

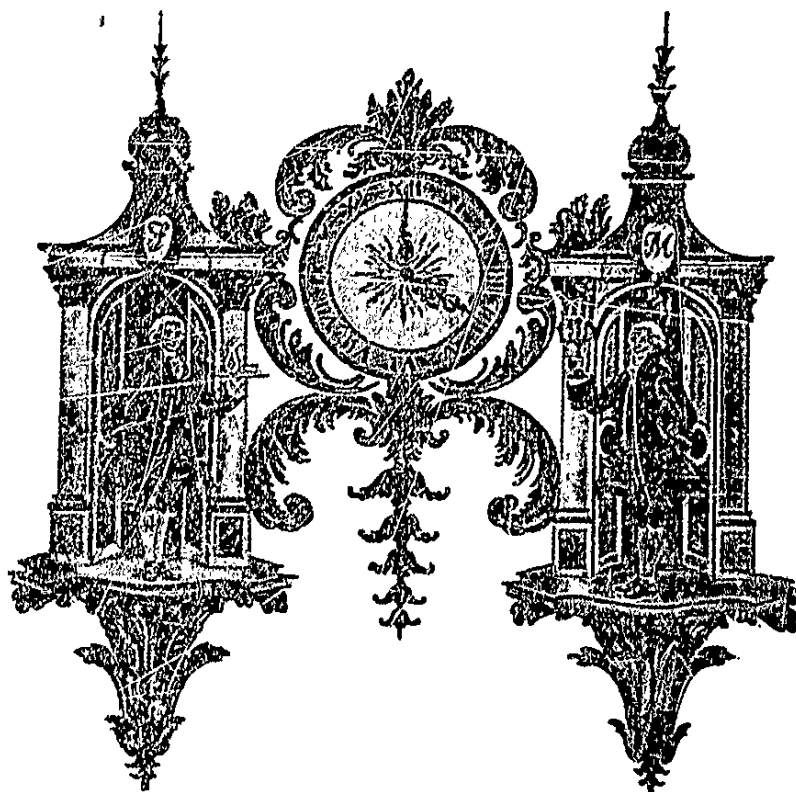
COMPANY No. 84909 / 260

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

FORTNUM & MASON PLC



REPORT AND ACCOUNTS 1986

FORTNUM & MASON PLC

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FORTNUM & MASON PLC

Directors and professional advisers

Chairman

Garry H Weston

Vice-Chairman

W G Galen Weston

Directors

Mrs C H W Dalglish

G V Hamilton

J G Lithiby

F W Lockyer

Mrs M D W Rebanks

Secretary and registered office

F W Lockyer FCA ATII

181 Piccadilly

London W1A 1ER

Auditors

Price Waterhouse

Southwark Towers

32 London Bridge Street

London SE1 9SY

Solicitors

A Kramer & Co

40 Portland Place

London W1N 4BA

Bankers

Bank of Scotland

Haymarket Branch

57/60 Haymarket

London SW1Y 4QY

National Girobank

10 Milk Street

London EC2V 8JH

Registrar and transfer office

Lloyds Bank PLC

Registrar's department

The Causeway

Goring-by-Sea

Worthing

West Sussex BN12 6DA

Notice of annual general meeting

Notice is hereby given that the eighty-first annual general meeting of the company will be held at the Bowater Conference Centre, Bowater House, 68 Knightsbridge, London, SW1X 7LR on Monday 19 May 1986 at 10.30 am for the following purposes:—

- 1 To receive and adopt the accounts for the year ended 25 January 1986 together with the reports of the directors and auditors thereon.
- 2 To declare a final dividend on the ordinary stock of the company.
- 3 To re-appoint directors retiring under the articles of association.
- 4 To re-appoint Price Waterhouse as auditors of the company and to authorise the directors to fix their remuneration.

By order of the board

F W Lockyer

Secretary

25 April 1986

Registered office

181 Piccadilly

London W1A 1ER

NOTES:

1. A member entitled to attend and 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.
2. This notice is sent to preference stockholders for information only.
3. Preference stock and ordinary stock dividend warrants will be posted on 27 June 1986 and 30 June 1986 respectively.
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.

FORTNUM & MASON PLC

Chairman's statement

TRADING RESULTS

Sales at £15.35 million achieved a new record level and showed an increase of 11.3 per cent over the previous year.

