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HARRODS LIMITED

INDEX TO REPORT AND ACCOUNTS

52 WEEKS ENDED 27TH JANUARY 1979

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HARRODS LIMITED

DIRECTORS' REPORT

52 WEEKS ENDED 27TH JANUARY 1979

The directors have pleasure in presenting their annual report and accounts for the 52 weeks ended 27th January 1979 to be submitted to the 89th Annual General Meeting of the members.

DIRECTORS

The present directors of the company are:

Robert Midgley (Chairman and Managing Director)
W.A. Crook (Assistant Managing Director)
Sir Hugh Fraser Bt
R.J. Cannon
W.G. Crossan
L.F. Drewitt
A.P. Humphries (appointed 15th May 1978)
H.B. Mason
D.K. Milligan (Secretary)
G. Wontner-Smith

Mr. N. Hansen resigned on 1st November 1978.

PRINCIPAL ACTIVITY

The company continues to be responsible for the operation of world-renowned department stores in London.

THE YEAR'S ACHIEVEMENTS

	£
The results for the 52 weeks are shown in the annexed profit and loss account. The profit available for appropriation amounts to	10,026,147
from which the directors have paid a dividend of	9,500,000
Leaving retained profits for the 52 weeks of	<u>£526,147</u>

This amount, together with the balance of profit and loss account brought forward, has been transferred to general reserve.

FIXED ASSETS

Details of the movements in fixed assets are shown in note 8 to the accounts.

MARKET VALUE OF PROPERTIES

The directors are of the opinion that the aggregate market value of the properties is not less than their book values which are mainly at a valuation made in 1972 with subsequent additions at cost. This view is supported by professional valuations of samples of the company's properties made in 1977 and 1978.

EXPORTS

"Identifiable" exports included in turnover amounted to £13,774,320. A much greater volume of purchases made by overseas visitors to London cannot, unfortunately, be identified.

HARRODS LIMITED

DIRECTORS' REPORT (continued)

52 WEEKS ENDED 27TH JANUARY 1979

PROFIT-LINKED SHARE PLAN FOR EMPLOYEES

On 19th January 1978 the shareholders of House of Fraser Limited approved a profit-linked share plan for Group employees. The first year of operation of the plan was in respect of the financial year which has just ended on 27th January 1979. An estimate of the group's contribution to the plan has been calculated and an allocation made to this company based on its proportion of eligible employees. The amount of this allocation appears as a charge in these accounts for the first time.

DIRECTORS' INTERESTS

The interests of directors, who were not also directors of the holding company (House of Fraser Limited), in House of Fraser Limited were:

	<u>At 27th January 1979</u>	<u>At 28th January 1978</u>
	<u>Ordinary stock units of 25p each</u>	
W.A. Craddock	1,000	1,000
W.A. Craddock (as Trustee)	22,360	22,360
G. Wontner-Smith	-	500

All eligible employees are entitled to participate in the House of Fraser profit-linked share plan and this includes the directors of this company. No allocation has been made at the date of this report.

HEALTH AND SAFETY

In accordance with the provisions of the Health and Safety at Work etc. Act 1974 the company has issued a written statement of its general policy with regard to the health, safety and welfare at work of its employees and the organisation and arrangements for carrying out that policy. The statement has been brought to the notice of all the company's employees.

AUDITORS

The joint auditors, Hays Allan and Touche Ross & Co., have expressed their willingness to continue in office, and a resolution to re-appoint them will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

D.K. MILLIGAN



Secretary.

87/135 Brompton Road,
London,
SW1X 7AL.

5th March 1979.

AUDITORS' REPORT TO THE MEMBERS OF

HARRODS LIMITED

In our opinion, the accounts set out on pages 4 to 13, which have been prepared under the historical cost convention including the revaluation of certain assets, give a true and fair view of the state of the company's affairs at 27th January 1979 and of the profit and source and application of funds for the 52 weeks ended on that date and comply with the Companies Acts 1948 and 1967.


HAYS ALLAN

TOUCHE ROSS & CO. 

Chartered Accountants.

HAYS ALLAN
Southampton House,
317 High Holborn,
London, WC1V 7NL.

TOUCHE ROSS & CO.
3 London Wall Buildings,
London, EC2M 5PH.

5th March 1979.

