



# T.J.Hughes plc

Annual Report  
for the 52 weeks ended  
25th January 1997



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## Directors and Advisers

### Board of Directors

- +\* Eric Hodges  
*(Chairman)*
- +\* David Stuart Winterbottom  
*(Non-Executive Deputy Chairman)*
- George William Foster  
*(Managing Director)*
- Anthony Philip Potter  
*(Finance Director)*
- Robin Paul Howard  
*(Merchandise Director)*
- +\* John Manwaring Robertson  
*(Non-Executive)*
- +\* John Lionel Beckwith  
*(Non-Executive)*
- \* *Members of the Audit Committee*
- + *Members of the Remuneration Committee*

### Secretary and Registered Office

Anthony Philip Potter  
Audley House, London Road,  
Liverpool L69 3BD

### Auditors

Price Waterhouse  
York House, York Street,  
Manchester M2 4WS

### Stockbrokers

Charterhouse Tilney Securities Limited,  
P.O. Box 66,  
Liverpool L69 3RJ

### Solicitors to the Company

Lace Mawer  
Castle Chambers, 43 Castle Street,  
Liverpool L2 0SU

### Bankers

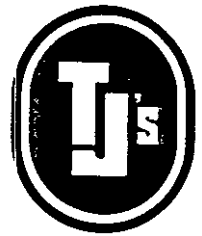
National Westminster Bank plc  
PO Box 138,  
22 Castle Street,  
Liverpool L69 2BE

### Registered Number

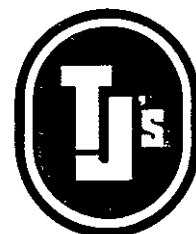
224422

# Wheatsheaf Shopping Centre, Rochdale

Store opened 26th March, 1997



# Chairman's Statement & Operating Review



## Introduction

The year showed record results and improved performance across most areas of the business with sales buoyant and costs under control. During the period under review, efforts were concentrated on the basics of good discount retailing: clarity of merchandise offer, breadth of selection, exceptional value for money and tight operating standards. Both staff and management responded well to a return to the Company's successful trading philosophy and the much improved results are testament to the underlying strength and potential of the business.

## Results and Dividend

Turnover for the year increased by 23.6% to £63.0 million (1996 : £50.9 million) and like-for-like sales increased by 11.4%. Profit before tax nearly doubled to £1.8 million (1996 : £916,000) and earnings per share increased by 91.9% to 6.14p (1996 : 3.20p). Gross margins improved slightly to 30.8%, helped by a strong buying performance and the ending of sales of low-margin cigarettes/tobacco and confectionery which more than offset the decision to clear certain pockets of slow moving stocks.

A final dividend of 2.08p (net) per share is being recommended, making a total of 2.92p for the year (1996 : 2.65p), an overall increase of 10.2%. The final dividend will be paid on 4th August 1997 to shareholders on the register at the close of business on 12th May 1997.

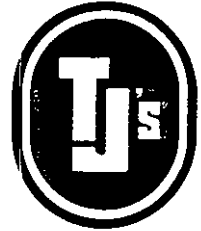
## Store Development

Two new stores were opened during the year. In late March 1996, a 30,000 sq.ft. full line store was opened in Widnes and in October an experimental 10,000 sq.ft. housewares store was opened in Salford, Manchester. Both are performing up to expectations and have contributed to the Company's performance. At the year end, the Company had 16 full line stores and one housewares store with a total selling space of 411,000 sq.ft. (1996 year end : 375,000 sq.ft.).

Since the year end, a new 29,000 sq.ft. full line store was opened in the Rochdale Wheatsheaf Shopping Centre. This unit is the largest within the Centre and has started trading ahead of target.

The Company is in the late stages of negotiating terms for a new full line store in mid-Lancashire and discussions are taking place regarding several other new sites for development over the next two years. All the sites under consideration fully fit the criteria demanded and it is pleasing to report that retail developers regard T.J. Hughes as desirable tenants for their developments.

## Chairman's Statement & Operating Review (continued)



### Finance

During the year under review £1.5 million (1996 : £3.3 million) was invested in fixed assets mostly relating to new store developments. Stock levels at £13.4 million (1996 : £11.7 million) reflect the additional requirement for new stores and stock bought for special promotions in February and March 1997.

At the year end, total net borrowings were £3.0 million (1996 : £4.8 million), representing a gearing of 27.3% (1996 : 46.7%). Within the overall borrowings, £4.0 million was represented by a medium-term loan.

### Board

In July 1996 the Board was further strengthened by the appointment of John Beckwith as a non-executive Director. He has extensive business interests and was instrumental as the then Chairman of London & Edinburgh Trust in accelerating the expansion of T.J. Hughes in 1991 and its subsequent flotation on the USM in February 1992.

The Board was also pleased to announce the appointment of George Foster as Managing Director with effect from 19 May 1997. George has a wide and successful experience in retailing within both the traditional department store and discount sectors. He was Group Buying Director at Alders plc and a Director of Alders Department Stores. His experience and energy will contribute to the Company's ability to maintain profitable growth within our existing business and to add impetus to the expansion programme.

