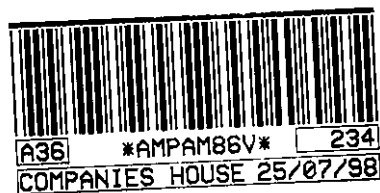


**HARRODS HOLDINGS PLC**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**52 WEEKS ENDED 31 JANUARY 1998**



**Registered Number: 1848143**

# HARRODS HOLDINGS PLC

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# HARRODS HOLDINGS PLC

## DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of Harrods Holdings plc and its subsidiary companies ("the Group") for the 52 weeks ended 31 January 1998.

### Principal Activity

The principal activity of the Company is that of an investment holding company, the principal subsidiaries of which continue to operate retail and media businesses.

### Directors and their Interests

The present Directors of the Company are:

M Al Fayed  
A Fayed (Chairman)  
C P de Boer  
J G Hawkins  
G Janetzky (appointed 19.02.98)

Other Directors who served during the year were:

M D Cole (resigned 28.02.98)

In accordance with the Articles of Association, no Director is required to seek re-election at the forthcoming Annual General Meeting.

M Al Fayed and A Fayed are beneficially interested in the shares of the Company as described in Note 21. No other Director in office during the year held any beneficial interest in the shares of the Company or of any of its subsidiary undertakings at 2 February 1997, at date of appointment, or at 31 January 1998.

No Director has had a material interest, directly or indirectly, at any time during the year in any contract significant to the business of the Company or the Group.

### Results and Dividends

The Group's profits after taxation for the 52 weeks ended 31 January 1998 amounted to £43.3 million (1997: £27.3 million).

The Directors have proposed a dividend of £14.0 million (1997: £20.0 million) during the year.

# HARRODS HOLDINGS PLC

## DIRECTORS' REPORT (Continued)

### Review of the Business and Future Developments

Turnover for the year ending 31 January 1998 totalled £547.9 million, a decrease of (2.0)% compared with the 53 week year ending 1 February 1997. The profit before tax was £54.2 million (1997: £37.6 million). The significant improvement was mainly due to an exceptional profit of £17.1 million following the disposal of the Barnes Depository landmark site. The Directors consider the trading performance of the major subsidiaries of the Group to be satisfactory in the current trading climate.

On 27 February 1997 the Group purchased 46,616,666 shares in ALPHA Airports Group plc for a consideration of £58.3 million (125p per share), representing 27.8% of the total share capital.

On 4 March 1997 the Company issued one new special rights redeemable preference share of £1 each to two of the partners in Alfayed Investment and Trust PVT LP and the Memorandum and Articles of Association of the Company were amended accordingly.

### Year 2000/EMU

A Group-wide programme, designed to address the impact of the Year 2000 on the business, has been commissioned by the Board and is under way. Resources have been allocated and the Board receives regular reports on progress.

Although it is not possible for any organisation to guarantee that no Year 2000 problems will remain, a significant risk analysis has been performed to determine the impact of the issue on all Group activities. From this, prioritised action plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business activities. Priority is given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail. The plan also includes a requirement for the testing of systems changes, involving the participation of users.

The risk analysis also considers the impact on the business of Year 2000 related failures by significant suppliers including computer bureaux and customers. In appropriate cases formal communication with other parties has been initiated.

Much of the cost of implementing the action plans will be absorbed into the recurring activities of the departments involved. The most significant expenditure will occur in Harrods Limited where the total cost of modifications to computer hardware and software is estimated at £2.4 million, of which about half is new equipment that will be capitalised, and the remainder will be expensed as incurred. Of this £2.4 million total, expenditure of £119,000 has been incurred during the year and the remaining £2.3 million is expected to be spread fairly evenly between 1998 and 1999.

A similar project structure is also in place to address those issues associated with the introduction of Economic Monetary Union.

# HARRODS HOLDINGS PLC

## DIRECTORS' REPORT (Continued)

### Employee Involvement

Information is provided regularly by means of normal management communication channels using written material, face-to-face meetings and video presentations.

Consultation with employees takes place through elected staff committees, health and safety committees and through normal recognised trade union channels. Employees are made aware of their contribution to the Group through individual performance appraisals.

### Disabled Persons

It is the policy of the Group to give full and fair consideration to applications for employment from disabled persons, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotion is afforded to such persons.

### The Environment

The Group has continued to adopt policies and procedures which take account of the need to preserve and protect the environment. The Directors are committed to compliance with environmental best practice in all aspects of the business.

### Pension Plan

The Harrods Group Pension Plan has two member trustees amongst its trustee board. It also has a committee of staff and management representatives who are kept informed of the administration, performance and development of the Plan. Further details of the Plan are set out in Note 8 to the financial statements.

### Donations

The charitable donations made and charged in the accounts amounted to £693,222 (1997: £731,980). No political contributions were made.

### Payment of Creditors

It is the Company's policy to agree payment terms as part of any formal contract with a supplier and to make every endeavour to abide by the agreed terms. Where a purchase is not covered by a formal contract, and no agreement is reached in advance of raising an order, the policy is that any valid invoice will be paid in full. The Company is sympathetic to, and pays particular attention to, the cash flow needs of its smaller suppliers. The Group takes on average 28 days to pay its creditors (1997:31).

Creditor days for the Company have not been shown as there are no trade creditors.

### Auditors

Price Waterhouse have expressed their willingness to continue in office as Auditors to the Company and a resolution proposing their re-appointment and authorising the Directors to fix their remuneration will be put to the Annual General Meeting.

