

HARRODS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

53 WEEKS ENDED 2 FEBRUARY 2002



Registered Number: 30209

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HARRODS LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements of Harrods Limited and its subsidiary companies ("the Group") for the 53 weeks ended 2 February 2002.

Principal Activity

The Group's activities consist principally of retailing in the United Kingdom. The Group operates the world-renowned department store in London. Other activities include concessions at London airports and export of branded merchandise to overseas department stores and airport terminals.

Directors and their Interests

The present Directors of the Company are:

M Al Fayed -- Chairman
A Fayed
J Akeroyd (appointed 4.02.02)
N R Allen (appointed 05.06.02)
R L Assanand
J Byrne
X M Carr-Griffiths
J Granville (appointed 11.12.01)
R M Helvey (appointed 4.02.02)
J L Macnamara
W C Najdecki
D R Parker (appointed 13.05.02)
A Tanna
M S Wikstrom (appointed 01.02.01)

Other Directors who served during the year were:

J A Brilliant (appointed 01.05.01, resigned 14.03.02)
J M Griffiths (resigned 25.07.01)
A Maeder (resigned 30.01.02)
A Pitcher (resigned 15.10.01)
C F Wardle (resigned 20.12.01)
J J Whitacre (appointed 01.04.01, resigned 12.11.01)
M F V Zingraff (appointed 01.02.01, resigned 18.04.01)

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

Apart from M Al Fayed and A Fayed, who 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 28 January 2001, at date of appointment or at 2 February 2002.

Except as disclosed in Notes 7 and 22, 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 Group or the Company.

Results and Dividends

Following the sale of a number of freehold assets including the Knightsbridge Store to Harrods Property Limited, a subsidiary company, in November 2000 the Directors consider it appropriate to present consolidated accounts for Harrods Limited and its subsidiaries.

HARRODS LIMITED

DIRECTORS' REPORT (CONTINUED)

Results and Dividends (continued)

Gross turnover for the 53 weeks ended 2 February 2002 totalled £526.3 million (2001-52 weeks: £533.9 million), and profit after taxation for the 53 weeks ended 2 February 2002 amounted to £17.5 million (2001: £10.5 million).

The Directors paid a dividend of £28 million (2001: £6 million) in respect of the year.

Review of the Business and Future Developments

The Directors consider the trading performance of the Group to be satisfactory. The Group faced difficult trading conditions throughout the year due to external factors such as the general downturn in the world economy, the foot and mouth epidemic and the September 11th events.

During the year the Group disposed of its shareholding in Harrods Online Limited (note 11).

The Directors expect market conditions to remain difficult during the coming year, due to the impact of current world events, but they consider the business to be well placed to overcome these.

Charitable and Political Donations

The charitable donations made by the Group and charged in the accounts were £11,465 (2001: £197,698). There were no political donations.

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.

Employee Involvement

Information is provided regularly to employees by means of normal management communication channels using written materials, face-to-face meetings and video presentations. The Store magazine 'The Harroddian Gazette' has been issued during the year and has been available to all employees.

Consultation with employees takes place through elected staff committees, health and safety committees and through normal recognised trade union channels. 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. Written information about the Plan is regularly circulated to both current and potential members. Further details of the Plan are set out in Note 9 to the financial statements.

A general awareness of the Company's performance is maintained through regular half-hour training sessions for all staff and, through individual performance appraisals, employees are made aware of their individual contribution to the Company.

Policy on Payment of Creditors

It is the Group'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 Group is sympathetic to, and pays particular attention to, the cash flow needs of its smaller suppliers. The Group takes on average 30 days to pay its creditors (2001: 33)

HARRODS LIMITED

DIRECTORS' REPORT (CONTINUED)

Auditors

Grant Thornton were appointed auditors on 23 January 2002 to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985. Special notice pursuant to section 388(3) having been given, a resolution to reappoint Grant Thornton as auditors will be proposed at the Annual General Meeting.

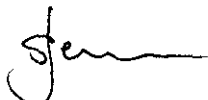
Statement of Directors' Responsibilities

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 10 under Note 1 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 2 February 2002 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



S JERMAN
Secretary
28 June 2002

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

HARRODS LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HARRODS LIMITED

We have audited the financial statements of Harrods Limited for the period ended 2 February 2002 which comprise the consolidated profit and loss account, the note of historical cost profit and losses, the reconciliation of movement in shareholders' funds, the balance sheets, the consolidated cash flow statement and notes 1 to 22 on pages 10 to 25. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Group or the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group or the Company are not disclosed.

We read other information contained in the Directors' report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

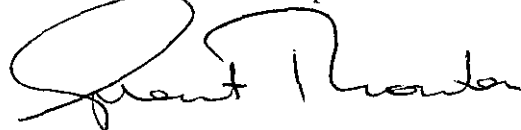
Basis of opinion

We conducted our audit in accordance with United Kingdom 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 Group and the Company, 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 Group's and the Company's affairs as at 2 February 2002 and of the Group's results for the 53 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.



