

# T.J. Hughes plc

*Annual Report & Accounts*  
1999-2000

**TJ's**



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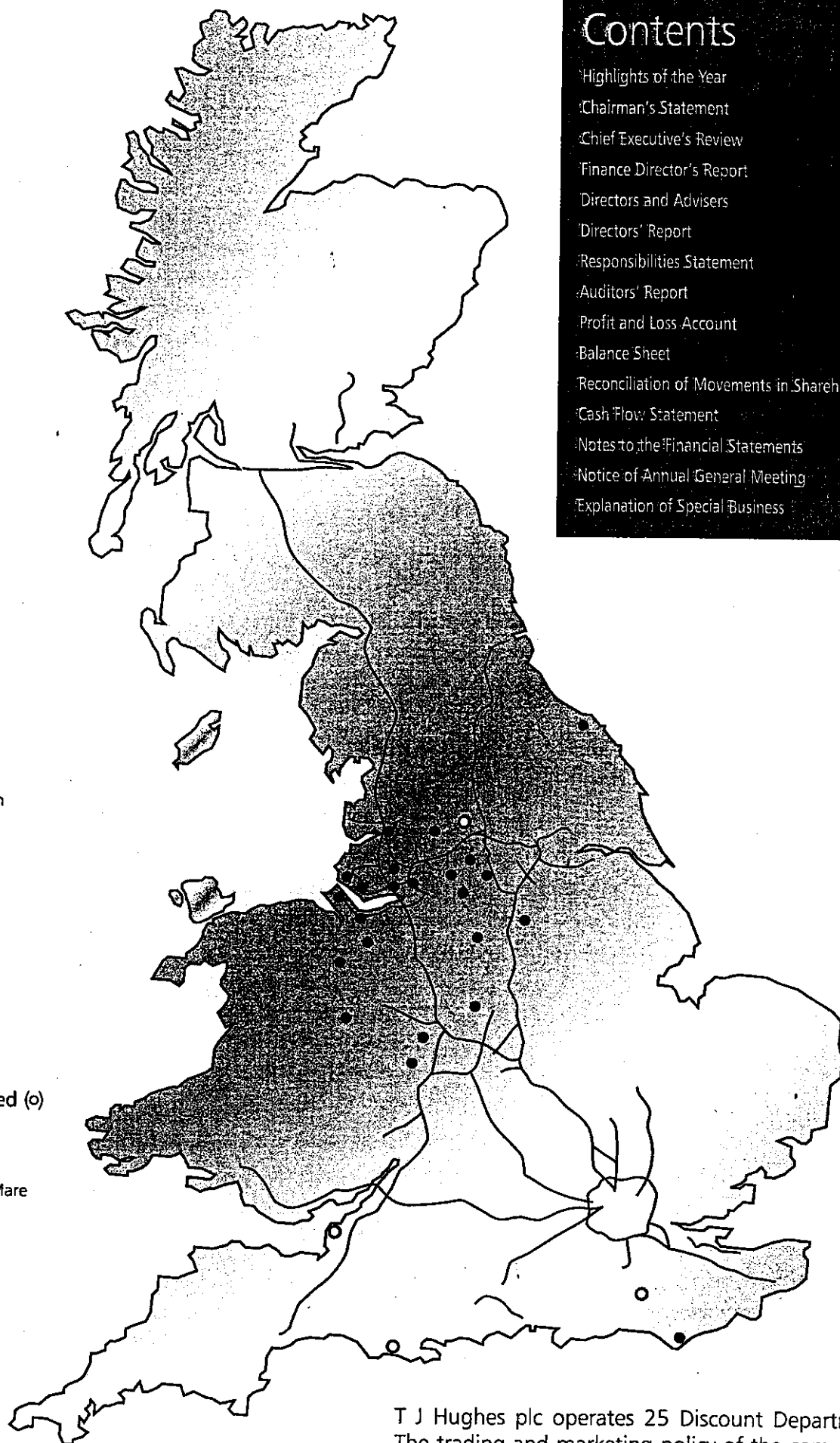
### T.J. Hughes

#### Stores (●)

Liverpool (3)  
 Bootle  
 Preston  
 Rochdale  
 Oldham  
 Salford  
 Stretford  
 St. Helens  
 Birkenhead  
 Widnes  
 Ellesmere Port  
 Chester  
 Macclesfield  
 Lichfield  
 Wolverhampton  
 Kidderminster  
 Shrewsbury  
 Blackburn  
 Sheffield  
 Eastbourne  
 Middlesbrough  
 Warrington  
 Wrexham

#### Stores Planned (○)

Burnley  
 Crawley  
 Boscombe  
 Weston-Super-Mare



T J Hughes plc operates 25 Discount Department Stores. 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.

