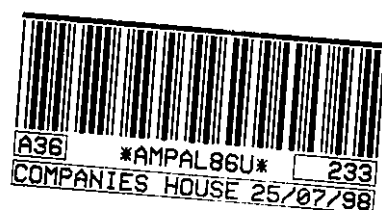


HARRODS ESTATES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE 52 WEEKS ENDED 31 JANUARY 1998



Registered Number: 0835993

HARRODS ESTATES LIMITED

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HARRODS ESTATES LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the 52 weeks ended 31 January 1998.

Principal Activity

The principal activity of the Company is that of estate agents.

Directors and their Interests

The present Directors of the Company are:

C P de Boer
M A E Collins
J M Griffiths
J G Hawkins
M Rogers

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

No Director in office at 31 January 1998 held any beneficial interest in the shares of Harrods Holdings plc or any of its subsidiaries at 2 February 1997 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.

Results and Dividend

The loss after taxation for the 52 weeks to 31 January 1998 amounted to £26,302 (1997:£136,198). The Directors do not recommend the payment of a dividend (1997:£nil).

Review of Business

This is the second full year of trading since the Company recommenced business. The Company has established a strong client base from which the Directors are confident the business will continue to grow over the next year.

Following the disposal of the Barnes Depository by another Group company, Harrods Estates has been appointed as co-ordinating agents for the marketing of new residential development of the site.

HARRODS ESTATES LIMITED

DIRECTORS' REPORT (Continued)

Review of Business (Continued)

A comprehensive Programme has been established to address all Year 2000 systems and compliance issues which face the business.

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

The cost of both of the above cannot be quantified at this time.

Auditors

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

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 as at the end of the financial year and of the profit or loss for the financial year.

The Directors have prepared the financial statements on pages 4 to 11 on a going concern basis and consider that the Company has 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 keeps accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company 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 to prevent and detect fraud and other irregularities.

By Order of the Board



S. Jerman

Secretary
21 May 1998

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

HARRODS ESTATES LIMITED

AUDITORS' REPORT TO THE MEMBERS OF HARRODS ESTATES LIMITED

We have audited the financial statements on pages 4 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective Responsibilities of Directors and Auditors

As described on page 2 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 circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 January 1998 and its loss 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
21 May 1998

Southwark Towers
32 London Bridge Street
London,
SE1 9SY

HARRODS ESTATES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 31 JANUARY 1998

Note	52 weeks 31/1/98 £	53 weeks 1/2/97 £
2 Turnover	641,110	165,743
Cost of Sales	<u>(444,421)</u>	<u>(198,497)</u>
Gross Profit/(Loss)	196,689	(32,754)
Administrative expenses	<u>(213,995)</u>	<u>(164,117)</u>
3 Operating Loss	(17,306)	(196,871)
4 Interest	<u>(21,496)</u>	<u>(7,327)</u>
Loss on Ordinary Activities before Taxation	(38,802)	(204,198)
Taxation - Group relief	<u>12,500</u>	<u>68,000</u>
Loss on Ordinary Activities after Taxation for the Financial Year	<u><u>(26,302)</u></u>	<u><u>(136,198)</u></u>

The above figures all relate to continuing operations.

The Company has no recognised gains and losses other than those included in the loss above, therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

The movements on reserves are shown in Note 11.

The notes on page 6 to 11 form part of these accounts.

HARRODS ESTATES LIMITED

BALANCE SHEET AT 31 JANUARY 1998

	31/1/98	1/2/97
	£	£
Note		
	Fixed Assets	
7	Tangible assets	72,647
		37,108
	Current Assets	
8	Debtors	234,796
	Cash at bank and in hand	83,695
		39,448
		8,180
		274,244
		91,875
	Creditors	
9	Amounts falling due within one year	(509,391)
		(265,181)
	Net Current Liabilities	(235,147)
		(173,306)
	Total Assets Less Current Liabilities	(162,500)
		(136,198)
	Capital and Reserves	
10	Called up share capital	338,913
11	Profit and loss account	338,913
		(501,413)
		(475,111)
	Equity shareholders' funds	(162,500)
		(136,198)

The notes on pages 6 to 11 form part of these accounts.

Approved by the Board on 21 May 1998.



J G Hawkins
DIRECTOR

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS **52 Weeks ended 31 January 1998**

1 ACCOUNTING POLICIES

Basis of Accounts

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

The Company has net current liabilities and a deficit of shareholders funds at 31 January 1998. In order that the financial statements be prepared on a going concern basis, the Company's parent undertaking has indicated that it will not call for repayment of amounts due to the group undertakings without first ensuring that the Company has adequate funds to meet its obligations as they fall due.

Depreciation of Tangible Fixed Assets

Depreciation is provided by the Company in order to write down to estimated residual value, if any, the cost of tangible fixed assets over their estimated useful lives by equal annual instalments, on the following basis:

Fixtures, fittings and equipment	3 to 5 years
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Pensions

Retirement benefits are funded by contributions from the Company and employees. Payment is made to a pension trust, which is financially separate from the Company, 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 scheme.