### Current Trading and Outlook

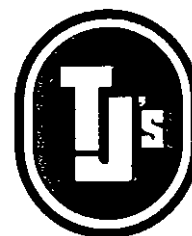
Trading performance for the first 18 weeks of the current year is encouraging with overall sales up by nearly 10% and despite the early summer's unseasonal weather like-for-like sales are encouragingly ahead by nearly 5%. This is in comparison with the exceptional rate of growth in the same period last year. Operating costs are within budgeted levels and gross margins are ahead of the same period last year.

While it is too early to draw firm conclusions for the full year, given the importance of the peak autumn and pre-Christmas trading period, the Board is confident of being able to report a satisfactory outcome for the year as a whole.

Eric Hodges  
Chairman

4th June 1997

# Directors' Report for the 52 Weeks ended 25th January 1997



## Results and Dividends

The profit and loss account for the 52 weeks ended 25th January 1997 is set out on page 13.

The profit for the year on ordinary activities after taxation amounts to £1,271,000. An interim dividend of 0.84p per share has been paid to the Ordinary Shareholders. The Directors are recommending a final dividend of 2.08p per share. Dividends paid and proposed during the year amount to £606,000 leaving £665,000 to be transferred to reserves. The final dividend will be paid on 4th August 1997 to all shareholders on the register at close of business on 12th May 1997 following approval at the Annual General Meeting.

## Principal Activities

The principal activity of the Company is retailing through specialist department stores in the North West of England and the Midlands.

## Major Shareholdings

The Company has been notified of the following shareholdings of 3 per cent or more of the issued share capital at 23rd May 1997.

	<i>Holding</i>	<i>% of Issued Share capital</i>
Barfield Nominees Limited	4,114,136	19.82
UBS UK Holding Limited/PDFM Limited	3,431,000	16.53
Equitable Life Assurance Society	1,975,000	9.52
Beckwith Development Capital Ltd.	1,542,500	7.43
Guinness Mahon Holdings plc/Henderson Crossthwaite Limited	943,000	4.54
Wirral Borough Council Superannuation Fund	629,950	3.04

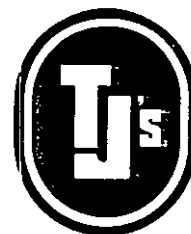
## Fixed Assets

The movements in tangible fixed assets are shown in note 9 to the financial statements. The Directors consider that the value of the Company's interest in its freehold and leasehold premises is not significantly different from the aggregate book amount.

## Directors and Directors' Interests

The Directors currently holding office are named on page 1. Mr. S.A. Boyfield resigned as Managing Director with effect from 23rd April 1996. Mr. J.L. Beckwith was appointed a Non-Executive Director on 12th July 1996 and Mr. G.W. Foster was appointed Managing Director on 19th May 1997.

## Directors' Report for the 52 Weeks ended 25th January 1997 (continued)



Mr. E. Hodges and Mr. R.P. Howard will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. Mr. G.W. Foster also offers himself for election by the shareholders.

The interests of the Directors in the Share Capital of the Company are shown on pages 8 and 9.

### Non-Executive Directors

**David S. Winterbottom**, aged 60 is a Chartered Accountant. He is Chairman of Barr and Wallace Arnold Trust plc, Non-Executive Chairman of Coal Products Holdings Ltd., Partnership Coatings Limited and Crompton Lighting Holdings Ltd., and Chairman of Wightlink Group Ltd., and a Non-Executive Director of Electro-components plc, Biotrace International plc and Remploy Ltd.

**John Robertson**, aged 45 is a Chartered Surveyor. He has been involved in advising TJ's on property matters for a number of years and was appointed to the Board in January 1991.

**John L. Beckwith**, aged 50 is a Chartered Accountant. He has been associated with T.J. Hughes plc for a number of years and was instrumental in its original flotation. He is Chairman of Pacific Investments Ltd.

### Employees

The Company seeks to ensure that disabled people, whether applying for or in employment, receive equal opportunities and are not discriminated against on the grounds of their disability.

The Company's affairs are discussed with employees on a formalised and regular basis, through management and staff councils and through annual staff meetings held in each store following the end of the trading year.

### Payment of Creditors

The Company sets its terms of payment in accordance with its conditions of order. All suppliers fulfilling these conditions of order will be paid in accordance with the terms of payment agreed.

### Close Company Provisions

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988 and there has been no change in that status since the end of the financial period under review.

### Auditors

A resolution to reappoint Price Waterhouse as auditors will be proposed at the Annual General Meeting.

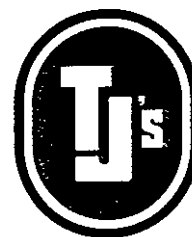
By order of the Board

A.P. Potter  
Secretary  
Audley House,  
Liverpool.

4th June 1997



# Remuneration Committee Report



The Remuneration Committee ("the Committee") presents its Report to Shareholders. Membership of the Committee is set out on page 1.