# Highlights of the Year 2000

Turnover up 24% to £125.8m  
(1999 : £101.5m)

Operating profit up 27.8% to £7.0m  
(1999 : £5.5m)

Pre-tax profits up 27.4% to £6.5m  
(1999 : £5.1m)

Final dividend of 3.17p making a total for the year of 4.46p  
(1999 : 3.88p)  
Increase of 15%

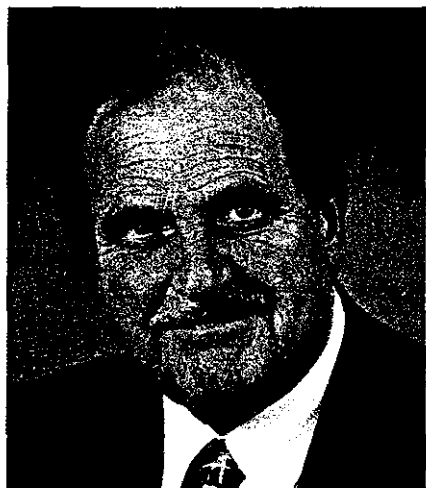
Earnings per share increased by 22.4% to 17.06p  
(1999 : 13.94p)

Opened three new stores in the year.  
Increased net selling space by 19.3% to 779,000 sq ft.  
(1999 : 653,000 sq ft)

Track Record : Turnover £m			
1997	63.0		
1998*	75.0		
1999	101.5		
2000	125.8	+24%	
Year to end January (*53 weeks)			

Track Record : Profit before tax			
1997	£1.8m		
1998*	£3.0m		
1999	£5.1m		
2000	£6.5m	+27%	
Year to end January (*53 weeks)			

Track Record : Earnings per share			
1997	6.1p		
1998*	10.2p		
1999	13.9p		
2000	17.1p	+22%	
Year to end January (*53 weeks)			



David Winterbottom  
*Chairman*

## *Chairman's Statement*

### **Financial Review**

I am delighted to report record results and a continuing strong performance in a variable retail market undergoing substantial structural change.

Profit before taxation for the 52 weeks ending 29th January 2000 was up 27% to £6.5m compared to £5.1m for the comparable period last year. Turnover totalled £125.8m (1999 : £101.5m), an increase of 24.0%.

In addition strong cash flow during the year has supported the growth in activities with year-end gearing comfortable at 11% (1998 : 9%).

### **Review of Activities**

During the period under review the company successfully opened three new stores increasing our net selling space by 19% to 779,000 sq ft (1999 : 653,000 sq ft). The first T J Hughes store to open in the south of England was in Eastbourne and we intend to continue this widening of our geographical coverage.

The 'middle ground' retailers continue to be under pressure from the quality discounters such as T J Hughes and other specialist operators. One important effect is a steady

improvement in the outlook for obtaining retail properties which match T J Hughes' stringent requirements in terms of size, location and cost structure. This is an environment in which T J Hughes is thriving by delivering quality branded merchandise at excellent prices on a consistent basis.

The Company will open four new outlets in Spring 2000 and is looking at other opportunities for both the current financial year and thereafter. We continue to be selective in store acquisition, and only proceed where we regard our trading formula as appropriate to the location.

### **Dividend**

The Directors are recommending a final dividend of 3.17p (1999 : 2.76p) net per share which, subject to shareholders' approval at the Annual General Meeting, will be paid on 30th July 2000 to those shareholders on the register at close of business on 7th April 2000. This proposed dividend, together with the interim of 1.29p paid on 31st December 1999 represents a total distribution of 4.46p (1999 : 3.88p) per share, an increase of 15% on the previous year.

# Chairman's Statement *(continued)*

## Internet

The Board has considered the impact of e-commerce upon the retail sector. It is recognised as being a channel of growing importance and during the year the Company established a T J Hughes plc website ([www.tjhughes.co.uk](http://www.tjhughes.co.uk)) to provide information to both investors and customers. We intend that, in due course, this will be extended to provide a fully interactive "e-tail" facility.

## Shareholding

In common with many listed companies, the Board will seek shareholder approval, at the Annual General Meeting, to empower it to buy back and cancel shares where the Board believes it to be in the best interest of shareholders. Fuller details of this will be set out in the Notice of Annual General Meeting.

## The Board

John Robertson retired from the Board with effect from the 29th January 2000. In his ten years as a Non-Executive Director, John made an enormous contribution to the Company; particularly utilising his expertise on property related matters. Our thanks and best wishes go out to him.

I am delighted to report that Gordon Wotherspoon was appointed a Non-Executive Director, with effect from the 24th March

2000. Gordon is Managing Director, Property and Development for Safeway Stores plc and will bring to the Board over 25 years' experience of developing store portfolios within public companies.

In addition, I am delighted to announce that we intend to appoint Sue Tennant as Group Buying Director with effect from 1st April 2000. Sue joined the Company in May 1990 as a footwear buyer and has played a significant part in the development of the buying function over the last three years.

## Staff

The continued expansion of the Company and tough retail environment in which it operates have placed considerable burdens on both staff and management. On behalf of the Board I would like to thank all our employees for the immense contribution they have made to the business over the last 12 months.

## Outlook

The Board is pleased with trading for the current year and this is covered in more detail in the Chief Executive's Review.

There are substantial opportunities for the appropriate expansion of T J Hughes as it progressively extends its geographic coverage. The Board anticipates satisfactory progress in this current trading year.

