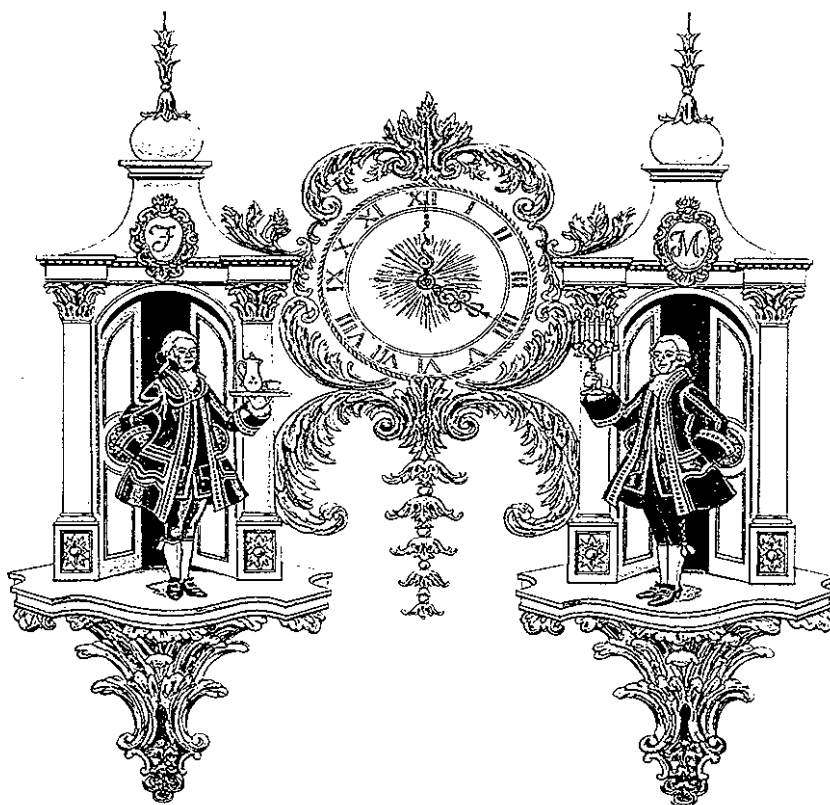


COMPANY No. 84909



BY APPOINTMENT
TO HER MAJESTY QUEEN ELIZABETH II
GROCERS & PROVISION MERCHANTS
FORTNUM & MASON PLC. LONDON

FORTNUM & MASON PLC



REPORT AND ACCOUNTS 1998



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COMPANY No. 84909

FORTNUM & MASON PLC

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FORTNUM & MASON PLC

Directors and professional advisers

Directors

Garry H Weston* *Chairman*

W G Galen Weston* *Vice Chairman*

G W Artindale
Mrs C H W Dalglish*
G V Hamilton
Mrs J R Khayat*
J G Lithiby*
W Monaghan*

Secretary

G W Artindale

Registered office

181 Piccadilly
London W1A 1ER

Registered number

84909

Registrar and transfer office

Lloyds Bank PLC
Registrar's department
The Causeway
Worthing
West Sussex
BN99 6DA

Auditors

PricewaterhouseCoopers
Chartered Accountants

Bankers

Bank of Scotland
Girobank plc

* *Non-executive director*

Mr Garry H Weston was appointed a director in 1951, and has been chairman since 1978. He is also chairman of Associated British Foods plc.

Mr W G Galen Weston has been a director since 1965. He is chairman and president of George Weston Ltd, Canada and a director of the Canadian Imperial Bank of Commerce.

Mr J G Lithiby has been a director since 1981. He is a director of Panmure Gordon & Co. Limited, Stockbrokers.

Mrs C H W Dalglish has been a director since 1979. She is a director of Loblaw Companies Limited, Canada.

Mr W Monaghan CBE was appointed a director in 1990. He was formerly a director of Associated British Foods plc, and chairman of Allied Bakeries Ltd.

Mrs J R Khayat was appointed as an executive director in 1994, having been employed by the company since 1986. She relinquished her executive responsibilities in April 1996.