## **Compliance**

The Committee's constitution and operation are in compliance with the principles incorporated in the Code of Best Practice issued by the study group on Directors' remuneration ("the Code") as amended by the London Stock Exchange Listing Rules in Section A of their Best Practice Provisions, except that following his appointment as Executive Chairman, Mr. E. Hodges has remained on the Committee following the appointment of a third Non-Executive Director. The remuneration package for Mr. E. Hodges is set by the Non-Executive Directors. The Committee has also given full consideration to the best practice provisions of the Code in framing its remuneration policy as set out in Section B of the London Stock Exchange Best Practice Provisions.

## **Remuneration Policy**

The remuneration policy for Executive Directors is based on a combination of individual appraisal and company performance measures. Its aim is to offer competitive compensation packages and to reward exceptional performance.

The main elements of the remuneration of Directors are:

### **i) Basic Salary**

Basic salaries and benefits in kind of the Executive Directors are determined after an annual review of the performance of each individual. The Remuneration Committee takes into account information from independent sources on the rates of salary for similar positions and also the Company's performance.

### **ii) Performance-related Bonus**

Executive Directors may be entitled to an annual performance-related bonus based on Company profitability and improvement in the Company's Earnings per Share at the discretion of the Committee.

### **iii) Share Option Schemes**

Grants of Options over the Company's Ordinary Shares are made to the Executive Directors under an Executive Share Option Scheme. The policy has been to periodically grant Options depending upon individual performance. The exercise of these Options is not dependent upon the achievement of performance criteria. The Company operates no other long-term incentive plans.

### **iv) Pensions**

The Executive Directors are entitled to participate in the T.J. Hughes Pension Scheme which provides benefits based upon service and pensionable pay. The maximum pension payable under the scheme is two-thirds of final pensionable pay at normal pension age. There are also lump sum death-in-service benefits and pension provisions for dependants of members.

### **v) Service Contracts**

Mr. G. Foster was granted a one year rolling service contract on his appointment to the Company. Messrs. A. P. Potter and R. P. Howard also have one year rolling service contracts.

The Chairman and the Non-Executive Directors do not have service contracts with the Company. Non-Executive appointments are each for a term of three years renewable with the agreement of both the whole Board and the Director. The remuneration of Non-Executive Directors is determined by the Board as a whole.

## Remuneration Committee Report (continued)



### Directors' Emoluments

i) Employment costs relating to the Directors comprise:

	<i>Salary or Fees £'000</i>	<i>Bonus £'000</i>	<i>Benefits £'000</i>	<i>Pension Contributions £'000</i>	<i>1997 Total £'000</i>	<i>1996 Total £'000</i>
<b>Executive Directors</b>						
E. Hodges *	50	150	6	—	206	19
R. P. Howard	55	—	8	—	63	63
A. P. Potter	50	—	8	—	58	57
Former Director	20	—	4	—	24	93
<b>Non-Executive Directors</b>						
D. S. Winterbottom (Deputy Chairman)	26	—	—	—	26	6
J. M. Robertson	13	—	—	—	13	6
J. L. Beckwith	7	—	—	—	7	—
Former Director	—	—	—	—	—	11
	<u>221</u>	<u>150</u>	<u>26</u>	<u>—</u>	<u>397</u>	<u>255</u>

\* In 1995/1996 Mr. E. Hodges was a Non-Executive Director.

- ii) Benefits above comprise taxable non-cash emoluments mainly in respect of the provision of company cars.
- iii) Pension contributions are the amounts paid by the Company to secure future benefits for each Director. Currently the Company is enjoying the benefit of a pensions contribution holiday.
- iv) On the resignation of Mr. S. A. Boyfield (the former Managing Director) the Board requested that Mr. E. Hodges take up Executive responsibilities. Whilst his salary was not adjusted appropriately, an incentive bonus was paid which was directly related to the year on year increase in profitability. In the event the Company's actual profits exceeded the capped bonus level of profits.
- v) In addition to their fees received as Directors, Mr. E. Hodges and Mr. J. M. Robertson respectively received £20,000 (1996: £20,000) and £25,000 (1996 – £29,121) in respect of work carried out under consultancy agreements.

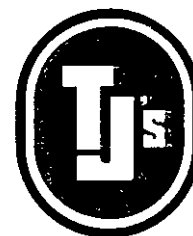
### Directors' Interests and Options

i) The number of Ordinary Shares and Options over Ordinary Shares held by the Directors and their families at 25th January 1997 are set out below:

	<i>Ordinary Shares</i>		<i>Options over Ordinary Shares</i>			
	<i>1997</i>	<i>1996</i>	<i>Second Option Scheme</i>		<i>SAYE Option Scheme</i>	
			<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
E. Hodges	28,180	24,985	52,384	52,384	—	—
A. P. Potter	13,333	13,333	36,932	36,932	31,250	31,250
R. P. Howard	—	—	25,000	25,000	—	—
J. M. Robertson	206,667	220,000	—	—	—	—
D. S. Winterbottom	4,000	2,000	—	—	—	—
J. L. Beckwith	1,767,500	1,542,500 *	—	—	—	—