D S Winterbottom  
Chairman

28th March 2000



George Foster  
Chief Executive

## *Chief Executive's Review*

### **Further Expansion**

During the past year the Company has continued to grow at a fast pace. We have opened three new stores during the year. The first was Eastbourne in March with 48,000 sq ft net selling space which was also our first in the south east of England. Eastbourne store has exceeded our sales expectations and encouraged us that our quality discount formula will work well in the south where we have plans for more stores. Following on in September we opened our first store in Wales at Wrexham bringing 32,000 sq ft net selling space and finally we opened in Middlesbrough with 46,000 sq ft net selling space in October, again our first in the north east of England.

The total new selling space opened during the year is 126,000 sq ft, an increase of 19% on the previous year end. At the year end we were trading from 779,000 sq ft (1999 : 653,000) across 25 sites, (1999 : 22).

### **Future Growth**

We are well on our way to meeting our growth targets this year. To date we have opened two stores with two more to be opened by the 12th April, making a total of four in the first half. We are still actively looking for more stores this year and I hope to make further announcements.

Our first store to open this year was Boscombe in March and trades from 32,000 sq ft net selling space. This was quickly followed by an opening of a 41,000 sq ft store in Crawley on 15th March. Weston-Super-Mare at 27,000 sq ft net selling space opens on 28th March and Burnley with 30,000 sq ft net selling space will open on 12th April. This year so far openings will total 130,000 sq ft, a 17% increase on our year end.

The changes taking place within the overall retail market are working to T J Hughes' advantage in terms of expanding the store network. Increasingly, T J Hughes is becoming a principal anchor tenant in retail developments in place of certain more 'traditional' brands.

These are exciting times for the Company and we are now looking for stores throughout the UK as our proven formula is working well in all our new sites.

## Chief Executive's Review *(continued)*

### Strengthening Buying

As a quality discount retailer, we have to put great emphasis on securing the right merchandise. To this end we have added more quality brands to our portfolio. Our buying team has been strengthened by the appointment of two controllers to help manage our expanding team. As we become a larger company with up-to-date systems it is pleasing that the ability of our buying team to source the best merchandise continues to improve.

### Operating Margins

T J Hughes is benefiting from increasing scale, enabling operating margins to be improved to 5.6% (1999 : 5.4%) while still selling quality merchandise at excellent prices.

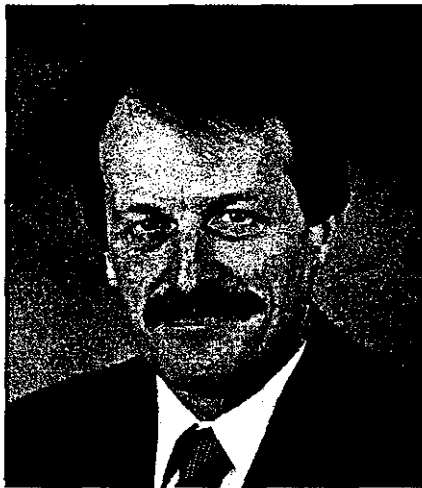


G W Foster  
Chief Executive

### Current Trade

These record results demonstrate the strength of T J Hughes' quality discount department store retail formula. I am happy to report that our new stores are all trading well and that the Company is enjoying like-for-like growth of 8% for the first eight weeks of the current year.

28th March 2000



**Anthony Potter**  
*Finance Director*

## *Finance Director's Report*

### **Trading Review**

The key headlines behind the trading performance are as follows:

- Turnover from continuing operations increased by 24% in the year. Like-for-like sales for the 52 weeks ended 29th January 2000 were up 7.3% on the comparable period last year.
- Gross margins at 31.7% are broadly in line with last year.
- The increase in operating costs reflects the additional new retail space opened during the period. Operating expenditure at 26.1% to sales was slightly better than the previous year (26.2%).
- The interest charge has risen during the year reflecting the increase in the average net debt position, principally due to the new store opening programme with its associated capital expenditure and working capital requirements. After net interest payable of £490,000 (1999 : £368,000) profit before tax was £6,511,000 (1999 : £5,111,000) an increase of 27.4%. Earnings per share were 17.06p (1999 : 13.94p).

### **Taxation**

The overall taxation charge was £1,947,000. The effective tax rate was 30%, which is consistent with last year.

### **Earnings and Dividends**

Profit for the year attributable to shareholders was £4,564,000 (1999 : £3,578,000). The Board has proposed a final dividend of 3.17p per share which will make a total dividend of 4.46p per share, an increase of 15% on last year. Dividend cover is 3.8 times (1999 : 3.5 times).

### **Cashflow and Borrowings**

Cashflow from operating activities was £7.5m compared with £5.5m in the previous year. There was a net working capital requirement of £3,113,000 (1999 : £2,102,000) reflecting the higher level of trading activity. Payments for fixed assets amounted to £5.4m (1999 : £8.6m), whilst tax and dividends cost £2.5m (1999 : £1.4m).

Net borrowings remain comfortable at £2,732,000 (1999 : £1,964,000). Interest cover has reduced slightly to 14.3 times (1999 : 14.9 times).