**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

London

28 June 2002

HARRODS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT 53 WEEKS ENDED 2 FEBRUARY 2002

Note	53 weeks 2/2/02 £'000	Restated 52 weeks 27/1/01 £'000
Gross Turnover	526,347	533,918
Value added tax	(58,510)	(59,218)
2 Turnover	467,837	474,700
Cost of sales	(287,186)	(284,891)
Gross Profit	180,651	189,809
Distribution and store costs	(140,450)	(138,673)
Administrative expenses	(13,545)	(12,784)
3 Operating Profit	26,656	38,352
11 Share of loss of Associate undertaking (inc. goodwill amortisation)	(5,549)	(8,269)
Other income	469	394
Profit before Exceptional Items, Interest and Taxation	21,576	30,477
4 Exceptional items	14,194	(2,664)
Profit before Interest and Taxation	35,770	27,813
5 Net Interest	(13,722)	(15,623)
Profit on before Tax	22,048	12,190
6 Taxation	(4,591)	(1,664)
Profit after Tax	17,457	10,526
Dividends	(28,000)	(6,000)
Retained (Loss)/Profit transferred (from) / to Reserves	(10,543)	4,526

All turnover and operating profit arise from continuing activities.

There were no recognised gains or losses in the period other than those reported above.

The movements on reserves are shown in Note 17.

The Notes on pages 10 to 25 form part of these accounts.

HARRODS LIMITED

53 WEEKS ENDED 2 FEBRUARY 2002

	53 weeks 2/2/02 £'000	Restated 52 weeks 27/1/01 £'000
NOTE OF HISTORICAL COST PROFITS AND LOSSES		
Reported profit on ordinary activities before taxation	22,048	12,190
Realisation of property revaluation gains of previous years	760	-
Difference between depreciation on historical cost and revalued basis	320	226
	<hr/>	<hr/>
Historical cost profit for the year before taxation	23,128	12,416
	<hr/>	<hr/>
Historical cost (loss)/profit for the year retained after taxation and dividends	(9,463)	4,752
	<hr/>	<hr/>

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Profit on ordinary activities after taxation	17,457	5,679
Prior year deferred tax adjustment	-	4,847
Dividends	(28,000)	(6,000)
	<hr/>	<hr/>
Net (reduction)/addition to shareholders' funds	(10,543)	4,526
Opening shareholders' funds	475,416	470,890
	<hr/>	<hr/>
Closing shareholders' funds	464,873	475,416
	<hr/>	<hr/>

HARRODS LIMITED

BALANCE SHEETS AT 2 FEBRUARY 2002

Note		Consolidated		Company	
		2/2/02 £'000	Restated 27/1/01 £'000	2/2/02 £'000	Restated 27/1/01 £'000
	Fixed Assets				
10	Tangible assets	672,079	667,212	112,524	114,865
11	Investments	7,695	36,689	213,757	251,020
		<u>679,774</u>	<u>703,901</u>	<u>326,281</u>	<u>365,885</u>
	Current Assets				
12	Stocks	37,920	37,254	35,048	34,507
13	Debtors due within one year	144,367	96,135	143,379	91,150
	Cash and bank balances	34,830	56,162	32,738	49,736
		<u>217,117</u>	<u>189,551</u>	<u>211,165</u>	<u>175,393</u>
	Creditors				
14	Amounts falling due within one year	(82,090)	(77,374)	(66,394)	(56,728)
	Net Current Assets	<u>135,027</u>	<u>112,177</u>	<u>144,771</u>	<u>118,665</u>
	Total Assets Less Current Liabilities	814,801	816,078	471,052	484,550
14	Creditors				
	Amounts falling due after more than one year	(336,785)	(329,078)	-	-
15	Provisions for Liabilities and Charges	<u>(13,143)</u>	<u>(11,584)</u>	<u>(12,367)</u>	<u>(11,745)</u>
		464,873	475,416	458,685	472,805
		<u>464,873</u>	<u>475,416</u>	<u>458,685</u>	<u>472,805</u>
	Capital and Reserves				
16	Called up share capital	19,200	19,200	19,200	19,200
17	Revaluation reserve	369,122	369,882	1,039	1,799
17	Profit and loss account	76,551	86,334	438,446	451,806
	Total Shareholders' Funds (inc. non-equity interests of £2)	<u>464,873</u>	<u>475,416</u>	<u>458,685</u>	<u>472,805</u>

The Notes on pages 10 to 25 form part of these accounts.

Approved by the Board on 28 June 2002.


A TANNA
Director

HARRODS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

	53 weeks 2/2/02 £'000	52 weeks 27/1/01 £'000
Note		
a) Net Cash Inflow from Operating Activities	2,821	383,372
Returns on Investments and Servicing of Finance		
Interest received	8,955	2,383
Interest paid	(21,480)	(18,006)
Dividends received from fixed asset investments	500	465
Rent received from properties	(30)	(72)
	<u>(12,055)</u>	<u>(15,230)</u>
Taxation paid	<u>(5,564)</u>	<u>(7,019)</u>
Capital Expenditure		
Purchase of tangible fixed assets	(26,384)	(28,096)
Disposal of tangible fixed assets	5,441	14,957
Group transfer of tangible fixed assets	-	(13,322)
	<u>(20,943)</u>	<u>(26,461)</u>
Acquisitions and Disposals		
Purchase of associate undertaking	-	(32,347)
Disposal of associate undertaking	37,263	-
	<u>37,263</u>	<u>(32,347)</u>
Equity Dividends Paid	<u>(28,000)</u>	<u>(6,000)</u>
Net cash (outflow)/inflow before use of liquid resources and financing	(26,478)	296,315
b)/c) Financing		
Increase/(Repayment) in borrowings	<u>5,146</u>	<u>(286,115)</u>
b)/c) (Decrease)/Increase in Cash	<u>(21,332)</u>	<u>10,200</u>

The Notes on pages 10 to 25 form part of these accounts.