Chairman's statement

TRADING RESULTS

The past year has been one of the most challenging in our history. We have successfully completed the building of the store extension, the largest project undertaken by the company since the 1920's, and have begun to trade much of it to a good response. During this time the increased strength of Sterling and the major economic disruption occurring throughout the Far East, particularly in Japan and Hong Kong, has caused a drop in both our export sales and sales to overseas visitors to the store. This drop in sales combined with the disruption and reduced selling space caused by building work resulted in a fall in trading profits, before exceptional items from £2,802,000 to £1,723,000.

Operating profit, after charging exceptional costs relating to the development, was £1,190,000, compared with £2,448,000 last year.

Interest receivable at £593,000, was £186,000 lower than in the previous year. With a lower tax charge of £599,000 against £1,088,000, profit available to shareholders was £1,184,000 compared with £2,139,000 in the year to July 1997.

The board has declared a second interim dividend of 4.0p per ordinary share giving an unchanged total payment of 8.3p per share which will be paid on 4 January 1999 to members on the register on 27 November 1998.

STORE TRADING

As noted at the interim stage Christmas trading was excellent with sales in December 14 per cent above the previous year. Outside the Christmas period the growth in sales to UK customers was offset by the fall in sales to overseas visitors, and store sales for the year increased by just 2.1 per cent.

Departments which performed well despite space restrictions or temporary siting included Confectionery, Cakes, Hampers, the Fountain and Patio Restaurants, and Toiletries. The lack of overseas visitors was most evident in the Tea and Grocery departments.

Although gross margins within individual departments were maintained an adverse mix of sales overall caused a decline in the store margin of 1.1 per cent.

Expenditure on product development was increased by over 50 per cent to give additional ranges for the extended Food Hall, and to revitalise existing ones.

Wage costs rose by 7.2 per cent mainly associated with the costs of staffing the extra space. Ancillary costs arising from the expansion also led to increases in occupancy costs of nearly 10 per cent.

Non-capital costs relating to the development totalled £533,000, compared with £354,000 last year. They have been charged as exceptional items against the operating result for the year.

FORTNUM & MASON PLC

Chairman's statement continued

EXPORT

Sales to Japan and the Pacific rim became increasingly difficult during the year, with the combined effect of the strong pound, the weakening Asian currencies, and the spreading economic problems in that region. Sales to the USA and Europe were at least held and in some markets increased.

Given the strength of Sterling it was difficult to pass cost increases on to our wholesale customers and margins fell by 1.4 per cent.

The "concept area" trialled in Heathrow Terminal 1 exceeded expectations and was extended to Terminals 3 and 4.

CAPITAL EXPENDITURE

Total expenditure was £9.4 million, of which £8.3 million related to the store extension, and associated fitting out costs of the existing store. The total expenditure on the development is approximately £2 million above budget, £1 million on the basic building cost, and the balance on more extensive refitting of the existing store than was originally planned.

This redevelopment has extended the selling area in Piccadilly by nearly 25 per cent, from 57,000 to 70,000 square feet.

The other major expenditure in the year was on the refurbishment of the kitchens serving the Patio and Fountain restaurants, to increase their operating efficiency and respond to the sales demand already mentioned.

FUTURE PROSPECTS

The development is now complete, other than for some minor finishing work and the management's efforts are now concentrated on the sales opportunities the extra space has given us.

Current trading in the store is encouraging, although still affected by the strong pound. However, a likely decline in contribution from Exports as Sterling remains strong, and a loss in interest income following the expenditure on the development will make the results for the current financial year even more dependent on a successful Christmas trading period.

APPRECIATION

I would like to express my appreciation of the manner in which the management and staff of the company have responded to the additional demands placed on them during the course of the development and the difficult trading environment.

G H WESTON

Report of the directors

The directors submit their ninety-third annual report together with the accounts of the company for the year ended 11 July 1998.

Principal activities and business review

The company continued its activities as a department store during the year. The review of trading results and future prospects is included in the Chairman's statement on pages 3 to 4.