# HARRODS HOLDINGS PLC

## DIRECTORS' REPORT (Continued)

### Statement of Directors' Responsibilities

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The Directors have prepared the financial statements on pages 6 to 27 on a going concern basis and consider that the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company and the Group keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

By Order of the Board



J G HAWKINS  
Director  
27 May 1998

Registered Office  
87-135 Brompton Road  
Knightsbridge  
London, SW1X 7XL

## HARRODS HOLDINGS PLC

### AUDITORS' REPORT TO THE MEMBERS OF HARRODS HOLDINGS PLC

We have audited the financial statements on pages 6 to 27 which have been prepared under the historical cost convention, as modified by the revaluation of certain land and buildings, and the accounting policies set out on pages 11 and 12.

#### **Respective Responsibilities of Directors and Auditors**

As described on page 4 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of 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 and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider 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 and the Group as at 31 January 1998 and of the profit and cash flows of the Group for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse  
Chartered Accountants  
and Registered Auditors  
27 May 1998

Southwark Towers  
32 London Bridge Street  
London  
SE1 9SY

**HARRODS HOLDINGS PLC**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

Note	52 weeks 31/1/98 £m	53 weeks 1/2/97 £m
<b>Gross Turnover</b>	615.4	625.7
Value added tax	(67.5)	(66.9)
<b>2 Turnover</b>	547.9	558.8
Cost of sales	(308.5)	(318.9)
<b>Gross Profit</b>	239.4	239.9
Distribution and store costs	(153.0)	(154.0)
Administrative expenses	(31.7)	(33.4)
Exceptional administrative expenses	-	(4.8)
Other operating income	-	2.2
<b>3 Operating Profit</b>	54.7	49.9
Exceptional profit on sale of property	17.1	-
<b>4 Other income</b>	4.4	0.7
<b>Profit before Interest and Taxation</b>	76.2	50.6
<b>5 Interest</b>	(22.0)	(13.0)
<b>Profit on Ordinary Activities before Taxation</b>	54.2	37.6
<b>6 Taxation</b>	(10.9)	(10.3)
<b>Profit on Ordinary Activities after Taxation for the Financial Year</b>	43.3	27.3
Dividends on equity shares	(14.0)	(20.0)
<b>Retained Profit Transferred to Reserves</b>	29.3	7.3

All profits in the period arose from continuing operations.

The movements on reserves are shown in Note 18.

The notes on pages 11 to 27 form part of these accounts.



# HARRODS HOLDINGS PLC

52 WEEKS ENDED 31 JANUARY 1998

	52 weeks 31/1/98 £m	53 weeks 1/2/97 £m
<b>STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES</b>		
Profit on ordinary activities after taxation	43.3	27.3
Unrealised surplus/(deficit) on revaluation of properties	42.4	(0.3)
	<hr/>	<hr/>
Total gains and losses recognised since last annual report	<u>85.7</u>	<u>27.0</u>

## NOTE OF HISTORICAL COST PROFITS AND LOSSES

Reported profit on ordinary activities before taxation	54.2	37.6
	<hr/>	<hr/>
Historical cost profit for the year before taxation	<u>54.2</u>	<u>37.6</u>
Historical cost profit for the year retained after taxation and dividends	<u>29.3</u>	<u>7.3</u>

## RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Total recognised gains and losses	85.7	27.0
Dividends	(14.0)	(20.0)
	<hr/>	<hr/>
	71.7	7.0
Premiums on acquisition of subsidiaries written off	-	(2.9)
	<hr/>	<hr/>
Net addition to shareholders' funds	71.7	4.1
Opening shareholders' funds	386.3	382.2
	<hr/>	<hr/>
Closing shareholders' funds	<u>458.0</u>	<u>386.3</u>

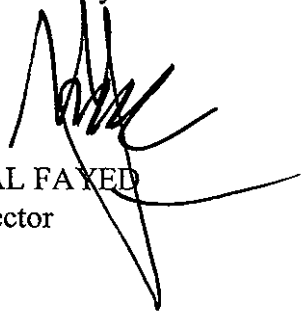
HARRODS HOLDINGS PLC


BALANCE SHEETS  
31 JANUARY 1998

Note	Consolidated		Company		
	31/1/98 £m	1/2/97 £m	31/1/98 £m	1/2/97 £m	
<b>Fixed Assets</b>					
9	Intangible assets	0.5	0.5	-	-
10	Tangible assets	641.4	577.0	0.4	0.5
11	Investments	71.1	12.3	619.8	543.5
		<u>713.0</u>	<u>589.8</u>	<u>620.2</u>	<u>544.0</u>
<b>Current Assets</b>					
12	Stocks	52.5	54.0	-	-
13	Debtors due within one year	29.5	25.8	66.2	6.6
13	Debtors due after more than one year	11.8	5.1	0.1	0.1
14	Cash and bank balances	8.1	2.4	54.8	39.2
		<u>101.9</u>	<u>87.3</u>	<u>121.1</u>	<u>45.9</u>
<b>Creditors</b>					
15	Amounts falling due within one year	(95.5)	(89.7)	(23.4)	(3.6)
	<b>Net Current Assets/(Liabilities)</b>	<u>6.4</u>	<u>(2.4)</u>	<u>97.7</u>	<u>42.3</u>
	<b>Total Assets Less Current Liabilities</b>	719.4	587.4	717.9	586.3
<b>Creditors</b>					
15	Amounts falling due after more than one year	(260.9)	(200.9)	(260.0)	(200.0)
<b>Provisions for Liabilities and Charges</b>					
16	Deferred taxation	(0.5)	(0.2)	-	-
		<u>458.0</u>	<u>386.3</u>	<u>457.9</u>	<u>386.3</u>
<b>Capital and Reserves</b>					
17	Called up share capital	50.0	50.0	50.0	50.0
18	Revaluation reserve	288.1	245.7	395.6	319.3
18	Profit and loss account	119.9	90.6	12.3	17.0
		<u>458.0</u>	<u>386.3</u>	<u>457.9</u>	<u>386.3</u>
17	<b>Total Shareholders' Funds (including non-equity)</b>	<u>458.0</u>	<u>386.3</u>	<u>457.9</u>	<u>386.3</u>

The notes on pages 11 to 27 form part of these accounts.