The pattern of trading for the year as a whole was mixed, particularly when compared with the strong performance of both sales and earnings in the previous two years. After an excellent first half year in which sales recorded a near 20 per cent improvement over the comparable period of 1984-85, growth in the second half slowed noticeably against the excellent figures of the previous year and the gain of 6 per cent in sales over the comparable half year was disappointing.

The lack of continued buoyancy in sales in the final half, as always crucial to the level of profitability, meant that although costs continued to be tightly controlled, operating profit declined by £38,000, or 5 per cent, for the year. After the inclusion of interest receivable, marginally higher at £295,000, profit before tax at £1,025,000 was £33,000 below that for 1985.

The lack of profit growth in the year has interrupted the strong upward trend which has been achieved in the last three financial years but has come at a time when the company is more soundly based in terms of management, product range and assets than for many years.

MANAGEMENT

To ensure that the major investment in and expansion of our restaurants and kitchens is fully developed a general manager responsible for all restaurant, catering and kitchen departments was appointed during the year. Already the benefits from this appointment are being seen in further improved standards of service and better staff utilisation.

Further development of computer systems to handle peak flows of customer orders and merchandise despatches took place during the year and additional investment in this area is planned over the next two years to eliminate lead-time in placing of supplier orders and to smooth the flow in handling and delivery of customer orders.

STORE DEVELOPMENT

Reference was made in the 1985 Report to the planned expansion and redesign of both the Patio and Fountain restaurants and the installation and improvement of kitchens and services. This major investment both in terms of finance and management effort resulted in unavoidable disruption to the daily flow of trade particularly in the ground floor and restaurant departments.

For a period of some weeks it was necessary to close parts of both Patio and Fountain restaurants with a resulting upset to our customers and loss of revenue and cost to profitability. Nevertheless both the Patio and the Fountain have now re-established their former standards of service and increased sales to levels exceeding those prior to refurbishment. Plans are in hand to further improve the new design work and customer service to enable us to capitalise on the substantial investment which has been made.

Chairman's statement continued

During the period of this building work the opportunity was taken to redesign and improve the Jermyn Street store elevation. This has resulted in an enhanced appearance to the frontage on Jermyn Street, itself an important shopping centre, and an improved flow of goods into the store, making for better control and easier distribution throughout the various selling departments.

The cost in financial terms of this work has exceeded £850,000 on capital account together with a further £90,000 charged against our operating profits. When taken in conjunction with the cost of store disruption and resulting loss of sales, particularly in the restaurant departments, the cost to profit during the period under review was considerably greater than this sum.

But for these costs the trading profit for the year would have shown a further increase despite the slowing in sales volume. However the major concern of your Board must be to continue to improve the traditional image of Fortnum and Mason and its ability to offer quality and service to the public. For these reasons such investment is essential for its future. Some five years ago a similar step was taken, when the grocery department was completely renovated. At the time both the costs and the new department's appearance were criticised but this move has subsequently more than justified itself. I believe that the restaurants will likewise prove to be a successful investment by Fortnum and Mason in the years to come.

Once again Fortnum and Mason (Export) recorded gains in both sales and profit and is now making a significant contribution to the overall results of the company. This further progress achieved in a year of fluctuating currencies must be regarded as very satisfactory. Work continues to improve and extend the range of food products marketed and we look forward to continued development of this department.

FUTURE PROSPECTS

Although our budgets call for increased sales and profit I must warn shareholders that the pattern of sales experienced during the second half of the year under review has continued into the current year. In part this is the effect of the comparison with a particularly strong level of trade in early 1985 but it must also be attributed to a reduced volume of tourist traffic particularly from North America where the value of the dollar has declined by some sixteen per cent in sterling terms against the previous year.

In spite of these difficulties we plan to improve our sales performance in the coming year and to resume our earlier profit growth.

APPRECIATION

I thank all staff for their continued loyalty and effort in a year of difficulty and disruption. As always, their commitment to the level of service associated with the Fortnum and Mason name has been proven both on the shop floor and behind the scenes.

GARRY H WESTON

FORTNUM & MASON PLC

Report of the directors

The directors submit their eighty-first annual report together with the accounts of the company for the year ended 25 January 1986.

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 4 and 5.

Profit and dividends

The profit and loss account on page 8 shows the profit for the financial year ended 25 January 1986 of £586,000 (1985—£628,000). An interim dividend of 5p per unit of stock was paid on 31 December 1985. A final dividend of 34p per unit of stock amounting to £146,000 is proposed and, if approved, will be paid on 1 July 1986. The total dividend on the ordinary and preference shares amounts to £175,000 (1985—£157,000). The remaining profit of £411,000 (1985—£471,000) will be added to reserves.