\* Shares held on date of appointment as directed

## Remuneration Committee Report (continued)



### Directors' Interests and Options (continued)

- (ii) Beneficial holdings of Ordinary Shares include the Directors' personal holdings and those of their spouses, minor children and holdings in family trusts, of which the Directors' spouses or their minor children are beneficiaries or potential beneficiaries.
- (iii) On 23rd April 1997 Mr. G. W. Foster purchased 7,000 shares in the Company. On 3rd June 1997 Mr. G. W. Foster purchased a further 20,000 shares in the Company. Mr. Foster was awarded Options over 250,000 ordinary shares on his appointment on 19th May 1997 at an exercise price of 85.5p per share. The options cannot be exercised before May 2000 and expire in the years 2004 and 2007.
- (iv) No other changes have occurred in Directors' interests up to 4th June 1997.
- (v) The exercise prices and periods during which the Options are exercisable by the Directors are set out below:-

	Second Option Scheme			SAYE Option Scheme		
	Number	Price	Period	Number	Price	Period
E. Hodges	39,288	75.00p	1992-2002			
	13,096	63.75p	1992-2002			
A. P. Potter	8,949	75.00p	1992-2002	31,250	60.00p	1992-1999
	2,983	63.75p	1992-2002			
	18,750	64.00p	1995-2005			
	6,250	54.50p	1995-2005			
R. P. Howard	18,750	64.00p	1995-2005			
	6,250	54.50p	1995-2005			

The market price of the shares at 25th January 1997 was 72p.

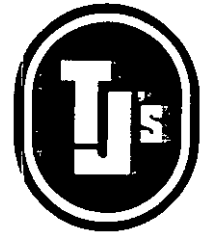
The range in the Company's share price during 1996/97 was 51.0p to 81.5p.

Further information on the Option Schemes is contained in Note 13 to the financial statements.

- (vii) Full details of Directors' shareholdings and share options are contained in the Company's Register of Directors' Interests, which is open to inspection at the Company's Registered Office.
- (viii) Save as mentioned in this Report, no Directors had any interest in any significant contract or arrangement to which the Company was a party during the year.

D.S. Winterbottom  
Chairman,  
Remuneration Committee

4th June 1997



### **Directors' Statement of Compliance**

The Directors consider the Company has complied throughout the financial year 1996/97 and remains in compliance with the Code of Best Practice on the Financial Aspects of Corporate Governance ("the Code of Best Practice"), with the exception of the matters concerning the constitution of the Board (paragraph 1.3 of the Code of Best Practice) and the Audit Committee (paragraph 4.3 of the Code of Best Practice) as explained below.

### **The Board and its Committees**

The Board of Directors, which currently comprises four Executive and three Non-Executive Directors, meets regularly throughout the year to determine business strategy and provide the direction and stewardship to safeguard and maximise the interests of the Company, its employees and shareholders. Following Mr. S.A. Boyfield's resignation from the Board and Mr. E. Hodges' assumption of Executive responsibilities on 23rd April 1996, the Board included only two Non-Executive Directors until the appointment of Mr. J.L. Beckwith as a Non-Executive Director on 12th July 1996, which is not in compliance with the Code of Best Practice. Furthermore, Mr. E. Hodges has continued as a member of the Audit and Remuneration Committees, which was considered appropriate in view of the temporary nature of his Executive duties.

The Audit Committee under the Chairmanship of Mr. D. S. Winterbottom meets twice a year and more frequently if required. It examines the process of internal and financial reporting and reviews changes in the Company's accounting policies and the scope of the audit with the external auditors.

The Remuneration Committee under the Chairmanship of Mr. D. S. Winterbottom is formally constituted, consisting of the three Non-Executive Directors and the Company's Chairman. It is responsible for approving the terms of service and setting the remuneration of the Executive Directors.

### **Internal Financial Control**

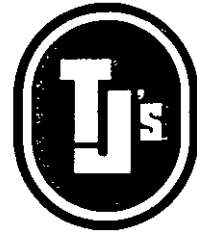
The Directors acknowledge their responsibility for the Company's system of internal financial control and confirm that they have reviewed its effectiveness. Such a system can provide reasonable but not absolute assurance that assets are safeguarded against material loss or unauthorised use and that transactions are properly authorised and recorded. The control system includes formal accounting and control policies and procedures, clearly drawn lines of accountability and delegation of authority and financial reporting and analysis of store results and buyers' performance against approved budgets.

The Company's financial reporting system is currently dependent on the evaluation of twice-yearly full physical stock counts and it is continuing to assess potential improvements to its stock control and recording methods.

### **Going concern**

The Directors are satisfied 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 financial statements.

## Corporate Governance (continued)



### **Report by the Auditors to the Directors of T.J.Hughes plc on Corporate Governance Matters**



In addition to our audit of the financial statements we have reviewed your statements on page 10 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v), if not otherwise disclosed.

#### *Basis of opinion*

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or corporate governance procedures, nor on the ability of the Company to continue in operational existence.

#### *Opinion*

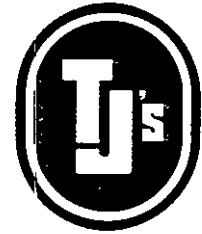
In our opinion, your statements on internal financial controls and going concern on page 10, have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

Based on enquiry of certain Directors and Officers of the Company and examination of relevant documents, your statement on page 10 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

**Price Waterhouse**  
Chartered Accountants  
4th June 1997

York House  
York Street  
Manchester

## Responsibilities Statement and Auditors' Report



### Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the Company's state of affairs and of its profit or loss for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to 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.