# Finance Director's Report *(continued)*

## Treasury Policy and Financial Instruments

The Company's policy, approved by the Directors is to manage its funding requirements and treasury risks without undertaking any speculative risks. The Company's policy with regard to the maturity profile and interest rate risk of debt, is that the majority of the Company's financing should be provided by floating rate debt. Debt should be fixed for a period if raised to finance expansion with the remainder remaining short term. The principal funding for the Company is through a secured term loan of £4.4m repayable in instalments over the next four years, an unsecured term loan of £3.0m undrawn and overdraft facility of £7.0m with our clearing bank. Cash deposits are placed short term with the clearing bank where security and liquidity are the prime objectives. The Company's policy is to take out future loans at variable interest rates.

Less than one per cent of the Company's purchases are made in foreign currencies. To reduce any associated risk these transactions are covered, as commitments are made, by forward foreign exchange contracts. Such commitments generally do not extend further than two to three months beyond the balance sheet date.

## Pension Funding

The next valuation of the pension fund will be at 31st March 2000. Following the previous valuation there was no requirement for the Company to contribute to the scheme, however the Company recommenced contributions from 1st April 1998 at the rate of 5% of pensionable salaries.

## Accounting Policies and Standards

The Company's accounting policies reflect the current requirements of the UK Accounting Standards Board, including the new standards that have come into effect, namely:

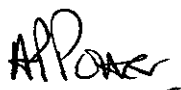
FRS 12 - Provisions, Contingent Liabilities and Contingent Assets,

FRS 13 - Derivatives and Other Financial Instruments: Disclosures, and

FRS 15 - Measurement of Tangible Fixed Assets.

The only notable impact of these new standards is the additional disclosures on *derivatives and other financial instruments*.

We remain committed to the adoption of best practice in our communications with investors. Market updates on current trading are issued regularly throughout the year.



A P Potter  
Finance Director

28th March 2000

## Directors and Advisers

Board of Directors + \*§ David Stuart Winterbottom  
(Non-Executive Chairman)

§ George William Foster  
(Chief Executive)

Anthony Philip Potter  
(Finance Director)

+ \* § Catherine McDowell  
(Non-Executive)

+\*§ Gordon Wotherspoon  
(Non-Executive, appointed 24th March 2000)

+ *Members of the Remuneration Committee*

\* *Members of the Audit Committee*

§ *Members of Nomination Committee*

*Secretary* Anthony Philip Potter

**Registered Office** Hughes House, London Road  
Liverpool L3 8JA

Registered Number 224422

**Auditors** PricewaterhouseCoopers  
8 Princes Parade, St Nicholas Place  
Liverpool L3 1QJ

**Stockbrokers** Charterhouse Securities Limited  
PO Box 66  
Liverpool L69 3RJ

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

Dibb Lupton Alsop  
India Buildings, Water Street  
Liverpool L2 09H

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



**THE BOARD**  
 George Foster   Catherine McDowell   David Winterbottom   Gordon Wotherspoon   Anthony Potter

## *Director's Report*

*For the 52 Weeks ended 29th January 2000*

The Directors present their annual report and audited financial statements for the financial year ended 29th January 2000.

### **Principal Activities and Business Review**

The Company traded during the year through 25 specialist department stores. The Company's results, future prospects and operating activities are described in detail in the Chairman's Statement, the Chief Executive's Review and the Financial Director's Report.

### **Results and Dividends**

The profit on ordinary activities after taxation for the period amounted to £4,564,000.

The Directors recommend a final dividend of 3.17p per share. With the interim dividend of 1.29p per share paid on the 31st December 1999, this will bring the total dividend for the year to 4.46p per share (1999 : 3.88p), an increase of 15%. The final dividend will be paid on 30th July 2000 to shareholders registered on 7th April 2000.

### **Substantial Shareholdings**

At 28th March 2000 the Company has been advised by the following companies of notifiable interests in the ordinary share capital.

<i>Holder</i>	<i>Number of shares</i>	<i>Ordinary</i>
		<i>% of issued share capital</i>
Equitable Life Assurance Society	2,685,750	10.01
Fidelity International Limited	1,265,745	4.71
Britannic Investment Managers Limited	835,000	3.14

# Director's Report

*For the 52 Weeks ended 29th January 2000 – (continued)*

## Directors

The Directors of the Company at the date of this Annual Report are shown on page 8.

Mr J M Robertson retired from the Board with effect from 29th January 2000.

Ms C McDowell was appointed to the Board on 16th April 1999. In accordance with the Articles of Association of the Company she offered herself for re-election at the Annual General Meeting on the 8th July 1999. Her appointment was confirmed at the meeting.

Mr G Wotherspoon was appointed to the Board on the 24th March 2000 and in accordance with the Articles of Association of the Company he offers himself for re-election at the Annual General Meeting on the 6th July 2000.

Mrs S Tennant will be appointed to the Board with effect from the 1st April 2000 and in accordance with the Articles of Association of the Company she offers herself for re-election at the Annual General Meeting on the 6th July 2000.

In accordance with the Company's Articles of Association Ms C McDowell and Mr A P Potter retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Biographical details of David Winterbottom, Catherine McDowell and Gordon Wotherspoon indicating their experience and qualifications are set out below:

**David S Winterbottom**, FCA, FCT, Non-Executive Chairman, aged 63. He is currently Chairman of Hill and Smith Holdings plc, CPL Industries Ltd, Wightlink Group Ltd and several other institutionally owned private companies. He is a Non-Executive Director of Electrocomponents plc.