Directors and their interests

No changes in directorships have taken place since 10 April 1985, the date of the last annual report.

Mr F W Lockyer and Mr J G Lithiby retire by rotation and being eligible offer themselves for re-election.

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 16.

Market value of land and buildings

Based on a 1980 valuation, the directors consider that the market value of the company's leasehold interest in the Piccadilly premises exceeds the amount at which it is shown in the balance sheet by approximately £4,000,000.

Charitable and political contributions

Charitable donations for the year amounted to £1,300 (1985—£300). There were no contributions to any political organisation during the year (1985—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.

Report of the directors continued

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. Periodically presentations are given to staff updating them 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 those results.

By order of the board

F W Lockyer

Secretary

25 April 1986

Report of the auditors

To the members of Fortnum & Mason plc

We have audited the accounts on pages 8 to 15 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the company's affairs at 25 January 1986 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Southwark Towers
32 London Bridge Street
London SE1 9SY
25 April 1986

Price Waterhouse
Chartered Accountants

FORTNUM & MASON PLC

Profit and loss account

	Note	For the years ended 25 January 1986 £'000	26 January 1985 £'000
Turnover	1	15,351	13,794
Cost of sales		(11,246)	(10,217)
Gross profit		4,105	3,577
Distribution costs		(187)	(180)
Administrative expenses		(3,188)	(2,629)
Operating profit		730	768
Interest receivable	12	295	290
Profit on ordinary activities before taxation	2	1,025	1,058
Tax on profit on ordinary activities	3	(439)	(430)
Profit for the financial year		586	628
Dividends	5	(175)	(157)
Retained profit to reserves	6	411	471
Earnings per share	7	136p	146p

Balance sheet

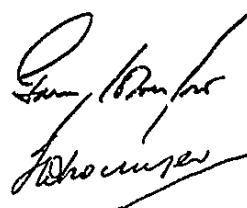
	Note	As at 25 January 1986 £'000	As at 26 January 1985 £'000
Fixed assets			
Tangible assets	8	2,817	2,190
Investments	9	2	2
		<u>2,819</u>	<u>2,192</u>
Current assets			
Stocks	10	2,085	1,532
Debtors	11	1,556	2,003
Cash at bank and in hand	12	2,460	2,425
		<u>6,101</u>	<u>5,960</u>
Creditors (amounts falling due within one year)	13	<u>2,668</u>	<u>2,331</u>
Net current assets		<u>3,433</u>	<u>3,629</u>
Total assets less current liabilities		<u>6,252</u>	<u>5,821</u>
Provision for deferred taxation	4	<u>352</u>	<u>332</u>
		<u>5,900</u>	<u>5,489</u>
Capital and reserves			
Called up share capital	14	600	600
Share premium account		119	119
Revaluation reserve		356	356
Profit and loss account	6	4,825	4,414
		<u>5,900</u>	<u>5,489</u>

Signed on behalf of the Board

GARRY H WESTON Chairman

F W LOCKYER Director

25 April 1986



FORTNUM & MASON PLC

Source and application of funds

	For the years ended	
	25 January 1986	26 January 1985
	£'000	£'000
Source of funds		
Profit on ordinary activities before taxation	1,025	1,058
Add depreciation	277	205
loss on disposal of fixed assets	—	4
taxation recovered	—	14
	<u>1,302</u>	<u>1,281</u>
Application of funds		
(Increase)/decrease in working capital		
Stocks	(553)	93
Debtors	445	(734)
Creditors	67	107
Net amounts due from immediate holding company and fellow subsidiaries	<u>52</u>	<u>(57)</u>
	11	(591)
Capital expenditure including capital refurbishment costs	(906)	(745)
Taxation paid	(215)	(11)
Dividends paid	<u>(157)</u>	<u>(136)</u>
	<u>(1,267)</u>	<u>(1,483)</u>
Movement in net liquid funds		
(Decrease)/increase in cash balances	<u>35</u>	<u>(202)</u>

Notes to the accounts

1 Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention, as modified by the valuation of the leasehold property, and in compliance with 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 and leasehold improvements — over remaining period of lease
Fixtures and equipment — over 5 or 10 years

Works of art are not depreciated and are included at cost.