Profits and dividends

The profit and loss account on page 10 shows turnover for the financial year ended 11 July 1998 of £33,223,000 (1997 - £32,727,000). The profit for the year was £1,184,000 (1997 - £2,139,000). An interim dividend of 4.3p per ordinary share was paid on 30 June 1998. A second interim dividend of 4p per ordinary share amounting to £383,000 will be paid on 4 January 1999. The total dividend on the ordinary and preference shares amounts to £802,000 (1997 - £802,000).

Directors and their interests

A list of the present directors of the company is shown on page 2 and the schedule of their beneficial interests, including family interests, in the shares and debentures of the group is shown on page 22.

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

Corporate governance

The board is required by the Stock Exchange to report on the extent of its compliance with the Code of Best Practice drawn up by the Cadbury Committee on Corporate Governance.

Fortnum & Mason is a subsidiary company of Wittington Investments Limited which owns 89.9 per cent of the company's ordinary shares. Wittington Investments Limited is in turn controlled by Mr Garry H Weston and members of his family and trusts associated with them. Four of the six non-executive directors are members of the Weston family.

Given the limited size of the company and its focus of operations on one site in Piccadilly, London, the board does not believe there is either a need or benefit to be obtained from reserving specifically to itself matters for decision. The nature and style of the company's operations is such as to ensure that matters of materiality to the control and operations of the company are promptly discussed and decided at board level. This structure is based upon short lines of communication and has a proven record of success.

There is no agreed procedure for directors in the furtherance of their duties to take independent professional advice.

Non-executive directors are not appointed for specified terms and their re-appointment is voted upon at annual general meetings when periodic re-election is proposed in accordance with the company's articles of association. Non-executive directors are selected by an informal process of consultation within the board.

FORTNUM & MASON PLC

Report of the directors continued

There is no remuneration committee. The remuneration and other terms of employment of executive directors is determined by board consultation. Remuneration levels are set by reference to individual performance, experience and market conditions, with a view to providing a package which is appropriate for the responsibilities involved.

Performance related bonuses are not given, other than in exceptional circumstances. No executive director has a service contract exceeding one year.

Full details of directors' remuneration and benefits are given in note 14 to the financial statements on pages 18 and 19.

There is no audit committee but the auditors meet with the finance director of the holding company on an annual basis for a discussion of matters arising from their audit, including the effectiveness of the company's system of internal controls.

The board has reviewed the arrangements detailed above, and considers that they are suited to the needs of the company.

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.

Internal financial control

The directors are responsible for the company's system of internal financial control. Any system can, however, only provide reasonable and not absolute assurance against mistake or loss.

The board has set out financial controls and procedures with which the operational management are required to comply. There are clearly defined guidelines for capital expenditure, investments, and management of cash resources. There is an established system for the reporting of monthly results, with comparisons against budget being monitored, and forecasts updated regularly.

The directors confirm they have reviewed the effectiveness of the system of internal control during the financial year.

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 calculated in accordance with Statutory instrument SI 1997/571 was 15.

Report of the directors continued

Year 2000

The company has been addressing this issue for the past 18 months. The majority of its computer systems are either compliant, will be made compliant at the suppliers cost, or are scheduled for replacement before the year 2000. The cost of upgrading the remaining systems is not expected to be material.

The status of other computer controlled equipment is also being reviewed, and suppliers assurances will, where feasible, be tested. The cost, if any, of making this type of equipment compliant has not yet been quantified.

Since the company is part of a supply chain involving a large number of third parties, the failure of these enterprises to deal with the Year 2000 issue is also a potential risk. We are taking steps to ensure that we reduce our exposure to such events.

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.

Fixed Assets

Changes in fixed assets are set out on page 16.

A valuation carried out in 1996 indicated that the market value of company's leasehold interest exceeded the amount at which it was shown in the balance sheet by approximately £16 million. Following the redevelopment the directors are of the opinion that this surplus over book value will not have altered materially.

Charitable and political contributions

Charitable donations for the year amounted to £4,849 (1997 £5,194). There were no contributions to any political organisation during the year (1997 - 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

FORTNUM & MASON PLC

Report of the directors continued

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.