HARRODS LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	53 weeks 2/2/02 £'000		52 weeks 27/1/01 £'000	
a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities				
Operating profit	26,656		38,352	
Depreciation charged	20,453		21,019	
Write down of fixed assets	71		-	
Profit on disposal of tangible assets	(3)		(8)	
Relocation expenses	(1,237)		-	
Increase in stocks	(666)		(1,903)	
Increase in debtors	(47,845)		(10,780)	
Increase in creditors	5,392		336,692	
Net cash inflow from operating activities	2,821		383,372	
b) Reconciliation of Net Cash Flow to Movement in Net Debt				
	53 weeks 2/2/02 £'000		52 weeks 27/1/01 £'000	
(Decrease)/Increase in cash in the period	(21,332)		10,200	
Cash inflow from increase in debt	(6,761)		(333,427)	
Movement in net debt in the period	(28,093)		(323,227)	
Other non cash charges	(519)		(58)	
Net debt at 27 January 2001	(277,325)		45,960	
Net debt at 2 February 2002	(305,937)		(277,325)	
c) Analysis of Net Debt	27/1/01 £'000	Cash Flow £'000	Other Non-cash charges	2/2/02 £'000
Cash in hand and at bank	56,162	(21,332)	-	34,830
Bank loan	(333,487)	(6,761)	(519)	(340,767)
	(277,325)	(28,093)	(519)	(305,937)
Non-cash charges represent amortisation of issue costs relating to new bank loan.				
Movement in borrowings		£'000		£'000
Bank Loan at 2 February 2002		340,767		
Bank Loan at 27 January 2001		(333,487)		
Increase in Borrowings				7,280
Other non-cash charges				(519)
Cash inflow				6,761

HARRODS LIMITED

NOTES TO THE ACCOUNTS

1 Accounting Policies

Basis of Preparation 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.

The Group has adopted FRS 18 'Accounting Policies' in respect of these accounts. This has not resulted in any changes to the Company's accounting policies, which have been reviewed in light of FRS 18, except for those arising on adoption of FRS19 'Deferred Tax', as explained below.

Financial Reporting Standard FRS 19 'Deferred Tax' has been adopted by the Group with effect from 28 January 2001. FRS 19 requires that full provision is made for deferred taxation on all timing differences and replaces the previous partial provisioning policy. Accordingly, the change in policy has been dealt with as a prior period adjustment and comparatives have been restated (see Note 15).

These financial statements comply with FRS 17 'Retirement Benefits'. The Group has adopted the transitional arrangement set out in paragraph 94 of FRS 17. The pensions charge has been calculated in accordance with SSAP 24.

Basis of Consolidation

The consolidated financial statements include the results of the Company and its subsidiary undertakings and incorporate associates under the equity method of accounting.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Tangible Fixed Assets

Freehold and long leasehold properties are stated at cost or professional or Directors' valuations less accumulated depreciation. All other fixed assets are stated at cost less accumulated depreciation. On adoption of FRS 15 in the 2001 accounts, the Group and the Company followed the transitional rules and ceased its previous policy of revaluing properties on a regular basis, instead retaining them at their current book values. The values brought forward are retained subject to the requirement to test assets for impairment in accordance with FRS11. All additions thereafter are accounted for at cost.

Depreciation is provided by the Group and the Company 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:

<i>Land</i>	- Not depreciated
Freehold and long leasehold properties	- 20 years
Short leasehold property	- Period of lease
Fixtures and fittings	- 2-20 years
Vehicles and equipment	- 2-20 years

It is the practice of the Group to maintain its properties in a continual state of repair. Accordingly, for the Harrods department store in Knightsbridge, the Directors consider that the life of this asset is so long, and the residual value is so high, that the depreciation is immaterial. Any permanent diminution in the value of this property is charged to the profit and loss account as appropriate.

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

1 Accounting Policies (Continued)

Fixed Asset Investments

The Group and the Company account for their fixed asset investments at the lower of cost or Directors' valuation less any provision required for permanent diminution in value.

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 tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted. The above amounts to a change in accounting policy. The previous policy was to provide deferred tax only to the extent that it was probable that liabilities would crystallise in the foreseeable future. This change in accounting policy arises from the implementation of FRS 19 'Deferred Tax'. This has resulted in a prior year adjustment (see note 17) and comparatives have been restated.

Defined Benefit Pension Scheme

Retirement benefits are funded by contributions from the Group and employees. Payment is made to the pension trust, which is 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.

Actuarial valuations are normally performed every three years and actuarial surpluses and deficits are amortised over the expected remaining service lives of current scheme employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet. The Group has followed transitional arrangements under FRS17 'Retirement Benefits'. Details are set out in note 9.

