

Fortnum & Mason Plc
(Registered Number 84909)

Directors' report and accounts
For the year ended 13th July 2003



Fortnum & Mason Plc

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Fortnum & Mason Plc

Directors' Report

The directors submit their ninety-eighth annual report together with the accounts of the company for the year ended 13 July 2003.

Principal activities and business review

The company continued its activities as a department store during the year.

The company continued to face tough trading conditions during the year with business suffering particularly in the second half of the year with the impact of the Iraq war on overseas visitors to London. Despite this pressure, the UK business delivered a creditable 3.5% turnover increase for the year.

The board re-evaluated its international strategy during the year and decided to cease placing its products on international markets by way of agreements with local wholesale distributors. The company now plans to sell its products directly to overseas retailers. This strategic change resulted in a significant reduction in overseas turnover in 2003 and this trend is expected to continue in 2004. The board firmly believes this strategic change will be in the long term best interests of the business and the brand.

Turnover for the fifty-two weeks ended Sunday 13 July 2003 was £39,350,000 compared to £40,034,000 for the fifty-two weeks ended Saturday 13 July 2002.

The directors expect market conditions to continue to remain challenging during the coming financial year.

Profits and dividends

The profit and loss account on page 7 shows profit for the financial year ended 13 July 2003 of £378,000 (2002 - £656,000). The total dividend on the ordinary shares amounts to £234,000 (2002 - £406,000).

Directors and their interests

The directors of the company who served during the year were:

Mrs J R Khayat	(chairman)
W G Galen Weston	(vice chairman)
Mrs C H W Dalglish	
S M Gates	
Mrs A C Hobhouse	
J G Lithiby	(deceased 22 December 2002)

The directors note with deep regret the death of Mr J G Lithiby during the year. Mr Lithiby served as a director for twenty one years and latterly played a key role as the independent director during the completion of the scheme of arrangement whereby Wittington Investments Limited acquired the minority ordinary shareholdings in the company in December 2001. The board records its sincere thanks for the large contribution made by Mr Lithiby during his long and distinguished tenure as a director.

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Directors' report (Continued)

A schedule of the beneficial interests of directors, including family interests, in the shares and loan stock of the group is shown on page 19.

Mrs J R Khayat and Mr W G Galen Weston retire by rotation and being eligible offer themselves for re-election.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Supplier payment policy

The company does not follow any code or standard on payment practice.

Except where otherwise agreed with the supplier, it is the policy of the company to pay all suppliers correctly presenting invoices for goods delivered or services performed in accordance with the company's instructions on a regular cycle designed to give average payment times of approximately one month. Scheduled payment dates are notified to suppliers on request. The number of days purchases outstanding at the year end was 19 (2002 - 24).

Environmental policy

As a responsible employer, the company is conscious of its position and role within the community and is committed continually to improving its environmental performance. In meeting this objective, the company environmental policy is intended to:

- satisfy all appropriate legislation and the need to conform to good industry practice.
- require full consideration to be given to:
 - a) responsible use of raw materials and conservation of resources.
 - b) efficient use of energy in all operations.
 - c) use of packaging materials and processes which minimise demands on non-renewable resources.
 - d) minimising emissions into the air, water courses, or as waste.
 - e) the environmental impact of new capital investments.
- encourage active participation of employees in addressing environmental issues.
- seek assurances from suppliers on environmental issues.
- be subject to regular review, incorporating new objectives as appropriate.

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Directors' report (Continued)

Fixed assets

Changes in fixed assets are set out on page 13. A valuation carried out on 2 November 2001 by an independent valuer indicated that the market value of the company's leasehold interests were £38.8 million. This exceeds the amount at which they are shown in the balance sheet by £26.4 million.

Charitable and political contributions

Charitable donations for the year amounted to £1,404 (2002 - £7,023). There were no contributions to any political organisation during the year (2002 - £ Nil).

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability.

Employee involvement

The company formally communicates with its staff in a number of ways. Upon joining the company, new staff attend an induction training course and are given a booklet explaining the terms and conditions of employment. Weekly training sessions are held at which staff are updated on the company's activities, plans and financial performance. Staff at all levels are involved in forward planning and development of their departments, and regularly updated as to the progress of the company and their personal development in line with that progress and their individual performance.

Directors' responsibility statement

Company law 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 company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business. The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 13 July 2003 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 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 company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

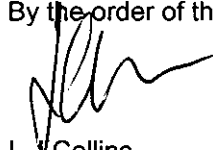
Fortnum & Mason Plc

Directors' report (Continued)

Auditors

Following the conversion of our auditors, PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned as auditors on 12th August 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

By the order of the board



L J Collins
Secretary
23 September 2003

Registered Office
181 Piccadilly
London W1A 1ER

Fortnum & Mason Plc

Independent auditors' report to the members of Fortnum & Mason Plc

We have audited the financial statements on pages 7 to 18 which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable 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 issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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 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.

