

HARRODS ESTATES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE 52 WEEKS ENDED 30 JANUARY 1999



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 30 January 1999.

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
W C Najdecki (appointed 19 November 98)

The other Director who served during the year was:

I Bogdaneris (appointed 14 October 1998, ceased 9 April 1999)

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 30 January 1999 held any beneficial interest in the shares of Harrods Holdings plc or any of its subsidiaries at 1 February 1998, at date of appointment, or at 30 January 1999.

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 30 January 1999 amounted to £55,455 (1998: loss of £26,302). The Directors do not recommend the payment of a dividend (1998: £nil).

Review of Business

The Company has continued to develop a strong client base with turnover for the year increasing from £641,110 to £733,097. This was mainly due to income from sales at the Barnes Depository (Harrods Village) and substantial improvements to the Lettings Business. Despite the increased turnover the Company generated a loss for the year of £55,455 due to the costs incurred expanding the client base. Harrods Village will continue to produce significant income until the completion of the development.

HARRODS ESTATES LIMITED

DIRECTORS' REPORT (Continued)

Review of Business (Continued)

The profile of the Company has increased substantially and was recognised when the International Property Magazine awarded the Company a "highly commended" position in its UK Best Agent category.

Year 2000

A Group-wide programme, designed to address the impact of the Year 2000 on the business, was commissioned by the Board during 1997 and is now well 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 was performed to determine the impact of the issue on all Group activities. From this, prioritised action plans were developed, designed to address the key risks in advance of critical dates without disruption to the underlying business activities. Priority was given to those systems that could cause a significant financial or operational impact on the Company's business if they were to fail. The plan also included a requirement for the testing of systems changes, involving the participation of users.

Management have taken steps to identify all of the mission-critical business systems. Adequate repair or replace solutions have been determined, and are being implemented and tested. Management have set a target for the completion of all mission-critical Year 2000 related projects of 1 September 1999 and are not aware of any issues which would indicate that the Company will not be compliant by this date.

Furthermore, detailed contingency plans are being developed to assist the business overcome any unforeseen difficulties or issues at the Century boundary.

The risk analysis also considered the impact on the business of Year 2000 related failures by significant suppliers and customers. In appropriate cases formal communication with other parties has occurred.

Much of the cost of implementing the action plans will be absorbed into the recurring activities of the departments involved.

EMU

A Group-wide programme, designed to address the impact of EMU on the business, was commissioned by the Board during 1998.

Auditors

Following the merger of Price Waterhouse and Coopers and Lybrand on 1 July 1998, Price Waterhouse resigned as auditors in favour of the new firm, PricewaterhouseCoopers, and the

HARRODS ESTATES LIMITED

DIRECTORS' REPORT (Continued)

Auditors (Continued)

Directors have appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. A resolution to reappoint PricewaterhouseCoopers as auditors to the Company will be proposed as special business at the forthcoming 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 5 to 13 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
19 April 1999

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 5 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report including as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require of our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit 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 30 January 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place, London WC2N 6NN
19 April 1999

HARRODS ESTATES LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE 52 WEEKS ENDED 30 JANUARY 1999

Note	52 weeks 30/1/99 £	52 weeks 31/1/98 £
2 Turnover	733,097	641,110
Cost of Sales	<u>(485,303)</u>	<u>(444,421)</u>
Gross Profit	247,794	196,689
Administrative expenses	<u>(301,903)</u>	<u>(213,995)</u>
3 Operating Loss	(54,109)	(17,306)
4 Interest	<u>(26,346)</u>	<u>(21,496)</u>
Loss on Ordinary Activities before Taxation	(80,455)	(38,802)
Taxation - Group relief	<u>25,000</u>	<u>12,500</u>
Loss on Ordinary Activities after Taxation for the Financial Year	<u><u>(55,455)</u></u>	<u><u>(26,302)</u></u>

All losses in the period arose from continuing operations.

The Company has no recognised gains and losses other than those shown 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 7 to 13 form part of these accounts.

HARRODS ESTATES LIMITED

BALANCE SHEET AT 30 JANUARY 1999

	30/1/99 £	31/1/98 £
Note		
	Fixed Assets	
7	Tangible assets	72,647
	Current Assets	
8	Debtors	234,796
	Cash at bank and in hand	39,448
	378,405	274,244
	Creditors	
9	Amounts falling due within one year	(509,391)
	(288,870)	(235,147)
	Net Current Liabilities	
	(217,955)	(162,500)
	Total Assets Less Current Liabilities	
	(217,955)	(162,500)
	Capital and Reserves	
10	Called up share capital	338,913
11	Profit and loss account	(501,413)
	(217,955)	(162,500)
	Equity Shareholders' Funds	
	(217,955)	(162,500)

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

Approved by the Board on 19 April 1999.