HARRODS LIMITEDPROFIT AND LOSS ACCOUNT52 WEEKS ENDED 27TH JANUARY 1979

	<u>Note</u>	<u>1979</u> £	<u>1978</u> £
TOTAL TURNOVER	1b	173,482,298	158,567,722
Value added tax		(11,750,166)	(10,664,082)
TURNOVER (excluding value added tax)		<u>£161,732,132</u>	<u>£147,903,640</u>
TRADING PROFIT	2	20,194,509	22,559,052
INTEREST	3	(130,577)	(1,074,038)
OPERATING PROFIT		20,063,932	21,485,014
CONTRIBUTION TO PROFIT LINKED SHARE PLAN		(435,999)	-
GAIN ON SALES OF PROPERTIES		-	28,498
PROFIT BEFORE TAXATION		<u>19,627,933</u>	<u>21,513,512</u>
TAXATION	5	<u>9,601,786</u>	<u>10,914,985</u>
PROFIT AFTER TAXATION		<u>10,026,147</u>	<u>10,598,527</u>
TRANSFER TO CAPITAL RESERVE		-	28,498
		<u>10,026,147</u>	<u>10,570,029</u>
DIVIDENDS		<u>9,500,000</u>	<u>10,000,000</u>
RETAINED PROFIT FOR THE 52 WEEKS		<u>£526,147</u>	<u>£570,029</u>

STATEMENT OF RETAINED PROFITS

RETAINED PROFITS		<u>526,147</u>	<u>570,029</u>
RETAINED PROFITS AT BEGINNING OF PERIOD AS PREVIOUSLY REPORTED		<u>2,996,348</u>	<u>2,667,979</u>
PRIOR YEAR ADJUSTMENT FOR DEFERRED TAXATION 1f		<u>3,829,099</u>	<u>3,293,000</u>
AS RESTATED		<u>6,825,447</u>	<u>5,960,979</u>
ADJUSTMENT FOR PROPERTY DEPRECIATION CHARGED FOR COMPARATIVE PURPOSES	1d	-	294,439
TRANSFERRED TO GENERAL RESERVE	6b	<u>£7,351,594</u>	<u>£6,825,447</u>

The notes on pages 7 to 13 form an integral part of these accounts.

BALANCE SHEET

27TH JANUARY 1979

	<u>Note</u>	<u>1979</u> <u>£</u>	<u>1978</u> <u>£</u>
EMPLOYMENT OF FUNDS			
FIXED ASSETS	8		
Freehold properties		45,852,326	45,180,711
Leasehold properties - long term		3,059,522	4,654,775
- short term		99,935	103,770
Furniture, fixtures, fittings, plant and motor vehicles		5,907,413	5,315,564
		<u>54,919,196</u>	<u>55,254,820</u>
INVESTMENTS			
Group companies	9	<u>8,050,610</u>	<u>11,659,097</u>
CURRENT ASSETS			
Stock	1c	17,918,022	15,341,774
Debtors		15,035,528	10,867,440
Amounts due from group companies	9	1,400,779	438,530
Cash at bankers and in hand		887,786	3,986,499
		<u>35,242,115</u>	<u>30,634,243</u>
CURRENT LIABILITIES			
Amounts due to group companies	9	1,682,267	3,804,972
Creditors		14,674,645	10,933,626
Taxation	10	5,043,000	6,073,700
		<u>21,399,912</u>	<u>20,812,298</u>
NET CURRENT ASSETS		<u>13,842,203</u>	<u>9,821,945</u>
		<u>£76,812,009</u>	<u>£76,735,862</u>
FUNDS EMPLOYED			
SHARE CAPITAL			
Authorised - ordinary stock		<u>£8,000,000</u>	<u>£8,000,000</u>
Issued and fully paid - ordinary stock		<u>8,000,000</u>	<u>8,000,000</u>
RESERVES			
Share premium		1,065,872	1,065,872
Capital	6a	56,233,203	56,233,203
General	6b	8,262,834	911,240
Profit and loss account	6c	-	6,825,447
SHAREHOLDERS' FUNDS		<u>65,561,909</u>	<u>65,035,762</u>
LOAN CAPITAL	7	2,250,000	2,300,000
GROUP COMPANIES	9	1,000,100	1,400,100
		<u>£76,812,009</u>	<u>£76,735,862</u>

ROBERT MIDGLEY

Directors

HUGH FRASER

The notes on pages 7 to 13 form an integral part of these accounts.

