages 13 to 23 which have been prepared under the accounting policies set out on pages 11 and 12.

Respective responsibilities of Directors and Auditors

As described on page 8 the Society's Directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you. We are also required to form an opinion on whether the Society has maintained a satisfactory system of control over its transactions and to state in our report if we are of the opinion that it is not satisfactory.

Basis of Opinion

We conducted our audit in accordance with United Kingdom 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 Society'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 mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Society's affairs as at 27 January 2001 and of its income and expenditure for the year then ended, and have been properly prepared in accordance with the requirements of the Friendly and Industrial and Provident Societies Act 1968 and the Industrial and Provident Societies Act 1965, and the Industrial and Provident Societies (Group Accounts) Regulations 1969.

Deloitte & Touche
Chartered Accountants & Registered Auditors
39 George Street
Edinburgh

22 March 2001

Statement of Accounting Policies

Basis of Accounting

The accounts are prepared under the historical cost accounting convention as modified by the annual revaluation of investment properties. The principal accounting policies that have been adopted are as follows

Accounting Date

The accounts are prepared for the 52 weeks to 27 January 2001.

Turnover

Turnover includes cash sales, property rental income, goods sold on credit and television/video rental income, inclusive of value added tax.

Discontinued operations relate to the closure of the Non Food Shops. The year ended 29 January 2000 comparatives have been disclosed.

Investments

Investments are stated at cost.

Investment Income

Interest and dividends received are accounted for on the basis of cash received during the year. Credit account interest is shown after deducting the cost of credit scheme administration expenses.

Goodwill

Purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of 20 years with no charge for amortisation in the year of acquisition.

Tangible Fixed Assets and Depreciation

No depreciation is provided on freehold land, investment properties and assets in the course of construction. For all other tangible fixed assets, depreciation is calculated to write down their cost or valuation to their estimated residual values by equal annual instalments over the period of their estimated useful economic lives, which are considered to be

Buildings - 40 years. Plant, transport and fixtures - between 4 and 10 years. Television sets and videos on rental - between 4 and 10 years

Investment properties are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve.

Assets leased to the Society

Fixed assets leased under finance leases are capitalised and depreciated over their expected useful lives. The finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding. The costs of operating leases are charged to the revenue account as they accrue.

Assets leased by the Society

Assets relating to operating leases are included in the balance sheet as fixed assets at cost of acquisition less depreciation based on estimated useful lives. Rental income from TV sets and other equipment on rental is included in turnover in the revenue account on the basis of cash received, less adjustments for sums paid in advance. Rental income from property is included in the revenue account on the basis of rent invoiced.

Statement of Accounting Policies

Capitalisation of Interest

Interest costs relating to the financing of major developments are capitalised up to the date of completion of the project.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Debtors

Credit account balances are included at gross value, after providing for bad debts, and exclude unearned interest.

Pensions

The expected costs of providing defined benefit pensions, as calculated periodically by professionally qualified actuaries, are charged to the revenue account over the expected service lives of participating employees.

Basis of Consolidation

The group accounts consolidate the accounts of the Society and its wholly owned dormant subsidiaries, Semi Chem Limited, Semi Chem (Toiletries) Limited, Ian S McKay Supermarkets Limited, Thomas Brown & Sons (Funeral Directors) Limited and Thomas Brown & Sons (Monumental) Ltd which are incorporated under the Companies Act.

Deferred Tax

Deferred tax is provided on timing differences arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rate at which it is expected that the tax will arise.

No deferred tax is provided on revalued properties unless there is an intention to sell in circumstances in which rollover relief is unavailable. No provision is made for taxation on capital gains deferred under the rollover provisions of the Taxation of Chargeable Gains Act 1992.