By the order of the board

G W Artindale
Secretary



4 September 1998

Directors' responsibilities statement

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit of the company for the period to that date. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In addition, the directors are required:-

- ◆ to select suitable accounting policies and then apply them consistently
- ◆ to make judgements and estimates that are reasonable and prudent
- ◆ 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 are also responsible for maintaining adequate accounting records so as to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985, for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the auditors

To the members of Fortnum & Mason plc

We have audited the accounts on pages 10 to 21 which have been prepared under the historical cost convention and the accounting policies set out on page 13.

Respective responsibilities of directors and auditors

As described on page 8, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 11 July 1998 and of its profit and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

1 Embankment Place
London
WC2N 6NN


PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

4 September 1998

FORTNUM & MASON PLC

Profit and loss account

	Note	52 weeks ended 11 July 1998 £'000	52 weeks ended 12 July 1997 £'000
Turnover	1	33,223	32,727
Cost of sales		(23,580)	(22,627)
Gross profit		9,643	10,100
Distribution costs		(299)	(219)
Administrative expenses		(7,621)	(7,079)
Add exceptional items		(533)	(354)
Operating profit	1	1,190	2,448
Interest receivable		593	779
Profit on ordinary activities before taxation	2	1,783	3,227
Tax on profit on ordinary activities	3	(599)	(1,088)
Profit for the financial year		1,184	2,139
Dividends, including non-equity	4	(802)	(802)
Retained profit to reserves		382	1,337
Earnings per share	5	12.3p	22.7p
Add exceptional items, net of tax		3.8p	2.9p
Earnings per share	5	16.1p	25.6p
Excluding exceptional items			
Dividend per share	4	8.3p	8.3p

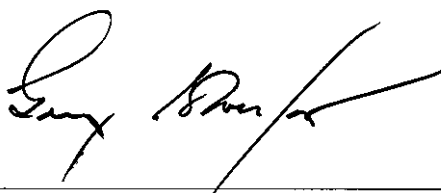
There were no gains or losses recognised by the company in the period under review, or the comparable period, other than those stated above.

Balance sheet

	Note	As at 11 July 1998 £'000	As at 12 July 1997 £'000
Fixed assets			
Tangible assets	7	19,635	11,199
Investments	8	2	2
		<u>19,637</u>	<u>11,201</u>
Current assets			
Stocks		3,149	3,090
Debtors	9	1,907	1,594
Cash at bank and in hand	18	1,971	11,511
		<u>7,027</u>	<u>16,195</u>
Creditors (amounts falling due within one year)	10	<u>3,533</u>	<u>4,946</u>
Net current assets		<u>3,494</u>	<u>11,249</u>
Total assets less current liabilities		<u>23,131</u>	<u>22,450</u>
Provision for deferred taxation	19	<u>663</u>	<u>364</u>
		<u>22,468</u>	<u>22,086</u>
Capital and reserves			
Called up share capital	13	653	653
Share premium account	11	5,292	5,292
Profit and loss account	11	16,523	16,141
		<u>22,468</u>	<u>22,086</u>
Equity shareholders funds	17	22,293	21,911
Non-equity shareholders funds		175	175
		<u>22,468</u>	<u>22,086</u>

These financial statements were approved by the board on 4 September 1998 and signed on its behalf by:

Garry H Weston
Chairman



FORTNUM & MASON PLC

Cash flow statement

	Note	As at 11 July 1998 £'000	As at 12 July 1997 £'000
Net cash flow from operating activities		1,027	3,790
Returns on investments and servicing of finance		706	908
Taxation		(1,187)	(1,229)
Capital expenditure		(9,292)	(5,408)
		(8,746)	(1,939)
Equity dividends paid	4	(794)	(717)
		(9,540)	(2,656)
Management of liquid resources	16	11,331	(2,611)
Financing		—	5,226
Increase/(decrease) in cash	16	1,791	(41)
Reconciliation of operating profit to net cash flow from operating activities		£'000	£'000
Operating profit		1,190	2,448
Depreciation		814	659
(Profit)/loss on sale of fixed assets		—	(1)
(Increase)/decrease in stocks		(58)	80
(Increase)/decrease in debtors		(436)	(125)
Increase/(decrease) in creditors		(567)	634
Increase/(decrease) in inter company balance		(158)	(62)
Non cash effect of exceptional items		242	157
		1,027	3,790

Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985.

