

SCOTMID co-operative



SCOTTISH MIDLAND CO-OPERATIVE SOCIETY LIMITED
150
1859 2009
SCOTMID
at the heart of
Scottish communities



interim report

for year ending
30 January 2010

Directors, Officers & Advisors

President..... Mr H Smallman

Vice President Mr H Cairney

Directors

Mr J Anderson, Mr I Bailey, Mr R Brown, Mr J Gilchrist, Mr J Hill, Mrs M Hume,
Mr D Jamieson, Mrs C Kerr, Mr T McKnight, Mr D Paterson, Mr J Watson,
Miss A Williamson.

Management Executive

Chief Executive Officer John Brodie

Head of Corporate Communications Malcolm Brown

Chief Financial Officer & Secretary John Dalley

Head of Property & Development Services Adrian Lorimer

Head of Human Resources Steve McDonald

Chief Operating Officer Colin McLean

Advisors

Auditors Deloitte LLP

Bankers Royal Bank of Scotland plc

Solicitors Anderson Strathern WS

Registered Office

Hillwood House, 2 Harvest Drive, Newbridge, EH28 8QJ

www.scotmid.coop



Councillor David Woodard, Chairman of Northumberland County Council and Lady Shirley Woodard welcome Semichem to their local community at the opening of the new store in Ashington.

The Directors of Scottish Midland Co-operative Society are pleased to present their interim report to members.

Overview

Scotmid continued to grow profit in the first 28 weeks of the financial year, despite the continuing recession. Operating Profit was marginally ahead at £4.6m, compared to £4.5m last year, but this masked a good underlying performance, bearing in mind the loss of profit from the sale of M&S Toiletries and significant additional supply costs absorbed by our Food Convenience business.

The Society's turnover for ongoing businesses grew to £183m, up £15m, driven by encouraging like for like growth in our retail businesses and resilient rental income from our properties. Scotmid's balance sheet remained strong with net assets of £94m.

Looking forward, the Society remains well placed to meet the challenges arising from the difficult economic conditions. We have taken the opportunity in the recession to continue to invest for the longer term development of our businesses. In particular, we have continued with our programme of food store refits and the ongoing expansion of the Semichem estate. New openings in the period included our first Semichems in North East England and further new openings are planned in the run up to Christmas.

Food Retail





Food Retail

The Food business has been able to drive profits forward despite absorbing significant increases in distribution and energy costs. The investment in new stores and the upgrades and refits over the last two years have benefitted the business.

The five refits completed during the first half of the year brings the number of stores trading in the new Scotmid format to 51. Additionally there are a further six stores which have had minor works carried out, remerchandising and graphics package giving the stores a more modern feel.

Two new Scotmid convenience stores were opened in the last six months including the site of the former Woolworths in Stockbridge, Edinburgh.

“The investment in new stores and the upgrades and refits over the last two years has benefitted the business”

The focus on availability continued. In particular, significant improvements have been achieved in the top 100 lines and across the range generally with the rollout of availability monitoring.

A significant amount of planning, administration, cost and training has resulted from the change in Scottish Alcohol Legislation which came into force on 1 September 2009. A sales impact in the second half is expected as a result of the implementation of this legislation.



Councillor John Anglin, Mayor of South Tyneside Council, joined Store Manager Vicky Carr and RBM Gavin Randall to officially open the new store in South Shields





Semichem

Semichem continues to strengthen and grow its position in the marketplace as a leading discount retailer of branded health and beauty products. Once again good like-for-like sales growth, linked to a clearly defined range of branded products, gave Semichem a solid platform to move into the North East of England.

The first half of 2009 saw Semichem continue to roll out its long-term growth strategy, with new store openings in Wallsend, South Shields and Ashington in England and Omagh in Northern Ireland. A number of other stores were rebadged with our new branding.

The continued growth in sales across core and new stores can be attributed partially to a continued focus on growing profitable sales in core categories (such as household and fragrance)

while cementing Semichem's reputation as a destination for exceptional value. New ranges have also been added and extended in categories such as food and toys. Our stores in Northern Ireland have also continued to benefit from increased cross border trade as a result of the strong euro.