Group Revenue Account for the year ended 27 January 2001

	Notes	£'000	2001 £'000	£'000	2000 £'000
TURNOVER			219,475		203,930
Value added tax			<u>20,566</u>		<u>18,629</u>
SALES					
Continuing operations		194,606		173,075	
Discontinued operations		<u>4,303</u>		<u>12,226</u>	
			198,909		185,301
COST OF SALES					
Continuing operations		140,675		125,272	
Discontinued operations		<u>2,803</u>		<u>8,326</u>	
			<u>143,478</u>		<u>133,598</u>
GROSS PROFIT					
Continuing operations		53,931		47,803	
Discontinued operations		<u>1,500</u>		<u>3,900</u>	
			55,431		51,703
EXPENSES					
Continuing operations	1	48,720		41,593	
Discontinued operations	1	<u>2,672</u>		<u>5,873</u>	
			<u>51,392</u>		<u>47,466</u>
OPERATING SURPLUS					
Continuing operations		5,211		6,210	
Discontinued operations		<u>(1,172)</u>		<u>(1,973)</u>	
			4,039		4,237
EXCEPTIONAL ITEMS					
Surplus on sale of fixed assets			1,783		1,226
Re-organisation costs	3		<u>(2,301)</u>		<u>(2,774)</u>
SURPLUS BEFORE INTEREST			3,521		2,689
Net financing charges	4		<u>(1,423)</u>		<u>(1,335)</u>
SURPLUS FOR YEAR BEFORE DISTRIBUTION			2,098		1,354
Share interest		130		128	
Grants/Donations	5	<u>65</u>		<u>77</u>	
			<u>195</u>		<u>205</u>
SURPLUS FOR YEAR BEFORE TAXATION			1,903		1,149
Taxation	6		<u>252</u>		<u>(648)</u>
TRANSFER TO RESERVES	18		<u>1,651</u>		<u>1,797</u>

Statement of Total Recognised Gains and Losses and Note of Historical Cost Profits and Losses for the year ended 27 January 2001

	2001 £'000	2000 £'000
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES		
Surplus for year before tax	1,903	1,149
Taxation	<u>252</u>	<u>(648)</u>
	1,651	1,797
Unrealised gain on investment properties	1,033	1,507
	<u>2,684</u>	<u>3,304</u>
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST REPORT		
NOTE OF HISTORICAL COST PROFITS AND LOSSES		
Surplus for year before tax	1,903	1,149
Realisation of property revaluation gains/(losses) of earlier years	(47)	295
	<u>1,856</u>	<u>1,444</u>
HISTORICAL COST SURPLUS FOR YEAR BEFORE TAX	<u>1,856</u>	<u>1,444</u>
HISTORICAL COST SURPLUS FOR YEAR AFTER TAX	<u>1,604</u>	<u>2,092</u>

Group Balance Sheet as at 27 January 2001

	Notes	£'000	2001 £'000	2000 £'000
FIXED ASSETS				
Intangible assets	7		1,637	1,240
Tangible assets	8		79,604	78,886
Investments	9		1,662	1,609
			<u>82,903</u>	<u>81,735</u>
CURRENT ASSETS				
Stocks		14,029		13,892
Debtors and prepayments	10	5,899		6,096
Cash at bank and in hand		1,257		1,100
		<u>21,185</u>		<u>21,088</u>
CURRENT LIABILITIES				
Amounts falling due within one year				
Bank overdraft (secured)		659		2,027
Loans	11	0		171
Creditors	12	22,656		24,041
		<u>23,315</u>		<u>26,239</u>
NET CURRENT LIABILITIES			<u>(2,130)</u>	<u>(5,151)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			80,773	76,584
LONG TERM LIABILITIES				
Amounts falling due after more than one year				
Creditors - loan	13	10,018		8,533
Creditors - sundry	14	3,775		3,824
			<u>(13,793)</u>	<u>(12,357)</u>
PROVISIONS FOR LIABILITIES AND CHARGES				
Deferred taxation	15		<u>0</u>	<u>0</u>
NET ASSETS			<u>66,980</u>	<u>64,227</u>
Financed by				
Share capital	16		3,613	3,544
Reserves	17		63,367	60,683
SHAREHOLDERS FUNDS - ALL NON EQUITY	20		<u>66,980</u>	<u>64,227</u>