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 or valuation 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 short term timing differences.

Leases

All material leases entered into by the company 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.

FORTNUM & MASON PLC

Notes to the accounts

1. Turnover and operating profit

	52 weeks ended 11 July 1998 £'000	52 weeks ended 12 July 1997 £'000
Turnover		
UK - retail	28,592	28,007
Overseas - wholesale	4,631	4,720
	<u>33,223</u>	<u>32,727</u>
Operating profit		
UK - retail	456	1,633
Overseas - wholesale	734	815
	<u>1,190</u>	<u>2,448</u>

2. Profit on ordinary activities before taxation

This is stated after charging the following amounts:-

	1998 £'000	1997 £'000
Depreciation	814	659
Loss on sale of fixed assets	—	(1)
Hire of plant and machinery	196	189
Lease rentals on buildings	110	91
Auditors' remuneration	42	41
Management charges from immediate holding company and a fellow subsidiary company	414	431
Exceptional charges relating to the acquisition and development of 185/186 Piccadilly	533	354

The operating profit, before exceptional charges, amounted to £1,723,000 (1997 - £2,802,000)

Notes to the accounts continued

3. Tax on profit on ordinary activities

Taxation on the profit for the year at the rate of 31.00% (1997 - 32.43%) comprises:

	1998 £'000	1997 £'000
Corporation tax - current year	301	1,168
- prior year	(1)	(8)
	<u>300</u>	<u>1,160</u>
Deferred tax	299	(72)
	<u>599</u>	<u>1,088</u>

4. Dividends

	1998 £'000	1997 £'000
Preference - paid	8	8
Ordinary - interim paid 4.3p (4.3p)	411	411
Ordinary - 2nd interim payable 4.0p (4.0p)	383	383
	<u>802</u>	<u>802</u>

5. Earnings per share

The calculations of earnings per share are based on profit for the financial year, after preference dividends, of £1,176,000, £1,544,000 excluding exceptional items (1997 - £2,131,000, £2,404,000 excluding exceptional items) and 9,562,000 (1997 - 9,387,000) ordinary shares, being the average number of shares in issue during the year.

6. Leases

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

Operating leases, which expire	Within one year £'000	Two to five years £'000	Over five years £'000	Total £'000
Land and buildings	—	—	139	139
Other	144	24	—	168
at 11 July 1998	<u>144</u>	<u>24</u>	<u>139</u>	<u>307</u>
Land and buildings	—	—	91	91
Other	155	9	3	167
at 12 July 1997	<u>155</u>	<u>9</u>	<u>94</u>	<u>258</u>

FORTNUM & MASON PLC

Notes to the accounts continued

7. Tangible assets

	Long leasehold and leasehold improvements £'000	Fixtures and equipment £'000	Works of art £'000	Assets in course of construction £'000	Total £'000
Cost at 12 July 1997	4,190	5,592	402	5,334	15,518
Additions	5,861	3,508	—	—	9,369
Disposals	(53)	(857)	—	—	(910)
Transfers	4,703	556	—	(5,259)	—
At 11 July 1998	<u>14,701</u>	<u>8,799</u>	<u>402</u>	<u>75</u>	<u>23,977</u>
Accumulated depreciation					
At 12 July 1997	1,179	3,140	—	—	4,319
Provision for the year	130	684	—	—	814
Disposals	(24)	(767)	—	—	(791)
At 11 July 1998	<u>1,285</u>	<u>3,057</u>	<u>—</u>	<u>—</u>	<u>4,342</u>
Net book amount 11 July 1998	<u>13,416</u>	<u>5,742</u>	<u>402</u>	<u>75</u>	<u>19,635</u>
Net book amount 12 July 1997	<u>3,011</u>	<u>2,452</u>	<u>402</u>	<u>5,334</u>	<u>11,199</u>

8. 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 have 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.

