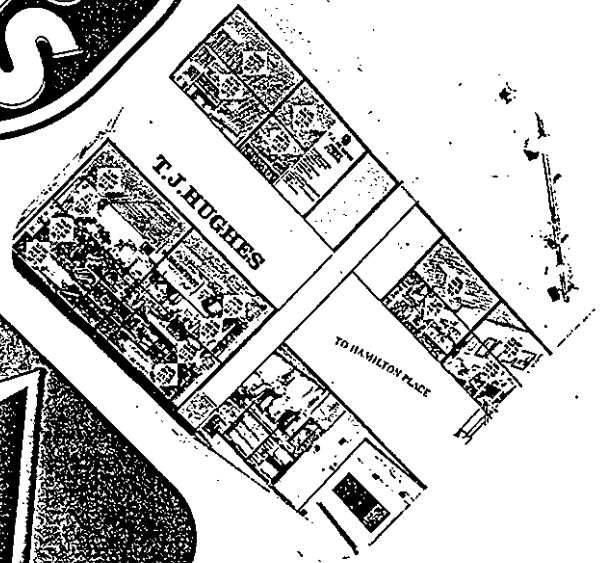


# T.J. Hughes plc

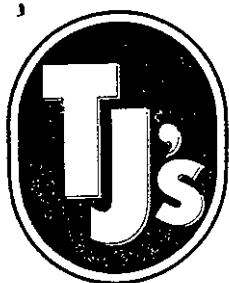
## ANNUAL REPORT

for the 53 weeks ended  
31st January 1998

224422



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COMPANIES HOUSE 30/07/98



T J Hughes plc operates 18 specialist department stores in the North West of England and the Midlands. The trading and marketing policy of the company is based on a well established formula which involves the provision of a broad, well presented range of quality goods, many comprising well-known brand names, at low prices in an attractive shopping environment.

Stores signed for  
and planned to open  
1999/2000 (\*)

Middlesbrough  
Burnley

Stores Opening  
1998/1999 (O)

Shrewsbury  
Blackburn  
Sheffield

Stores 1997/1998 (●)

Liverpool (3) \*

Bootle

Preston

Rochdale

Oldham

Salford

Stretford

St. Helens

Birkenhead

Widnes

Ellesmere Port

Chester

Macclesfield

Lichfield

Wolverhampton

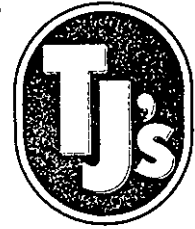
Kidderminster

\* Expansion planned 1998

## Contents

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T J HUGHES plc  
Highlights of the Year 1998



Turnover up 19% to £75.0m  
(1997: £63.0m).

Operating profit up 51% to £3.459m  
(1997: £2.292m).

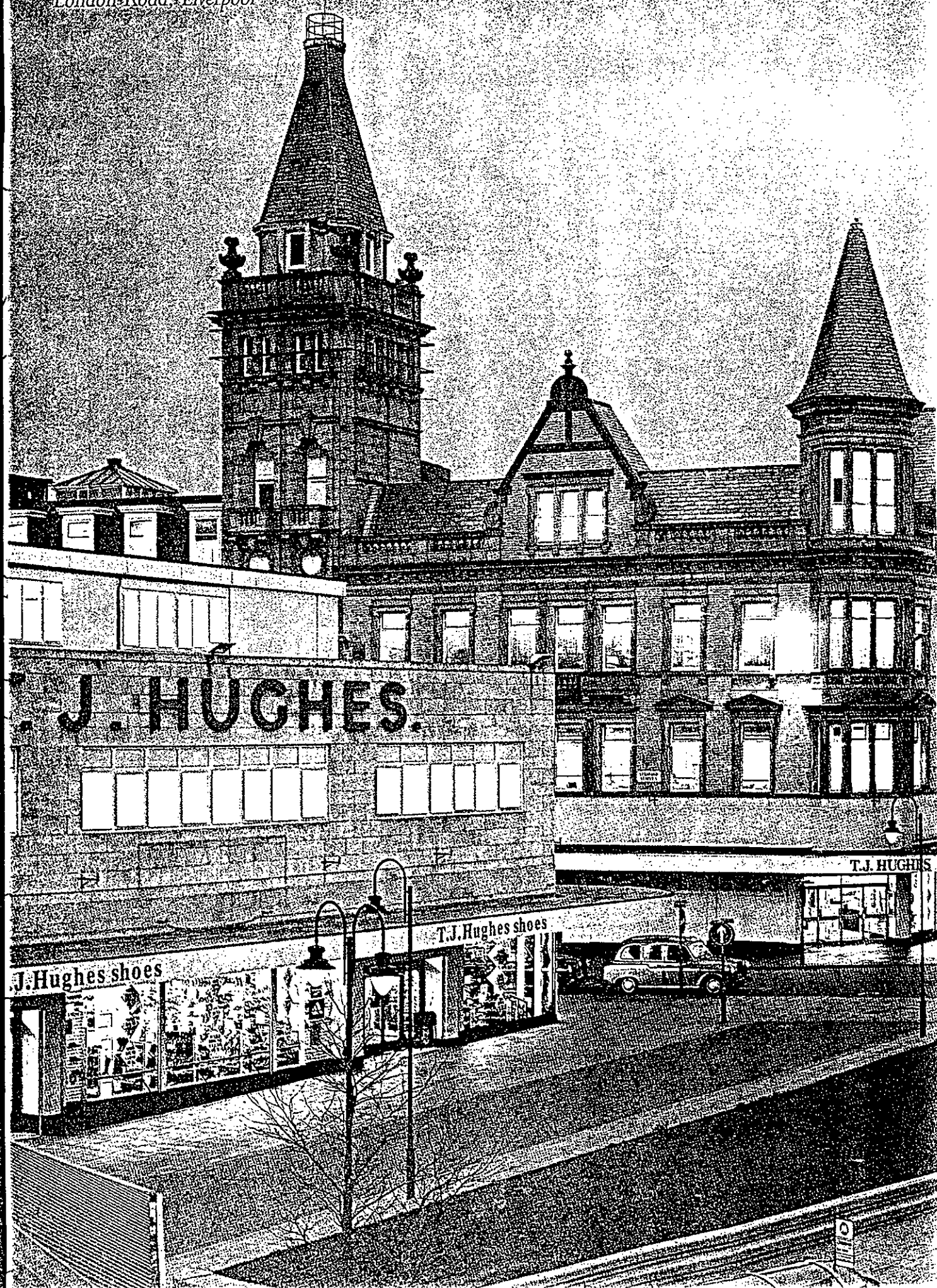
Pre-tax profits up 66% to £3.011m  
(1997: £1.817m).

Second Interim dividend 2.40p making  
total for the year 3.37p (1997: 2.92p).  
Increase of 15%.

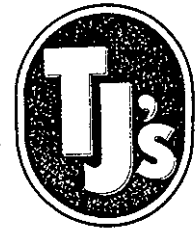
Earnings per share increased by 66% to  
10.17p (1997: 6.14p).

New store, Rochdale successfully opened  
in the year.

T.J. Hughes  
London Road, Liverpool



## Chairman's Statement



*Eric Hodges*

### Introduction

I am pleased to report another excellent year for the company with record results, building upon the achievements of the previous year and representing a tribute to T.J. Hughes' successful and resilient retail formula.

### Results and Dividend

Turnover for the 53 weeks to 31st January 1998 increased by 19% to £75.0 million (1997 : £63.0 million). On a like-for-like basis, turnover increased by 13%. Profit before tax increased 66% to £3.0 million (1997 : £1.8 million) and earnings per share increased by 66% to 10.17p (1997 : 6.14p). Gross margins improved slightly to 31%.

A second interim dividend of 2.40p per share will be paid on 4th May 1998 making a total of 3.37p for the year (1997 : 2.92p), an overall increase of 15.4%. The second interim dividend will be paid in place of a final dividend.