HARRODS LIMITEDSTATEMENT OF SOURCE AND APPLICATION OF FUNDS52 WEEKS ENDED 27TH JANUARY 1979

	<u>1979</u> £	<u>1978</u> £
SOURCE OF FUNDS		
Profit before taxation	19,627,933	21,513,512
Depreciation	1,445,922	1,342,309
Surplus on sale of fixed assets (net)	(7,457)	(23,456)
Total funds generated from trading operations	21,066,398	22,832,365
Proceeds of sales of fixed assets	1,778,435	437,624
Decrease in inter-group balances	123,533	6,485,306
TOTAL FUNDS GENERATED	<u>22,968,366</u>	<u>29,755,295</u>
APPLICATION OF FUNDS		
Tax paid including group transfers	10,632,486	8,021,910
Expenditure on fixed assets	2,881,276	1,994,716
Loan capital repaid	50,000	50,000
Dividends paid	9,500,000	10,000,000
TOTAL FUNDS APPLIED	<u>23,063,762</u>	<u>20,066,626</u>
MOVEMENT IN WORKING CAPITAL	<u>£(95,396)</u>	<u>£9,688,669</u>
ANALYSIS		
(Decrease) Increase in net liquid funds	(3,098,713)	4,624,552
Increase in stocks	2,576,248	2,236,634
Increase in debtors	4,168,088	1,838,335
	3,645,623	8,699,521
(Increase) Decrease in creditors	(3,741,019)	989,148
	<u>£(95,396)</u>	<u>£9,688,669</u>

The notes on pages 7 to 13 form an integral part of these accounts.

NOTES TO ACCOUNTS52 WEEKS ENDED 27TH JANUARY 1979

1. ACCOUNTING POLICIES

(a) BASIS OF ACCOUNTS

The accounts have been prepared under the historical cost convention including the revaluation of certain assets.

(b) TOTAL TURNOVER

Total turnover is the amount receivable for goods and services supplied to customers and includes the sales of leased departments, commission received and credit service charges. Value added tax is included in total turnover where applicable.

(c) STOCK

Stock is 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.

(d) DEPRECIATION

During the last two years certain of the company's properties have been independently valued and the existing book value of those properties has been divided between buildings, land and landlord's plant. The existing book values of other properties have been similarly divided in accordance with the average allocation disclosed by an independent sample valuation carried out on behalf of the holding company.

The properties have now been depreciated at the rate noted below which is based on the average estimated useful life disclosed by the valuations. The building element is estimated at one third of the total value of both the freeholds and long leaseholds.

The depreciation of properties represents a change in accounting policy and the 1978 profit and loss account and statement of retained profits have been adjusted to make both periods comparable.

Depreciation is provided by the company so as to write off the cost or valuation of fixed assets over their estimated useful lives by equal annual instalments, mainly at the following rates:

Freehold and long leasehold buildings	Over 60 years
Short leaseholds	Over remaining period of lease
Vehicles and electronic equipment	Over 5 years
Fixtures and fittings	Over 10 years

In addition to the depreciation provided on the buildings a replacement provision is made for the related landlord's plant at the rate of 5% per annum.

NOTES TO ACCOUNTS (continued)52 WEEKS ENDED 27TH JANUARY 1979

1. ACCOUNTING POLICIES (continued)

(e) PROPERTIES

Property holdings of the company are shown at valuations made in 1972 or at cost. The values are assessed on the basis of existing use and no value is placed on goodwill or fixtures, other than landlord's plant. Short leaseholds are shown at historical book values less amortisation.

(f) DEFERRED TAXATION

No provision has been made for deferred taxation as the directors are satisfied that no liability is likely to arise in the foreseeable future and that there are no material short term timing differences. This represents a change in accounting policy in that, in the previous year, provision was made at the current tax rate (liability method) for taxation deferred by recognition of items, other than stock appreciation relief, in different periods for taxation and accounting purposes. The change in accounting policy has been dealt with as a prior year adjustment and the 1978 figures adjusted to make both periods comparable.

(g) PENSIONS

Retirement and other benefits are provided for present employees of the company and its subsidiaries, and these costs are currently funded by payments to trusts, which are separately managed and independent of the company's finances, in accordance with calculations made periodically by consulting actuaries.