Foreign Currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currency are translated at exchange rates ruling at the transaction date. Realised gains and losses are dealt with in the profit and loss account.

HARRODS LIMITED

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.

The Group conducts business in the following areas:

	53 weeks 2/2/02 £'000	52 weeks 27/1/01 £'000	53 weeks 2/2/02 £'000	52 weeks 27/1/01 £'000	2/2/02 £'000	27/1/01 £'000
Business Analysis	Turnover		Operating profit		Operating Net Assets	
Retailing	465,860	473,406	26,218	38,308	809,065	783,942
Estate Agency	1,977	1,294	438	44	168	(274)
	<u>467,837</u>	<u>474,700</u>	<u>26,656</u>	<u>38,352</u>	<u>809,233</u>	<u>783,668</u>

	53 weeks 2/2/02 £'000	52 weeks 27/1/01 £'000
Geographical Analysis	Turnover	
United Kingdom	460,550	465,620
Rest of Europe	598	810
Japan	6,295	8,072
Other	394	198
	<u>467,837</u>	<u>474,700</u>

All costs are incurred in the UK and all operating assets are held in the UK.

Exceptional operating profits/(losses) amounting to £14.2 million (2001: £2.7 million loss) have been attributed to the UK retailing segment.

Net operating assets are stated excluding fixed asset investments, net debt and tax which amount to net liabilities of £344.4 million (2001: £308.3 million). All of these items are included in net assets.

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

	53 weeks 2/2/02 £'000	52 weeks 27/1/01 £'000
3 Operating Profit		
Operating profit is stated after charging/(crediting):		
Depreciation on tangible fixed assets	20,453	21,019
Auditors' remuneration:		
Audit fees and expenses	180	155
Non-audit services (to previous auditors)	26	142
Rentals paid under operating leases:		
Property	140	460
Plant and machinery	491	540
Gains on foreign exchange	(357)	(246)
Royalty income	(1,695)	(2,696)
	<u> </u>	<u> </u>
The audit fee of the Company was £128k (2001: £120k).		
The non-audit services fees relate to accounting and taxation advice.		
4 Exceptional Items		
Profit/(Loss) on sale of properties	1,613	(2,664)
Profit on sale of associated undertaking	13,818	-
Relocation expenses	(1,237)	-
	<u>14,194</u>	<u>(2,664)</u>
The relocation costs arose as a result of the disposal of a property from another group company		
5 Net Interest		
Interest Payable:		
Loans from group undertakings	(52)	(12,944)
To third parties	(22,625)	(5,032)
Interest Receivable:		
From third parties	191	605
From group undertakings	8,764	1,748
Net Interest Payable	<u>(13,722)</u>	<u>(15,623)</u>
6 Taxation		
Current Tax		Restated
Taxation based on the profits for the year:		
Corporation tax at 30% (2001: 30%)	(1,347)	(2,634)
Group relief	(1,683)	(3,877)
Adjustment in respect of prior years	(2)	
	<u>(3,032)</u>	<u>(6,511)</u>
Deferred Tax		
Deferred Tax (charge)/credit	(1,559)	4,847
Total tax charge for the year	<u>(4,591)</u>	<u>(1,664)</u>

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

6 Taxation (continued)

Factors affecting current period corporation tax

The current period corporation tax assessed for the period is lower (2001: higher) than the standard rate of corporation tax of 30% (2001 – 30%) for the following reasons:

	53 weeks 2/2/02 £'000	52 weeks 27/1/01 £'000
Profit before tax for the period	22,048	12,190
Corporation tax at the standard rate	6,614	3,657
Tax effect arising on the following:		
Expenses not deductible for tax purposes	147	87
Capital allowances less than depreciation	(772)	(1,200)
Income and expenses assessed/relieved on a cash basis	(2,959)	3,994
Adjustments to tax charge in respect of prior/(future) Periods	2	(27)
Current tax charge for the period	3,032	6,511

Factors that may affect future tax charges

The effective rate of tax is liable to rise nearer the current rate of corporation tax of 30% due to a lower level of available tax losses in the future.

7 Information regarding Directors and Employees

Directors

Emoluments excluding pension contributions	2,981	2,959
Compensation for loss of office	538	-
	<u>3,519</u>	<u>2,959</u>
Emoluments of highest paid Director	520	773
Compensation for loss of office	387	-
	<u>907</u>	<u>773</u>
Accrued pension of highest paid Director	-	3

There are 9 Directors to whom retirement benefits are accruing under a defined benefit pension scheme (2001:8).

Staff Costs

Wages and salaries	79,514	77,774
Social security costs	6,528	6,702
Pension costs	5,635	5,797
	<u>91,677</u>	<u>90,273</u>
Average weekly number of employees during the year:	Number	Number
Production	450	551
Selling and Distribution	3,174	3,212
Administration	145	152
	<u>3,769</u>	<u>3,915</u>

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

8 Company Profit and Loss Account

As permitted by section 230 of the Companies Act 1985 the profit and loss account of Harrods Limited is not presented as part of the financial statements. Harrods Limited's profit for the year after taxation amounted to £13.9 million (2001: restated £20.5 million).

9 Pensions

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

The Harrods Holdings 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 Harrods Holdings Group.