### Store Development

In recent years, T.J. Hughes has expanded its network of discount department stores steadily at an average rate of two to three additional full line stores per year, largely financed from generated cash flow and term debt. With improved management and systems now in place, the pace of development is being accelerated to take advantage of the undoubted opportunities which are available and which fully meet T.J. Hughes' stringent requirements.

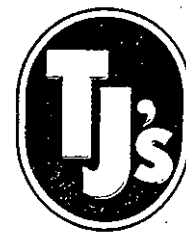
In aggregate, T.J. Hughes will enter the forthcoming peak trading season with over 40% additional selling space compared to the recent year-end. Plans are well advanced to maintain the momentum of new store openings during 1999.



*T.J. Hughes, Chester*

## Chairman's Statement

(continued)



### Finance

During the year under review £2.0 million (1997 : £1.5 million) was invested in fixed assets relating to new store developments. Stock levels at £14.5 million (1997 : £13.4 million) reflect the additional new stores and stock bought for special promotions in February and March 1998.

At the year-end, total net borrowings were £3.4 million (1997 : £3.0 million) representing a gearing of 27.2% (1997 : 27.3%). Within the overall borrowings, £4.0 million was represented by a medium term loan.

On 5th March 1998, the Board of Directors announced a placing and open offer of 5,297,778 new ordinary shares to raise approximately £6.1 million (net of expenses) to enable the Company to finance its new store opening programme, introduce electronic point of sale systems, improve its warehousing capabilities and facilitate future growth.

### Current Trading and Outlook

As a result of recent developments, T.J.Hughes is achieving a scale of operation which will enable it to sustain a significantly faster rate of expansion than in the past.

The Board is pleased with trade for the current year, reference to which is made in the Chief Executive's Review.

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 fully confident of being able to report a satisfactory outcome for the current year.

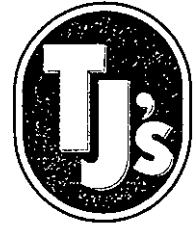
### Conclusion

The achievement of record operating profits is very satisfying and such excellent results would not have been achieved without the commitment and enthusiasm of employees at every level. To them and my fellow Directors I express my warmest thanks.

E. Hodges  
Non-Executive Chairman

23rd April, 1998

## Chief Executive's Review



*George Foster*

### Introduction

During the year to 31st January 1998, T.J.Hughes has focused on the strengths of the business and improving our product ranges through the selective introduction of new ranges of merchandise. Many famous brands enhance our proven discount department store formula of offering customers wide ranges of quality merchandise at excellent prices on a consistent basis. The results achieved reflect the enduring success of this formula.

### Store Development

At the end of the financial year, the Company had 18 stores with a total selling space of 438,000 sq.ft. (1997 year-end : 411,000 sq.ft.). There is now an accelerated store development programme in place which will involve a number of new store openings. Stores contracted to open progressively throughout 1998 together with the planned expansion of the London Road store complex in Liverpool will increase the Company's net selling floor space by over 40% to 615,000 sq.ft.

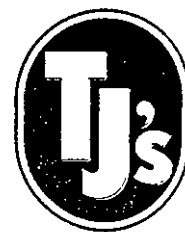
A new store of 27,000 square feet of net selling space opened for trade during March 1998 in Shrewsbury. A new store in Blackburn with approximately 42,000 square feet of net selling space opened in April 1998. Contracts have been exchanged for the lease of a major new store in Sheffield, taking T.J.Hughes into South Yorkshire for the first time. This new store will provide the Company with a platform to open further stores within Yorkshire and the North East. The store, which will have approximately 85,000 square feet of net selling space over four trading floors is due to open in June 1998 and will replicate our successful London Road, Liverpool trading operation. The 23,000 square feet expansion at London Road, Liverpool is planned to open in Autumn 1998.



*T.J.Hughes, Widnes*

## Chief Executive's Review

(continued)



At present, as part of the Company's 1999 expansion programme, two further stores are contracted for. The first, in Burnley, will provide an additional 27,000 square feet of selling space, the second, in Middlesbrough will offer 43,000 square feet of selling space and both are scheduled to open in Autumn 1999. Discussions are also taking place regarding several other new sites for development over the next two years. All sites under consideration fully fit the criteria demanded and it is pleasing to report that developers regard T.J.Hughes as desirable tenants for their developments.

### Systems

A new central computer and EPoS system is being introduced to provide management with improved information systems and the business with a platform for further development. The project will involve a complete upgrade of the current hardware and software, over an 18 month timeframe, building to a complete unit stock control operation fully integrated with back office systems. The new systems, from a tried and tested supplier, will take account of the millennium issues and comply with E.M.U. requirements.

### Personnel

I am pleased to report that the senior management team, below board level, was significantly strengthened during the year. This was achieved by external appointments in the areas of property, information technology and buying.

### Current Trading

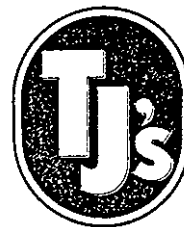
We continue to be encouraged by the current level of trading which is in line with expectations both as regards our established stores and indeed our new stores.

G.W. Foster  
Chief Executive

23rd April, 1998



## Directors and Advisers



Board of Directors + \* Eric Hodges  
(Non-Executive Chairman)

+ \* David Stuart Winterbottom  
(Non-Executive Deputy Chairman)

George William Foster  
(Chief Executive)

Anthony Philip Potter  
(Finance Director)

+ \* John Manwaring Robertson  
(Non-Executive)

+ \* John Lionel Beckwith  
(Non-Executive)

\* Members of the Audit Committee

+ Members of the Remuneration Committee

Secretary Anthony Philip Potter

Registered Office Hughes House, London Road  
Liverpool L3 8JA

Registered Number 224422

Auditors Price Waterhouse  
101 Barbirolli Square  
Lower Mosley Street  
Manchester M2 3PW

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

Solicitors to the Company Berrymans Lace Mawer  
Castle Chambers, 43 Castle Street  
Liverpool L2 9SU

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

T.J. Hughes  
Preston

# T.J. HUGHES

HLT

OPPORTUNITY  
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POT

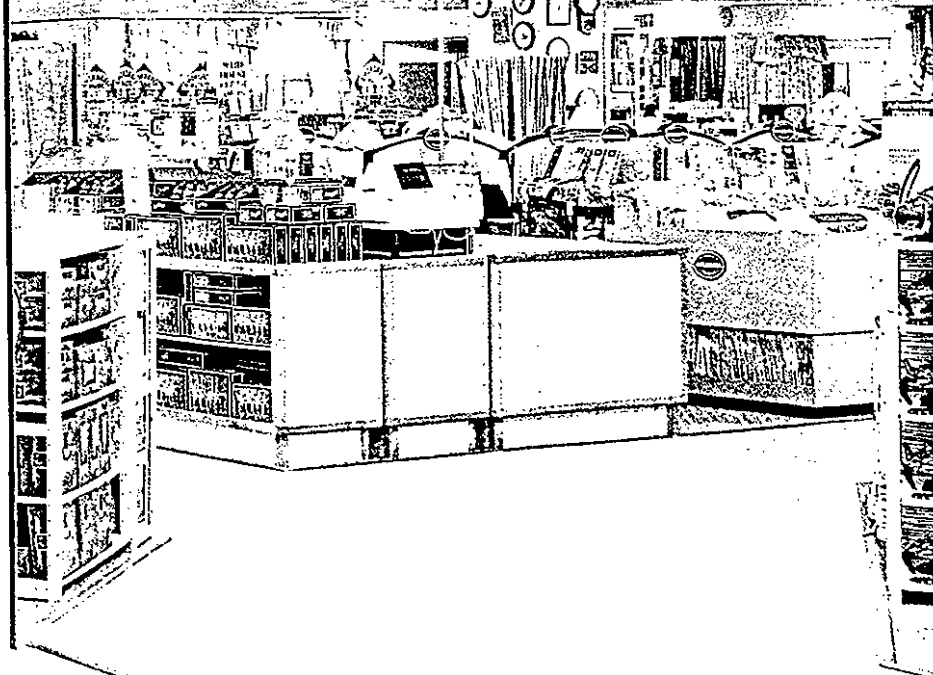
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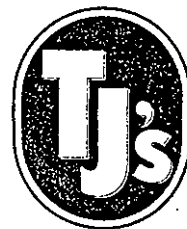
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## *Directors' Report for the 53 Weeks ended 31st January 1998*



### **Results and Dividends**

The profit and loss account for the 53 weeks ended 31st January 1998 is set out on page 21.