2. TRADING PROFIT

	<u>Note</u>	<u>1979</u> £	<u>1978</u> £
Trading profit is arrived at after charging:			
Auditors' fees and expenses		61,300	50,500
Directors' remuneration	4	218,212	177,553
Depreciation		1,150,292	1,084,957
Provision for plant and machinery replacements		295,630	257,352
Amount written off shares in subsidiary company		71,707	-
		<u> </u>	<u> </u>
and after crediting:			
Rents receivable		256,322	280,333
Investment income - quoted		3	2
		<u> </u>	<u> </u>

NOTES TO ACCOUNTS (continued)52 WEEKS ENDED 27TH JANUARY 1979

3. INTEREST

	<u>1979</u>	<u>1978</u>
	£	£
Loans not repayable within 5 years	133,293	135,383
Paid to group companies	-	930,280
Other interest	-	8,572
	<hr/>	<hr/>
Interest receivable	133,293 (2,716)	1,074,235 (197)
	<hr/>	<hr/>
	<u>£130,577</u>	<u>£1,074,038</u>

4. DIRECTORS' REMUNERATION

Fees	10,583	11,000
Other emoluments including pension contributions	206,379	165,303
Pension to former director	1,250	1,250
	<hr/>	<hr/>
	<u>£218,212</u>	<u>£177,553</u>

Chairman's emoluments	3,917	2,000
Highest paid director	27,285	23,170
	<hr/>	<hr/>

All directors:

£ Nil to £ 2,500	4	5
£ 2,501 to £ 5,000	1	-
£15,001 to £17,500	-	1
£17,501 to £20,000	-	2
£20,001 to £22,500	1	1
£22,501 to £25,000	2	2
£25,001 to £27,500	3	-

Senior employees in the U.K.:

£10,001 to £12,500	32	18
£12,501 to £15,000	5	7
£15,001 to £17,500	8	6
£17,501 to £20,000	3	5
£20,001 to £22,500	6	2
£22,501 to £25,000	2	3
£25,001 to £27,500	2	2
£27,501 to £30,000	1	2
£30,001 to £32,500	1	-
£32,501 to £35,000	1	-
£35,001 to £37,500	1	-

NOTES TO ACCOUNTS (continued)52 WEEKS ENDED 27TH JANUARY 1979

5. TAXATION

	<u>1979</u> £	<u>1978</u> £
The taxation charge comprises:		
Corporation tax on profits	8,244,902	8,585,650
Group relief - payment to group companies:		
Available for set off	1,566,683	2,264,410
Other payments	194,202	64,880
Tax credit on franked investment income	-	1
Adjustment of provision for earlier periods:		
Current taxation	(404,001)	44
	<u>£9,601,786</u>	<u>£10,914,985</u>

Corporation tax has been calculated at the rate of 52%.

6. RESERVES

(a) CAPITAL RESERVE

Balance at 28th January 1978 as previously reported	47,958,902
Prior year adjustment for deferred taxation	8,274,301
As restated and balance at 27th January 1979	<u>£56,233,203</u>

(b) GENERAL RESERVE

Balance at 28th January 1978	911,240
Transfer from profit and loss account	7,351,594
Balance at 27th January 1979	<u>£8,262,834</u>

(c) PROFIT AND LOSS ACCOUNT

Balance at 28th January 1978 as previously reported	2,996,348
Prior year adjustment for deferred taxation	3,829,099
As restated	6,825,447
Profit for the year	526,147
Transferred to general reserve	<u>£7,351,594</u>

7. LOAN CAPITAL

SECURED

Long term mortgage at 5½% (annual repayments of £50,000 until 1990 when balance is repayable)	<u>£2,250,000</u>	<u>£2,300,000</u>
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NOTES TO ACCOUNTS (continued)52 WEEKS ENDED 27TH JANUARY 1979

8. FIXED ASSETS

	Cost or valuation £	Landlord's plant replacement provision £	Per balance sheet £
(a) FREEHOLD PROPERTIES			
Balance at 28th January 1978	45,447,883	(267,172)	£45,180,711
Additions	652,682	522,692	
Transfer from profit and loss account	-	(255,520)	
Charge for depreciation	(248,239)	-	
Balance at 27th January 1979	£45,852,326	£NIL	£45,852,326
of which stated at:			
1972 independent professional valuation	44,862,462		
Cost	1,238,103		
Accumulated depreciation	(248,239)		
(b) LONG LEASEHOLDS			
Balance at 28th January 1978	4,984,932	(330,157)	£4,654,775
Additions	239,039	-	
Group transfers	(1,761,952)	-	
Transfer from profit and loss account	-	(40,110)	
Charge for depreciation	(32,230)		
Balance at 27th January 1979	£3,429,789	£(370,267)	£3,059,522
of which stated at:			
1972 independent professional valuation	2,625,000		
Cost	837,019		
Accumulated depreciation	(32,230)		
(c) SHORT LEASEHOLDS			
Net book value at 28th January 1978			103,770
Charge for depreciation			(3,835)
Net book value at 27th January 1979			£99,935
of which stated at:			
1967 valuation (book value at that date)			134,450
Accumulated depreciation			(34,515)