Turnover

Agency fees on property sales are recognised on exchange of contract.

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS (Continued)

	52 weeks 31/1/98 £	53 weeks 1/2/97 £
2 Turnover		
Turnover excluding VAT arises from operations in the United Kingdom	<u>641,110</u>	<u>165,743</u>
3 Operating Loss		
Operating loss is stated after charging:		
Depreciation on tangible fixed assets	19,229	7,214
Auditors' remuneration	<u>2,000</u>	<u>1,000</u>
4 Interest		
Interest receivable from group undertakings	9,302	-
Interest payable to group undertakings	(30,798)	(7,327)
	<u>(21,496)</u>	<u>(7,327)</u>
5 Information regarding Directors and Employees		
Emoluments excluding pension contributions	<u>94,166</u>	<u>76,667</u>
Staff costs:	£	£
Wages and salaries	396,926	173,403
Social security costs	29,761	15,694
Other pension costs	17,732	9,400
	<u>444,419</u>	<u>198,497</u>

The average weekly number of employees during the year was 12 (1997:6).

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS (Continued)

6 Pensions

During the year, the Company 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 the 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 & 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 deficits and associated interest are spread over the same average period as an adjustment to regular cost.

The market value of the assets held within the Pension Plan as at 5 April 1996 was £126.9 million. At this date, the assets were 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 the current employees over 13 years on a straight line basis.

There was no pension prepayment during the year and no pension liability.

The pension contributions paid amounted to £17,732 (1997:£9,400).

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS (Continued)

7 Fixed Assets - tangible assets

	Fixtures, fittings and equipment £
Cost:	
At 1 February 1997	44,322
Additions	54,604
Group transfers	1,643
Disposals	(1,643)
At 31 January 1998	<u>98,926</u>
Accumulated depreciation:	
At 1 February 1997	(7,214)
Disposals	164
Charge for the year	(19,229)
At 31 January 1998	<u>(26,279)</u>
Net book value at 31 January 1998	<u>72,647</u>
Net book value at 1 February 1997	<u>37,108</u>

8 Debtors

	31/1/98 £	1/2/97 £
Amounts due within one year:		
Trade debtors	199,419	13,933
Amounts owed by group undertakings	-	1,762
Other debtors	22,877	-
Group relief	12,500	68,000
	<u>234,796</u>	<u>83,695</u>

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS (Continued)

	31/1/98 £	1/2/97 £
9 Creditors		
Amounts falling due within one year:		
Trade Creditors	10,281	-
Amounts owed to group undertakings	419,714	258,302
Other creditors and accruals	79,396	6,879
	<u>509,391</u>	<u>265,181</u>
10 Called up Share Capital		
Authorised:		
350,000 ordinary shares of £1 each	<u>350,000</u>	<u>350,000</u>
Allotted and fully paid:		
338,913 ordinary shares of £1 each	<u>338,913</u>	<u>338,913</u>
11 Profit and Loss Account		
Balance at 1 February 1997	(475,111)	
Loss for the year	(26,302)	
Balance at 31 January 1998	<u>(501,413)</u>	
12 Reconciliation of Movements in Shareholders' Funds		
Loss for the Financial Year	(26,302)	(136,198)
New share capital subscribed	-	313,913
Net (reduction)/addition to shareholders' funds	<u>(26,302)</u>	<u>177,715</u>
Opening shareholders' funds	(136,198)	(313,913)
Closing shareholders' funds	<u>(162,500)</u>	<u>(136,198)</u>
13 Contingent Liabilities		

The Harrods Holdings Group's working capital facility from Midland Bank plc is guaranteed by Harrods Estates Limited and other Group companies which amounted to £89.9 million as at 31 January 1998.

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS (Continued)

14 Parent Undertakings

The Company's immediate parent undertaking is Harrods Limited. The ultimate UK holding company of Harrods Limited is Harrods Holdings plc, which is the parent undertaking of the Harrods Holdings Group and which is both the smallest and the largest Group which consolidates the results of the Company. The Group accounts will be filed with the Registrar of Companies in due course.

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.

15 Related Parties

The Company has entered into agreements, in the ordinary course of business, with the following companies which are under the common control of the Group's ultimate controlling party; Hyde Park Residence Limited, Turnbull & Asser Limited, Fulham Football Club (1987) Limited and Balnagown Castle Properties Limited.

Except as noted below, the value of these transactions is not considered to be material.

Fees in respect of marketing and advisory services, received from Hyde Park Residence Limited during the year amounted to £33,128 (1997:£15,500). Trade debtors due from Hyde Park Residence Limited at 31 January 1998 amounted to £446 (1 February 1997: £6,037).

Fees in respect of marketing and advisory services, received from Balnagowan Castle Properties Limited during the year amounted to £39,406. Trade debtors due from Balnagowan Castle Properties Limited at 31 January 1998 amounted to £6,375. Transactions with this company in the prior year were not considered to be material.

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