Approved by the Board on 27 May 1998

  
M AL FAYED  
Director

  
J G HAWKINS  
Director

**HARRODS HOLDINGS PLC**

**CONSOLIDATED CASH FLOW STATEMENT**

		52 weeks 31/1/98 £m	53 weeks 1/2/97 £m
<b>Note</b>			
<b>1</b>	<b>Net Cash Inflow from Operating Activities</b>	64.2	63.7
	<b>Returns on Investments and Servicing of Finance</b>		
	Interest received	0.4	0.4
	Interest paid	(14.5)	(13.5)
	Dividends received from associated undertakings	0.2	0.1
	Dividends received from fixed asset investments	3.6	0.4
	Rent received from properties	0.5	0.6
	Other property costs	(0.6)	(0.7)
		(10.4)	(12.7)
	<b>Taxation</b>	(9.5)	(5.6)
	<b>Capital Expenditure</b>		
	Purchase of intangible fixed assets	-	(0.5)
	Purchase of tangible fixed assets	(54.4)	(50.6)
	Sales of tangible fixed assets	20.1	0.2
		(34.3)	(50.9)
	<b>Acquisitions and Disposals</b>		
	Purchase of a subsidiary undertaking	-	(3.0)
	Purchase of fixed asset investment	(58.3)	-
		(58.3)	(3.0)
	<b>Equity Dividends Paid</b>	-	(20.0)
	Net cash outflow before use of liquid resources and financing	(48.3)	(28.5)
<b>2/3</b>	<b>Financing</b>		
	Debt due beyond one year:		
	Increase in unsecured long term loans	60.0	25.0
<b>2/3</b>	<b>Decrease in Cash</b>	(11.7)	(3.5)

# HARRODS HOLDINGS PLC

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	52 weeks 31/1/98 £m	53 weeks 1/2/97 £m
<b>1 Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities</b>		
Operating profit	54.7	49.9
Depreciation charged	15.0	13.2
Loss on disposal of tangible assets	0.8	0.1
Decrease/(increase) in stocks	1.5	(3.1)
Decrease/(increase) in debtors	0.5	(6.3)
(Decrease)/increase in creditors	(8.3)	9.9
Net cash inflow from operating activities	64.2	63.7

Cash outflows in respect of exceptional items included within operating profit were £0.4 million (1997 £4.4 million).

### 2 Reconciliation of Net Cash Flow to Movement in Net Debt

Decrease in cash in the period	£m (11.7)
Cash inflow from increase in debt	60.0
Movement in net debt in the period	48.3
Net debt at 1 February 1997	203.8
Net debt at 31 January 1998	252.1

	1/2/97 £m	Cash Flow £m	31/1/98 £m
Cash in hand and at bank	2.4	5.7	8.1
Overdrafts	(6.2)	6.0	(0.2)
Debt due after one year	(200.0)	(60.0)	(260.0)
	(203.8)	(48.3)	(252.1)

# HARRODS HOLDINGS PLC

## NOTES TO THE ACCOUNTS

### 1 Accounting Policies

#### Basis of Financial Statements

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of the Group's properties, and comply with applicable accounting standards.

#### Basis of Consolidation

The consolidated financial statements include the results of the Company and its subsidiary undertakings and the Group's share of the results and the post acquisition reserves of its associated undertaking.

The assets of subsidiary undertakings acquired are incorporated at their fair value at the date of acquisition. The premium arising on the acquisition of subsidiary undertakings is charged against reserves.

The investment in the associated undertaking is stated at cost, less goodwill (which is written off against reserves), plus the Group's share of post acquisition results.

#### Stock

Stocks are stated at the lower of cost and net realisable value, which is generally computed on the basis of selling price less the appropriate trading margin.

#### Tangible Fixed Assets

Freehold and long leasehold properties are stated at either professional or Directors' valuation. All other fixed assets are stated at cost.

Depreciation is provided by the Group in order to write down to estimated residual value (if any) the cost or valuation of tangible fixed assets over their estimated useful lives by equal annual instalments, as follows:

Certain freehold assets	25-50 years
Short leasehold property	remaining period of lease
Fixtures and fittings	3-20 years
Vehicles and equipment	4-7 years

It is the practice of the Group to maintain its properties in a continual state of repair. Accordingly, in general for freehold and long leasehold properties the Directors consider that the lives of these assets are so long, and the residual values (based upon prices prevailing at the time of the acquisition or subsequent valuation) are so high, that their depreciation is immaterial. Any permanent diminution in value of such properties is charged to the profit and loss account as appropriate.

In the case of major property development projects the interest on the capital borrowed to finance the project is, where separately identifiable and to the extent that it accrues during the period of development, capitalised as part of the cost of the asset.

Surpluses and deficits on the disposal of such assets are determined by reference to their net book value.

# HARRODS HOLDINGS PLC

## NOTES TO THE ACCOUNTS (Continued)

### 1 Accounting Policies (Continued)

#### Fixed Asset Investments

The Group accounts for its fixed asset investments at cost less any provision required for permanent diminution in value.