### Auditors' Report to the Shareholders of T.J. Hughes plc

We have audited the financial statements on pages 13 to 23 (including the additional disclosures on pages 7 to 9 relating to the remuneration of the Directors specified for our review by the London Stock Exchange) which have been prepared under the historical cost convention as modified by the revaluation of freehold premises, and the accounting policies set out on pages 16 and 17.



#### *Respective Responsibilities of Directors and Auditors*

As described above the Company's Directors are responsible for the preparation of the 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 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 irregularities or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### *Opinion*

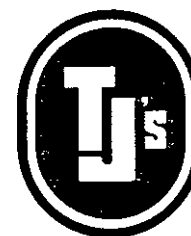
In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 25th January 1997 and of its profit and cash flows for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

**Price Waterhouse**

Chartered Accountants and Registered Auditors  
4th June 1997

York House  
York Street  
Manchester

Profit and Loss Account  
for the 52 weeks ended 25th January 1997



	<i>Notes</i>	<i>1997 £'000</i>	<i>1996 £'000</i>
TURNOVER – continuing activities	2	62,971	50,941
Cost of Sales		(43,565)	(35,268)
GROSS PROFIT		19,406	15,673
Distribution costs		(14,946)	(12,353)
Administrative expenses		(2,168)	(1,920)
OPERATING PROFIT – continuing activities	3	2,292	1,400
Net interest payable	4	(475)	(484)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,817	916
Taxation	6	(546)	(256)
PROFIT FOR THE FINANCIAL PERIOD		1,271	660
Dividends	8	(606)	(548)
PROFIT RETAINED	14	665	112
Earnings per Ordinary share	7	6.14p	3.20p
Dividends per Ordinary share	8	2.92p	2.65p

Statement of Total Recognised Gains and Losses

There were no recognised gains and losses other than those shown above.

The notes on pages 16 to 23 form part of these financial statements.

# Balance Sheet at 25th January 1997



	Notes	1997 £'000	1996 £'000
<b>FIXED ASSETS</b>			
Tangible assets	9	14,362	13,792
<b>CURRENT ASSETS</b>			
Stocks	1	13,395	11,660
Debtors	10	1,776	1,567
Cash at bank and in hand		1,032	542
		<u>16,203</u>	<u>13,769</u>
CREDITORS – amounts falling due within one year	11	(13,415)	(13,058)
<b>NET CURRENT ASSETS</b>			
		<u>2,788</u>	<u>711</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		17,150	14,503
CREDITORS – amounts falling due after more than one year	11	(4,898)	(3,128)
PROVISIONS FOR LIABILITIES AND CHARGES	12	(1,368)	(1,176)
		<u>10,884</u>	<u>10,199</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	2,075	2,063
Share premium account	14	4,724	4,716
Revaluation reserve	14	434	434
Profit and loss account	14	3,651	2,986
<b>SHAREHOLDERS' FUNDS</b>			
attributable wholly to equity interests	15	<u>10,884</u>	<u>10,199</u>

These financial statements were approved by the Board on 4th June 1997

E. Hodges

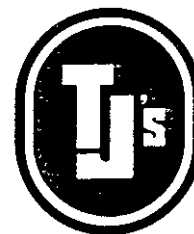
Directors

A.P. Potter

The notes on pages 16 to 23 form part of these financial statements.



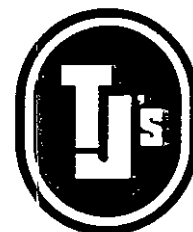
Cash Flow Statement  
for the 52 weeks ended 25th January 1997



	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 16(a))	<u>4,279</u>	<u>4,543</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest paid	<u>(507)</u>	<u>(440)</u>
TAXATION	<u>(28)</u>	<u>(489)</u>
CAPITAL EXPENDITURE		
Purchase of tangible fixed assets	<u>(1,400)</u>	<u>(3,259)</u>
EQUITY DIVIDENDS PAID	<u>(556)</u>	<u>(546)</u>
FINANCING		
Issue of ordinary share capital	20	21
Receipt of bank loan	2,000	—
Capital element of finance lease payments	(6)	(20)
	<u>2,014</u>	<u>1</u>
INCREASE/(DECREASE) IN CASH (Note 16(c))	<u>3,802</u>	<u>(190)</u>

The comparatives for 1996 have been adjusted for the application of FRS1 revised.

The notes on pages 16 to 23 form part of these financial statements.



**1. Accounting Policies**

The principal accounting policies adopted by the Company are set out below:-

**(a) Basis of preparation**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of freehold premises, and in conformity with applicable accounting standards.

**(b) Stocks**

Retail stocks are valued at the lower of cost and net realisable value. Cost is computed on the basis of current selling prices less the appropriate departmental gross profit margin.

**(c) Deferred taxation**

Provision is made for deferred taxation to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for taxation purposes. The provision is maintained to the extent that timing differences are expected to crystallise within the foreseeable future.