“Semichem continue to roll out a long-term growth strategy, with new store openings in England and in Northern Ireland”

We look forward to Christmas with an exciting new media and TV campaign but remain concerned about the increase in VAT effective on 1 January 2010, both in timing and its potential impact on trading.

Following its launch at the end of 2008, the Semichem website – www.semichem.co.uk extended its range from 500 to nearly a full store range of 2000 products. Since January, the site has also undergone major visual enhancements, improving focus and extending delivery range from the UK to all of Western Europe.



Above: The new office development at Harvest Drive.
Right: The new look funeral fascia at Fountainbridge.



Property

The Division delivered a good performance against a background of difficult economic conditions. Both commercial and residential property markets continue to be challenging, although there are indications that the rate of decline in capital values is slowing. On the commercial side occupational demand is weak but we have benefitted from a low level of tenant bad debts, reflecting the defensive nature of our portfolio. On the residential side the strong occupancy rates have helped to maintain rental income, despite the increased supply of properties available to let in the market.

We have now completed the 20,000 sq ft office building adjacent to our Head Office in Newbridge and, even in a challenging office market, have secured our first tenant. In partnership with adjacent landowners we have lodged outline planning permission for a development on a site in Armadale, part of which contains an existing Scotmid supermarket.

Funeral

In common with other funeral directors generally, the Funeral Division experienced a small reduction in the number of funerals conducted in the first half of the year. However a focus on incremental services and cost control resulted in a trading performance in line with the first half of last year. The business made a number of investments to enhance our profile and service, including new style signage for both Fountainbridge and Angle Park Funeral Homes in Edinburgh and three new Mercedes vehicles.

Membership Development

Following two successful pilots we rolled out our new membership materials to all food stores which made our membership offering more visible and easier to access for our customers. The membership magazine Jigsaw continues to go from strength to strength. The fourth edition included the results from our membership survey and the most recent edition featured an attractive voucher offer which proved very popular with members.

The Society is currently in the process of reviewing its membership and democratic structure as part of a Constitutional review. The aim is to create a structure fit for the 21st century and so far we have covered areas including member democracy, member relations committees, member communication and support. As part of the review we held a consultation meeting at which members had the opportunity to hear the constitutional review proposals, ask questions and feedback their views. This feedback was then used to help shape the final Constitutional review proposals that were approved at a Special Members meeting in September.

Community & Charitable Activities

150th Anniversary

This has been an exciting year for the Society as we celebrate our 150th anniversary. Celebrations have been held throughout the year involving staff, members and customers. From an opening Church service at St Cuthbert's in Edinburgh through to special offers for customers, a raft of charity events, the production of a special DVD and brochure, we have helped ensure that the 150th is well recognised. The DVD will be launched at the OGM.

General Community

We continue to work closely with our communities (especially at store level) to provide support for a diversity of groups and ages. Our two "smoothie bikes" have been a major success in schools, gala days, charity events and conferences - this unique form of making smoothies has been well received. Other community initiatives have included continued support of the "Booze you Looze" project in East Calder; Street Football (where we worked with the Police and local community on a football initiative to give youngsters a new focus) and a Youth Disco in Fraserburgh where, through our support, youngsters under 18 were able to attend 'early doors' alcohol free discos.

Fairtrade

In February we sponsored the Lord Provost's reception in Edinburgh City Chambers featuring a wine tasting by renowned wine expert Rose Murray Brown. We have also been at the forefront of many Fairtrade events throughout Scotland - we have helped schools attain Fairtrade status and worked closely with the Scottish Fairtrade Forum at a number of events.

Charity

As part of our ongoing community activity and the 150th anniversary celebrations we have been working with five charities throughout the year instead of just one. The charities are Cystic Fibrosis, Alzheimer's, Leukaemia Research, Cash for Kids and CLIC Sargent. From collecting cans in our stores through to sponsored walks and runs and sponsorship of Pedal for Scotland, we have already been able to make a significant contribution to these charities.

Appreciation

The Directors would like to thank our members, customers and staff for their support over the last six months, as the business continues to build its financial and democratic strength.