Fixed asset investments in subsidiary undertakings are stated in the balance sheet of the Company at the consolidated net asset value of those subsidiary undertakings. Net surpluses or deficits are transferred to a non-distributable revaluation reserve.

#### Leased Assets

Rentals payable under operating leases are charged on a straight line basis to the profit and loss account over the lease term.

#### Deferred Taxation

Deferred taxation is provided in respect of differences arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements, and where a tax liability is expected to crystallise in the foreseeable future.

#### Pensions

Retirement benefits are funded by contributions from the Group and employees. Payment is made to the pension trust, which is financially separate from the Group, in accordance with calculations made periodically by consulting actuaries. Contributions are charged to the profit and loss account on a basis that spreads the expected cost of providing pensions over the average remaining service lives of employees in the Plan.

#### Foreign Currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currency are translated at exchange rates ruling at the transaction date. Exchange differences arising from the translation of the opening net investment in a subsidiary to the closing rate are recorded as a movement on reserves. Realised gains and losses are dealt with in the profit and loss account.

Gains and losses on forward foreign exchange contracts used to manage foreign exchange exposure are carried forward and taken to the profit and loss on maturity to match the underlying transactions.

# HARRODS HOLDINGS PLC

## NOTES TO THE ACCOUNTS (Continued)

### 2 Turnover and Segmental Analysis

Turnover is the amount receivable, excluding VAT, for goods and services supplied to customers and includes the sales of concession departments.

In the opinion of the Directors, the Group conducts only one significant class of business, that of retailing, in one geographical area, the United Kingdom. Any further segmental analysis of this information would be immaterial.

3 Operating Profit	52 weeks 31/1/98 £m	53 weeks 1/2/97 £m
Operating profit is stated after charging/(crediting):		
Depreciation on tangible fixed assets	15.0	13.2
Auditors' remuneration:		
Audit fees and expenses	0.3	0.2
Non-audit services	0.1	0.1
Rentals paid under operating leases:		
Property	3.9	4.7
Plant and machinery	0.8	0.7
Loss on disposal of tangible assets	0.8	0.1
Gains on foreign exchange	(1.2)	(1.0)
Exceptional administrative expenses	-	4.8
Royalty income	(2.2)	(2.2)
Year 2000	0.1	-
	<u>0.1</u>	<u>-</u>

The audit fee of the Company was £6,000 (1997: £6,000).

### 4 Other Income

Investment income:		
Share of profits of associated undertakings	1.0	0.5
Income from fixed asset investment	3.6	0.4
Net rental income	0.4	0.6
Non trading property expenses	(0.6)	(0.8)
	<u>4.4</u>	<u>0.7</u>

# HARRODS HOLDINGS PLC

## NOTES TO THE ACCOUNTS (Continued)

	52 weeks 31/1/98 £m	53 weeks 1/2/97 £m
<b>5 Interest</b>		
Payable:		
Bank loans and overdrafts	(22.5)	(13.4)
Receivable:		
Cash and bank balances	0.5	0.4
	<u>(22.0)</u>	<u>(13.0)</u>
<b>6 Taxation</b>		
Taxation based on the profits for the year:		
Corporation tax	(5.3)	(9.2)
Irrecoverable Advance Corporation Tax	(5.4)	(0.8)
Associated undertakings	(0.3)	(0.2)
Other tax	(0.7)	(0.2)
	<u>(11.7)</u>	<u>(10.4)</u>
Adjustment for earlier years	0.8	0.1
	<u>(10.9)</u>	<u>(10.3)</u>

The exceptional profit on sale of property of £17.1 million created a capital gain on which no taxation was payable due to brought forward capital losses.

## 7 Profit For The Financial Year

### Company Profit and Loss Account

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of Harrods Holdings plc is not presented as part of these financial statements. Harrods Holdings plc profit for the year after taxation amounted to £9.3 million (1997: £1.6 million).



HARRODS HOLDINGS PLC

NOTES TO THE ACCOUNTS (Continued)

	52 weeks 31/1/98 £000	53 weeks 1/2/97 £000
<b>8 Information Regarding Directors and Employees</b>		
Emoluments excluding pension contributions	503	792
Payment to a Director on retirement	<u>-</u>	<u>100</u>
	<u>503</u>	<u>892</u>
Emoluments of highest paid Director	<u>175</u>	<u>275</u>

Accrued pension of the highest paid Director at 31 January 1998 was £105,748.

There are 3 Directors to whom retirement benefits are accruing under a defined benefit pension scheme (1997: 3).

During the year certain expenses were defrayed by the Group on behalf of Mr M Al Fayed. The expenses related to legal costs incurred in relation to Mr Al Fayed's application for UK citizenship, and certain other expenses. Mr Al Fayed has subsequently reimbursed the Group in respect of these expenses and consequently during the period prior to the reimbursement, a quasi loan existed from the Group to Mr Al Fayed.

These expenses were borne in a subsidiary of the Group, the highest amount outstanding was £12,830. The balance outstanding at 31 January 1998 was £12,830 (1997: £1,876).

	52 weeks 31/1/98 £m	53 weeks 1/2/97 £m
Wages and salaries	89.6	88.2
Social security costs	7.6	7.5
Pension costs	<u>3.0</u>	<u>2.0</u>
	<u>100.2</u>	<u>97.7</u>
	Number	Number
Average weekly number of employees during the year: United Kingdom	<u>5,053</u>	<u>5,095</u>

# HARRODS HOLDINGS PLC

## NOTES TO THE ACCOUNTS (Continued)

### 8 Information Regarding Directors and Employees (Continued)

#### Pensions

During the year, the Group participated in the Harrods Group Pension Plan, which operated as a defined benefit group pension scheme in the United Kingdom.