**Catherine McDowell**, aged 42, appointed to the Board on 7th April 1999. She is currently Director of Barclays International Premier Banking and a member of the Global Executive Board of Barclays Offshore Services.

**Gordon Wotherspoon**, aged 52, appointed to the Board on 24th March 2000. He is currently Managing Director Property and Development for Safeway plc and Joint Chairman of Safeway Stores (Ireland) Limited, a joint venture company with Fitzwilton plc. A chartered surveyor he has been involved with property acquisition and management within major retailers for over 25 years.

Mr G W Foster and Mr A P Potter have service contracts which may be terminated by the Company on giving one year's notice.

A statement of Directors' interest in the shares of T J Hughes plc and of their remuneration is set out on pages 17 to 18.

## Share Capital

Details of the share capital issued during the year are set out in Note 14 on page 34.

## Charitable and Political Contributions

Charitable contributions made by the Company in the year amounted to £14,800 (1999 : £11,000). No political contributions were made during the year (1999 : nil).

# Director's Report

*For the 52 Weeks ended 29th January 2000 – (continued)*

## Payment of Suppliers

The Company's policy concerning the payment of suppliers is either to agree terms of payment at the start of business with each supplier or to ensure that the supplier is made aware of the Company's standard payment terms, and, in either case, to pay in accordance with its contractual or legal obligation, subject to confirmation of receipt of merchandise in good order.

The number of days purchases outstanding at 29th January 2000 was 61 days (1999 : 59 days).

## 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.

The health and safety of the Company's employees, customers and members of the general public is a matter of primary concern. Accordingly it is the Company's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to the health of its employees and members of the public.

## Auditors

PricewaterhouseCoopers have indicated their willingness to continue as auditors to the Company and accordingly a resolution to re-appoint them will be proposed at the Annual General Meeting.

## Pension Fund

Full details of the Company's pension scheme are set out in Note 17 on page 36. Pension scheme funds are administered by Trustees and are independent of the Company's finances. There is no investment in the shares of the Company.

The scheme is open to all permanent full-time and part-time employees of the Company. The scheme provides additional benefits to those from the State Basic Pension Scheme. In addition to the normal retirement pension based on pay and length of service at retirement, there are further benefits payable when members die in service.

## Combined Code on Corporate Governance

With the exception outlined below, throughout the year ended 29th January 2000, the Company has been in compliance with the Code Provisions set out in Section 1 of the Combined Code of Corporate Governance.

For the period between John Robertson's retirement on the 29th January 2000 and Gordon Wotherspoon's appointment on the 24th March 2000, the Board included only two Non-Executive Directors and was in contravention of the Code.

# Director's Report

*for the 52 Weeks ended 29th January 2000 – (continued)*

The Combined Code sets out the principles of good governance and these are commented on below:

## **The Board of Directors**

The Board of T J Hughes plc comprises three Non-Executive Directors and the two Executive Directors. The full Board, which meets regularly throughout the year, maintains overall control of the Company's affairs through a schedule of matters reserved for its decision. These include determining business strategy, approval of the annual budget and financial statement, authority limits for capital and other expenditure and treasury matters. The Non-Executive Directors are independent and free from any business or other relationship, which could materially interfere with the exercise of their judgement. In addition they do not participate in any bonus, share option or pension scheme of the Company.

The Board considers that the balance between Executive and Non-Executive Directors is appropriate and effective for the control and direction of the business.

The Executive Directors make regular presentations of the financial performance of the business to the investing community through the interim and full year report, and trading statements at the Annual General Meeting and post Christmas. The Company has a programme of regular dialogue with institutional shareholders. During such meetings the Directors are able to put forward the Company's objectives and performance against those objectives.

## **Board Committees**

The Board is assisted by Committees, which it has established with written Terms of Reference. The roles of the Remuneration and Audit Committees are set out below. The composition of the Audit and Remuneration Committees are the three Non-Executive Directors. The Nomination Committee consisting of David Winterbottom, Catherine McDowell, Gordon Wotherspoon and George Foster establishes the criteria for an appointment, which is then considered and confirmed by the Directors. The appointment of Directors is a formal process involving all members of the Board.

Throughout the year the Board and its Committees have been supplied with information and papers which ensure all aspects of the Company's affairs are reviewed. All Directors whether Executive or Non-Executive have unrestricted access to the Company Secretary and executives within the business on any matter of concern to them in respect of their duties. Furthermore, the Company has undertaken to reimburse legal fees to Non-Executive Directors if circumstances should arise in which it is necessary for them to seek separate legal advice in furtherance of their duties. In accordance with the Articles of Association, all Directors are required to offer themselves for re-election every three years.

The Remuneration Committee, chaired by Gordon Wotherspoon, establishes the remuneration policy and arrangements for the Executive Directors. The Committee, in consultation with the Chief Executive, also approves the salary levels of all senior executives employed by the Company. Full disclosure of the Company's remuneration policy and details of the remuneration of each Director is set out on pages 14 to 16.