Signed on behalf of the Directors

Hollis Smallman, President

Harry Cairney, Vice President

The Society in focus



The Academy - a new purpose built training centre based at Hillwood House.



The Society Membership magazine "Jigsaw" has continued to go from strength to strength.



The Society in focus



Scotmid scooped four awards at the annual Scottish Grocer Awards including the Social Responsibility Award which was collected by Compliance Officers Ian Lovie and Leanne Duncan from TV Presenter Kirsty Gallagher.



Chief Executive John Brodie presents our first cheque to Cystic Fibrosis.



Regional Business Manager Frank McCarron took on the challenge of the Sutherland Way for Cystic Fibrosis



Cardinal O'Brien tries our smoothie bike with pupils at St Thomas of Aquin's school as part of a Fairtrade schools showcase.



Scotmid were a major sponsor of this Year's Pedal for Scotland charity event.

Interim Statement of Group Trading Activities

	28 weeks to 15 August 2009	28 weeks to 09 August 2008 as restated*
	£'000	£'000
Turnover		
Continuing	182,974	168,238
Discontinued	0	36,297
Total turnover	<u>182,974</u>	<u>204,535</u>
Profit		
Operating profit before exceptionals - continuing	4,620	3,976
Operating profit before exceptionals - discontinued	0	537
Total operating profit before exceptionals	<u>4,620</u>	<u>4,513</u>
Gain on sale of fixed assets/exceptional items	65	1,561
Profit before interest	<u>4,685</u>	<u>6,074</u>
Net interest payable	(763)	(1,379)
Profit before distributions	<u>3,922</u>	<u>4,695</u>
Share interest/grants and donations	(331)	(275)
Surplus before taxation	<u>3,591</u>	<u>4,420</u>
Net Assets		
Fixed assets	139,479	143,137
Net current liabilities	(17,438)	(1,163)
Long term liabilities	(18,724)	(30,718)
Provisions for liabilities and charges	(1,172)	(1,753)
Pension fund liability	(8,442)	(9,074)
Net assets	<u>93,703</u>	<u>100,429</u>
Cash Flow		
Inflow from operating activities	9,567	10,718
Net dividend from Joint Venture	0	1,600
Net interest paid	(792)	(1,355)
Corporation tax payment	(1,351)	(784)
Repayment of interest in Joint Venture	0	21
Capital expenditure/acquisitions	(7,744)	(5,897)
Proceeds from sale of fixed assets	383	802
Increase in members' share capital	2	68
Reduction in net debt	<u>65</u>	<u>5,173</u>
Net Debt		
Opening net debt	(26,020)	(29,408)
Reduction in period	65	5,173
Closing net debt	<u>(25,955)</u>	<u>(24,235)</u>

*Turnover and operating profits in the previous year have been restated to separate the results of the M&S Toiletries division, sold on 8 September 2008

Notes to the Interim Statement

1. The financial information does not constitute statutory accounts and is not audited.
2. The interim statement has been prepared on the basis of the accounting policies set out in the year ended 31 January 2009 Annual Report and Accounts.
3. No provision has been included in the net assets statement for any possible tax charge, either current or deferred, which may arise.

Notice of Meeting and Agenda of Business

Notice is hereby given that an Ordinary General Meeting of the Society will be held on Monday, 5 October 2009 at 7pm at the following places:

**The Hilton Edinburgh Grosvenor Hotel, Grosvenor Street, Edinburgh
and Cairn Hotel, Blackburn Road, Bathgate.**

Agenda of business

1. Synopsis of Minutes of Annual General Meetings held on 4 May 2009.
2. Minutes of Special Members' Meeting held on 14 September 2009
3. Obituary References.
4. Directors' Report/Interim Accounts.
5. Appointment of Tellers.
6. Constitutional Review.
7. Nominations for Regional Committees:

East Regional Committee: 2 Members to serve for 3 years, 4 Members to serve for 2 years and 1 Member for 1 year;

North Regional Committee: 1 Member to serve for 3 years and 2 Members to serve for 2 years;

West Regional Committee: 4 Members to serve for 3 years, 4 Members to serve for 2 years and 1 member to serve for 1 year.