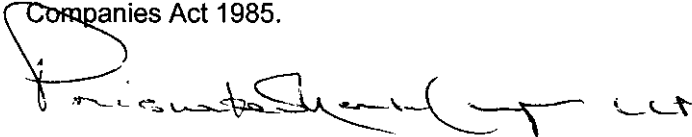
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Fortnum & Mason Plc

Independent auditors' report to the members of Fortnum & Mason Plc (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 13 July 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

23 September 2003

Fortnum & Mason Plc

Profit and loss account

	Note	52 weeks ended 13 July 2003 £'000	52 weeks ended 13 July 2002 £'000
Turnover	3	39,350	40,034
Cost of sales		(28,190)	(28,589)
Gross profit		11,160	11,445
Distribution costs		(460)	(383)
Administrative expenses		(10,341)	(10,270)
Operating profit	3	359	792
Interest receivable		279	237
Profit on ordinary activities before taxation	4	638	1,029
Tax on profit on ordinary activities	6	(260)	(373)
Profit for the financial year		378	656
Dividends including non-equity	7	(234)	(406)
Retained profit to reserves		144	250

All the above transactions relate to continuing operations.

There were no gains or losses recognised by the company in the period under review, or the comparable period, other than those stated above.

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


The notes on pages 9 to 18 form part of these financial statements.

Fortnum & Mason Plc

Balance sheet

	Note	As at 13 July 2003 £'000	As at 13 July 2002 £'000
Fixed assets			
Tangible assets	8	17,254	18,433
Investments	9	2	2
		<u>17,256</u>	<u>18,435</u>
Current assets			
Stocks		3,292	3,688
Debtors	10	1,432	2,589
Cash at bank and in hand		7,287	5,352
		<u>12,011</u>	<u>11,629</u>
Creditors - Amounts falling due within one year	11	(3,245)	(4,193)
Net current assets		<u>8,766</u>	<u>7,436</u>
Total assets less current liabilities		26,022	25,871
Provisions for liabilities and charges	12	<u>(1,318)</u>	<u>(1,311)</u>
Net assets		<u>24,704</u>	<u>24,560</u>
Capital and reserves			
Called up share capital	13	653	653
Share premium account	14	5,362	5,362
Profit and loss account	14	18,689	18,545
Total shareholders' funds		<u>24,704</u>	<u>24,560</u>

These financial statements were approved by the board on 23 September 2003 and signed on its behalf by:


Jang Khayat
Chairman

Fortnum & Mason Plc

Notes to the financial statements

1 Accounting policies

The accounts have been prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards.

Turnover

Turnover represents amounts charged to customers for goods sold and services rendered, less returns and net of value added tax.

Depreciation

Depreciation is provided by the company so as to write off the cost of certain fixed assets, excluding works of art, over their estimated useful lives by equal annual instalments as follows:

Leasehold	- over 66 years or the remaining period of the lease if shorter
Leasehold improvements	- 30 years
Fixtures and equipment	- 5, 10 or 20 years

Works of art are not depreciated and are included at cost, as they do not have a finite useful economic life.

Stocks

Stocks which comprise merchandise held for resale are stated at the lower of cost and net realisable value.

Deferred taxation

Full provision has been made for taxation arising from the excess of capital allowances over depreciation and other timing differences.

Leases

All material leases entered into by the group are operating leases whereby substantially all the risks and rewards of ownership of the asset remain with the lessor. Rental payments are charged against profits on a straight line basis over the period of the lease.

Foreign currencies

Assets and liabilities denominated in foreign currencies are converted into sterling at rates of exchange prevailing at the year end. Any exchange differences arising are taken to the profit and loss account.

Fortnum & Mason Plc

Notes to the financial statements

2 Cash flow statement and related party disclosures

The company is a wholly-owned subsidiary of Wittington Investments Limited and is included in the consolidated financial statements of Wittington Investments Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996). The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Wittington Investment Limited group or investees of the Wittington Investment Limited group.

3 Turnover and operating profit

	52 weeks ended 13 July 2003 £'000	52 weeks ended 13 July 2002 £'000
Turnover		
UK	35,860	34,663
Overseas	3,490	5,371
	<hr/> 39,350	<hr/> 40,034
Operating profit		
UK	71	80
Overseas	288	712
	<hr/> 359	<hr/> 792

The analysis of turnover by destination is shown above. Turnover by origin is made up from sales from the UK. All net assets are in the UK.