9. Debtors

	1998 £'000	1997 £'000
Trade debtors	1,198	790
Other debtors	415	333
Prepayments and accrued income	294	471
	<u>1,907</u>	<u>1,594</u>

Notes to the accounts continued

10. Creditors (amounts falling due within one year)

	1998 £'000	1997 £'000
Trade creditors	1,082	1,170
Amounts owed to group companies	368	527
Other creditors	119	545
Taxation and social security	312	1,100
Accruals	1,269	1,221
Proposed dividend	383	383
	<u>3,533</u>	<u>4,946</u>

11. Reserves

	Share premium account £'000	Profit and loss account £'000
Balance at 12 July 1997	5,292	16,141
Retained profit for the year	—	382
Balance at 11 July 1998	<u>5,292</u>	<u>16,523</u>

12. Pensions

The company provides defined benefits, on a voluntary basis, to employees over the age of 21 with more than six months service, through Associated British Foods Pension Scheme. At 11 July 1998 some 31% of the company's employees were members of the scheme.

The scheme is wholly administered by the trustees 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. 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 1996, showed that assets represented 134% of the expected benefits payable, and the company is currently making no contributions. There will be a further revaluation in April 1999.

FORTNUM & MASON PLC

Notes to the accounts continued

13. Called up share capital

	Authorised		Issued and fully paid	
	Nominal value	Number	Nominal value	Number
Cumulative 4.9% preference stock units of £1 each				
11 July 1998	£175,000	175,000	£175,000	175,000
12 July 1997	£175,000	175,000	£175,000	175,000
Ordinary shares of 5p each				
11 July 1998	£637,500	12,750,000	£478,123	9,562,460
12 July 1997	£637,500	12,750,000	£478,123	9,562,460
Total				
11 July 1998	£812,500	—	£653,123	—
12 July 1997	£812,500	—	£653,123	—

The preference stock units are non-redeemable, non-voting (except in limited circumstances) and have a preferential right to return of capital on a winding up.

14. Directors and employees

	1998	1997
Average number of employees	463	450
	£'000	£'000
Staff costs - wages and salaries	5,769	5,259
- social security costs	487	420
- pension contributions	—	—
	6,256	5,679

Notes to the accounts continued

14. Directors and employees continued

The following table shows an analysis of the remuneration of the directors.

	Salary or fees £	Benefits £	1998 Total £	1997 Total £	Pension contributions 1998 £	1997 £
Executive directors						
G V Hamilton	82,093	10,298	92,391	84,977	—	352
G W Artindale	65,677	6,064	71,741	68,337	—	295
Non-executive directors						
G H Weston	100	—	100	100	—	—
W G Galen Weston	100	—	100	100	—	—
Mrs C H W Dalglish	100	—	100	100	—	—
J G Lithiby*	1,000	—	1,000	1,000	—	—
Mrs J R Khayat	15,377	—	15,377	15,100	—	—
W Monaghan	100	—	100	100	—	—
	<u>164,547</u>	<u>16,362</u>	<u>180,909</u>	<u>169,814</u>	<u>—</u>	<u>647</u>

* Paid to third party

Pension benefits earned by the directors ⁽¹⁾

Name of director	Increase in accrued pension during the year ⁽²⁾	Transfer value of increase ⁽³⁾	Accumulated total accrued pension at year end
G V Hamilton	3,198	41,692	38,952
G W Artindale	1,639	8,794	12,695

Notes:

1. The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year.
2. The increase in accrued pension during the year excludes any increase for inflation.
3. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less director's contributions.
4. Members of the scheme have the option to pay Additional Voluntary Contributions: neither the contributions nor the resulting benefits are included in the above table.
5. Benefits are the value of non-cash items such as company cars and medical insurance.

FORTNUM & MASON PLC

Notes to the accounts continued

15. Capital commitments

There are commitments for capital expenditure by the company of £1,816,000 (1997 £4,674,000) for which no provision has been made in these accounts.