The Group pays such contributions to the Plan as required in order to fund benefits for the members and pensioners. The assets of the Plan are held in trust separately from the Group.

The regular pension cost charged to the profit and loss account is based on figures calculated for the Group as a whole which are such as to spread the expected pension costs over the average remaining working lives of employees who are members of the Plan. The regular cost is expressed as a level percentage of current and expected future earnings using the projected unit method of calculation, having adopted the following actuarial assumptions:

Investment return	9.0 per cent per annum compound
General increase in pensionable earnings	6.5 per cent per annum compound
Dividend growth for asset valuation purposes	4.5 per cent per annum compound

The total surplus for the Group Pension Plan as at 5 April 1996 has been determined by qualified independent actuaries who are partners of Bacon and Woodrow, Consulting Actuaries. This total surplus has been allocated to the companies within the Group by the Directors of Harrods Holdings plc on a basis that is consistent with that adopted in prior years.

Surpluses or deficiencies and associated interest are spread over the same average period as an adjustment to regular cost.

The Group's pension charge for the 52 weeks to 31 January 1998 was as follows:

	52 weeks 31/1/98 £m	53 weeks 1/2/97 £m
Regular cost	3.4	3.2
Variation	(0.4)	(1.2)
Net pension charge	<u>3.0</u>	<u>2.0</u>

**HARRODS HOLDINGS PLC**

**NOTES TO THE ACCOUNTS (Continued)**

**8 Information Regarding Directors and Employees (Continued)**

**Pensions (Continued)**

The pension prepayment is as follows:

	<b>31/1/98</b>	<b>1/2/97</b>
	<b>£m</b>	<b>£m</b>
Opening balance	3.9	2.7
Contributions paid	3.4	3.2
Charge to profit and loss account	(3.0)	(2.0)
<b>Closing balance</b>	<b>4.3</b>	<b>3.9</b>

The market value of assets held within the Plan, as at 5 April 1996 was £126.9 million. At that date, the actuarial value was sufficient to cover 119.0% of the benefits that had accrued to members, after allowing for the expected future increases in earnings. The actuarial surplus is being spread over the estimated remaining service life of current employees over 13 years on a straight line basis.

**9 Fixed Assets - Intangible Assets**

	<b>Total</b>
<b>Consolidated</b>	<b>£m</b>
Cost:	
At 2 February 1997 and at 31 January 1998	0.5

The intangible assets represent the book value of publishing rights.

HARRODS HOLDINGS PLC

NOTES TO THE ACCOUNTS (Continued)

10 Fixed Assets - Tangible Assets

	Total £m	Freehold £m	Long Leasehold £m	Short Leasehold £m	Fixtures, Fittings Vehicles & Equipment £m
<b>Consolidated</b>					
<b>Cost and valuation:</b>					
At 2 February 1997	653.7	512.5	0.5	3.6	137.1
Additions	53.2	14.4	-	0.4	38.4
Disposals	(40.5)	(15.5)	-	(0.3)	(24.7)
Reclassifications		(10.2)	-	-	10.2
Revaluation	41.4	41.2	0.2	-	-
At 31 January 1998	<u>707.8</u>	<u>542.4</u>	<u>0.7</u>	<u>3.7</u>	<u>161.0</u>
<b>Accumulated depreciation:</b>					
At 2 February 1997	(76.7)	(0.3)	-	(1.2)	(75.2)
Charge for year	(15.0)	(0.8)	-	(0.5)	(13.7)
Disposals	24.3	-	-	0.2	24.1
Revaluation	1.0	1.0	-	-	-
At 31 January 1998	<u>(66.4)</u>	<u>(0.1)</u>	<u>-</u>	<u>(1.5)</u>	<u>(64.8)</u>
<b>Net book value:</b>					
At 31 January 1998	<u>641.4</u>	<u>542.3</u>	<u>0.7</u>	<u>2.2</u>	<u>96.2</u>
At 2 February 1997	<u>577.0</u>	<u>512.2</u>	<u>0.5</u>	<u>2.4</u>	<u>61.9</u>
<b>Cost and valuation:</b>					
1998 Directors' valuation	515.8	515.1	0.7	-	-
Cost	192.0	27.3	-	3.7	161.0
	<u>707.8</u>	<u>542.4</u>	<u>0.7</u>	<u>3.7</u>	<u>161.0</u>
<b>Historical cost at</b>					
2 February 1997	409.4	268.3	0.4	3.6	137.1
Depreciation on historical cost at 2 February 1997	<u>(77.5)</u>	<u>(1.1)</u>	<u>-</u>	<u>(1.2)</u>	<u>(75.2)</u>
Net historical cost at 2 February 1997	<u>331.9</u>	<u>267.2</u>	<u>0.4</u>	<u>2.4</u>	<u>61.9</u>
<b>Historical cost at</b>					
31 January 1998	422.1	257.0	0.4	3.7	161.0
Depreciation on historical cost at 31 January 1998	<u>(68.2)</u>	<u>(1.9)</u>	<u>-</u>	<u>(1.5)</u>	<u>(64.8)</u>
Net historical cost at 31 January 1998	<u>353.9</u>	<u>255.1</u>	<u>0.4</u>	<u>2.2</u>	<u>96.2</u>

**HARRODS HOLDINGS PLC**

**NOTES TO THE ACCOUNTS (Continued)**

**10 Fixed Assets - Tangible Assets (Continued)**

The freehold and long leasehold properties of the Group were valued as at 31 December 1997. Those properties primarily occupied by the Group were valued on the basis of Existing Use Value and the remainder (principally residential and development properties) on the basis of Open Market Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The Group's principal valuers are: Healey & Baker, International Real Estate Consultants, and W.A. Ellis, Estate Agents and Surveyors. The valuations have been adopted by the Directors and incorporated in the financial statements at 31 January 1998.