Fortnum & Mason Plc

Notes to the financial statements

4 Profit on ordinary activities before taxation

This is stated after charging the following amounts:

	2003 £'000	2002 £'000
Depreciation	1,470	1,532
Loss on sale of fixed assets	12	1
Lease rentals on:		
- plant and machinery	213	210
- other	150	151
Auditors' remuneration	40	43
Management charges from immediate holding company	300	300

5 Directors and employees

	2003	2002
Average number of employees	429	430
	£'000	£'000
Staff costs – wages and salaries	7,052	6,955
– social security costs	565	511
– pension costs	136	-
Staff costs include the following remuneration of directors:		
Aggregate emoluments	167	179

Retirement benefits are accruing to two (2002: two) directors under a defined benefit scheme.

Fortnum & Mason Plc

Notes to the financial statements

6 Tax on profit on ordinary activities

	2003 £'000	2002 £'000
Corporation tax – UK corporation tax	250	301
– Adjustment in respect of prior periods	3	5
	<u>253</u>	<u>306</u>
Deferred tax (note 12)	7	67
Total tax charge	<u>260</u>	<u>373</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK as explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	638	1,029
Tax at 30%	191	309
Depreciation on assets not qualifying for capital allowances	66	67
Depreciation on qualifying assets in excess of capital allowances	31	(37)
Other timing differences	(38)	(38)
Adjustment to tax charge in respect of prior periods	3	5
Total current year tax charge	<u>253</u>	<u>306</u>

7 Dividends

	2003 £'000	2002 £'000
Ordinary – payable 1.79p (3.06p)	234	400
Preference – paid	-	6
	<u>234</u>	<u>406</u>

No preference dividend was paid in the year ended 13 July 2003 as all preference shares were redeemed in the prior year.

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Notes to the financial statements

8 Tangible assets

	Long leasehold and leasehold improvements £'000	Fixtures and equipment £'000	Works of art £'000	Total £'000
Cost				
At 13 July 2002	15,285	12,663	402	28,350
Additions	-	309	-	309
Disposals	-	(68)	-	(68)
At 13 July 2003	15,285	12,904	402	28,591
Accumulated depreciation				
At 13 July 2002	2,532	7,385	-	9,917
Charge for the year	312	1,158	-	1,470
Disposals	-	(50)	-	(50)
At 13 July 2003	2,844	8,493	-	11,337
Net book amount				
13 July 2003	12,441	4,411	402	17,254
Net book amount				
13 July 2002	12,753	5,278	402	18,433

9 Investments included in fixed assets

The company owns the entire issued share capital of a number of companies which are shown at cost.

None of the companies has traded during the year and the directors are of the opinion that in view of the insignificant amounts involved there would be no real value in the presentation of group accounts.

10 Debtors

	2003 £'000	2002 £'000
Trade debtors	1,060	2,077
Amounts owed by group companies	1	48
Other debtors	78	69
Prepayments and accrued income	293	395
	1,432	2,589

Fortnum & Mason Plc

Notes to the financial statements

11 Creditors – amounts falling due within one year

	2003 £'000	2002 £'000
Trade creditors	1,140	1,347
Amounts owed to group companies	93	229
Corporation tax	40	152
Other tax and social security payable	160	741
Other creditors	102	214
Accruals	1,476	1,110
Proposed dividend	234	400
	<u>3,245</u>	<u>4,193</u>

12 Provisions for liabilities and charges

	As at 13 July 2002 £'000	Movement £'000	As at 13 July 2003 £'000
Deferred taxation	1,311	7	<u>1,318</u>

The amounts provided for deferred taxation, which represent the full potential liability, are set out below:

	2003 £'000	2002 £'000
Accelerated capital allowances	1,101	1,132
Other timing differences	<u>217</u>	<u>179</u>
Total provision for deferred tax	<u>1,318</u>	<u>1,311</u>

13 Called up share capital

	Authorised		Allotted, called up and fully paid	
	Nominal value £'000	Number 000's	Nominal value £'000	Number 000's
Ordinary shares of 5p each b/f and c/f	812	16,250	653	<u>13,062</u>

Fortnum & Mason Plc

Notes to the financial statements

14 Reserves

	Share premium Account £'000	Profit and loss account £'000
Balance at 13 July 2002	5,362	18,545
Retained profit for the year	-	144
Balance at 13 July 2003	5,362	18,689

15 Reconciliation of movement in shareholders' funds

	2003 £'000	2002 £'000
Equity:		
Opening balance	24,560	24,135
Retained profit for the year	144	250
Proceeds from issue of shares	-	175
Closing balance	24,704	24,560
Non-equity:		
Opening balance	-	175
Redemption of preference shares	-	(175)
Closing balance	-	-
Total shareholders' funds	24,704	24,560

Fortnum & Mason Plc

Notes to the financial statements

16 Pensions

Prior to 30 September 2002, the company provided defined benefits, to employees over the age of 21 with more than six months service, through Associated British Foods Pension Scheme. At 13 July 2003 some 36% (2002 - 40%) of the company's employees were members of the scheme.