**(d) Depreciation**

Depreciation is provided on all tangible fixed assets, other than freehold and long leasehold land and buildings, at rates calculated to write off the cost of each asset over its expected life, as follows:-

- (i) Fixed plant in freehold and long leasehold premises – 2.5% to 10% per annum.
- (ii) Short leasehold buildings and fixed plant – over the remaining period of the lease.
- (iii) Fixtures, fittings and equipment – 10% to 20% per annum.

No depreciation is provided on freehold and long leasehold properties. It is the Company's policy to maintain its properties in a continual state of sound repair, the cost being written off to the profit and loss account as incurred. As a result of this policy the Directors believe that the lives of these properties are so long and their residual values are so high that depreciation is not significant.

**(e) Leased assets**

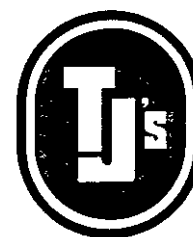
Operating lease rental charges are taken to the profit and loss account in the year in which they arise.

Assets obtained under finance leases are included at cost less depreciation and the related obligations are included in creditors.

**(f) Pre-opening expenses and capital contributions**

Store pre-opening expenses are charged to the profit and loss account in equal instalments over the three years from the date each store is opened. Contributions and any other incentives receivable towards the costs of fitting out new stores are credited to the profit and loss account in equal instalments over the period prior to the first rent review to market rates.

Notes to the Financial Statements - 25th January 1997  
(continued)



**1. Accounting Policies** *(continued)*

**(g) Goodwill**

Goodwill arising on the acquisition of businesses is written off immediately against reserves.

**(h) Pensions**

The cost of the Company's defined benefit pension fund is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees (see note 18). The pension cost is assessed in accordance with the advice of qualified actuaries.

**2. Turnover and Profit on Ordinary Activities before Taxation**

Turnover consists of the amounts receivable for goods and services supplied by the Company as principal and through lease and concession operations within the Company's stores, excluding value added tax. Turnover and profit on ordinary activities relate wholly to continuing retailing activities in the United Kingdom.

<b>3. Operating Profit</b>	<b>1997</b>	<b>1996</b>
	<b>£'000</b>	<b>£'000</b>
This has been stated after charging/(crediting):		
Depreciation of tangible fixed assets		
owned assets	918	752
leased assets	6	21
Operating lease rentals		
plant and equipment	211	205
land and buildings	2,610	2,098
Store pre-opening expenses	283	183
Capital contributions	(650)	(678)
Fees payable to auditors		
for audit services	34	33
for other services	30	32
	<hr/>	<hr/>
<b>4. Net Interest Payable</b>	<b>1997</b>	<b>1996</b>
	<b>£'000</b>	<b>£'000</b>
On bank loans and overdrafts	478	524
On finance lease	2	8
Interest receivable	(5)	(48)
	<hr/>	<hr/>
	475	484

Notes to the Financial Statements - 25th January 1997  
(continued)



**5. Employees**

The average number of persons employed by the Company was:

	1997	1996
Full time	475	460
Part time	760	675
	<u>1,235</u>	<u>1,135</u>

Total expressed in terms of full time equivalent employees	810	745
	<u>£'000</u>	<u>£'000</u>

The aggregate payroll costs of these persons were as follows:

Wages and salaries	7,715	6,401
Social security costs	707	584
Pensions	25	21
	<u>8,447</u>	<u>7,006</u>

**6. Taxation**

	1997	1996
	<u>£'000</u>	<u>£'000</u>
Corporation tax charge / (credit) at 33% based on taxable profit for the period	379	(18)
Deferred tax	167	274
	<u>546</u>	<u>256</u>

**7. Earnings per Ordinary Share**

Earnings per share are based upon the profits after tax and the weighted average number of shares in issue. The weighted average number of shares in issue for the 52 weeks ended 25th January 1997 and 52 weeks ended 27th January 1996 was 20,710,546 and 20,629,841 respectively. The fully diluted earnings per share are not materially different from the earnings per share shown on page 13.

**8. Dividends**

	1997	1996
	<u>£'000</u>	<u>£'000</u>
Interim ordinary dividend at 0.84p (1996 - 0.80p) per share - paid	174	166
Final ordinary dividend at 2.08p (1996 - 1.85p) per share - proposed	432	382
	<u>606</u>	<u>548</u>

Notes to the Financial Statements - 25th January 1997  
(continued)



9. Tangible Fixed Assets

	<i>Freehold properties and fixed plant</i>	<i>Long leasehold properties and fixed plant</i>	<i>Short leasehold properties and fixed plant</i>	<i>Fixtures, fittings and equipment</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost or valuation					
At 27th January 1996	3,743	227	7,387	5,484	16,841
Additions	66	15	793	620	1,494
At 25th January 1997	<u>3,809</u>	<u>242</u>	<u>8,180</u>	<u>6,104</u>	<u>18,335</u>
<i>Comprising</i>					
Valuations 1994/95	3,265	—	—	—	3,265
Cost	544	242	8,180	6,104	15,070
	<u>3,809</u>	<u>242</u>	<u>8,180</u>	<u>6,104</u>	<u>18,335</u>
Depreciation					
At 27th January 1996	82	1	841	2,125	3,049
Charge for year	39	—	323	562	924
At 25th January 1997	<u>121</u>	<u>1</u>	<u>1,164</u>	<u>2,687</u>	<u>3,973</u>
Net book amount					
At 25th January 1997	<u>3,688</u>	<u>241</u>	<u>7,016</u>	<u>3,417</u>	<u>14,362</u>
At 27th January 1996	<u>3,661</u>	<u>226</u>	<u>6,546</u>	<u>3,359</u>	<u>13,792</u>

The net book amount of fixtures, fittings and equipment includes an amount of £16,000 (1996 – £22,000) in respect of assets held under finance leases.