The profit on ordinary activities after taxation for the period amounted to £2,138,000.. An interim dividend of 0.97p per share was paid to the Ordinary Shareholders. A second interim dividend of 2.40p per share will be paid on 4th May 1998. Total dividends payable for the year amount to £715,000 leaving £1,423,000 to be transferred to reserves. As the Directors have recommended a second interim dividend they are not recommending the payment of a final dividend.

### **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 3.0 per cent or more of the issued share capital at 23rd April, 1998.

|                                     | <i>Holding</i> | <i>% of Issued<br/>Share<br/>capital</i> |
|-------------------------------------|----------------|--|
| Barfield Nominees Limited           | 5,142,670      | 19.41                                    |
| UBS UK Holding Limited/PDFM Limited | 2,568,632      | 9.70                                     |
| Equitable Life Assurance Society    | 2,408,750      | 9.09                                     |
| Beckwith Development Capital Ltd.   | 1,459,375      | 5.51                                     |

### **Fixed Assets**

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 7. Mr. G.W. Foster was appointed Director on 19th May, 1997. Mr. R.P. Howard resigned as Merchandise Director with effect from 5th September, 1997.

Mr. J. M. Robertson and Mr. A. P. Potter will retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

Further details of the Directors and their interests in the Share Capital of the Company are shown on page 14.

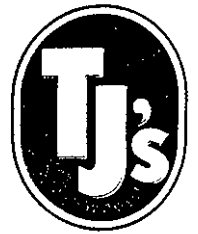
### **Share Capital**

Details of the 434,405 ordinary shares issued during the year are shown in note 13 to the accounts on page 29. From 1st February 1998 to 23rd April 1998 additional shares have been issued as follows:

|                   |                           | <i>No. of Shares</i> |
|-------------------|---------------------------|----------------------|
| 3rd February 1998 | Exercise of Share Options | 2,500                |
| 31st March 1998   | Placing and Open offer    | 5,297,778            |

## **Directors' Report for the 53 Weeks ended 31st January 1998**

(continued)



### **Non-Executive Directors**

**Eric Hodges** aged 60, retired from the Company in January 1995 after over 40 years service, the last 5 years as Managing Director. He was appointed Chairman in July 1995.

**David S. Winterbottom** aged 61, is a Chartered Accountant. He is Chairman of Hill and Smith Holdings plc, Trust Motor Group plc and several institutionally owned private companies. He is a Non-Executive Director of Electrocomponents plc.

**John M. Robertson** aged 46, is a Chartered Surveyor. He was appointed to the Board in January 1991.

**John L. Beckwith** aged 51, 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 Practice**

The Company's policy is to settle invoices within contractual timescales agreed in advance with suppliers. Settlement terms are agreed at the time of placing orders and at the commencement of business with suppliers. There were 59 days (1997 : 71 days) purchases in trade creditors on 31st January 1998 based upon the year-end trade creditors as a proportion of average daily purchases.

### **Charitable and Political Contributions**

Charitable contributions made by the Company in the year amounted to £1,000 (1997 : nil). There were no political contributions.

### **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**

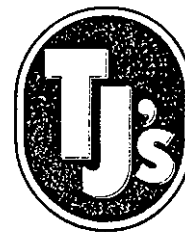
A resolution to reappoint Price Waterhouse as auditors will be proposed at the Annual General Meeting.

By order of the Board

A. P. Potter  
Secretary  
Hughes House  
Liverpool

23rd April, 1998

## **Remuneration Committee Report**



The Remuneration Committee ("the Committee") presents its Report to Shareholders. Membership of the Committee is set out on page 7.

### **Compliance**

The committee is constituted and operated throughout the year in accordance with the provisions of Section A of the Best Practice Provisions annexed to the Stock Exchange Listing Rules. In framing the remuneration policy, full consideration has been given to Section B of the Best Practice Provisions, annexed to the Listing Rules.

### **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**

The Executive Directors of the Company participate in a management bonus scheme which is open to Senior Managers throughout the Company. The scheme is designed to provide management with an incentive to outperform targets set by reference to the Company's budget for the financial year. In order that an individual's rewards are based on his or her own efforts the targets relate to individual operating units within the Company or the Company as a whole as appropriate. For the Executive Directors, the targets relate to the Company profit before tax. The maximum rate of bonus payable is 50% of basic annual salary at the commencement of the year.

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

The Company operates a number of share option schemes. The Executive Share Option Scheme introduced in 1992 is approved by the Inland Revenue under the Income and Corporation Taxes Act 1988. In accordance with provisions introduced in the 1996 Finance Act, options with an aggregate exercise value up to £30,000 may be granted under this Approved Scheme. Options in excess of this amount are granted under the Unapproved Executive Share Option Scheme introduced in 1997.

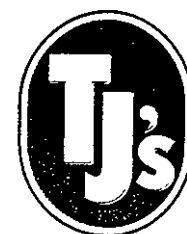
The granting of options to Executive Directors and Senior Executives is determined by the non-Executive Directors. Options are exercisable by recipients over a minimum period of three or five years and may be subject to performance criteria in accordance with A.B.I. guidelines. The Company operates no other long-term incentive plans for Executive Directors.

#### **iv) Pensions**

The Executive Directors participate in the T.J.Hughes Pension Scheme which, dependent on length of service provides a pension of up to two-thirds of pensionable salary on retirement, together with death in service benefits and dependents pensions. Only basic salary is pensionable. The Company is currently enjoying a pension holiday.

## Remuneration Committee Report

(continued)



### iv) Pensions (continued)

There are two directors accruing pension benefits, they are:

|              |                                      |   |   | <i>Increase<br/>in accrued<br/>pension</i>                         |   |   |  |
|--------------|--------------------------------------|---|---|--|---|---|--|
|              | <i>Normal<br/>Retirement<br/>Age</i> | <i>Age at<br/>31st<br/>January<br/>1998</i> | <i>Accrued<br/>pension<br/>at 25th<br/>January<br/>1997<br/>£'000</i> | <i>during<br/>the year<br/>(excluding<br/>inflation)<br/>£'000</i> | <i>Accrued<br/>pension<br/>at 31st<br/>January<br/>1998<br/>£'000</i> | <i>Member's<br/>contributions<br/>in year<br/>£'000</i> | <i>Transfer value<br/>of increased<br/>pension net<br/>of member's<br/>contributions<br/>£'000</i> |
| G. W. Foster | 65                                   | 50  | —   | 1.1  | 1.1   | 1.3   | 12.3   |
| A. P. Potter | 65                                   | 44  | 5.1   | 1.1  | 6.2   | 1.0   | 8.9  |

### v) Service Contracts

Mr. G. W. Foster was granted a one year rolling service contract on his appointment to the Company. Mr. A. P. Potter also has a one year rolling service contract.

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.

### vi) Taxable Benefits

Executive Directors are eligible for taxable benefits which include the provision of a company car and payment of its operating expenses including private mileage, membership of a private medical scheme and re-imbursement of home telephone rental and call charges.

### vii) Staff Discount

All members of staff, including Directors are entitled to a discount of variable rates on merchandise purchased from the Company.

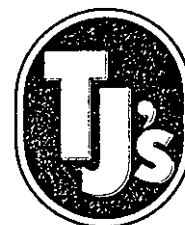
### viii) Remuneration Policy for Non-Executive Directors

The remuneration for Non-Executive Directors consists of fees for their services in connection with Board and Board Committee Meetings and, where relevant, for additional services such as chairing the Board or a Board Committee or devoting additional time and expertise for the benefit of the Company. They are not eligible for Pension Scheme membership, do not participate in share option or other incentive schemes. The only benefit to which they are entitled is staff discount on merchandise purchased from the Company.