NOTES TO ACCOUNTS (continued)52 WEEKS ENDED 27TH JANUARY 1979

8. FIXED ASSETS (continued)

£

(d) FURNITURE, FIXTURES, FITTINGS, PLANT AND MOTOR VEHICLES

Net book value at 28th January 1978	5,315,564
Additions	1,466,863
Book value of disposals	(9,026)
Charge for depreciation	(865,988)

Net book value at 27th January 1979	<u>£5,907,413</u>
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of which stated at:

1967 valuation (book value at that date)	311,155
Cost	9,643,645
Accumulated depreciation	<u>(4,047,387)</u>

9. GROUP COMPANIES

	1979 £	Debit 1978 £	1979 £	Credit 1978 £
(i) Shares in subsidiaries at cost less capital distributions received and amounts written off	435,512	407,319	-	-
Subsidiaries (loan accounts)	2,702,078	2,141,500	1,000,100	1,400,100
Holding company and fellow subsidiaries (loan accounts)	4,913,020	9,110,278	-	-
	<u>£8,050,610</u>	<u>£11,659,097</u>	<u>£1,000,100</u>	<u>£1,400,100</u>

(ii) Trading accounts:

Subsidiaries	-	100	533,282	120,062
Holding company and fellow subsidiaries	1,400,779	438,430	1,148,985	3,684,910
	<u>£1,400,779</u>	<u>£438,530</u>	<u>£1,682,267</u>	<u>£3,804,972</u>

(iii) The company has the following wholly owned subsidiary companies:

<u>Name</u>	<u>Country of registration</u>
Wylie and Company Limited	England & Wales
Harrods Estate Offices	"
Harrods (Insurance) Limited	"
Harrods (Knightsbridge) Limited	"
Anne Gerrard Limited	"
Nora Bradley (London) Limited	"

(iv) Group accounts are not required as the company is a wholly owned subsidiary of a company incorporated in Great Britain. In the opinion of the directors the value of the company's investments in its subsidiaries is not less than the amount at which they are stated in the balance sheet.

NOTES TO ACCOUNTS (continued)52 WEEKS ENDED 27TH JANUARY 1979

10. TAXATION

	<u>1979</u> £	<u>1978</u> £
Corporation tax due 1st January 1980	8,244,902	8,585,650
Payment to holding company for advance corporation tax surrendered	(2,934,125)	(2,700,000)
	<u>5,310,777</u>	<u>5,885,650</u>
Current taxation	(267,777)	188,050
	<u>£5,043,000</u>	<u>£6,073,700</u>

The taxation liability for corporation tax due 1st January 1980 has been reduced by £1,566,683 (1978: £2,264,410) being 52% of the amounts surrendered by the holding company, subsidiaries and fellow subsidiaries under the group relief provisions.

11. CAPITAL COMMITMENTS

	<u>1979</u> £	<u>1978</u> £
Contracted for but not yet provided	2,310,000	407,023
Authorised by directors, but not contracted for	4,490,000	1,948,167
	<u>£6,800,000</u>	<u>£2,355,190</u>

12. ULTIMATE HOLDING COMPANY

The company is a wholly owned subsidiary of House of Fraser Limited, a company registered in Scotland.

13. CONTINGENT LIABILITIES

(a) DEFERRED TAXATION

The cumulative potential amount of deferred taxation is:

	<u>1979</u> £	<u>1978</u> £
Stock appreciation relief	1,249,119	1,039,687
Excess capital allowances	4,736,470	4,139,745
Provision for replacement of landlord's plant	(192,539)	(310,611)
Revaluation of properties	7,871,073	8,134,802
Other timing differences	113,177	139,464
	<u>£13,777,300</u>	<u>£13,143,087</u>

- (b) The company has given guarantees to various banks in respect of loan and overdraft facilities granted to House of Fraser Limited amounting to £68,668,000. At 27th January 1979 the amount of those facilities utilised was £41,418,000. The directors consider that no liability is expected to arise.