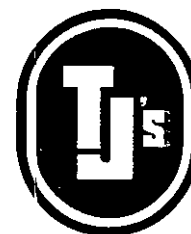
In 1994/95 the Company's two freehold properties were revalued on open market existing use bases and the aggregate surplus of £434,000 was credited to a revaluation reserve. Under the historical cost convention freehold properties would have been included at a cost of £3,375,000 (1996 – £3,309,000) less accumulated depreciation of £121,000 (1996 – £82,000).

10. Debtors

	<i>1997 £'000</i>	<i>1996 £'000</i>
Trade debtors	339	138
Prepayments and deferred costs	1,437	1,429
	<u>1,776</u>	<u>1,567</u>

Deferred costs which will be expensed after more than one year amount to £240,000 (1996 – £300,000).

Notes to the Financial Statements - 25th January 1997  
(continued)



11. Creditors	1997 £'000	1996 £'000
Amounts falling due within one year:		
Bank overdraft	—	3,312
Trade creditors	8,524	6,265
Taxation and social security	1,729	1,323
Accruals and deferred income	2,724	1,770
Obligations under finance lease	6	6
Proposed dividend	432	382
	<u>13,415</u>	<u>13,058</u>
Amounts falling due after more than one year:		
Bank loan	4,000	2,000
Accruals and deferred income	887	1,111
Obligations under finance lease	11	17
	<u>4,898</u>	<u>3,128</u>

The £4.0 million term loan is secured by a fixed charge on the Company's Distribution Centre. The loan, on which interest at 0.95% above LIBOR is charged, is repayable in equal annual instalments between January 1999 and January 2003.

12. Provisions for Liabilities and Charges	1997 £'000	1996 £'000
Deferred taxation	1,322	1,155
Pension obligations	46	21
	<u>1,368</u>	<u>1,176</u>
Deferred taxation has been provided in full in respect of:		
Accelerated capital allowances	1,188	994
Other short-term timing differences	134	161
	<u>1,322</u>	<u>1,155</u>

No provision has been made for deferred taxation in respect of any future disposals of revalued properties as the Directors do not envisage any such liability crystallising in the foreseeable future.

The movement in provisions is as follows:

	Deferred taxation £'000	Pension obligations £'000
At 28 January 1996	1,155	21
Charged to profit and loss account	167	25
At 25 January 1997	<u>1,322</u>	<u>46</u>

Notes to the Financial Statements - 25th January 1997  
(continued)



13. Called Up Share Capital

	<i>Number</i>	<i>1997 £'000</i>	<i>Number</i>	<i>1996 £'000</i>
Authorised share capital	47,900,000	<u>4,790</u>	47,900,000	<u>4,790</u>
Allotted, called up and fully paid share capital:				
Ordinary shares of 10p each	20,754,210	<u>2,075</u>	20,630,718	<u>2,063</u>

During the period the Company issued 123,492 ordinary shares of 10p each for a total consideration of £20,000. The resulting premium of £8,000 has been credited to the Share premium account.

The Company operates three share option schemes; the executive share option scheme adopted on 18th December 1990 ("first option scheme"), the executive share option scheme adopted on 22nd April 1992 ("second option scheme"), and the employee savings related share option scheme adopted on 22nd April 1992 ("SAYE option scheme"), as follows:

	<i>Average Option price</i>	<i>Ordinary shares of 10p each - Number reserved</i>
First option scheme - exercisable not later than 1998	25.5p	52,739
Second option scheme - exercisable not later than 2005	66.0p	458,173
SAYE option scheme - exercisable not later than 1999	60.0p	425,625

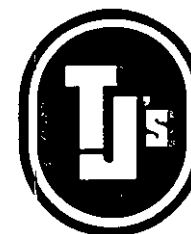
14. Reserves	<i>Share premium account £'000</i>	<i>Revaluation reserve £'000</i>	<i>Profit and loss account £'000</i>
At 27th January 1996	4,716	434	2,986
Retained profit for the period	—	—	665
Premium on share issue	8	—	—
At 25th January 1997	<u>4,724</u>	<u>434</u>	<u>3,651</u>

The cumulative amount of Goodwill written off directly against reserves amounts to £416,000 (1996 - £416,000).