Stocks

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

Deferred taxation

Provision for taxation on timing differences arising from the excess of capital allowances over depreciation is made to the extent that a liability is expected to crystallise. The amounts provided are stated at the rates of corporation tax expected to apply when the timing differences are expected to reverse.

2. Profit on ordinary activities before taxation.

This is stated after charging the following amounts:-

	1986	1985
	£'000	£'000
Wages and salaries	2,632	2,247
Social security costs	234	222
Other pension costs	34	35
Depreciation	277	205
Hire of plant and machinery	59	77
Auditors' remuneration	19	18
Directors' remuneration	33	31
Management charges from immediate holding company and a fellow subsidiary company	129	123
Refurbishment costs	90	40

FORTNUM & MASON PLC

Notes to the accounts continued

3 Tax on profit on ordinary activities

Taxation on the profit for the year at the rate of 40.83% (1985—45.83%) comprises:-

	1986 £'000	1985 £'000
Corporation tax — current	(409)	(349)
— prior year	(10)	5
Deferred tax — current	(17)	(104)
— prior year	(3)	18
	<u>(439)</u>	<u>(430)</u>

4 Provision for deferred taxation

Full provision has been made, at the expected future rates of corporation tax, for taxation deferred by accelerated capital allowances.

5 Dividends

	1986 £'000	1985 £'000
Preference — paid	8	8
Ordinary — interim paid 5p (5p)	21	21
Ordinary — final proposed 34p (30p)	146	128
	<u>175</u>	<u>157</u>

6 Reserves

Balance at 26 January 1985	4,414
Retained profit for the year	411
Balance at 25 January 1986	<u>4,825</u>

7 Earnings per share

The calculation of earnings per share is based on profit for the financial year of £578,000 (1985—£620,000) after preference dividends and 425,000 (1985—425,000) ordinary stock units in issue.

Notes to the accounts continued

8 Tangible assets

	Short leasehold and leasehold improvements £'000	Fixtures and equipment £'000	Works of art £'000	Total £'000
At 26 January 1985				
Cost	855	1,477	202	2,534
Valuation — 1956	724	—	—	724
	<u>1,579</u>	<u>1,477</u>	<u>202</u>	<u>3,258</u>
Additions	387	519	—	906
Disposals	—	(6)	—	(6)
At 25 January 1986	<u>1,966</u>	<u>1,990</u>	<u>202</u>	<u>4,158</u>
Accumulated depreciation				
At 26 January 1985	281	787	—	1,068
Provision for the year	36	241	—	277
Disposals	—	(4)	—	(4)
At 25 January 1986	<u>317</u>	<u>1,024</u>	<u>—</u>	<u>1,341</u>
Net book amount 25 January 1986	<u>1,649</u>	<u>966</u>	<u>202</u>	<u>2,817</u>
Net book amount 26 January 1985	<u>1,298</u>	<u>690</u>	<u>202</u>	<u>2,190</u>

A fellow subsidiary co-ordinated a major refurbishment project which was completed during the year at the Piccadilly store. Payments of £101,000 (1985—£64,000) were made to this company for services rendered during the year.

The company has an option, which expires on 23 June 1991 to acquire from its immediate holding company, George Weston Holdings Limited, the long leasehold interest of the Piccadilly premises for £1,750,000.

Future capital expenditure not provided in the accounts:-

	1986 £'000	1985 £'000
Contracts placed	—	485
Authorised by the directors but contracts not yet placed	<u>364</u>	<u>118</u>
	<u>364</u>	<u>603</u>

FORTNUM & MASON PLC

Notes to the accounts continued

9 Investments — included in fixed assets

The Company owns the entire issued share capital of the following companies which are shown at cost:-

- Fortnum & Mason (Export) Limited, incorporated in Great Britain
- Fortnum & Mason (London) Limited, incorporated in Great Britain
- Fortnum & Mason of London Limited, incorporated in Canada
- Fortnum & Mason (Pty) Limited, incorporated in Australia

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 Stocks

The stocks shown in the balance sheet represent finished goods held for sale.

11 Debtors

	1986	1985
	£'000	£'000
Trade debtors	1,218	1,525
Amounts owed by group companies	113	115
Other debtors	115	237
Prepayments and accrued income	110	126
	<u>1,556</u>	<u>2,003</u>

12 Cash at bank and in hand

Cash, surplus to the operating requirements of the business, is loaned from time to time to the immediate holding company; such loans are at market rates of interest which also relate to National Westminster Bank plc base rates. The maximum amount outstanding during the year was £2,750,000 (1985—£3,000,000).