J G Hawkins
DIRECTOR

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS **52 Weeks ended 30 January 1999**

1 ACCOUNTING POLICIES

Basis of Financial Statements

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 30 January 1999. In order that the financial statements be prepared on a going concern basis, the Company's parent undertaking has indicated that it will finance the Company so as to enable it both to meet its liabilities as they fall due and to carry on its business operations.

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 ended 30 January 1999

	52 weeks 30/1/99 £	52 weeks 31/1/98 £
2 Turnover		
Turnover excluding VAT arises from operations in the United Kingdom	<u>733,097</u>	<u>641,110</u>
3 Operating Loss		
Operating loss is stated after charging:		
Depreciation on tangible fixed assets	21,360	19,229
Auditors' remuneration:		
- audit fees including expenses	<u>2,500</u>	<u>2,000</u>
4 Interest		
Interest receivable from group undertakings	8,289	9,302
Interest payable to group undertakings	<u>(34,635)</u>	<u>(30,798)</u>
	<u>(26,346)</u>	<u>(21,496)</u>
5 Information regarding Directors and Employees		
Emoluments excluding pension contributions	<u>87,129</u>	<u>94,166</u>
Staff costs:		
Wages and salaries	428,517	396,926
Social security costs	35,251	29,761
Other pension costs	21,535	17,732
	<u>485,303</u>	<u>444,419</u>

The average weekly number of employees during the year was 14 (1998: 12).

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS (Continued) **52 Weeks ended 30 January 1999**

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 £21,535 (1998: £17,732).

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS (Continued) 52 Weeks ended 30 January 1999

7 Fixed Assets - tangible assets

	Fixtures, fittings and equipment £
Cost:	
At 31 January 1998	98,926
Additions	21,928
Disposals	(3,000)
At 30 January 1999	<u>117,854</u>
Accumulated depreciation:	
At 31 January 1998	(26,279)
Disposals	700
Charge for the year	(21,360)
At 30 January 1999	<u>(46,939)</u>
Net book value at 30 January 1999	<u>70,915</u>
Net book value at 31 January 1998	<u>72,647</u>

8 Debtors

	30/1/99 £	31/1/98 £
Amounts due within one year:		
Trade debtors	269,351	199,419
Prepayments and other debtors	10,942	22,877
Group relief	25,000	12,500
	<u>305,293</u>	<u>234,796</u>

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS (Continued) 52 Weeks ended 30 January 1999

	30/1/99 £	31/1/98 £
9 Creditors		
Amounts falling due within one year:		
Trade Creditors	5,626	10,281
Amounts owed to group undertakings	606,408	419,714
Other creditors and accruals	55,241	79,396
	<u>667,275</u>	<u>509,391</u>
10 Called up Share Capital		
Authorised:		
350,000 ordinary shares of £1 each	<u>350,000</u>	<u>350,000</u>
Issued 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 31 January 1998	(501,413)	
Loss for the year	<u>(55,455)</u>	
Balance at 30 January 1999	<u>(556,868)</u>	
12 Reconciliation of Movements in Shareholders' Funds		
Loss for the Financial Year	(55,455)	(26,302)
Opening shareholders' funds	<u>(162,500)</u>	<u>(136,198)</u>
Closing shareholders' funds	<u>(217,955)</u>	<u>(162,500)</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 £127.0 million as at 30 January 1999.

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS (Continued) **52 Weeks ended 30 January 1999**

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 control of the Group's ultimate controlling party: Hyde Park Residence Limited, Turnbull & Asser Limited, Fulham Football Club (1987) Limited, Balnagown Castle Properties Limited, Bocardo Société Anonyme, Champli Société Anonyme, The Ritz Hotel Limited, Alfayed Charitable Foundation (Sevenoaks).

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 £26,523 (1998: £33,128). Trade debtors due from Hyde Park Residence Limited at 30 January 1999 amounted to £669 (31 January 1998: £446).

Fees in respect of marketing and advisory services, received from Fulham Football Club (1987) Limited during the year amounted to £38,775. Transactions with this company in the prior year were not considered to be material.

Fees in respect of marketing and advisory services, received from Balnagown Castle Properties Limited during the year amounted to £10,000 (1998: £33,128). There were no trade debtors due from Balnagown Castle Properties Limited at 30 January 1999 (1998: £6,375).

Fees in respect of marketing and advisory services, received from Champli Société Anonyme during the year amounted to £15,000. Trade debtors due from Champli Société Anonyme at 30 January 1999 amounted to £17,625. There were no transactions with this company in the prior year.

Fees in respect of marketing and advisory services, received from The Ritz Hotel Limited during the year amounted to £7,500. Trade debtors due from The Ritz Hotel Limited at 30 January 1999 amounted to £8,812. There were no transactions with this company in the prior year.

HARRODS ESTATES LIMITED

NOTES TO THE ACCOUNTS (Continued)
52 Weeks ended 30 January 1999

15 Related Parties (Continued)

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.