16. Analysis of the changes in net funds

	1998 £'000	1997 £'000	Cash flow £'000
Cash in hand and on call	1,971	180	1,791
Short term deposits	—	11,331	(11,331)
Net funds	<u>1,971</u>	<u>11,511</u>	<u>(9,540)</u>

17. Reconciliation of movement in shareholders funds

	1998 £'000	1997 £'000
Opening balance	21,911	15,348
Retained profit for the year	382	1,337
Issue of share capital	—	53
Premium on issue of share capital	—	5,173
Closing balance	<u>22,293</u>	<u>21,911</u>

18. Reconciliation of net cash flow to movement in net funds

	1998 £'000	1997 £'000
Increase in cash in this period	1,791	(41)
Movement in liquid resources	(11,331)	2,611
Change in net funds	(9,540)	2,570
Opening net funds	11,511	8,941
	<u>1,971</u>	<u>11,511</u>

19. Provision for deferred taxation

	As at 12 July 1997 £'000	Movement £'000	As at 11 July 1998 £'000
Excess of tax allowances over depreciation	364	361	725
Short term timing differences	—	(62)	(62)
	<u>364</u>	<u>299</u>	<u>663</u>

Notes to the accounts continued

20. Related party transactions

The holding company of Fortnum & Mason plc is Wittington Investments Limited. At 19 August 1998 Wittington Investments Limited held 8,594,212 ordinary shares representing, in aggregate, 89.9% of the total issued ordinary capital of the company. So far as is known, no other person holds or is beneficially interested in more than 3% of the ordinary share capital.

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 19 August 1998 held 683,073 ordinary shares in Wittington Investments Limited representing 79.2% of that company's issued share capital and is, therefore, Fortnum & Mason plc's controlling party. The Trustees of the Foundation comprise six of the late Mr W. Garfield Weston's children, including Garry H. Weston who acts as Chairman of the Board of Trustees, and four of Garry H. Weston's children.

Fortnum & Mason plc is a close company as defined in the Income and Corporation Taxes Act 1988.

The extent of Fortnum & Mason plc's related parties transactions, as defined by Financial Reporting Standard 8, is summarised below.

	1998 £'000	1997 £'000
Management charge from Wittington Investments Limited, principally in respect of directors paid by them	200	210
Management charge from a fellow subsidiary in respect of services provided	214	221
Sales to fellow subsidiaries on normal terms	265	292
Purchases from fellow subsidiaries on normal trading terms	6,617	6,806
Amounts due to fellow subsidiary undertakings	368	526

Fellow subsidiary companies are Associated British Foods plc, and its subsidiaries.

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 interest, including family interests, in the share and loan stock of the company, its holding companies and fellow subsidiaries as at the dates shown:

	11 July 1998	12 July 1997
Garry H Weston		
Wittington Investments Limited, ord. shares of 50p	4,925	4,925
Associated British Foods plc, ord. shares of 5p	693,324	693,324
George Weston Foods Limited, ord. shares of 50 cents	2,017	2,017
W G Galen Weston		
Wittington Investments Limited, ord. shares of 50p	37,953	37,953
Associated British Foods plc, ord. shares of 5p	6,446,092	6,446,092
Mrs C H W Dalglish		
Wittington Investments Limited, ord. shares of 50p	15,300	15,300
Associated British Foods plc, ord. shares of 5p	3,007,340	3,007,340
Fortnum & Mason plc, ordinary shares of 5p	2,250	2,250
Mrs J R Khayat		
Associated British Foods plc, ord. shares of 5p	352,902	352,902
J G Lithiby		
Fortnum & Mason plc, ordinary shares of 5p	11,250	11,250
W Monaghan		
Associated British Foods plc, ord. shares of 5p	18,200	19,760

Notes

1. Garry H Weston, W G Galen Weston, Mrs C H W Dalglish and Mrs J R Khayat are trustees of a trust in which they have no beneficial interest, which at 11 July 1998 held 683,073 ordinary shares of 50p (1997 - 683,073) in Wittington Investments Limited.
2. Garry H Weston is a trustee of trusts in which he has no beneficial interest, which at 11 July 1998 held 1,983,938 ordinary shares of 5p (1997 - 1,983,938) in Associated British Foods plc.
3. There have been no changes in the above holdings between 11 July and 19 August 1998.
4. No director has had a material interest in a contract with the company during the year, other than as disclosed in the accounts.