13 Creditors (amounts falling due within one year)

	1986	1985
	£'000	£'000
Trade creditors	1,016	995
Amounts owed to group companies	206	156
Other creditors	84	80
Taxation and social security	1,034	730
Accruals	182	242
Proposed dividend	146	128
	<u>2,668</u>	<u>2,331</u>

Notes to the accounts continued

14 Called up share capital

	1986 £'000	1985 £'000
Allotted and fully paid		
4.9% cumulative preference stock units of £1 each	175	175
Ordinary stock units of £1 each	425	425
	<u>600</u>	<u>600</u>
Authorised	<u>750</u>	<u>750</u>

15 Employees

The average number of persons employed by the company during the year was:-

	1986	1985
United Kingdom	440	422

The aggregate remuneration for the year amounted to £2,544,000 (1985—£2,200,000).

16 Directors' and employees' emoluments

	1986	1985
Chairman	£ 100	£ 100
Highest paid director	<u>£29,724</u>	<u>£27,566</u>

A director and certain employees of the company are remunerated as managers by the immediate holding company and these costs form part of the management charge. The other five (1985—five) directors received emoluments (excluding pension contributions) in the range £Nil—£5,000 (1985 £Nil—£5,000).

17 Ultimate holding company

The ultimate holding company of Fortnum & Mason plc is Wittington Investments Limited which is incorporated in England. The immediate holding company of Fortnum & Mason plc is George Weston Holdings Limited which, at 29 March 1986 held 365,701 ordinary stock units representing in aggregate 86% of the total issued ordinary share capital of the company. So far as is known no other person holds or is beneficially interested in more than 5% of the ordinary share capital.

Garry H Weston has an interest, as defined in Schedule 13 of the Companies Act 1985, in Wittington Investments Limited which is a controlling interest. Fortnum & Mason plc is a close company as defined in the Corporation Taxes Act 1970.

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 companies and fellow subsidiary companies:-

	25 January 1986	26 January 1985
Garry H Weston		
Wittington Investments Limited, ord. shares of 50p	5,000	5,000
George Weston Holdings Limited, ord. shares of 50p	1,397	1,397
Associated British Foods plc, ord. shares of 5p	335,659	335,659
W G Galen Weston		
Wittington Investments Limited, ord. shares of 50p	37,953	37,953
George Weston Holdings Limited, ord. shares of 50p	12,498	12,498
Associated British Foods plc, ord. shares of 5p	548,272	548,272
Mrs C H W Dalglish		
Wittington Investments Limited, ord. shares of 50p	15,300	15,300
George Weston Holdings Limited, ord. shares of 50p	6,228	6,228
Associated British Foods plc, ord. shares of 5p	288,552	288,552
Fortnum & Mason plc, ord. stock units of £1	100	100
J G Lithiby		
Fortnum & Mason plc, ord. stock units of £1	500	500
Mrs M D W Rebanks		
Wittington Investments Limited, ord. shares of 50p	15,500	15,500
George Weston Holdings Limited, ord. shares of 50p	6,662	6,662
Associated British Foods plc, ord. shares of 5p	183,750	183,750
Fortnum & Mason plc, ord. stock units of £1	100	100

Notes

- 1 Garry H Weston and W G Galen Weston are trustees of a trust, in which they have no beneficial interest, which at 25 January 1986 held 448,775 ordinary shares of 50p (1985—448,775) in Wittington Investments Limited, and 198,008 ordinary shares of 50p (1985—198,008) in George Weston Holdings Limited.
- 2 Garry H Weston is a trustee of a trust in which he has no beneficial interest, which at 25 January 1986 held 1,100,000 ordinary shares of 5p (1985—1,100,000) in Associated British Foods plc.
- 3 Mrs C H W Dalglish, G V Hamilton, J G Lithiby, F W Lockyer, Mrs M D W Rebanks and W G Galen Weston each held 500 ordinary stock units and Garry H Weston held 1,000 ordinary stock units of £1 each in Fortnum & Mason plc at 25 January 1986 in which they have no beneficial interest.
- 4 There have been no changes in the above holdings between 25 January 1986 and 29 March 1986.
- 5 No director has had a material interest in a contract with the company during the year, other than as disclosed in the accounts.