On behalf of the Board of Directors

JOHN P CRONAN President

HOLLIS SMALLMAN Director

COLIN S BIRD Chief Executive Officer and Secretary

22 March 2001

Group Cash Flow Statement for the year ended 27 January 2001

	Notes	£'000	2001 £'000	2000 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	25		4,885	6,632
RETURNS ON INVESTMENT AND SERVICING OF FINANCE				
Interest and dividends received		132		143
Interest paid		(1,555)		(1,478)
Share interest paid, grants and donations		(195)		(206)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE			(1,618)	(1,541)
TAXATION				
Corporation tax paid			(2)	(19)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
(Purchase)/Sale of current asset investments		0		207
(Purchase)/Sale of fixed asset investments		653		9
Receipts from sales of tangible fixed assets		5,139		2,516
Payments to acquire tangible fixed assets		(5,886)		(4,534)
			(94)	(1,802)
ACQUISITIONS AND DISPOSALS				
Purchase of goodwill		(126)		(379)
Acquisitions	23	(1,568)		(995)
			(1,694)	(1,374)
NET CASH INFLOW BEFORE FINANCING			1,477	1,896
FINANCING				
Bank loans advanced		3,000		0
Repayment of bank loans		(1,128)		(1,107)
Members share capital issued net of withdrawals		69		74
Repayment of finance leases		(1,722)		(1,875)
Short term loans decrease		(171)		(12)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING			48	(2,920)
INCREASE/(DECREASE) IN CASH	26		1,525	(1,024)

Notes to the Accounts for the year ended 27 January 2001

	2001 £'000	2000 £'000
1. EXPENSES		
Personnel costs	23,517	24,025
Occupancy costs (excl. depreciation)	7,693	6,677
Depreciation of owned assets	2,815	2,650
Depreciation of assets held under finance leases	1,372	1,521
Amortisation of goodwill	62	0
Trade subscriptions	47	57
Operating lease rentals - equipment and vehicles	1,030	768
Directors' fees	40	39
Directors' expenses and delegations	84	70
Auditors' remuneration - audit fee	36	36
Dividend stamps	0	(177)
Other expenses	14,696	11,800
	<u>51,392</u>	<u>47,466</u>
2. EMPLOYEES		
The average number employed was	Number	Number
Full time	782	777
Part time	2,543	2,596
	<u>3,325</u>	<u>3,373</u>
	£'000	£'000
The costs incurred in respect of these employees were		
Wages and salaries	21,697	22,107
Social security costs	1,389	1,425
Other pension costs	431	493
	<u>23,517</u>	<u>24,025</u>

3. EXCEPTIONAL ITEMS

Re-organisation costs relate to the closure of Non Food stores.
No material tax charge or credit arises from the exceptional items.

Notes to the Accounts for the year ended 27 January 2001

	£'000	2001 £'000	£'000	2000 £'000
4. NET FINANCING CHARGES				
Interest payable				
Loans	4		5	
Bank overdraft and loans	1,235		1,137	
Finance leases	311		333	
Other interest	<u>5</u>		<u>3</u>	
		1,555		1,478
Less interest receivable				
Listed investments	14		13	
Unlisted investments	102		114	
Other interest	<u>16</u>		<u>16</u>	
		132		143
		<u>1,423</u>		<u>1,335</u>
5. GRANTS/DONATIONS				
Education grants		29		27
Donations		36		50
		<u>65</u>		<u>77</u>
6. TAXATION				
Estimated on the profits for the year ended 27 January 2001				
Corporation tax at 30%		250		0
Income tax		<u>2</u>		<u>2</u>
		252		2
Adjustment to prior years' tax provisions				
Corporation tax		0		(650)
		<u>252</u>		<u>(648)</u>
7. INTANGIBLE ASSETS				
Goodwill				
Cost				
29 January 2000		1,240		
Additions				
Post Offices	126			
Options	<u>333</u>			
		459		
27 January 2001		<u>1,699</u>		
Amortisation				
29 January 2000		0		
Provided for the year		62		
27 January 2001		<u>62</u>		
Balance sheet value at 27 January 2001		<u>1,637</u>		
Balance sheet value at 29 January 2000		<u>1,240</u>		