The remuneration of Non-Executive Directors is determined by the Board as a whole. On the resignation of the former Managing Director in 1996 the Board requested that Mr. Hodges take up certain Executive responsibilities. Whilst his salary was not adjusted appropriately an incentive bonus arrangement directly related to year on year increase in profitability was entered into. In the event the Company's actual profits exceeded the capped bonus level of profits. Subsequent to Mr. Foster's appointment Mr. Hodges resumed a Non-Executive role.

# Remuneration Committee Report

(continued)



## Directors' Emoluments

i) Emolument costs relating to the Directors comprise:

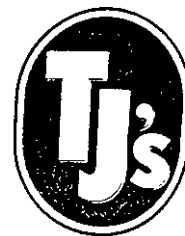
|   | <i>Salary<br/>or Fees<br/>£'000</i> | <i>Bonus<br/>£'000</i> | <i>Benefits<br/>£'000</i> | <i>1998<br/>Total<br/>£'000</i> | <i>1997<br/>Total<br/>£'000</i> |
|---|-------------------------------------|------------------------|---------------------------|---------------------------------|---------------------------------|
| Chairman                                |                                     |                        |                           |                                 |                                 |
| E. Hodges                               | 70                                  | 75                     | —                         | 145                             | 206                             |
| Executive Directors                     |                                     |                        |                           |                                 |                                 |
| G. W. Foster                            | 73                                  | 50                     | 9                         | 132                             | —                               |
| A. P. Potter                            | 56                                  | 25                     | 9                         | 90                              | 58                              |
| Former Directors                        | 37                                  | —                      | 8                         | 45                              | 87                              |
| Non-Executive Directors                 |                                     |                        |                           |                                 |                                 |
| D. S. Winterbottom<br>(Deputy Chairman) | 30                                  | —                      | —                         | 30                              | 26                              |
| J. M. Robertson                         | 13                                  | —                      | —                         | 13                              | 13                              |
| J. L. Beckwith                          | 13                                  | —                      | —                         | 13                              | 7                               |
|   | <u>292</u>                          | <u>150</u>             | <u>26</u>                 | <u>468</u>                      | <u>397</u>                      |

- ii) Benefits above comprise taxable non-cash emoluments mainly in respect of the provision of company cars.
- iii) Currently the Company is enjoying the benefit of a pensions contribution holiday.
- iv) In addition to their fees received as Directors, Mr. E. Hodges and Mr. J. M. Robertson respectively received nil (1997: £20,000) and £25,000 (1997: £25,000) in respect of work carried out under consultancy agreements.
- v) The above table excludes £70,000 paid to R. P. Howard, as compensation for loss of office, who resigned from the Board in September 1997.
- vi) Exercise of Directors' Share Options:

|                                       | <i>Exercise<br/>date</i> | <i>Options<br/>exercised</i> | <i>Exercise<br/>price</i> | <i>Market price<br/>at date of<br/>exercise</i> |
|---------------------------------------|--------------------------|------------------------------|---------------------------|---|
| A. P. Potter - Second Option Scheme   | 03.11.97                 | 11,932                       | 72.0p                     | 102.0p  |
| A. P. Potter - S.A.Y.E. Option Scheme | 04.06.97                 | 31,250                       | 60.0p                     | 91.5p   |

# Remuneration Committee Report

(continued)



## Directors' Interests and Options

- i) The number of Ordinary Shares and Options over Ordinary Shares held by the Directors and their families at 31st January 1998 are set out below:

|                    | Ordinary Shares |           | Options over Ordinary Shares |        |                       |        |                        |      |
|--------------------|-----------------|-----------|------------------------------|--------|-----------------------|--------|------------------------|------|
|                    | 1998            | 1997      | Second<br>Option Scheme      |        | SAYE<br>Option Scheme |        | Third<br>Option Scheme |      |
|                    | 1998            | 1997      | 1998                         | 1997   | 1998                  | 1997   | 1998                   | 1997 |
| E. Hodges          | 28,180          | 28,180    | 52,384                       | 52,384 | —                     | —      | —                      | —    |
| G. W. Foster       | 27,000          | —         | 34,500 *                     | —      | —                     | —      | 315,500 *              | —    |
| A. P. Potter       | 44,583          | 13,333    | 25,000                       | 36,932 | —                     | 31,250 | 50,000 *               | —    |
| J. M. Robertson    | 242,917         | 251,667   | —                            | —      | —                     | —      | —                      | —    |
| D. S. Winterbottom | 4,000           | 4,000     | —                            | —      | —                     | —      | —                      | —    |
| J. L. Beckwith     | 1,167,500       | 1,767,500 | —                            | —      | —                     | —      | —                      | —    |

\* granted during the year

Options granted during the year were at the prevailing market rate for a consideration of £1 per option. No options lapsed during the year.

- (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) The Company announced a Placing and Open offer for 5,297,778 Ordinary Shares on 5th March 1998. Details of changes in Directors' Shareholdings following the issue are as follows:

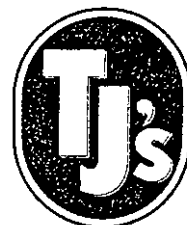
|                    | Number of<br>Ordinary Shares<br>as at 31st<br>January 1998 | Number of<br>Ordinary Shares<br>following the<br>Placing and<br>Open offer |
|--------------------|--|--|
| G. W. Foster       | 27,000   | 33,750   |
| A. P. Potter       | 44,583   | 55,728   |
| D. S. Winterbottom | 4,000  | 5,000  |
| J. M. Robertson    | 242,917  | 303,646  |
| J. L. Beckwith     | 1,167,500  | 1,459,375  |

There have been no other changes in Directors' Shareholdings or Options since the year end.



# Remuneration Committee Report

(continued)



- (iv) The exercise prices and periods during which the Options are exercisable by the Directors are set out below:-

|              | Second<br>Option Scheme |        |           | Third<br>Option Scheme |         |           |
|--------------|-------------------------|--------|-----------|------------------------|---------|-----------|
|              | Number                  | Price  | Period    | Number                 | Price   | Period    |
| E. Hodges    | 39,288                  | 75.00p | 1995-2002 | —                      | —       | —         |
|              | 13,096                  | 63.75p | 1997-2002 | —                      | —       | —         |
|              | <u>52,384</u>           |        |           |                        |         |           |
| G. W. Foster | 34,500                  | 85.50p | 2000-2007 | 215,500                | 85.50p  | 2000-2004 |
|              | —                       | —      | —         | 100,000                | 107.50p | 2002-2004 |
|              | <u>34,500</u>           |        |           | <u>315,500</u>         |         |           |
| A. P. Potter | 18,750                  | 64.00p | 1998-2005 | 50,000                 | 107.50p | 2002-2004 |
|              | 6,250                   | 54.50p | 2000-2005 | —                      | —       | —         |
|              | <u>25,000</u>           |        |           | <u>50,000</u>          |         |           |

The middle market price of the shares at 31st January 1998 was 134.50p.

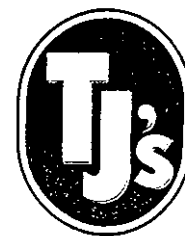
The range in the Company's share price during 1997/98 was 71.50p to 135.0p.

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

- (v) 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.
- (vi) Mr. A. P. Potter who retires by rotation at the AGM and has offered himself for re-election, will have a one year's unexpired service contract as at that date.
- (vii) 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

23rd April, 1998



### Directors' Statement of Compliance

The Board has considered the Code of Best Practice contained in the Report of the Committee on the Financial Aspects of Corporate Governance and confirms that the Company has complied throughout the year with the Code of Best Practice.

### The Board and its Committees

The Board of Directors, which currently comprises two Executive and four 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.

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 and outcome of the audit with the external auditors.