The regular pension cost charged to the profit and loss account is based on figures calculated for the Harrods Holdings 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	7.5 per cent per annum compound
Pension increases	3.25 per cent per annum compound
General increase in pensionable earnings	5.0 per cent per annum compound
Dividend growth for asset valuation purposes	2.73 per cent per annum

The total surplus for the Harrods Holdings Group Pension Plan as at 2 February 2002 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 Harrods Holdings Group by the Directors of Harrods Holdings Limited 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 net pension charge for the 53 weeks to 2 February 2002 was £5.6m (2001: £5.8m)

	2/2/02 £'000	27/1/01 £'000
The pension (accrual)/prepayment is as follows:		
Opening balance	53	2,079
Contributions paid	4,329	3,771
Charge to profit and loss account	(5,636)	(5,797)
Closing balance	<u>(1,254)</u>	<u>53</u>

The market value of assets held within the Pension Plan as at 6 April 1999, the date of the last full actuarial valuation, was £180.7 million. At this date, the actuarial value was sufficient to cover 107.0% 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 15 years on a straight line basis.

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

Pensions (continued)

SSAP 24 and Financial Reporting Standard 17

The financial statements have, as last year, been prepared in accordance with SSAP 24. However, following the introduction of Financial Reporting Standard No 17 "Retirement Benefits", this note now also includes the additional disclosures required in respect of defined benefit schemes under the transitional arrangements established by FRS 17.

Financial Reporting Standard No 17

The information required in connection with FRS 17 and the defined benefit schemes is as follows:

- (a) At 2 February 2002 the market value of the assets in the schemes, the expected long-term rate of return from them and the present value of scheme liabilities, all as defined in accordance with FRS 17 and valued by the Harrods Holdings Group's actuary were as follows:

	% per annum
Rate of increase in salaries	3.8% pa
Rate of increase for pensions in payment	2.4% pa
Discount rate	5.6% pa
Inflation	2.3% pa

The assets in the scheme and the expected long-term rate of return were:

	Harrods Group Pension Plan £m	Expected long-term rate of return % per annum
Equities	128.1	7.8% pa
Corporate Bonds	22.8	5.6% pa
Government Bonds	22.3	4.8% pa
Other	0.8	4.8% pa
Total market value of assets	174.0	
Present value of scheme liabilities	(192.5)	
Deficit in the scheme	(18.5)	
Related deferred tax asset	5.5	
Net pension liability (measured against the market value of the assets at the Balance Sheet date)	(13.0)	

Whereas the asset valuation under SSAP 24 is at actuarial values based upon estimated future returns, the FRS 17 asset values reflect market value at the balance sheet date. In valuing liabilities, SSAP 24 discounts the estimated liabilities to present value using a long-term actuarial estimate of scheme investment returns, whereas FRS 17 uses the yield on AA rated corporate bonds.

- (b) The effect on the Harrods Holdings Group's net assets at 2 February 2002, is shown in the accounts of Harrods Holdings Limited

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

10 Fixed Assets – Tangible Assets

		Freehold Land & Buildings	Short Leasehold	Fixtures, Fittings Vehicles & Equipment
Consolidated	Total			
Cost and valuation:	£'000	£'000	£'000	£'000
At 27 January 2001	749,012	562,657	302	186,053
Additions	29,217	10,220	-	18,997
Disposals	(10,636)	(3,959)	-	(6,677)
Written off	(71)	-	-	(71)
At 2 February 2002	<u>767,522</u>	<u>568,918</u>	<u>302</u>	<u>198,302</u>
Accumulated depreciation:				
At 27 January 2001	(81,800)	(3,373)	(302)	(78,125)
Charge for year	(20,453)	(3,065)	-	(17,388)
Disposals	6,810	135	-	6,675
At 2 February 2002	<u>(95,443)</u>	<u>(6,303)</u>	<u>(302)</u>	<u>(88,838)</u>
Net book value:				
At 2 February 2002	<u>672,079</u>	<u>562,615</u>	<u>-</u>	<u>109,464</u>
At 27 January 2001	<u>667,212</u>	<u>559,284</u>	<u>-</u>	<u>107,928</u>
Cost and Valuation				
Valuation	566,899	566,899	-	-
Cost	<u>200,623</u>	<u>2,019</u>	<u>302</u>	<u>198,302</u>
	<u>767,522</u>	<u>568,918</u>	<u>302</u>	<u>198,302</u>

The value of fixed assets if determined according to the historical cost accounting rules is as follows:

Consolidated Historical cost

At 2 February 2002	398,401	199,797	302	198,302
Depreciation on historical cost at 2 February 2002	<u>(94,729)</u>	<u>(5,590)</u>	<u>(302)</u>	<u>(88,837)</u>
Net historical cost at 2 February 2002	<u>303,672</u>	<u>194,207</u>	<u>-</u>	<u>109,465</u>
At 27 January 2001	379,131	192,776	302	186,053
Depreciation on historical cost at 27 January 2001	<u>(81,272)</u>	<u>(2,845)</u>	<u>(302)</u>	<u>(78,125)</u>
Net historical cost at 27 January 2001	<u>297,859</u>	<u>189,931</u>	<u>-</u>	<u>107,928</u>