Included in the cost element above is £21.9 million representing the cost of unfinished projects at the year end (1997: £34.9 million).

Included in the cost of tangible fixed assets is £2.9 million (1997: £2.8 million) of capitalised interest (net of tax) of which £0.1 million was incurred during the year (1997: £0.1 million).

	<b>Total £m</b>	<b>Short Leasehold £m</b>	<b>Fixtures Fittings Vehicles &amp; Equipment £m</b>
<b>Company</b>			
<b>Cost:</b>			
At 2 February 1997	1.1	0.4	0.7
Disposals	(0.1)	(0.1)	-
At 31 January 1998	<u>1.0</u>	<u>0.3</u>	<u>0.7</u>
<b>Accumulated depreciation:</b>			
At 2 February 1997	0.6	0.1	0.5
Charge for year	0.1	0.1	-
Disposals	(0.1)	(0.1)	-
At 31 January 1998	<u>0.6</u>	<u>0.1</u>	<u>0.5</u>
<b>Net book value:</b>			
At 31 January 1998	<u>0.4</u>	<u>0.2</u>	<u>0.2</u>
At 2 February 1997	<u>0.5</u>	<u>0.3</u>	<u>0.2</u>

# HARRODS HOLDINGS PLC

## NOTES TO THE ACCOUNTS (Continued)

11 Fixed Assets - Investments	Total	Associated	Unlisted	Listed
Consolidated	£m	Undertakings	Investments	Investments
Shares		£m	£m	£m
<b>Cost:</b>				
At 2 February 1997	8.8	6.5	2.3	-
Additions	58.3	-	-	58.3
At 31 January 1998	<u>67.1</u>	<u>6.5</u>	<u>2.3</u>	<u>58.3</u>
<b>Written off:</b>				
At 2 February 1997 and at 31 January 1998	<u>(3.8)</u>	<u>(3.8)</u>	<u>-</u>	<u>-</u>
<b>Net book value:</b>				
At 31 January 1998	<u>63.3</u>	<u>2.7</u>	<u>2.3</u>	<u>58.3</u>
At 2 February 1997	<u>5.0</u>	<u>2.7</u>	<u>2.3</u>	<u>-</u>
<b>Share of post-acquisition reserves</b>				
At 2 February 1997	7.3	1.9	5.4	-
Movement in the year	0.5	0.5	-	-
At 31 January 1998	<u>7.8</u>	<u>2.4</u>	<u>5.4</u>	<u>-</u>
<b>Totals</b>				
<b>Net book value:</b>				
At 31 January 1998	<u>71.1</u>	<u>5.1</u>	<u>7.7</u>	<u>58.3</u>
At 2 February 1997	<u>12.3</u>	<u>4.6</u>	<u>7.7</u>	<u>-</u>
<b>Associated Undertakings</b>				

The investment in the associated undertaking represents a 29.93% interest in the ordinary share capital of Mallett plc. The market value of this listed investment at 31 January 1998 which was quoted on the London Stock Exchange, was £4.1 million (1997: £3.3 million).

### Listed Investments

On 27 February 1997 the Group purchased 100% of the share capital in Cylena SA, from M Al Fayed for £1 (one pound). At this date Cylena's net assets comprised an investment of 46,616,666 shares in ALPHA Airports Group plc ("the ALPHA shares") at a value of £58.3m and an associated debt of £58.3m. The Group subsequently repaid these external borrowings and the ALPHA shares were transferred to Harrods Limited by Cylena SA. The majority of the ALPHA shares had been previously acquired by Cylena SA from an independent third party at a price of 125p per share.

The Directors considered the amount at which Cylena's stake in ALPHA was recorded at acquisition and are satisfied that the carrying value is not less than the long term realisable value of the shareholding and consequently no fair value adjustments have been made on acquisition.

# HARRODS HOLDINGS PLC

## NOTES TO THE ACCOUNTS (Continued)

### 11 Fixed Assets - Investments (Continued)

The market price of the ALPHA Shares at relevant dates were as follows:

27 February 1997	106p (average)
31 January 1998	75p
20 May 1998	113p

The Directors have considered the amount at which the Group's stake in ALPHA is carried at the balance sheet date and are satisfied that the carrying value is not less than the long term realisable value of the shareholding.

On 29 December 1997 Cylena SA was liquidated.

Company	Total £m
Cost of investment at 2 February 1997	224.2
Share of post acquisition reserves	319.3
Investments in subsidiaries at 2 February 1997	<u>543.5</u>
Revaluation surplus for the year	<u>76.3</u>
Investments in subsidiaries at 31 January 1998	<u><u>619.8</u></u>
Representing:	
Cost of investment at 31 January 1998	224.2
Share of post acquisition reserves	<u>395.6</u>
	<u><u>619.8</u></u>

	Consolidated		Company	
	31/1/98 £m	1/2/97 £m	31/1/98 £m	1/2/97 £m
<b>12 Stocks</b>				
Raw materials and consumables	0.4	0.5	-	-
Work in progress	0.5	0.6	-	-
Finished goods for resale	<u>51.6</u>	<u>52.9</u>	<u>-</u>	<u>-</u>
	<u><u>52.5</u></u>	<u><u>54.0</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

There were no significant differences between the replacement cost of stocks at 31 January 1998 and the amounts at which they are stated in the accounts.