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

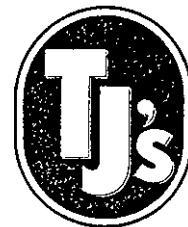
### Internal Financial Control

The Directors have overall responsibility for the Company's system of internal financial control and confirm 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 Board has established the following key procedures designed to provide effective internal financial control:-

- Control Environment – the Company has a clearly defined organisational structure which establishes lines of responsibility and delegation of authority from the Board to executive management. The execution of responsibilities is assisted by Company manuals which set out policies, procedures and practices throughout the Company.
- Matters reserved for the Board – the Directors hold regular meetings at which reports on key areas are considered. The Board reserves a number of matters for decision including the approval of capital expenditure, Company budgets, dividend policy and the determination of Company strategy.
- Financial control and reporting – there is a comprehensive system of planning and budgeting with frequent reporting of results to each level of management as appropriate. Monthly actual results are reported against budget and the previous year and any significant adverse variances are examined and appropriate action taken. In addition there is a continuous monitoring and monthly reporting of cashflow.
- The Company's financial reporting system continues to be dependent on the evaluation of twice-yearly full physical stock counts. The Directors have assessed potential improvements to stock control and recording methods and have authorised a complete upgrade of the computer hardware and software at an estimated cost of £1.5 million which will lead to enhanced stock control and back office systems and ensure that it is year 2000 compliant.

## Corporate Governance

(continued)



### Nominations Committee

The appointment of Directors is a formal process involving all members of the Board. The Nominations Committee establishes the criteria for an appointment which is then considered and confirmed by the Directors.

### Going concern

After making enquiries 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.

### 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 16 and above 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 on page 16 and going concern above, 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.

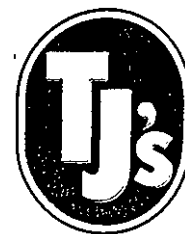
Based on enquiry of certain Directors and Officers of the Company and examination of relevant documents, your statement on page 16 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

*Price Waterhouse*  
**Price Waterhouse**

Chartered Accountants  
23rd April, 1998

101 Barbirolli Square  
Lower Mosley Street  
Manchester  
M2 3PW

## 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 21 to 31 (including the additional disclosures on pages 11 to 15 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 24 and 25.



#### *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*

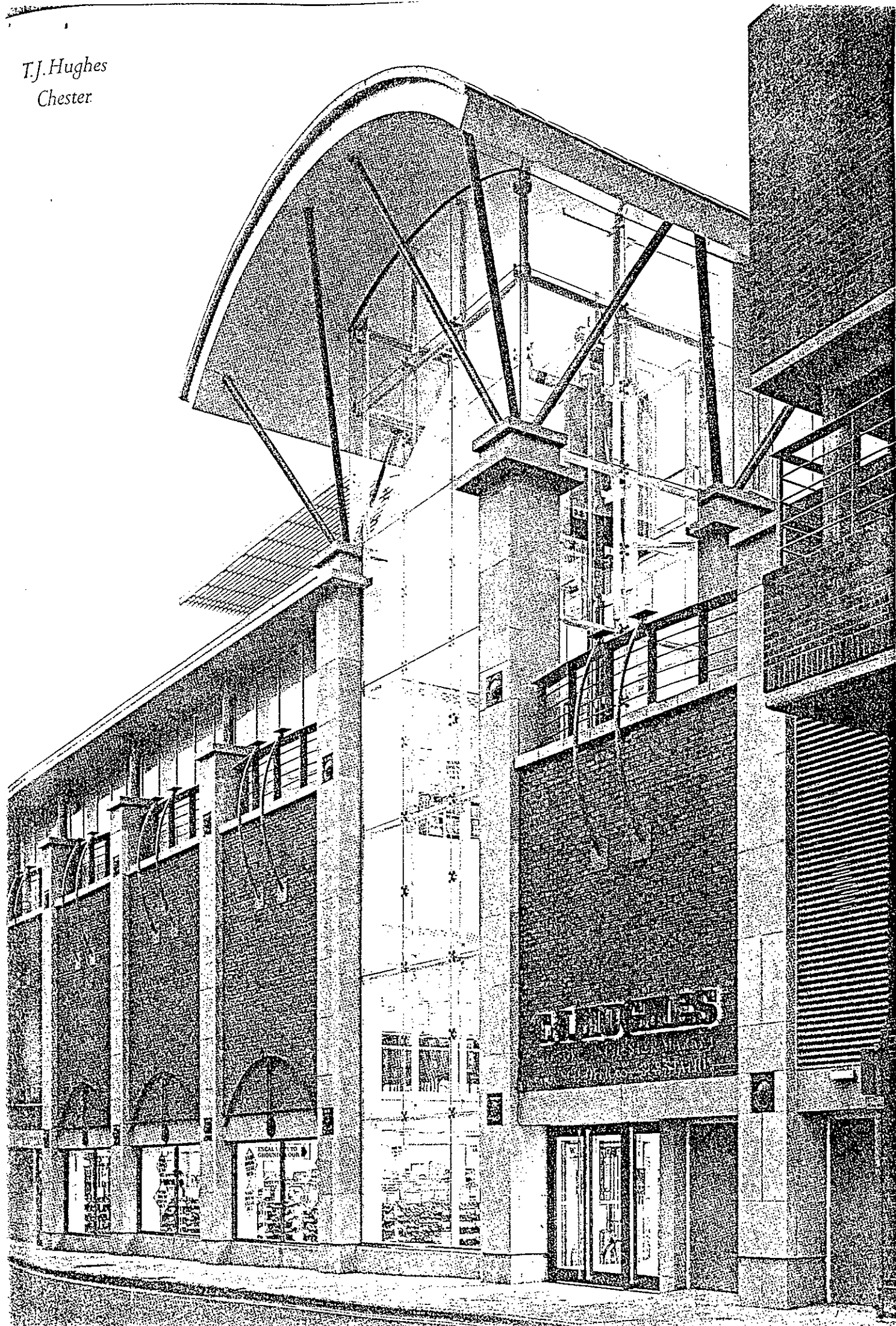
In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31st January 1998 and of its profit and cash flows for the 53 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse*  
**Price Waterhouse**

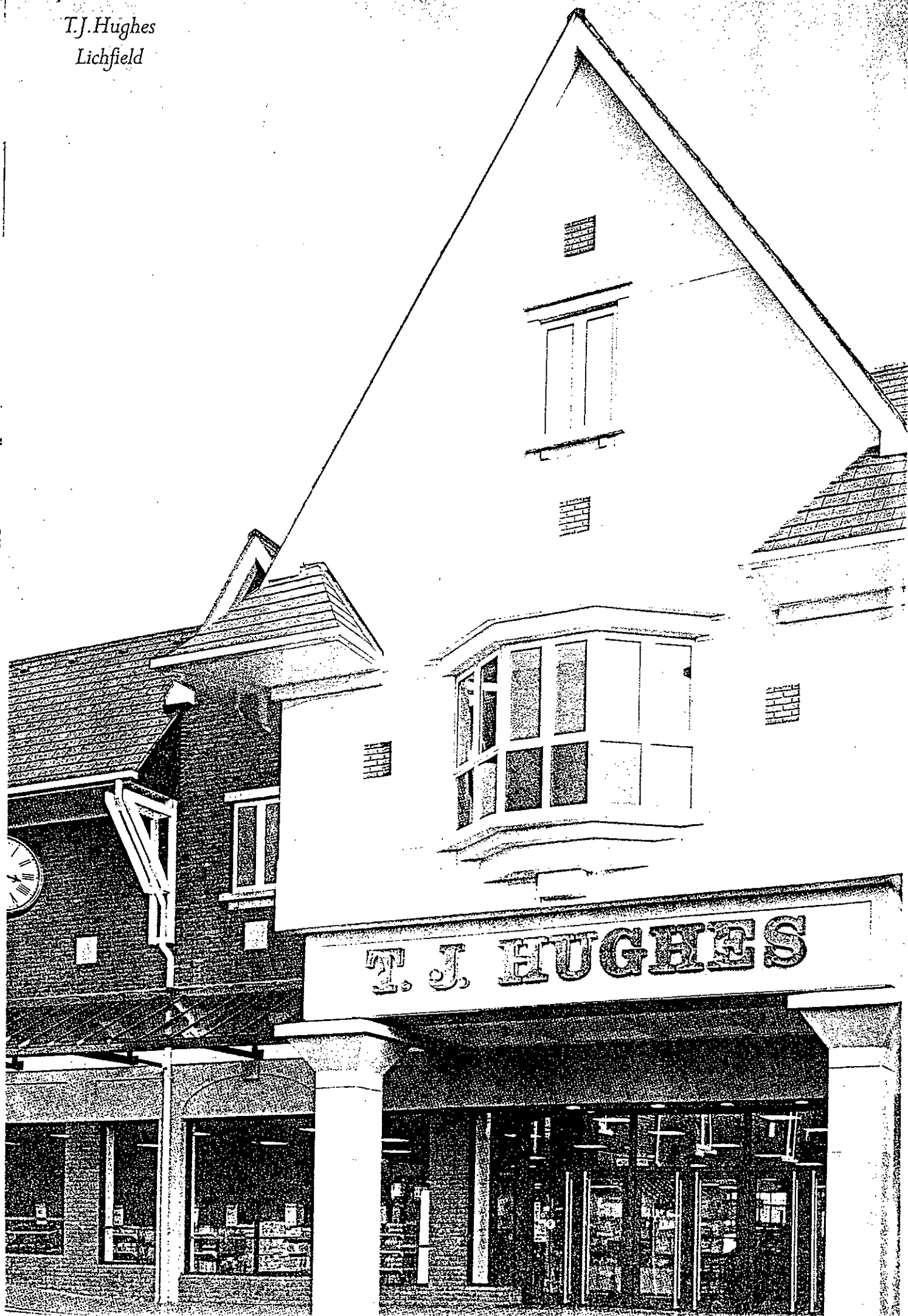
Chartered Accountants and Registered Auditors  
23rd April, 1998