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

10 Fixed Assets – Tangible Assets (continued):

Company	Total £'000	Freehold Land & Buildings £'000	Short Leasehold £'000	Fixtures, Fittings, Vehicles & Equipment £'000
Cost and valuation				
At 27 January 2001	187,853	9,073	302	178,478
Additions	18,272	-	-	18,272
Disposals	(10,612)	(3,959)	-	(6,653)
Written off	(71)	-	-	(71)
At 2 February 2002	195,442	5,114	302	190,026
Accumulated depreciation				
At 27 January 2001	(72,988)	(188)	(302)	(72,498)
Charge for year	(16,717)	(112)	-	(16,605)
Disposals	6,787	134	-	6,653
At 2 February 2002	(82,918)	(166)	(302)	(82,450)
Net book value				
At 2 February 2002	112,524	4,948	-	107,576
At 27 January 2001	114,865	8,885	-	105,980
Cost and valuation				
Valuation – 2000	3,095	3,095	-	-
Cost	192,347	2,019	302	190,026
	195,442	5,114	302	190,026

The value of fixed assets if determined according to the historical cost accounting rules is as follows:

Company Historical Cost

At 2 February 2002	194,403	4,075	302	190,026
Depreciation to 2 February 2002	(82,860)	(108)	(302)	(82,450)
Net historical cost				
At 2 February 2002	111,543	3,967	-	107,576
At 27 January 2001	186,054	7,274	302	178,478
Depreciation to 27 January 2001	(72,939)	(139)	(302)	(72,498)
Net historical cost				
At 27 January 2001	113,115	7,135	-	105,980

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

10 Fixed Assets – Tangible Assets (continued):

Freehold properties are stated at cost or professional or Directors' valuation. All other fixed assets are stated at cost. On adoption of FRS 15 in the 2001 accounts, the Group and the Company followed the transitional provision rules and ceased its previous policy of revaluing its properties, instead retaining them at their current book values.

Some of the freehold properties of the Group were valued independently as at 31 December 1999. 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 were: Healey & Baker, International Real Estate Consultants, and W.A. Ellis, Estate Agents and Surveyors. The remainder of the freehold properties were revalued by the Directors as at 31 December 1999. These valuations were adopted by the Directors and incorporated in the financial statements at 29 January 2000.

Included in the cost element of Freeholds, Fixtures, Fittings, Vehicles and Equipment are costs incurred on unfinished projects at the year end amounting to £52.5 million (2001: £45.5 million) and £11.8 million (2001: £15.1 million) in the Group and the Company respectively.

11 Fixed Assets – Investments

		Unlisted Investment	Associated Under- takings
Consolidated	Total £'000	£'000	£'000
Cost/Valuation			
At 27 January 2001			
Goodwill	39,474	-	39,474
Other	2,926	7,695	(4,769)
	42,400	7,695	34,705
Disposals - Goodwill	(39,474)	-	(39,474)
- Other	5,055	-	5,055
Share of retained loss	(286)	-	(286)
At 2 February 2002 - Other	7,695	7,695	-
Amounts Written off			
At 27 January 2001 - Goodwill	(5,711)	-	(5,711)
Amortisation of Goodwill for the year	(5,263)	-	(5,263)
Disposal of Goodwill	10,974	-	10,974
At 2 February 2002 - Goodwill	-	-	-
Net book value:			
Goodwill	-	-	-
Other	7,695	7,695	-
At 2 February 2002	7,695	7,695	-
Goodwill	33,763	-	33,763
Other	2,926	7,695	(4,769)
At 27 January 2001	36,689	7,695	28,994

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

11 Fixed Assets – Investments (continued)

Company	Total £'000	Unlisted Investment £'000	Associated Under- Takings £'000	Shares in Group Under- Takings £'000
Shares at cost:				
At 27 January 2001	251,359	2,250	37,263	211,846
Disposals	(37,263)	-	(37,263)	-
At 2 February 2002	214,096	2,250	-	211,846
Provisions at 27 January 2001 and 2 February 2002	(339)	-	-	(339)
Net book value				
At 2 February 2002	213,757	2,250	-	211,507
At 27 January 2001	251,020	2,250	37,263	211,507

Unlisted investments:

Harrods Bank Limited

Harrods Bank Limited, a company registered in England, has been accounted for as an unlisted investment, due to it having independent management and control (in accordance with Bank of England direction in 1991), although the Group continues to retain 100% ownership through the non-voting shares. The consolidated investment of £7.7 million includes an amount of £5.4 million, which represents the share of post-acquisition reserves frozen at the point control transferred.

Associated Undertakings:

Harrods Online Limited

In October 2001 Harrods Limited disposed of its shareholding in Harrods Online Limited at cost to Danamon Enterprises BV, a related party.

The investment in Harrods Online Limited was accounted for as an associated undertaking in the books of the Group. Consequently, the Group's share of the losses in equity accounting for the investment, have been recouped and a gain on sale has been reported net of the write off of the remaining goodwill balance, as set out in note 4.