The Audit Committee, which is chaired by Catherine McDowell, the senior Non-Executive Director, meets twice a year and more frequently if required. It reviews the scope and issues arising from the audit and matters relating to financial control. It also assists the Board in its presentation of the

# Director's Report

for the 52 Weeks ended 29th January 2000 – (continued)

Company's financial results through its review of the interim and full year accounts before approval by the Board, focusing in particular on compliance with accounting principles, any changes in accounting practice, and areas of judgement.

## Internal Control

The Combined Code has introduced a requirement that Directors review the effectiveness of the Company's system of internal control. This requirement extends the Directors' review to cover all controls including operational compliance and risk management as well as financial controls. The Board is aware of the formal guidance on the review of non-financial controls contained in the Turnbull report published in September 1999. However, in accordance with the London Stock Exchange dispensation issued in September 1999 for financial year ends up to 23rd December 2000, the Board continues to report in accordance with the Rutteman Guidance on Internal Control and Financial Reporting. The Board confirms that it has established procedures in line with the Turnbull guidance.

The Board has overall responsibility for the Company's system of internal control, thus ensuring that it maintains full and effective control over appropriate strategic, financial, organisational and compliance issues. 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 Directors have delegated to executive management implementation of the system of internal control throughout the Company. This includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Company's accounting records. The Directors have reviewed the effectiveness of the system of internal financial control. The Company Report and Accounts, prepared from these records, complies fully with generally accepted accounting principles.

It has to be acknowledged that any system of internal control can provide only reasonable but not absolute assurance that assets are safeguarded, transactions authorised and recorded properly and that material errors and irregularities are either presented or would be detected within a timely period.

# Director's Report

for the 52 Weeks ended 20th January 2000 — (continued)

## 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.

## Annual General Meeting

The separate Notice convening the Annual General Meeting to be held at Liverpool Town Hall, situated at High Street, Liverpool L2 on Thursday 6th July 2000 at 12:00 Noon is sent to shareholders with this Annual Report and includes an explanation of the items of Special Business.

As now required by the Combined Code, the Notice has been circulated more than 20 working days before the Meeting and the Board will announce the proxy votes at the end of the Meeting.

## Remuneration

The Board seeks to establish remuneration policies which reflect the need to provide a competitive compensation package designed to attract, retain and motivate members of the senior management team, having regard to the best interests of the Company and the shareholders.

The Remuneration Committee is responsible for determining the remuneration and conditions of employment of the Executive Directors. The Committee, in consultation with the Chief Executive, also approves the salary levels of all senior executives employed by the Company.

Fees of the Non-Executive Directors are set by the Board as a whole, commensurate with the market rate and reflecting the required level of involvement in the Company's activities.

The members of the Committee are the Non-Executive Directors. Other than as shareholders or disclosed below the members of the Committee have no financial interest in the matters to be decided.

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.



# Director's Report

for the 52 Weeks ended 20th January 2000 – (continued)

## Remuneration Policy (continued)

### 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 financial year.

### iii) Executive Share Option Schemes

The Company operates a number of share option schemes. The Executive Share Option Scheme introduced in 1992, "the second option scheme", 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 third option scheme".

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. Some options are subject to performance criteria, with targets set in relation to increases in earnings per share. 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 dependants' pensions. Only basic salary is pensionable. The total pension contribution by the company in respect of Directors was £9,000 (1999 : £8,000).

There are two directors accruing pension benefits. They are:

	Normal retirement age	Age at 29th January 2000	Accrued pension at 30th January 1999 £'000	Increase in accrued pension during the year (excluding inflation) £'000	Accrued pension at 29th January 2000 £'000	Member's contributions in year £'000	Transfer value of increased pension net of member's contributions £'000
G W Foster	65	52	3.2	2.8	6.0	2.9	39.3
A P Potter	65	46	8.7	3.2	11.9	1.7	34.8

Non-Executive Directors are not eligible for Pension Scheme membership.

# Director's Report

for the 52 Weeks ended 20th January 2000 — (continued)

## v) *Service Contracts*

Both Mr G W Foster and Mr A P Potter have one year rolling service contracts.

The Non-Executive Directors do not have service contracts with the Company.

Non-Executive appointments are each for a term of three years, period of notice three months, 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 reimbursement 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.

## Directors' Emoluments

### i) Emolument costs relating to the Directors comprise:

	<i>Salary or fees £'000</i>	<i>Bonus £'000</i>	<i>Benefits £'000</i>	<i>2000 Total £'000</i>	<i>1999 Total £'000</i>
Chairman					
D S Winterbottom	40	—	—	40	30
Executive Directors					
G W Foster	150	60	14	224	202
A P Potter	90	36	12	138	123
Non-Executive Directors					
J M Robertson	15	—	—	15	13
C McDowell	13	—	—	13	—
G Wotherspoon	—	—	—	—	—
	<u>308</u>	<u>96</u>	<u>26</u>	<u>430</u>	<u>368</u>

# Director's Report

for the 52 Weeks ended 20th January 2000 – (continued)

## Directors' Emoluments (continued)

- ii) Benefits above comprise non-cash emoluments mainly in respect of the provision of company cars.
- iii) In addition to his fees as a Director, Mr J M Robertson received £12,500 (1999 : £25,000) in respect of work carried out under his consultancy agreement.