101 Barbirolli Square  
Lower Mosley Street  
Manchester  
M2 3PW

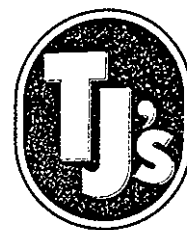
T.J. Hughes  
Chester.



T.J. Hughes  
Lichfield



**Profit and Loss Account**  
**for the 53 weeks ended 31st January 1998**



|  | Notes | 1998<br>£'000 | 1997<br>£'000 |
|--|-------|---------------|---------------|
| TURNOVER – continuing activities                 | 2     | 75,020        | 62,971        |
| Cost of Sales                                    |       | (51,721)      | (43,565)      |
| GROSS PROFIT                                     |       | 23,299        | 19,406        |
| Distribution costs                               |       | (17,076)      | (14,946)      |
| Administrative expenses                          |       | (2,764)       | (2,168)       |
| OPERATING PROFIT – continuing activities         | 3     | 3,459         | 2,292         |
| Net interest payable                             | 4     | (448)         | (475)         |
| PROFIT ON ORDINARY ACTIVITIES<br>BEFORE TAXATION |       | 3,011         | 1,817         |
| Tax on profit on ordinary activities             | 6     | (873)         | (546)         |
| PROFIT FOR THE FINANCIAL PERIOD                  |       | 2,138         | 1,271         |
| Dividends  | 8     | (715)         | (606)         |
| PROFIT RETAINED                                  | 14    | 1,423         | 665           |
| Earnings per Ordinary share                      | 7     | 10.17p        | 6.14p         |
| Dividends per Ordinary share                     | 8     | 3.37p         | 2.92p         |

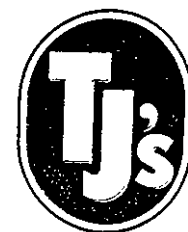
**Statement of Total Recognised Gains and Losses**

There were no recognised gains or losses other than those shown in the Profit and Loss Account above.

There is no material difference between the profit and loss account and that calculated on an historical cost basis.

The notes on pages 24 to 31 form part of these financial statements.

# Balance Sheet at 31st January 1998



|   |       | 1998            | 1997            |
|---|-------|-----------------|-----------------|
|   | Notes | £'000           | £'000           |
| FIXED ASSETS  |       |                 |                 |
| Tangible assets   | 9     | 15,323          | 14,362          |
| CURRENT ASSETS  |       |                 |                 |
| Stocks  | 1     | 14,527          | 13,395          |
| Debtors   | 10    | 1,843           | 1,776           |
| Cash at bank and in hand                                    |       | 577             | 1,032           |
|   |       | <u>16,947</u>   | <u>16,203</u>   |
| CREDITORS – amounts falling due within one year             | 11    | <u>(13,421)</u> | <u>(13,415)</u> |
| NET CURRENT ASSETS  |       | <u>3,526</u>    | <u>2,788</u>    |
| TOTAL ASSETS LESS CURRENT LIABILITIES                       |       | <u>18,849</u>   | <u>17,150</u>   |
| CREDITORS – amounts falling due after more than one year    | 11    | (4,832)         | (4,898)         |
| PROVISIONS FOR LIABILITIES AND CHARGES                      | 12    | <u>(1,450)</u>  | <u>(1,368)</u>  |
|   |       | <u>12,567</u>   | <u>10,884</u>   |
| CAPITAL AND RESERVES  |       |                 |                 |
| Called up share capital                                     | 13    | 2,119           | 2,075           |
| Share premium account                                       | 14    | 4,940           | 4,724           |
| Revaluation reserve   | 14    | 434             | 434             |
| Profit and loss account                                     | 14    | 5,074           | 3,651           |
| SHAREHOLDERS' FUNDS attributable wholly to equity interests |       | <u>12,567</u>   | <u>10,884</u>   |

These financial statements were approved by the Board on 23rd April, 1998.

G. W. Foster

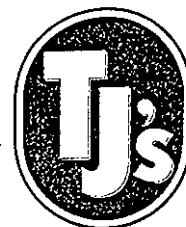
Directors

A. P. Potter

The notes on pages 24 to 31 form part of these financial statements.



**Cash Flow Statement**  
**for the 53 weeks ended 31st January 1998**



|   | 1998        |              | 1997       |              |
|---|-------------|--------------|------------|--------------|
|   | £'000       | £'000        | £'000      | £'000        |
| NET CASH INFLOW FROM<br>OPERATING ACTIVITIES<br>(Note 15) |             | 3,056        |            | 4,279        |
| RETURNS ON INVESTMENTS AND<br>SERVICING OF FINANCE        |             |              |            |              |
| Interest paid   | (487)       |              | (512)      |              |
| Interest received   | <u>15</u>   | (472)        | <u>5</u>   | (507)        |
| TAXATION  |             |              |            |              |
| U.K. Corporation tax                                      |             | (606)        |            | (28)         |
| CAPITAL EXPENDITURE                                       |             |              |            |              |
| Purchase of tangible fixed assets                         |             | (2,038)      |            | (1,400)      |
| EQUITY DIVIDENDS PAID                                     |             | <u>(638)</u> |            | <u>(556)</u> |
| Cash (outflow)/inflow before financing                    |             | (698)        |            | 1,788        |
| FINANCING   |             |              |            |              |
| Issue of ordinary share capital                           | 260         |              | 20         |              |
| Receipt of bank loan                                      | —           |              | 2,000      |              |
| Capital element of finance lease payments                 | <u>(17)</u> | 243          | <u>(6)</u> | 2,014        |
| (DECREASE)/INCREASE IN CASH                               |             | <u>(455)</u> |            | <u>3,802</u> |

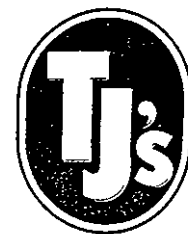
**Reconciliation of Movements in Shareholders' Funds**

|                                     | 1998          | 1997          |
|-------------------------------------|---------------|---------------|
|                                     | £'000         | £'000         |
| Profit for the financial period     | 2,138         | 1,271         |
| Dividends                           | <u>(715)</u>  | <u>(606)</u>  |
|                                     | 1,423         | 665           |
| Net proceeds of issue of shares     | <u>260</u>    | <u>20</u>     |
| Net addition to shareholders' funds | 1,683         | 685           |
| Opening shareholders' funds         | 10,884        | 10,199        |
| Closing shareholders' funds         | <u>12,567</u> | <u>10,884</u> |

The notes on pages 24 to 31 form part of these financial statements.