Notes to the Accounts for the year ended 27 January 2001

8. TANGIBLE FIXED ASSETS

Cost or valuation	Land & Buildings £'000	Investment Properties £'000	Plant Transport & Fixtures £'000	TV Sets & Videos on Rental £'000	Total £'000
29 January 2000	32,396	39,518	41,139	7,036	120,089
Additions	425	862	5,853	89	7,229
Disposals	(25)	(3,134)	(850)	(7,125)	(11,134)
Aquisition	0	0	691	0	691
Reclassification	(2,706)	2,652	(3,282)	0	(3,336)
Revaluation	0	1,033	0	0	1,033
27 January 2001	<u>30,090</u>	<u>40,931</u>	<u>43,551</u>	<u>0</u>	<u>114,572</u>
Depreciation					
29 January 2000	7,436	0	27,279	6,488	41,203
Provided for the year	724	0	3,354	109	4,187
Disposals	(9)	0	(480)	(6,597)	(7,086)
Aquisition	0	0	0	0	0
Reclassification	(688)	0	(2,648)	0	(3,336)
27 January 2001	<u>7,463</u>	<u>0</u>	<u>27,505</u>	<u>0</u>	<u>34,968</u>
Balance sheet value at 27 January 2001	<u>22,627</u>	<u>40,931</u>	<u>16,046</u>	<u>0</u>	<u>79,604</u>
Balance sheet value at 29 January 2000	<u>24,960</u>	<u>39,518</u>	<u>13,860</u>	<u>548</u>	<u>78,886</u>

The net book value of the Society's fixed assets includes £4.7m (2000 - £5.5m) in respect of assets held under finance leases. Investment properties were valued as at 27 January 2001 at open market value on the basis of existing use by J & E Shepherd Chartered Surveyors. The valuation was arrived at on the basis of an inspection and survey of a sample of the Society's total investment properties.

9. FIXED ASSETS - INVESTMENTS

	2001		2000	
	Shares £'000	Loans £'000	Shares £'000	Loans £'000
Unlisted				
CWS Ltd	1,252	0	1,252	0
Other I & P Societies	85	87	85	87
Others	8	109	8	137
	<u>1,345</u>	<u>196</u>	<u>1,345</u>	<u>224</u>
Listed				
Others	91	30	10	30
	<u>1,436</u>	<u>226</u>	<u>1,355</u>	<u>254</u>
	226		254	
	<u>1,662</u>		<u>1,609</u>	

Other loans include interest bearing loans granted in accordance with the Society's normal terms and conditions to key management amounting to £20,000. The directors have considered Financial Reporting Standard 8 "Related Party Disclosures" and are satisfied that there are no other related party transactions occurring during the year which require disclosure.

The market value of the listed investments at 27 January 2001 was £434,000 (2000 - £913,000).

Notes to the Accounts for the year ended 27 January 2001

10. DEBTORS	2001 £'000	2000 £'000
Due by members for credit accounts	90	301
Sundry debtors due within one year	5,541	5,735
Sundry debtors due after more than one year	208	0
Corporation tax recoverable	60	60
	<u>5,899</u>	<u>6,096</u>

11. LOAN CREDITORS FALLING DUE WITHIN ONE YEAR

	At 29.1.00 %	£'000	Contributions £'000	Interest £'000	Withdrawals £'000	At 27.1.01 £'000
Savings bank	2.5	101	36	2	139	0
Ordinary loans	4	70	20	2	92	0
		<u>171</u>	<u>56</u>	<u>4</u>	<u>231</u>	<u>0</u>

During the year in accordance with the ending of the Co-operative Deposit Protection Scheme the above accounts were either repaid or transferred to members Share Capital.

12. CREDITORS FALLING DUE WITHIN ONE YEAR	2001 £'000	2000 £'000
Trade creditors	13,762	14,621
Holiday pay	736	1,379
VAT	369	298
Other sundry creditors	1,808	1,850
Accrued charges	2,597	2,533
PAYE and social security	381	835
Payments received in advance	30	47
Education fund	8	1
Bank loan (secured)	1,515	1,128
Obligations under finance leases	1,168	1,316
Corporation tax	282	33
	<u>22,656</u>	<u>24,041</u>

13. LOAN CREDITORS FALLING DUE AFTER ONE YEAR

Bank loans	<u>10,018</u>	<u>8,533</u>
Loan amounts falling due within		
One year (included in note 12 above)	1,515	1,128
Between one and two years	1,515	1,128
Between two and five years	4,547	3,385
After five years	3,956	4,020
	<u>11,533</u>	<u>9,661</u>

The above loans are secured by a Bond and Floating charge over all the assets of the Society.