## Directors' Interests and Options

- i) The number of ordinary shares and options over ordinary shares held by the Directors and their families at 29th January 2000 are set out below:-

	Ordinary Shares		Options over Ordinary Shares			
	2000	1999	Second Option Scheme		Third Option Scheme	
			2000	1999	2000	1999
D S Winterbottom	5,000	5,000	—	—	—	—
G W Foster	46,250	46,250	34,500	34,500	639,000	415,500
A P Potter	59,478	59,478	6,250	6,250	278,000	100,000
J M Robertson	239,208	278,646	—	—	—	—
C McDowell	3,225	—	—	—	—	—

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

The interests of the current Directors in the Company have not changed since the year end.

- 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 exercise prices and periods during which the options are exercisable by the Directors are set out below:

	Second Option Scheme			Third Option Scheme		
	Number	Price	Period	Number	Price	Period
G W Foster	34,500	85.50p	2000-2007	215,500	85.50p	2000-2004
				100,000	107.50p	2002-2007
				100,000	124.50p	2001-2005
			*	223,500	337.00p	2004-2006
	<u>34,500</u>			<u>639,000</u>		
A P Potter	6,250	54.50p	2000-2005	50,000	107.50p	2002-2007
				50,000	124.50p	2001-2005
			*	178,000	337.00p	2004-2006
	<u>6,250</u>			<u>278,000</u>		

\* Granted during the year.

# Director's Report

for the 52 Weeks ended 20th January 2000 – (continued)

## Directors' Interests and Options (continued)

The middle market price of the shares at 28th January 2000 was 372.0p.

The range in the Company's share price during 1999/2000 was 169.0p to 382.0p.

Further information on the Option Schemes is contained in note 14 to the financial statements.

- iv) 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.
- v) 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.
- vi) 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.

## Year 2000 and the Euro

With the new year underway the Board is pleased to advise that the considerable effort, which has been necessary to ensure the Company did not suffer as a result of date related issues, produced the appropriate results. The changes to the computer systems, including hardware and software, resulted in significant elements of expenditure. The project cost £1.8m of which £0.3m was spent in the year. Continuing safeguards are being made in order to protect against potential risks in the current year.

Although the UK is not a member of the initial phase of Economic and Monetary Union effective on 1st January 1999, we have had discussions with retail trade organisation and suppliers about the practical aspects of introducing the Euro. Our assessment is that the initial impact on the Company will be minimal. If the UK were to adopt a single European currency, then the costs to the Company would depend on the policies and timing which may be adopted.

# *Responsibilities Statement*

## **Statement of Directors Responsibilities**

This statement has been prepared in compliance with the Combined Code of Best Practice in order to explain the responsibilities of the Directors in preparing the financial statements. It should be read in conjunction with the Auditors Report on page 20.

The Companies Acts require 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;
- keep proper accounting records, safeguard the Company's assets and take reasonable steps to prevent and detect fraud and other irregularities or risks.

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

## Report of the Auditors' to the Members of T J Hughes plc

We have audited the financial statements on pages 23 to 36.

### *Respective Responsibilities of Directors and Auditors*

The Directors are responsible for preparing the Annual Report. As described on page 19, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 11 to 14 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