8. Consideration of remuneration for Office Bearers:

Regional Committees: Chairman £2,400; Vice Chairman £1,975; Treasurer £1,850;
Minute Secretary £1,750; Committee Members £1,650.

9. Member Relations Committee & Community Development Report.
10. Society Co-operative Party Council Report.
11. General business.

Admission to general meeting

Members will be admitted to the General Meeting by presenting their Share Books showing the minimum qualification of £1.00 shareholding deposited prior to 31 January 2009.

Special meeting

Notice is hereby given that, at the conclusion of the Ordinary General Meeting of Members, a Special Meeting of Members will be held and, if thought fit, approve an Elected Representative Loyalty Scheme and adopt an amendment to the Society's Rules to ensure that elected representatives do not benefit from an unsolicited approach.

After completion of the formal business for the evening, Members will have the opportunity to view the commemorative film commissioned by the Society to celebrate its 150th anniversary.

The next General Meeting (Annual General Meeting) will be held on Monday, 26 April 2010 at Edinburgh and Bathgate.

Board Members

The following tables show the number of meetings attended by each member of the Board or Committee compared to the total of number of meetings held in the period (shown at the bottom of each table).

Board Directors	Board Meetings	Audit	General Purposes	Constitutional Review	Remuneration	Risk	Search
Mr H Smallman (P)	9		1	6			3
Mr H Cairney (VP) † #	8			6	1		
Mr J Anderson	8	1		6			
Mr I Bailey*	7	1					3
Mr R Brown	8						3
Mr J Gilchrist †	9			2	1		
Mr J Hill	6		1	3			
Mrs M Hume	7					1	
Mr D Jamieson	8						3
Mrs C Kerr	7						3
Mr D Paterson	9					1	
Mr J Watson *	8	1	1	5		1	
Miss A Williamson	8		1	5	1		
Mr T McKnight † *	9	1		5			
Total	9	1	1	6	1	1	3

Key: P - President, VP - Vice President, MS - Minute Secretary

*Mr Bailey and Mr McKnight were appointed to the Audit Committee on 19 March 2009

† Mr Cairney and Mr Gilchrist were appointed to the Constitutional Review Committee on 10 March 2009.

Mr Gilchrist resigned from the Constitutional Review Committee on 18 June 2009 and was replaced by Mr McKnight.

Mr Cairney was appointed to the Remuneration Committee on 17 March 2009

Committee Members

East Area Committee		West Area Committee		Member Relations Committee	
Miss A Williamson (C)	7	Mr T McKnight (C)	8	Mr J MacKenzie (C)	4
Mr J Hill (VC)	6	Mr J Watson (VC)	7	Mrs H Anderson	1
Mr J Anderson (MS)	8	Mr M Ross (MS)	7	Mrs C Bartholomew	4
Mr D Jamieson (T)	7	Mr J Gilchrist (T)	8	Mr R Carse	5
Mrs A Anderson	8	Mr I Bailey	6	Mr D Hop	4
Mr R Brown	6	Mr P Devenney	8	Mr K Kelly	5
Mr H Cairney	8	Mrs M Hume	8	Mr D Reid	5
Mrs C Kerr	7	Mr R Kelt	8	Mrs M Scott (R)	0
Mr S Kerr	8	Mrs T McEleney	8	Mrs B Swift	5
Mr J Miller	6	Mr D McGrouther	8		
Mr D Paterson	7	Ms A Milne	7	Co-opted Observers	
Mrs J Reid	7	Mr D Muirhead	7	Miss A Williamson	5
Mrs G Smallman	8	Mrs M Ross	7	Mrs A Milne	5
Mr H Smallman	8				
Mrs M Smith	4				
Total meetings held	8		8		5

Key: C - Chairperson, VC - Vice Chairperson, MS- Minute Secretary, T- Treasurer, R - Resigned.

R - Mrs Scott resigned from the Member Relations Committee on 7 February 2009

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For news, offers, jobs & store locations please visit www.scotmid.coop