14. SUNDRY CREDITORS FALLING DUE AFTER ONE YEAR

Obligation under finance leases	2,343	2,574
Funeral bonds	1,432	1,250
	<u>3,775</u>	<u>3,824</u>

All obligations under finance leases are due in less than five years (2000 - £0 was due in more than five years).

Notes to the Accounts for the year ended 27 January 2001

15. DEFERRED TAXATION

The amounts of deferred taxation provided and unprovided in the accounts are as follows

	2001 £'000	Provided 2000 £'000	2001 £'000	Unprovided 2000 £'000
Capital allowances in excess of depreciation	0	0	2,999	2,533
Other timing differences	0	0	(685)	(687)
	<u>0</u>	<u>0</u>	<u>2,314</u>	<u>1,846</u>

The potential deferred tax on the sale of revalued properties in circumstances in which rollover relief is unavailable has not been quantified in the absence of March 1982 values.

16. SHARE CAPITAL

	2001 £'000	2000 £'000
At beginning of year	3,544	3,469
Interest	128	119
Contributions	241	132
	<u>3,913</u>	<u>3,720</u>
Withdrawals	300	176
At end of year	<u>3,613</u>	<u>3,544</u>

- (i) Share capital is composed entirely of non equity shares.
- (ii) Share capital comprises 3,613,000 shares of £1 attracting interest at 4%
- (iii) Shares are withdrawable on periods of notice in accordance with Rule 21.
- (iv) Each member is entitled to one vote.

17. RESERVES

Revenue (Note 18)	39,658	38,054
Revaluation (Note 19)	23,709	22,629
	<u>63,367</u>	<u>60,683</u>

18. REVENUE RESERVE

Balance at beginning of year	38,054	35,962
Surplus for year	1,651	1,797
Transfer from revaluation reserve	(47)	295
Balance at end of year	<u>39,658</u>	<u>38,054</u>

19. REVALUATION RESERVE

Balance at beginning of year	22,629	21,417
Revaluation in year	1,033	1,507
Arising on disposal of properties	47	(295)
Balance at end of year	<u>23,709</u>	<u>22,629</u>

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Surplus after taxation	1,651	1,797
Other recognised gains and losses relating to year	1,033	1,506
Insurance reserve movement	0	(122)
Contributions and interest less withdrawals during year	<u>69</u>	<u>75</u>
Net movement in Shareholders' Funds	2,753	3,256
Opening Shareholders' Funds	64,227	60,971
Closing Shareholders' Funds - all non equity	<u>66,980</u>	<u>64,227</u>

Notes to the Accounts for the year ended 27 January 2001

	2001 £'000	2000 £'000
21. FINANCIAL COMMITMENTS		
Future capital expenditure contracted for but not provided for	<u>900</u>	<u>1,500</u>

22. ACQUISITIONS

On 1 May 2000 the Society acquired the entire business of Options (NI) Limited. The acquisition has been accounted for using the acquisition method of accounting for a consideration of £1,588,842. The amount of goodwill arising as a result of the acquisition is shown below

	2001 Fair value of assets and liabilities acquired £'000
Tangible fixed assets	691
Stock	875
Cash in hand	21
Creditors	(331)
Goodwill	333
	<u>1,589</u>
Satisfied by	
Cash	1,391
Acquisition costs	198
	<u>1,589</u>

The fair values above represent the Society's valuation of assets and liabilities acquired. Book values were not provided by the vendor.