The scheme is wholly administered by the trustee of the Associated British Foods Pension Scheme, and the cost to the company is determined by the overall cost of the scheme, not that relating to the company's employees. Hence it is not possible to identify the company's share of the underlying assets and liabilities. As such, the directors are of the opinion that the cost to the company will tend to equate to the contributions payable. The latest actuarial valuation of the scheme, at 5 April 2002, showed that assets represented 116% of the benefits that had accrued to members after allowing for expected future increases in earnings, and the company made contributions of £134,700 in the year (2002 - £nil).

From 1 October 2002, new entrants to the Associated British Foods Pension Scheme were offered membership of a defined contribution arrangement. The Company pays defined contribution payments for these pension scheme members. At 13 July 2003 there were 5 members of the scheme and the company made contributions of £1,300 in the year.

17 Capital commitments

There are commitments for capital expenditure by the company of £38,000 (2002 - £39,000) for which no provision has been made in these accounts.

18 Financial instruments

a) Treasury policy

There are established procedures and authority levels to control treasury activities. All transactions are matched to an underlying business requirement such as forecast purchases of goods.

The company invoices its exports only in sterling. Imports, which although frequent are generally of a small value, are, where the company considers the cost of these is justified by the potential currency movement, covered by forward contracts, options or currency accounts.

Interest on day to day cash deposits is based on money market rates and overdraft rates are linked to LIBOR.

Short term debtors and creditors have been excluded from the following disclosures, other than the currency risk profile.

Fortnum & Mason Plc

Notes to the financial statements

18 Financial instruments (Continued)

b) Interest rate risk profile

At 13 July 2003 the company had no interest bearing financial liabilities (2002 – none).

Interest bearing sterling cash deposits at the year-end were £8,251,000 (2002 - £6,449,000) at an interest rate of 3.4% (2002 - 3.6%).

c) Currency risk profile

At 13 July 2003 the company had outstanding non-sterling short-term creditors, predominantly in EU currencies of £200,000 (2002 - £170,000).

19 Commitments under operating leases

The company has minimum annual commitments under non-cancellable operating leases as follows:

Operating leases which expire:

	Less than one year	Two to five years £'000	Over five years £'000	Total £'000
Land and buildings	-	-	150	150
Other	207	6	-	213
At 13 July 2003	207	6	150	363
Land and buildings	-	-	151	151
Other	-	210	-	210
At 13 July 2002	-	210	151	361

Fortnum & Mason Plc

Notes to the financial statements

20 Ultimate parent undertaking

The immediate and ultimate holding company of Fortnum & Mason Plc is Wittington Investments Limited. Wittington Investments Limited holds 100% of the capital of the company.

The Garfield Weston Foundation ("The Foundation") is an English charitable trust which was established in 1958 by the late Mr W. Garfield Weston. The Foundation has no direct interest in Fortnum & Mason Plc but as at 12 September 2003 held 683,073 shares in Wittington Investments Limited representing 79.2% of that company's issued share capital and is, therefore, Fortnum & Mason Plc's controlling party.

Copies of Wittington Investments Limited consolidated financial statements can be obtained from Companies House, Crown House, Cardiff, CF4 3UZ.

Fortnum & Mason Plc

Statement of directors' interests

The persons who were directors of the company at the end of the year had the following beneficial interests, including family interests, in the shares and loan stock of the company, its holding company and fellow subsidiaries as at the dates shown:

	13 July 2003	13 July 2002
Mrs J R Khayat		
Wittington Investments Limited, ordinary shares of 50p	5,862	5,862
Associated British Foods Plc, ordinary shares of 5 15/22p	3,180,717	3,180,717
W G Galen Weston		
Wittington Investments Limited, ordinary shares of 50p	37,953	37,953
Associated British Foods Plc, ordinary shares of 5 15/22p	5,672,560	5,672,560
Mrs C H W Dalglish		
Wittington Investments Limited, ordinary shares of 50p	15,300	15,300
Associated British Foods Plc, ordinary shares of 5 15/22p	2,646,459	2,646,459
Mrs A C Hobhouse		
Wittington Investments Limited, ordinary shares of 50p	5,863	5,863
Associated British Foods Plc, ordinary shares of 5 15/22p	2,860,358	2,860,358
S M Gates	-	-

Notes

1. W G Galen Weston, Mrs C H W Dalglish, Mrs J R Khayat and Mrs A C Hobhouse are trustees of a trust in which they have no beneficial interest, which at 13 July 2003 held 683,073 ordinary shares of 50p (2002 - 683,073) in Wittington Investments Limited.
2. There have been no changes in the above holdings between 13 July and 12 September 2003.
3. No other director has had a material interest in a contract with the company during the year, other than as disclosed in the accounts.