# HARRODS HOLDINGS PLC

## NOTES TO THE ACCOUNTS (Continued)

	Consolidated		Company	
	31/1/98	1/2/97	31/1/98	1/2/97
	£m	£m	£m	£m
<b>13 Debtors</b>				
<b>Amounts due within one year:</b>				
Trade debtors	14.4	15.6	-	-
Amounts owed by group undertakings	-	-	65.6	5.9
Other debtors	11.2	6.5	0.5	0.1
Prepayments and accrued income	3.9	3.7	0.1	0.6
	29.5	25.8	66.2	6.6
<b>Amounts due after more than one year:</b>				
Other debtors	7.5	-	-	-
Advance Corporation Tax recoverable	-	1.2	-	-
Pension prepayment	4.3	3.9	0.1	0.1
	11.8	5.1	0.1	0.1
<b>14 Cash and bank balances</b>				
Cash and bank balances	7.9	2.3	54.8	39.2
Deposits and funds held at call and short notice	0.2	0.1	-	-
	8.1	2.4	54.8	39.2
<b>15 Creditors</b>				
<b>Amounts falling due within one year:</b>				
Bank overdrafts	0.2	6.2	0.2	0.2
Trade creditors	32.7	37.3	-	-
Amounts owed by group undertakings	-	-	0.1	-
Other creditors	4.5	6.0	0.1	0.7
Taxation and social security	17.4	17.2	-	-
Accruals and deferred income	26.7	23.0	9.0	2.7
Proposed dividend	14.0	-	14.0	-
	95.5	89.7	23.4	3.6
<b>Amounts falling due after more than one year:</b>				
Bank loans	260.0	200.0	260.0	200.0
Accruals and deferred income	0.9	0.9	-	-
	260.9	200.9	260.0	200.0
<b>Unsecured bank loans and overdrafts</b>				
Repayable on demand	0.2	6.2	0.2	0.2
Repayable between one and two years	-	25.0	-	25.0
Repayable between two and five years	260.0	175.0	260.0	175.0
	260.2	206.2	260.2	200.2



# HARRODS HOLDINGS PLC

## NOTES TO THE ACCOUNTS (Continued)

### 15 Creditors (continued)

On 27 February 1997 the Group refinanced its existing loan facility with a new facility, currently £350.0 million, which bears interest at variable rates linked to LIBOR. The refinancing requires phased reductions in the new facility prior to maturity on 27 February 2002.

	Consolidated	
	31/1/98	1/2/97
	£m	£m
<b>16 Deferred Taxation</b>		
Provided in respect of capital allowances:		
Balance brought forward (before ACT offset)	0.5	0.7
Adjustment for earlier years	-	(0.2)
	<u>0.5</u>	<u>0.5</u>
Advanced Corporation Tax recoverable	-	(0.3)
Balance carried forward	<u>0.5</u>	<u>0.2</u>

In addition to the amount provided for deferred taxation, there are potential liabilities in respect of taxation deferred in relation to:

Capital allowances	7.9	3.7
Corporation tax on capital gains	5.1	5.5
Revaluation of properties	61.6	49.4
	<u>74.6</u>	<u>58.6</u>

There is no deferred taxation liability provided or otherwise for the Company (1997: £nil).

In the opinion of the Directors the potential liability in respect of capital gains is unlikely to arise since the majority of the properties will be retained for use in the business. The availability of rollover relief would eliminate any liability which could otherwise result from disposals.

Deferred taxation has not been provided for in respect of the pension prepayment as at 31 January 1998 as a tax liability will not crystallise as a result of any timing difference.

**HARRODS HOLDINGS PLC**

**NOTES TO THE ACCOUNTS (Continued)**

	Consolidated		Company	
	31/1/98	1/2/97	31/1/98	1/2/97
	£	£	£	£
<b>17 Called up Share Capital</b>				
Authorised, allotted and fully paid:				
50,000,000 ordinary shares of £1 each	50,000,000	50,000,000	50,000,000	50,000,000
1 "A" special rights redeemable preference share of £1	1	-	1	-
1 "B" special rights redeemable preference share of £1	1	-	1	-
	<u>50,000,002</u>	<u>50,000,000</u>	<u>50,000,002</u>	<u>50,000,000</u>

On 4 March 1997 the Company issued one new special rights redeemable preference share of £1 each ("the Special Shares") to two of the partners in Alfayed Investment and Trust PVT LP. The Special Shares have certain special control rights over the Company, rank in priority, at par, over the ordinary shares on winding-up, have reduced voting rights, and are redeemable at the option of the shareholders.

The authorised share capital has been increased and the Memorandum and Articles of Association of the Company have been amended accordingly.

Included within the shareholders' funds of £456.8 million is an amount in respect of non equity interests of £2. All other amounts are attributable to the equity shareholders.

	Consolidated		Company	
	Revaluation Reserve £m	Profit & Loss Account £m	Revaluation Reserve £m	Profit & Loss Account £m
<b>18 Reserves</b>				
Balance at 1 February 1997	245.7	90.6	319.3	17.0
Profit/(loss) retained for the year		29.3		(4.7)
Revaluation surplus on tangible fixed assets	42.4	-	-	-
Revaluation surplus on investment in subsidiaries	-	-	76.3	-
Balance at 31 January 1998	<u>288.1</u>	<u>119.9</u>	<u>395.6</u>	<u>12.3</u>

At 31 January 1998, the cumulative amount of goodwill written off to reserves amounted to £45.8 million (1997 £45.8 million).