23. ANALYSIS OF THE NET OUTFLOW OF CASH IN RESPECT OF ACQUISITIONS

	2001 £'000
Acquisition consideration	(1,589)
Net cash acquired	21
	<u>(1,568)</u>

24. EMPLOYEES' SUPERANNUATION FUND

The pension cost relating to the Fund is assessed in accordance with the advice of a qualified actuary using the projected unit credit method. The last formal review of the Fund was carried out as at 30 January 1999. The main assumption employed in the review was that investment returns would exceed wages increases by 2% per annum. The cost of pension increases are met in full in the year they are awarded, unless the cost is being met from surplus. At the date of review, the market value of the fund's assets was £33,872,000 and the actuarial value of the assets represented 112% of the actuarial value of all benefits accrued to members at that date, after allowing for future wages increases. During the year the pension cost was £431,126.

25. CASH FLOW STATEMENT: RECONCILIATION OF SURPLUS ON ORDINARY ACTIVITIES TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 £'000	2000 £'000
Operating surplus	4,039	4,237
Exceptional items	(518)	(1,548)
Surplus before interest	3,521	2,689
Depreciation charges	4,187	4,171
Amortisation of goodwill	62	0
Gain on sale of tangible fixed assets	(1,797)	(1,213)
(Increase)/decrease in stocks	738	2,085
Dividend stamps redeemed net of issues	0	(31)
Dividend stamp overprovision written back	0	(177)
(Increase)/decrease in debtors	200	(1,399)
Increase/(decrease) in creditors	(2,026)	507
Net cash inflow from operating activities	<u>4,885</u>	<u>6,632</u>

Notes to the Accounts for the year ended 27 January 2001

26. CASH FLOW STATEMENT: RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2001 £'000
Increase in cash for year	1,525
Cash inflow from increase in debt and lease financing	<u>(150)</u>
Change in net debt resulting from cash flows	1,375
New finance leases	<u>(1,343)</u>
Movement in net debt for the year	32
Net debt as at 29 January 2000	(14,478)
Net debt as at 27 January 2001	<u>(14,446)</u>

27. CASH FLOW: ANALYSIS OF NET DEBT

	At 29 January 2000 £'000	Cash Flow £'000	Other non-cash changes £'000	At 27 January 2001 £'000
Cash at bank and in hand	1,100	157		1,257
Bank overdraft	(2,027)	<u>1,368</u>		(659)
		1,525		
Debt due after 1 year	(8,533)	(3,000)	1,515	(10,018)
Debt due within 1 year	(1,128)	1,128	(1,515)	(1,515)
Finance leases	(3,890)	<u>1,722</u>	(1,343)	(3,511)
		(150)		
Total	<u>(14,478)</u>	<u>1,375</u>	<u>(1,343)</u>	<u>(14,446)</u>

28. CASH FLOW STATEMENT: MAJOR NON-CASH TRANSACTIONS

During the year the Society entered in to finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £1.3m (2000-£1.2m).

29. SEGMENTAL REPORTING

Class of Business	Sales		Operating Surplus		Net Assets	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Retail	195,646	181,819	2,551	2,602	26,049	24,709
Property rental	3,263	3,482	1,488	1,635	40,931	39,518
	<u>198,909</u>	<u>185,301</u>	<u>4,039</u>	<u>4,237</u>	<u>66,980</u>	<u>64,227</u>

30. OPERATING LEASE COMMITMENTS

At 27 January 2001 the commitment to make payments during the next year in respect of operating leases was as follows

	Land & Buildings 2001 £'000	Plant, Transport & Fixtures 2001 £'000	Land & Buildings 2000 £'000	Plant, Transport & Fixtures 2000 £'000
Leases which expire				
Within two to five years	227	1,124	173	1,179
After five years	2,772	0	1,512	0
	<u>2,999</u>	<u>1,124</u>	<u>1,685</u>	<u>1,179</u>

Notice of Meeting and Agenda of Business

Notice is hereby given that an Annual General Meeting of the Society will be held on Monday, 7th May 2001 at 7 p.m. at the following places: The Gorgie Suite, Tynecastle Park, Gorgie Road, Edinburgh; Motherwell Football Club, Fir Park, Motherwell and also on Tuesday, 8th May 2001 at the Rainbow Theatre, Montrose at 7 p.m.