Progress report

	July 1994 £'000	July 1995 £'000	July 1996 £'000	July 1997 £'000	July 1998 £'000
Turnover	27,642	30,221	32,038	32,727	33,223
Trading profit	1,909	2,424	2,679	2,802	1,723
Interest receivable	401	476	684	779	593
Profit before tax	2,310	2,900	3,221	3,227	1,783
Profit after tax	1,572	1,926	2,096	2,139	1,184
Ordinary dividends	468	612	672	794	794
Retained profits	1,096	1,306	1,416	1,337	382
Shareholders funds	12,418	14,107	15,523	22,086	22,468
Earnings per share	17.7p	21.7p	25.3p	25.6p	16.1p
Dividends per share	5.3p	6.9p	7.6p	8.3p	8.3p

The figures above, which exclude exceptional items, were taken from the published accounts.

The earnings and dividends per share for 1996 and prior have been adjusted for the conversion, subdivision, and rights issue of the shares in October 1996.

FORTNUM & MASON PLC

Notice of annual general meeting

Notice is hereby given that the ninety-third annual general meeting of the company will be held at 181 Piccadilly, London W1A 1ER on Friday 2 October 1998 at 10.00am for the following purposes:-

- 1 To receive and adopt the accounts for the 52 weeks ended 11 July 1998 together with the reports of the directors and auditors thereon.
- 2 To re-elect Mrs J R Khayat as a director.
- 3 To re-elect Mr G W Artindale as a director.
- 4 To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution that:

PricewaterhouseCoopers be reappointed auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by the resignation of Price Waterhouse), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be determined by the directors.

- 5 To consider as Special Business and, if thought fit, pass as a special resolution that

a) for the purposes of section 80 of the Companies Act 1985 (the "Act");

(i) the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities up to a maximum nominal amount of £159,377 to such persons and at such times on such terms as they think proper during the period commencing on the date of the passing of this ordinary resolution and expiring on 1 October 2003; and

(ii) the company be and hereby is authorised to make prior to the expiry of such period any offers or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the Directors may allot relevant securities in pursuant of any such offer.

b) pursuant thereto the directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority conferred on them by paragraph (a) of this special resolutions as if section 89(1) of the Act did not apply to such allotment, provided that the power conferred by this resolution shall be limited to:

(i) the allotment of equity securities in connection with a rights issue in favour of the holders of relevant equity securities where the equity securities respectively attributable to the interests of such orders are proportionate (as nearly as may be) to the respective numbers of equity securities held or deemed to be held by them on the record dates of such allotments subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements under any regulatory authority in any territory; and

(ii) the allotment (otherwise than pursuant to sub-paragraph (a)(i) above) of equity securities up to an aggregate nominal value of £23,900.

And this power unless renewed, shall expire on 31 December 1999, or if earlier, at the end of the annual general meeting of the company to be held in 1999 but shall extend to the making, before such expiry, of any offers or agreements which would or might require equity securities to be allotted after such expiry, and the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired. All previous powers of the directors (to the extent not already utilised) pursuant to the said section 95 be and hereby are revoked.

By the order of the board

G W Artindale

Secretary

4 September 1998

Registered office
181 Piccadilly
London W1A 1ER



NOTES:

- 1 The company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the company as at 6pm on 1 October 1997 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6pm on 1 October 1997 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 2 A member entitled to vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. The person appointed need not be a member of the company. Forms of proxy, if used, must be lodged at the registered office at least 48 hours before the meeting. Completion of the form of proxy will not preclude a member from attending and voting in person.
- 3 This notice is sent to preference stockholders for information only.
- 4 No director of the company has a contract of service with the company which is not determinable within one year without payment of compensation.
- 5 Following the merger of Price Waterhouse and Coopers & Lybrand from 1 July 1998, Price Waterhouse resigned as auditors in favour of the new firm, PricewaterhouseCoopers and the Directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation.
- 6 Resolution 5 renews the authority and power given to the directors at the Extraordinary general meeting in 1996 to allot relevant securities up to one third of the issued ordinary share capital, and to allot the same for cash in connection with a rights issue, or otherwise be up to 5% of the issue share capital. The directors do not have any present intention of exercising these powers.