**HARRODS HOLDINGS PLC**

**NOTES TO THE ACCOUNTS (Continued)**

	<b>Consolidated</b>	
	<b>31/1/98</b>	<b>1/2/97</b>
	<b>£m</b>	<b>£m</b>
<b>19 Commitments</b>		
<b>Capital Commitments</b>		
Contracted for but not provided	<u>24.1</u>	<u>17.8</u>

There were no capital commitments in the Company (1997: £nil).

	<b>Consolidated</b>		<b>Company</b>	
	<b>31/1/98</b>	<b>1/2/97</b>	<b>31/1/98</b>	<b>1/2/97</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Leasing Commitments</b>				
Leasing commitments during the year commencing 1 February 1998 in respect of operating leases are:				
Land and buildings leases expiring:				
Within one year	-	0.4	-	-
Between one and five years	0.5	0.1	-	-
Over five years	3.7	4.1	0.2	0.3
	<u>4.2</u>	<u>4.6</u>	<u>0.2</u>	<u>0.3</u>
Other assets leases expiring:				
Within one year	0.2	-	-	-
Between one and five years	0.9	0.5	-	-
Over five years	-	0.4	-	-
	<u>1.1</u>	<u>0.9</u>	<u>-</u>	<u>-</u>

In addition to the above, the Group has commitments under concession agreements amounting to £10.6 million (1997: £10.1 million).

**20 Contingent Liabilities**

Guarantees are in existence on behalf of Liberty Radio Limited (formerly 963 Liberty Radio Limited), and Punch Limited for £0.5 million and £28,000 respectively.

The Group does not participate in derivative financial instruments except in respect of the following: The Group enters into forward exchange contracts and options all maturing within one year, solely to manage its foreign exchange exposure to certain currencies. These contracts relate to the trading activities of a subsidiary undertaking. The Group has hedged approximately 90% of these future transactions. Through its hedging activities the Group seeks to minimise the risk that eventual cash flows required to settle related liabilities will be affected by changes in exchange rates.

The exposure on outstanding contracts at each period end was as follows:

Forward exchange contracts	19.5	4.3	-	-
Options	-	2.3	-	-
	<u>19.5</u>	<u>6.6</u>	<u>-</u>	<u>-</u>

## HARRODS HOLDINGS PLC

### NOTES TO THE ACCOUNTS (Continued)

#### 21 Parent Undertakings

Harrods Holdings plc, a Company registered in England and Wales is the parent undertaking of the Harrods Holdings Group which is both the smallest and largest group which consolidates the results of the Company.

The ultimate parent undertaking is Alfayed Investment and Trust PVT LP, a partnership based in Bermuda. All interests in the Partnership continue to be under the control and held for the benefit of the Fayed family, the ultimate controlling party.

#### 22 Related Party Transactions

During the year the Group traded with a number of companies, which are under the control of the Group's ultimate shareholders. These companies comprise Turnbull & Asser Limited, AIT Services (UK) Limited, Balnagown Castle Properties Limited, The Ritz Hotel Limited, Fayair (Jersey) Co. Limited, Hyde Park Residence Limited, Barrow Green Farm Limited, Fulham Football Leisure Limited, Fulham Stadium Limited and Fulham Football Club (1987) Limited. The transactions and balances with these companies are not material.

As part of their employment, Directors and senior employees of the Group can purchase goods from the Harrods Store using a staff account card. The amounts of goods purchased by the Directors are not considered to be material either to the Group or the individuals. There were no other transactions between these individuals and the Group, other than as shown in Notes 8 and 11 to the financial statements.

The Company is the parent undertaking of the Harrods Holdings Group and, as permitted by Financial Reporting Standard 8 "Related Party Disclosures," transactions with other entities in the Group are not disclosed.

# HARRODS HOLDINGS PLC

## NOTES TO THE ACCOUNTS (Continued)

### 23 Principal Subsidiary and Associated Undertakings

Operating at 31 January 1998

#### Principal Activity

The following trading companies are registered in England and Wales and operate in the United Kingdom:

Harrods (UK) plc <sup>(1)</sup>	Holding company
Harrods Limited	Department store
Harrods International Limited	Tax free retailer and wholesaler
Harrods (Continental) Limited	Exporter
Harrods Estates Limited	Estate Agents
Kurt Geiger Limited	Footwear retailer
Genavco Insurance Limited	Insurance broker
Metro Business Aviation Limited	Executive jet handling company
Air Harrods Limited	Helicopter operator
Brompton Press Limited	Publisher
Punch Limited	Magazine publisher
Liberty Radio Limited (formerly 963 Liberty Radio Limited)	Radio station operator

<sup>(1)</sup> The whole of the issued share capital in this company is owned directly by Harrods Holdings plc. The whole of the share capital in the other companies is held by intermediate holding companies.

All subsidiary undertakings are wholly owned (100% voting rights) and are included within the consolidated financial statements.

Harrods Bank Limited, a company registered in England, is accounted for as an unlisted investment in the accounts of Harrods Limited, although Harrods Limited continues to retain full economic interest through 100% of the non-voting shares.

#### **Associated Undertakings**

At 31 January 1998

The following company is registered in England and Wales and operates in the United Kingdom.

	<u>Accounting Date</u>	<u>Share Capital</u>	<u>% held by Company</u>
Mallett plc (Antique Dealers)	31 December	13,800,060 Ordinary shares of 5p	29.93 (indirect)