Agenda of Business

1. Synopsis of Minutes of Ordinary General Meeting held on 6th/7th November 2000.
2. Obituary References.
3. Directors' Report/Annual Accounts.
4. Appointment of Tellers
5. Elections for Area Committees
 - East Area Committee** 6 Members to serve for 3 years
 - East Area Committee** 1 Member to serve for 2 years
 - West Area Committee** 6 Members to serve for 3 years
 - North Area Committee** 1 Member to serve for 3 years
6. Elections for Area Education Committees
 - East Area Education Committee** 2 Members to serve for 3 years
 - West Area Education Committee** 2 Members to serve for 3 years
7. Nomination and Election of Members' Delegates to Co-operative Group Half Yearly Meeting, October 2001.
8. Synopses of Minutes of Board Meetings.
9. Consideration of remuneration of Office Bearers and Directors
 - Present Remuneration
 - Central Board**
 - President - £1,600 per annum; Vice President - £1,320 per annum;
 - Minute Secretary - £848 per annum; Directors - £604 per annum.
 - Area Committees**
 - Chairman - £936 per annum; Vice Chairman - £824 per annum;
 - Treasurer - £716 per annum; Minute Secretary - £672 per annum;
 - Directors - £560 per annum.
 - Education Committees**
 - President - £480 per annum; Secretary - £544 per annum;
 - Committee Members - £408 per annum.
 - Tellers - £5
10. Consideration of scale of fees for Directors' Delegations
 - Present Scale: Overnight - £60; Full Day - £17; Half Day - £11; Evening Fee - £9
11. Consideration of Remuneration for Auditors.
12. Education Committees' Reports.
13. Society Co-operative Party Council Report.
14. Report by Members' delegates on attendance at CWS Half Yearly Meeting held in Manchester, 20th/21st October 2000.
15. General Business.

Admission to General Meeting

Members will be admitted to General Meetings by presenting their Share Books showing the minimum qualification of £1 shareholding deposited prior to 27th January 2001, in accordance with Rules 37 and 47.

The next General Meeting (Ordinary General Meeting) will be held on Monday, 5th November 2001 at Edinburgh and Motherwell and on 6th November in Montrose.

Synopsis of Previous Meeting

Of Ordinary General Meeting of Members of Scottish Midland Co-operative Society Limited held in the Gorgie Suite, Tynecastle Park, Gorgie Road, Edinburgh; Regal Community Theatre, 24/34 North Bridge Street, Bathgate, on Monday, 6th November 2000 at 7 p.m. and at the Rainbow Theatre, Montrose on Tuesday, 7th November 2000 at 7 pm.

Mr John P Cronan, President of the Society, presiding at Edinburgh

Mr D Moon Snr, Chairman of the West Area Committee, presiding at Bathgate

Mr D Todd, Chairman of the North Area Committee, presiding at Montrose.

1. Synopsis of Minutes of Annual General Meeting held on 8th and 9th May 2000 was submitted and adopted.
2. Sympathetic reference was made to the passing of Superannuated Employees.
3. The Directors' Interim Report and Accounts was read and accepted.
4. The following Tellers were appointed
(East Area) Mr Allan and Mrs Nisbet
(West Area) Mrs Sanderson, Mrs Gilchrist and Mr Carse
5. Nominations of Members of Area Committees
East Area - 6 Members to serve for 3 years
Mr J Cronan, 16 Rosebery Crescent, Gorebridge; Mr R Brown, 14 Craigleith Hill Crescent, Edinburgh;
Mr J Hill, 41 Windsor Drive, Penicuik; Mrs C Kerr, 89 Northfield Drive, Edinburgh; Mr G Manderson,
8 Summerlee, Prestonpans; Mr D Paterson, 61 Restalrig Road, Edinburgh
West Area - 6 Members to serve for 3 years
Mr T McKnight, 6 Rowallan Court, Edinburgh; Mr R Kelt, 2 Allan Park, Kirkliston, Edinburgh;
Mr J Middleton, 9 Ennis Park, Polbeth; Mr J Watson, 36 Lawhill Road, Carluke; Mr D McGrouter,
138 Easter Bankton, Livingston; Mr M Clark, 5 Cunnigar Hill View, Mid Calder
North Area - 1 Member to serve for 3 years
Mrs A Anderson, 1 Panmure Place, Montrose
6. Nominations for Education Committees
East Area - 2 Members to serve for 3 years
Mr J MacKenzie, 57 Dalmeny Street, Edinburgh
There were no other nominations
West Area - 1 Member to serve for 3 years
Mrs E Moon, 22 Burnhall Road, Wishaw
There were no other nominations
7. Nomination and Election of Members' Delegate to Co-operative Party Annual Conference 2001
East Area
Mr S Kerr, 89 Northfield Drive, Edinburgh
West Area
Mr M Clark, 5 Cunnigar Hill View, Mid Calder; Mrs M Moon, 22 Morar Street, Wishaw
North Area
Mr D Begg, 55 Trinity Fields Crescent, Brechin