## **Notes to the Financial Statements**

### **31st January 1998**



#### **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 accordance 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**

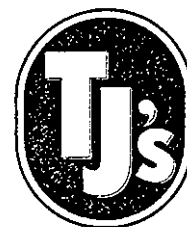
Operating lease rental charges are taken to the profit and loss account in the year in which they arise.

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**  
**31st January 1998**  
*(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 19). 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.

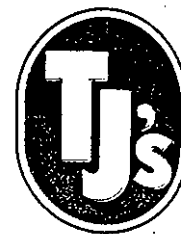
**3. Operating Profit**

|  | <i>1998</i>  | <i>1997</i>  |
|--|--------------|--------------|
|  | <i>£'000</i> | <i>£'000</i> |
| This has been stated after charging/(crediting): |              |              |
| Depreciation of tangible fixed assets            |              |              |
| owned assets                                     | 1,012        | 918          |
| leased assets                                    | 3            | 6            |
| Operating lease rentals                          |              |              |
| plant and equipment                              | 215          | 211          |
| land and buildings                               | 3,108        | 2,610        |
| Store pre-opening expenses                       | 304          | 283          |
| Capital contributions                            | (725)        | (650)        |
| Fees payable to auditors                         |              |              |
| for audit services                               | 35           | 34           |
| for other services                               | 20           | 30           |
|  | <hr/>        | <hr/>        |

**4. Net Interest Payable**

|                              | <i>1998</i>  | <i>1997</i>  |
|------------------------------|--------------|--------------|
|                              | <i>£'000</i> | <i>£'000</i> |
| On bank loans and overdrafts | 463          | 478          |
| On finance lease             | —            | 2            |
| Interest receivable          | (15)         | (5)          |
|                              | <hr/>        | <hr/>        |
|                              | 448          | 475          |

**Notes to the Financial Statements**  
**31st January 1998**  
*(continued)*



**5. Employees**

The average number of persons employed by the Company was:

|           | 1998         | 1997         |
|-----------|--------------|--------------|
| Full time | 513          | 475          |
| Part time | 817          | 760          |
|           | <u>1,330</u> | <u>1,235</u> |

|  |            |            |
|--|------------|------------|
| Total expressed in terms of full time equivalent employees | <u>872</u> | <u>810</u> |
|  | £'000      | £'000      |

The aggregate payroll costs of these persons were as follows:

|                       |              |              |
|-----------------------|--------------|--------------|
| Wages and salaries    | 8,341        | 7,715        |
| Social security costs | 762          | 707          |
| Pensions              | 36           | 25           |
|                       | <u>9,139</u> | <u>8,447</u> |

Directors emoluments are disclosed in the Report of the Remuneration Committee which is on pages 11 to 15.

**6. Taxation**

|   | 1998       | 1997       |
|---|------------|------------|
|   | £'000      | £'000      |
| Corporation tax charge at 31.33% (1997 : 33%)<br>based on taxable profit for the period | 827        | 379        |
| Deferred tax  | 46         | 167        |
|   | <u>873</u> | <u>546</u> |

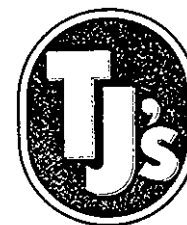
**7. Earnings per Ordinary Share**

Earnings per share are based upon the profits after tax and the weighted average number of shares in issue. The weighted average numbers of shares in issue for the 53 weeks ended 31st January 1998 and 52 weeks ended 25th January 1997 were 21,018,591 and 20,710,546 respectively. The fully diluted earnings per share are not materially different from the earnings per share shown on page 21.

**8. Dividends**

|   | 1998       | 1997       |
|---|------------|------------|
|   | £'000      | £'000      |
| Interim ordinary dividend at 0.97p (1997 – 0.84p)<br>per share – paid       | 206        | 174        |
| Second Interim ordinary dividend 2.40p (1997 – nil)<br>per share – proposed | 509        | —          |
| Final ordinary dividend nil (1997 – 2.08p) per share                        | —          | 432        |
|   | <u>715</u> | <u>606</u> |

**Notes to the Financial Statements**  
**31st January 1998**  
*(continued)*



**9. Tangible Fixed Assets**

|                      | <i>Freehold<br/>properties<br/>and fixed<br/>plant</i> | <i>Long<br/>leasehold<br/>properties<br/>and fixed<br/>plant</i> | <i>Short<br/>leasehold<br/>properties<br/>and fixed<br/>plant</i> | <i>Fixtures,<br/>fittings and<br/>equipment</i> | <i>Total</i> |
|----------------------|--|--|---|---|--------------|
|                      | £'000  | £'000  | £'000   | £'000   | £'000        |
| Cost or valuation    |  |  |   |   |              |
| At 25th January 1997 | 3,809  | 242  | 8,180   | 6,104   | 18,335       |
| Additions            | 349  | —  | 897   | 742   | 1,988        |
| Disposals            | —  | —  | —   | (74)  | (74)         |
| At 31st January 1998 | 4,158  | 242  | 9,077   | 6,772   | 20,249       |
| <i>Comprising</i>    |  |  |   |   |              |
| Valuations           | 3,265  | —  | —   | —   | 3,265        |
| Cost                 | 893  | 242  | 9,077   | 6,772   | 16,984       |
|                      | 4,158  | 242  | 9,077   | 6,772   | 20,249       |
| Depreciation         |  |  |   |   |              |
| At 25th January 1997 | 121  | 1  | 1,164   | 2,687   | 3,973        |
| Charge for period    | 43   | —  | 356   | 616   | 1,015        |
| Disposals            | —  | —  | —   | (62)  | (62)         |
| At 31st January 1998 | 164  | 1  | 1,520   | 3,241   | 4,926        |
| Net book amount      |  |  |   |   |              |
| At 31st January 1998 | 3,994  | 241  | 7,557   | 3,531   | 15,323       |
| At 24th January 1997 | 3,688  | 241  | 7,016   | 3,417   | 14,362       |

The net book amount of fixtures, fittings and equipment includes an amount of £nil (1997 – £16,000) in respect of assets held under finance leases.

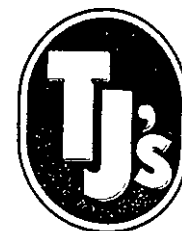
In 1994/95 the Company's two freehold properties were revalued on open market existing use bases and the aggregate surplus of £434,000 was credited to a revaluation reserve. Under the historical cost convention freehold properties would have been included at a cost of £3,724,000 (1997 – £3,375,000) less accumulated depreciation of £164,000 (1997 – £121,000).

**10. Debtors**

|                                | 1998<br>£'000 | 1997<br>£'000 |
|--------------------------------|---------------|---------------|
| Trade debtors                  | 255           | 339           |
| Prepayments and deferred costs | 1,588         | 1,437         |
|                                | <u>1,843</u>  | <u>1,776</u>  |

Deferred costs which will be expensed after more than one year amount to £199,000 (1997 – £240,000).

**Notes to the Financial Statements**  
**31st January 1998**  
*(continued)*



| 11. Creditors                                 | 1998<br>£'000 | 1997<br>£'000 |
|---|---------------|---------------|
| Amounts falling due within one year:          |               |               |
| Trade creditors                               | 8,397         | 8,524         |
| Taxation and social security                  | 1,927         | 1,729         |
| Accruals and deferred income                  | 2,588         | 2,724         |
| Obligations under finance lease               | —             | 6             |
| Proposed dividend                             | 509           | 432           |
|   | <u>13,421</u> | <u>13,415</u> |
| Amounts falling due after more than one year: |               |               |
| Bank loan                                     | 4,000         | 4,000         |
| Accruals and deferred income                  | 832           | 887           |
| Obligations under finance lease               | —             | 11            |
|   | <u>4,832</u>  | <u>4,898</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 quarterly instalments between January 1999 and January 2003.