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

11 Fixed Assets – Investments (continued)

Shares in Group Undertakings:

The Group has the following wholly owned (100% of equity) trading and non-trading subsidiary undertakings which are registered and operate in the United Kingdom:

Name	Nature of Business
Harrods International Limited	International retailer & wholesaler
Harrods (Continental) Limited	Shipping & freight agency
Harrods Estates Limited	Estate agency
Harrods (Management) Limited	Non-trading
Harrods Property Holdings Limited	Holding Company
Harrods Property Limited	Property Management
Wylie and Company Limited	Non-trading

The whole of the share capital of Harrods Property Limited is held by Harrods Property Holdings Limited.

The whole of the share capital of Wylie and Company Limited is held by Harrods International Limited.

	Consolidated		Company	
	2/2/02 £'000	27/1/01 £'000	2/2/02 £'000	27/1/01 £'000
12 Stocks				
Finished goods for resale	<u>37,920</u>	<u>37,254</u>	<u>35,048</u>	<u>34,507</u>

There were no significant differences between the replacement cost of stocks at 2 February 2002 and the amounts at which they are stated in the accounts.

13 Debtors

Amounts due within one year:

Trade debtors	6,394	3,912	3,070	1,932
Amounts owed by group undertakings	123,329	73,722	126,896	73,997
Other debtors	11,302	15,904	10,646	13,098
Corporation Tax	440	-	440	-
Prepayments and accrued income	<u>2,902</u>	<u>2,597</u>	<u>2,327</u>	<u>2,123</u>
	<u>144,367</u>	<u>96,135</u>	<u>143,379</u>	<u>91,150</u>

14 Creditors

Amounts falling due within one year:

Bank loans	(3,982)	(4,409)	-	-
Trade creditors	(32,454)	(31,360)	(31,413)	(27,282)
Amounts owed to group undertakings	(6,387)	(8,406)	(3,198)	(3,065)
Corporation tax	-	(1,305)	-	(1,305)
Other creditors	(16,468)	(10,415)	(13,557)	(6,018)
Taxation and social security	(9,003)	(8,938)	(8,919)	(8,924)
Accruals and deferred income	<u>(13,796)</u>	<u>(12,541)</u>	<u>(9,307)</u>	<u>(10,134)</u>
	<u>(82,090)</u>	<u>(77,374)</u>	<u>(66,394)</u>	<u>(56,728)</u>

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

	Consolidated		Company	
	2/2/02 £'000	27/1/01 £'000	2/2/02 £'000	27/1/01 £'000
14 Creditors (continued)				
Amounts falling due after more than one year:				
Bank loan	<u>(336,785)</u>	<u>(329,078)</u>	<u>-</u>	<u>-</u>
Bank loan with repayment dates:				
In one year or less	(3,982)	(4,409)	-	-
between one and two years	(3,939)	(3,982)	-	-
between two and five years	(14,474)	(12,812)	-	-
beyond five years	<u>(322,816)</u>	<u>(317,247)</u>	<u>-</u>	<u>-</u>
	(345,211)	(338,450)	-	-
Issue costs	5,021	5,021	-	-
Amortisation costs	<u>(577)</u>	<u>(58)</u>	<u>-</u>	<u>-</u>
	<u>(340,767)</u>	<u>(333,487)</u>	<u>-</u>	<u>-</u>
Comprises:				
Within one year	(3,982)	(4,409)		
More than one year	<u>(336,785)</u>	<u>(329,078)</u>		
	<u>(340,767)</u>	<u>(333,487)</u>		

15 Provisions for Liabilities and Charges

Deferred Taxation		Restated		Restated
Balance at 27 January 2001	(11,584)	(16,431)	(11,745)	(16,397)
Transfer (from)/to profit and loss account	(1,559)	4,847	(622)	4,652
Balance at 2 February 2002	<u>(13,143)</u>	<u>(11,584)</u>	<u>(12,367)</u>	<u>(11,745)</u>
Accelerated Capital Allowances	(13,502)	(11,596)	(12,715)	(11,716)
Other Timing Differences	359	12	348	(29)
	<u>(13,143)</u>	<u>(11,584)</u>	<u>(12,367)</u>	<u>(11,745)</u>

Other relates to tax relief of £0.359 million which would arise if pension accrual is paid.

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

Revaluation of properties	<u>67,209</u>	<u>69,119</u>	<u>-</u>	<u>734</u>
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In the opinion of the Directors the potential taxation 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 capital losses would eliminate any liability which could otherwise result from disposals.

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

	Consolidated		Company	
	2/2/02 £	27/1/01 £	2/2/02 £'000	27/1/01 £'000
16 Called up Share Capital				
Authorised:				
192,000,000 ordinary shares of 10p each	19,200,000	19,200,000	19,200,000	19,200,000
1 "A" Special Rights redeemable Preference share of £1	1	1	1	1
1 "B" Special Rights redeemable Preference share of £1	1	1	1	1
	<u>19,200,002</u>	<u>19,200,002</u>	<u>19,200,002</u>	<u>19,200,002</u>
Allotted and fully paid:				
192,000,000 ordinary shares of 10p each	19,200,000	19,200,000	19,200,000	19,200,000
1 "A" Special Rights redeemable Preference share of £1	1	1	1	1
1 "B" Special Rights redeemable Preference share of £1	1	1	1	1
	<u>19,200,002</u>	<u>19,200,002</u>	<u>19,200,002</u>	<u>19,200,002</u>

The A and B 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.