Synopsis of Previous Meeting

8. The following reports were submitted and approved
Education Committees;
Society Co-operative Party Council;
Members Delegate to Co-operative Party Annual Conference, Loughborough, 15th/17th September 2000.

9. Under General Business, questions were raised and satisfactorily answered.

Synopses of Board Meetings

At each meeting the Board dealt with Minutes and correspondence.

Appointments of delegates to attend Co-operative activities on behalf of the Society are detailed below.

In addition, the Chief Executive Officer reported in detail on the Society trading performances, operating costs and property matters. Regular reports on the Society cash flow position were given by the Depute Chief Executive Officer and Head of Finance. These reports were dealt with by the Board as appropriate.

The main items of business other than the above were as follows

1. Presentation of Society annual report and financial accounts.
2. Business plan.
3. Development items
 - Property refurbishment
 - Sale of property
 - Closures
4. Agreed to the disposal of Pharmacies.

Delegates appointed from the Board attended conferences and meetings as follows

Food, Non Food and Semi-Chem store visits.

ICD Courses.

Scottish Co-operative and Mutual Forum Half Yearly Meeting, 4th November 2000.

West Area Education Committee Annual Weekend School, 3rd/4th February 2001.

Scottish Co-operative Party National Policy Forum, 24th February 2001.

Co-op Party/Press Weekend School, 15th/24th February 2001.

Delegates reports on attendance at

Store visits.

ICD courses.

Co-operative Party Annual Conference, 15th/17th September 2000.

CWS Half Yearly and Special General Conference, 21st October 2000.

Scottish Sectional Conference, 18th November 2000.

Standing Orders for Ordinary and Special Meetings

1. Notice of motion, other than alterations of Rules, for inclusion in agenda of business must be in the hands of the Secretary twenty-one days before date of meeting.
2. Notice of any proposed new rule or alteration or repeal of an existing rule must be submitted in writing to the Secretary 42 days before the Annual Meeting of any Special Meeting called for the purpose.
3. Movers of motions shall be allowed five minutes but shall not introduce new matters.
4. Any Member may move, without debate “that the question be now put”, and if seconded, the motion shall be put forthwith.
5. No Member may speak twice on the same subject. Should a Member, however, persist in speaking more than once, thereby causing disruption, or make interjection during the discussion he shall be named by the Chairman and forbidden to take part in any further business on the Agenda, either by vote or speech.
6. Any Member may speak on a point of order, and the Member who was speaking must resume his seat until the Chairman has decided the point of order.
7. All questions of order, and questions arising out of debate or irrelevance to the question under discussion shall be decided by the Chairman. His decision shall be final unless same is challenged. In the event of such a challenge a vote of the Members present shall be taken, and the Chairman’s decision shall be overturned if two-thirds of the votes cast are against the Chairman’s decision.
8. If disorder should arise, the Chairman, acting on his discretion, may quit the chair and announce the adjournment of the meeting, and by that announcement the meeting is immediately adjourned, and no business subsequently transacted will be valid.
9. A motion once carried shall not be rescinded at any meeting without three months notice.
10. Where a negative is expressed against a motion or resolution, the Chairman shall declare an authoritative “For and Against” vote and no amendment shall be valid.
11. These Standing Orders may be suspended at any time at any meeting provided that two-thirds of the members present and voting decide in favour of the course.