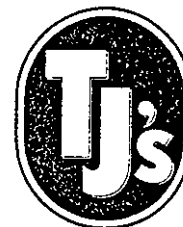
| 12. Provisions for Liabilities and Charges                 | 1998<br>£'000 | 1997<br>£'000 |
|--|---------------|---------------|
| Deferred taxation  | 1,368         | 1,322         |
| Pension obligations  | 82            | 46            |
|  | <u>1,450</u>  | <u>1,368</u>  |
| Deferred taxation has been provided in full in respect of: |               |               |
| Accelerated capital allowances                             | 1,315         | 1,188         |
| Other short-term timing differences                        | 53            | 134           |
|  | <u>1,368</u>  | <u>1,322</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:

|                                    | <i>Deferred<br/>taxation<br/>£'000</i> | <i>Pension<br/>obligations<br/>£'000</i> |
|------------------------------------|--|--|
| At 25th January 1997               | 1,322                                  | 46                                       |
| Charged to profit and loss account | 46                                     | 36                                       |
| At 31st January 1998               | <u>1,368</u>                           | <u>82</u>                                |

**Notes to the Financial Statements**  
**31st January 1998**  
*(continued)*



**13. Called Up Share Capital**

|   |               | 1998         |               | 1997         |
|---|---------------|--------------|---------------|--------------|
|   | <i>Number</i> | <i>£'000</i> | <i>Number</i> | <i>£'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                       | 21,188,615    | <u>2,119</u> | 20,754,210    | <u>2,075</u> |

During the period the Company issued 434,405 ordinary shares of 10p each for a total consideration of £260,000. The resulting premium of £216,000 has been credited to the share premium account. The shares were issued to employees upon the exercise of options under the Company's share option schemes.

The Company operates four 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"), the employee savings related share option scheme adopted on 22nd April 1992 ("SAYE option scheme"), and the executive share option scheme adopted on 31st October 1997 ("third option scheme").

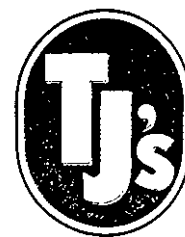
|   | <i>Average<br/>Option price</i> | <i>Ordinary shares<br/>of 10p each -<br/>Number reserved</i> |
|---|---------------------------------|--|
| First option scheme -<br>exercisable not later than 1998  | 25.5p                           | 29,812   |
| Second option scheme -<br>exercisable not later than 2007 | 79.2p                           | 498,212  |
| SAYE option scheme -<br>exercisable not later than 1999   | 60.0p                           | 68,250   |
| Third option scheme -<br>exercisable not later than 2004  | 95.6p                           | 401,500  |

**14. Reserves**

|                                | <i>Share premium<br/>account<br/>£'000</i> | <i>Revaluation<br/>reserve<br/>£'000</i> | <i>Profit and loss<br/>account<br/>£'000</i> |
|--------------------------------|--|--|--|
| At 25th January 1997           | 4,724                                      | 434                                      | 3,651  |
| Retained profit for the period | —  | —  | 1,423  |
| Premium on share issue         | 216  | —  | —  |
| At 31st January 1998           | <u>4,940</u>                               | <u>434</u>                               | <u>5,074</u>                                 |

The cumulative amount of goodwill written off directly against reserves amounts to £416,000 (1997 - £416,000).

**Notes to the Financial Statements**  
**31st January 1998**  
*(continued)*



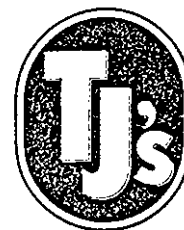
|   | 1998<br>53 weeks<br>£'000 | 1997<br>52 weeks<br>£'000 |
|---|---------------------------|---------------------------|
| 15. Reconciliation of operating profit to net cash flow from operating activities |                           |                           |
| Operating profit  | 3,459                     | 2,292                     |
| Depreciation  | 1,015                     | 924                       |
| Increase in stocks  | (1,132)                   | (1,735)                   |
| Increase in debtors   | (80)                      | (255)                     |
| (Decrease)/increase in creditors  | (16)                      | 3,131                     |
| Amounts received in respect of store openings                                     | 280                       | 288                       |
| Adjustments to accruals and prepayments in respect of store openings              | (470)                     | (366)                     |
|   | <u>3,056</u>              | <u>4,279</u>              |

|   | 1998<br>53 weeks<br>£'000 | 1997<br>52 weeks<br>£'000 |
|---|---------------------------|---------------------------|
| 16. Reconciliation of net cash flow to movement in net debt |                           |                           |
| (Decrease)/increase in cash in the period                   | (455)                     | 3,802                     |
| Decrease/(increase) in debt and lease financing             | 17                        | (1,994)                   |
|   | <u>(438)</u>              | <u>1,808</u>              |
| Movements in net debt in period                             |                           |                           |
| Net debt at 25th January 1997                               | (2,985)                   | (4,793)                   |
| Net debt at 31st January 1998                               | <u>(3,423)</u>            | <u>(2,985)</u>            |

|                                   | 25th January<br>1997<br>£'000 | Cash flow<br>£'000 | 31st January<br>1998<br>£'000 |
|-----------------------------------|-------------------------------|--------------------|-------------------------------|
| 17. Analysis of net funds         |                               |                    |                               |
| Cash in hand and at bank          | 1,032                         | (455)              | 577                           |
| Debt due after more than one year | (4,000)                       | —                  | (4,000)                       |
| Finance leases                    | (17)                          | 17                 | —                             |
|                                   | <u>(2,985)</u>                | <u>(438)</u>       | <u>(3,423)</u>                |



**Notes to the Financial Statements**  
**31st January 1998**  
*(continued)*



**18. Capital and Operating Lease Commitments**

Capital expenditure contracted for but not provided at 31st January 1998 amounted to £3,659,000 (1997 – £585,000).

Operating lease commitments:

At 31st January 1998 the Company had commitments under operating leases to make payments in the following financial year as follows:-

|                                       | 1998  |                         | 1997  |                         |
|---------------------------------------|---|-------------------------|---|-------------------------|
|                                       | <i>Land<br/>and<br/>buildings<br/>£'000</i> | <i>Others<br/>£'000</i> | <i>Land<br/>and<br/>buildings<br/>£'000</i> | <i>Others<br/>£'000</i> |
| Leases expiring:                      |   |                         |   |                         |
| within one year                       |   | 28                      | —   | 28                      |
| in the second to fifth year inclusive | 123   | 203                     | 123   | 160                     |
| over five years                       | 2,953                                       | —                       | 2,321                                       | —                       |
|                                       | <u>3,076</u>                                | <u>231</u>              | <u>2,444</u>                                | <u>188</u>              |

**19. Pension Arrangements**

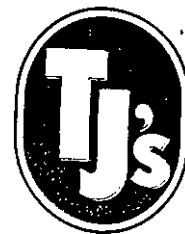
The Company operates a defined benefit pension scheme which is available to full time employees including the Executive Directors. The scheme is administered through a separate trustee administered fund.

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 1997. 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 1997 the value of the scheme's assets was £4.758 million, which was sufficient on the stated assumptions to cover 120% 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 £82,000 (1997 – £46,000) was made under the requirements of SSAP 24. On the basis of the valuation it would be possible for the Company contribution holiday to continue to 31st March 2000.



## NOTICE OF ANNUAL GENERAL MEETING



Notice is hereby given that an Annual General Meeting of T.J.Hughes plc will be held at St. George's Hall, situated at William Brown Street, Liverpool L1 1JJ on 9th July, 1998 at 12 noon for the following purposes:

1. To receive and adopt the Annual Report for the 53 weeks ended 31st January 1998.
2. To re-appoint Mr. J. M. Robertson as a Director.
3. To re-appoint Mr. A. P. Potter as a Director.
4. To re-appoint Price Waterhouse as Auditors and to authorise the Directors to determine their remuneration.

Dated: 23rd April, 1998

By Order of the Board

A. P. Potter  
Secretary

Registered Office:  
Hughes House  
London Road  
Liverpool L3 8JA

### 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.