Included within the shareholders' funds of £464.9 million (2001: restated £475.4 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 £'000	Restated Profit & Loss Account £'000	Revaluation Reserve £'000	Restated Profit & Loss Account £'000
17 Reserves				
Balance at 27 January 2001	369,882	96,568	1,799	463,050
Prior year adjustment (Note 1)	-	(10,234)	-	(11,244)
	<u>369,882</u>	<u>86,334</u>	<u>1,799</u>	<u>451,806</u>
Balance at 27 January 2001 restated	369,882	86,334	1,799	451,806
Profit/(Loss) retained for the year	-	(10,543)	-	(14,120)
Revaluation realised on disposal	(760)	760	(760)	760
	<u>369,122</u>	<u>76,551</u>	<u>1,039</u>	<u>438,446</u>
Balance at 2 February 2002	369,122	76,551	1,039	438,446

The prior year adjustment has arisen on the adoption of FRS 19. This has given rise to a movement in the provision for deferred tax to £11.6 million at 27 January 2001 (29 January 2000: £16.4 million) and to decrease the tax charge for the period to 27 January 2001 by £4.8 million.

The effect of the change in the accounting policy is to increase the tax charge in the period to 2 February 2002 by £1.6 million.

£47 million of the Profit and Loss Account reserve in the Company is non-distributable.

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

	Consolidated		Company	
	2/2/02 £'000	27/1/01 £'000	2/2/02 £'000	27/1/01 £'000
18 Capital Commitments				
Contracted for but not provided	<u>16,092</u>	<u>15,836</u>	<u>16,092</u>	<u>15,836</u>
19 Obligations under operating leases which expire				
Consolidated		Plant & Machinery	Total	Total
		2/2/02	2/2/02	27/1/01
		£'000	£'000	£'000
Within one year		143	143	10
Between one and five years		305	305	390
After five years		43	43	43
		<u>491</u>	<u>491</u>	<u>443</u>
Company	Land & Buildings	Plant & Machinery	Total	Total
	2/2/02	2/2/02	2/2/02	27/01/01
	£'000	£'000	£'000	£'000
Within one year	-	143	143	10
Between one and five years	-	305	305	390
After five years	26,490	43	26,533	25,686
	<u>26,490</u>	<u>491</u>	<u>26,981</u>	<u>26,086</u>

20 Contingent Liabilities

The Harrods Holdings Group's loan facility from Royal Bank of Scotland Plc, is guaranteed by Harrods Limited and other Group companies.

The Company is aware of claims arising out of two particular commercial disputes related to licensing and construction agreements. The Directors consider, however, that there is no need to make any provision in this regard on the basis of advice received to the effect that the claims are unmeritorious.

21 Parent Undertakings

The Group's immediate parent undertaking is Harrods (UK) Limited. The immediate parent undertaking of Harrods (UK) Limited is Harrods Holdings Limited which is the largest group which consolidates the results of the Company. The Harrods Holdings 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.

HARRODS LIMITED

NOTES TO THE ACCOUNTS (Continued)

22 Related Party Transactions

During the year the Group entered into transactions with a number of companies, which are under the control of the Group's ultimate controlling party. These companies comprise ACF Sevenoaks, Balnagowan Castle Properties Limited, Bocardo Societe Anonyme, Danamon Enterprises BV, Fulham Football Leisure Limited, Fulham Stadium Limited, Harrods Energy Limited, Harrods Energy (Thailand) Limited, Harrods Finance Trust Co SA, Gallant Minerals Limited (formerly Harrods Minerals Limited), Harrods Minerals Mongolia Limited, Harrods Natural Resources Inc, Harrods Natural Resources Limited, Harrods Online Limited, Harrods Petroleum Corporation Limited, Harrods Staff Benevolent Fund, Hyde Park Residence Limited, Liberty Holdings Limited (and subsidiaries), Mohafa Shipping, Prestige Properties SA, The Ritz Hotel Limited and Turnbull & Asser Limited (and subsidiaries). The transactions and balances with these companies are not considered to be material except as described below and as set out in Note 11.

Royalties are paid by Harrods Online Limited, on commercial terms, to Harrods Limited for the use of the Harrods name. Royalty income of £7,427 (2001: £65,817) was charged during the year, of which £nil is outstanding at the year end (2001: £65,817).

The Group charged trademark fees for the use of the Harrods name to Harrods Natural Resources Inc., Harrods Energy (Thailand) Limited, Harrods Finance Trust Co SA, Gallant Minerals Limited (formerly Harrods Minerals Limited), Harrods Minerals Mongolia Limited, Harrods Natural Resources Limited, Harrods Energy Limited and Harrods Petroleum Corporation Limited of £208,896 (2001: £399,627).

Turnbull & Asser Limited operates a concession in the Knightsbridge Store, on commercial terms, for which it was charged £311,063 (2001: £300,759).

Fees in respect of marketing and advisory services, received from Prestige Properties S.A. during the year amounted to £450,838 (2001: £nil). Trade debtors due from Prestige Properties S.A. at 2 February 2002 amounted to £430,350 (2001: £nil).

An amount of £266,802 owed to the Chairman personally by a former director of the Company, was assigned to Harrods Limited on 16 November 2001. This was settled in full on 21 December 2001.

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