15. Reconciliation of Movements in Shareholders' Funds

	<i>1997 £'000</i>	<i>1996 £'000</i>
Profit for the financial period	1,271	660
Dividends	(606)	(548)
	<u>665</u>	<u>112</u>
Net proceeds of issue of shares	20	21
	<u>685</u>	<u>133</u>
Net addition to shareholders' funds	685	133
Opening shareholders' funds	10,199	10,066
Closing shareholders' funds	<u>10,884</u>	<u>10,199</u>

Notes to the Financial Statements - 25th January 1997  
(continued)

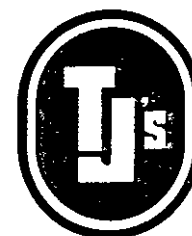


16. Notes to the Cash Flow Statement

(a) Reconciliation of operating profit to net cash inflow from operating activities			
	1997	1996	
	£'000	£'000	
Operating Profit	2,292	1,400	
Depreciation	924	773	
(Increase) / decrease in Stocks	(1,735)	751	
(Increase) / decrease in Debtors	(255)	398	
Increase in Creditors	3,131	930	
Net effect of Store Openings	(78)	291	
Net cash inflow from operating activities	<u>4,279</u>	<u>4,543</u>	
(b) Reconciliation to net debt			
	1997	1996	
	£'000	£'000	
Increase/(decrease) in cash in the period	3,802	(190)	
(Increase)/decrease in debt and lease financing	<u>(1,994)</u>	<u>20</u>	
Movements in net debt in period	1,808	(170)	
Net debt at 28th January 1996	<u>(4,793)</u>	<u>(4,623)</u>	
Net debt at 25th January 1997	<u>(2,985)</u>	<u>(4,793)</u>	
(c) Analysis of net debt			
	28th January	Cash flow	25th January
	1996		1997
	£'000	£'000	£'000
Cash in hand and at bank	542	490	1,032
Overdrafts	<u>(3,312)</u>	<u>3,312</u>	<u>--</u>
	(2,770)	3,802	1,032
Debt due after more than one year	(2,000)	(2,000)	(4,000)
Finance leases	<u>(23)</u>	<u>6</u>	<u>(17)</u>
	<u>(4,793)</u>	<u>1,808</u>	<u>(2,985)</u>



Notes to the Financial Statements - 25th January 1997  
(continued)



**17. Capital and Operating Lease Commitments**

Capital expenditure contracted for but not provided at 25th January 1997 amounted to £585,000 (1996 – £589,000).

Operating lease commitments:

At 25th January 1997 the Company had commitments under operating leases to make payments in the following financial year as follows:-

	1997		1996	
	<i>Land and buildings £'000</i>	<i>Others £'000</i>	<i>Land and buildings £'000</i>	<i>Others £'000</i>
Leases expiring:				
within one year	—	28	—	27
in the second to fifth year inclusive	123	160	132	154
over five years	2,321	—	1,853	—
	<u>2,444</u>	<u>188</u>	<u>1,985</u>	<u>181</u>

**18. Pension Arrangements**

The Company operates a defined benefit pension scheme which is available to full time employees including the Executive Directors. The scheme is administered through a separate trustee administered fund.

The pension costs relating to the scheme are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The latest actuarial review of the scheme considered the position as at 31st March 1994. The principal actuarial assumptions were that over the long term the rate of return on investments would be 9% per annum, the annual increase in pensionable remuneration 7%, the annual rate of dividend growth on UK equities 5%, and the annual increase in pensions in payment 4½%. At 31st March 1994 the value of the scheme's assets was £4.101 million, which was sufficient on the stated assumptions to cover 130% of the accrued benefits based on expected final salary levels. The surplus assets are being spread over the average remaining service lives of current employees.

On the advice of the actuaries a provision of £46,000 (1996 – £21,000) was made under the requirements of SSAP 24. On the recommendations of an interim review carried out by the actuaries no Company contributions will be made to the scheme before 31st March 1998 at the earliest.

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## NOTICE OF ANNUAL GENERAL MEETING



Notice is hereby given that an Annual General Meeting of T.J. Hughes plc will be held at the Company's offices situated at London Road, Liverpool L69 3BD on Thursday, 10th July 1997 at 12 noon for the following purposes:

1. To receive and adopt the Annual Report for the 52 weeks ended 25th January 1997.
2. To declare a final dividend of 2.08p per Ordinary Share in respect of the 52 weeks ended 25th January 1997.
3. To re-appoint Mr. E. Hodges as a Director.
4. To re-appoint Mr. R. P. Howard as a Director.
5. To appoint Mr. G. W. Foster as a Director.
6. To re-appoint Price Waterhouse as Auditors and to authorise the Directors to determine their remuneration.

Dated: 4th June 1997

By Order of the Board

A.P. Potter  
Secretary

Registered Office:  
Audley House,  
London Road,  
Liverpool L69 3BD.

### Notes:

A member entitled to attend and vote at the Meeting may appoint a proxy to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.

The following documents which are available for inspection during business hours at the registered office of the Company, will also be available for inspection at the place at which the Annual General Meeting is to be held from 9.00 a.m. until the conclusion of the Meeting:

- (i) the Register of Interests of Directors in the share capital and debentures of the Company;
- (ii) copies of the contracts of employment under which Directors of the Company are employed by the Company; and
- (iii) a copy of the Memorandum and Articles of Association of the Company.