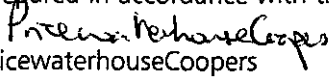
### *Basis of Audit Opinion*

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

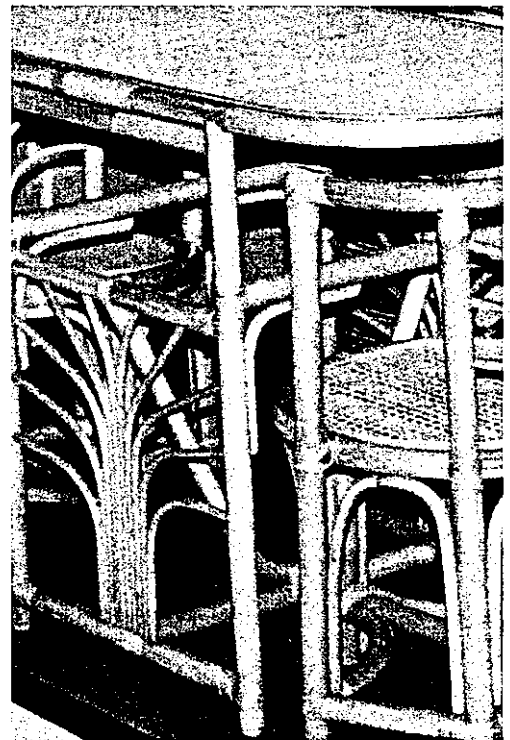
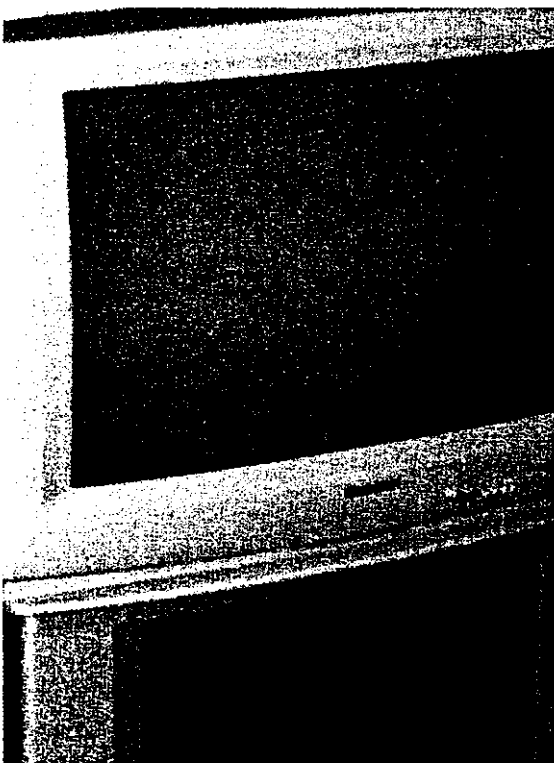
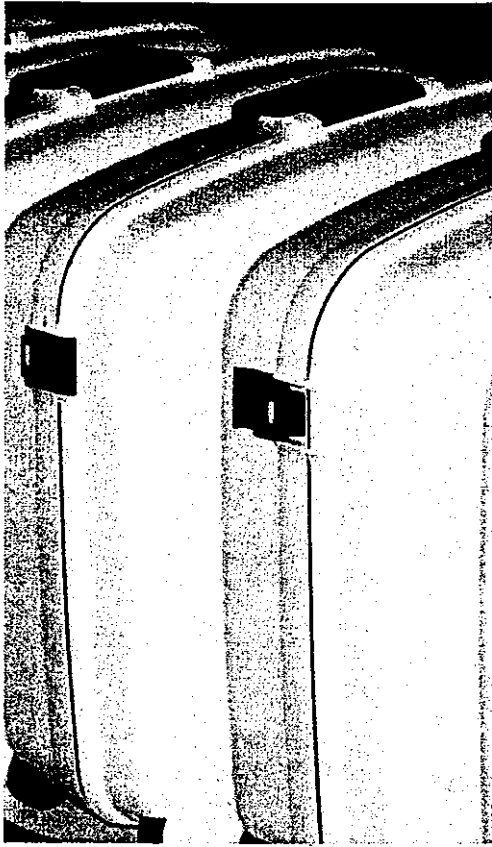
We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

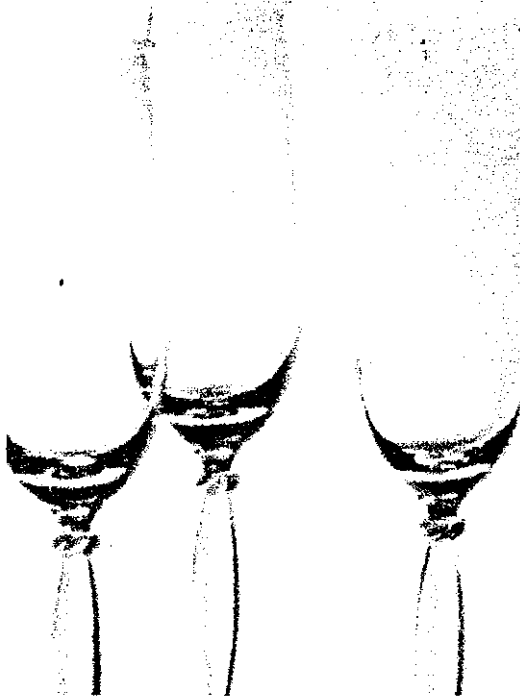
### *Opinion*

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 29th January 2000 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
28th March 2000

8 Princes Parade  
St Nicholas Place  
Liverpool L3 1QJ







# Profit and Loss Account

for the 52 Weeks ended 29th January 2000

	Notes	2000 £'000	1999 £'000
TURNOVER – continuing activities	2	125,800	101,458
Cost of sales		<u>(85,948)</u>	<u>(69,349)</u>
GROSS PROFIT		39,852	32,109
Distribution costs		<u>(29,320)</u>	<u>(22,952)</u>
Administrative expenses		<u>(3,531)</u>	<u>(3,678)</u>
OPERATING PROFIT – continuing activities	3	7,001	5,479
Net interest payable	4	<u>(490)</u>	<u>(368)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		6,511	5,111
Tax on profit on ordinary activities	6	<u>(1,947)</u>	<u>(1,533)</u>
PROFIT FOR THE FINANCIAL PERIOD		4,564	3,578
Dividends	8	<u>(1,199)</u>	<u>(1,032)</u>
PROFIT RETAINED	15	<u>3,365</u>	<u>2,546</u>
Earnings per ordinary share	7	17.06p	13.94p
Diluted earnings per ordinary share	7	16.75p	13.70p
Dividends per ordinary share	8	4.46p	3.88p

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 reported above and that calculated on an historical cost basis.

The notes on pages 27 to 36 form part of these financial statements.

# Balance Sheet

at 29th January 2000

	Notes	2000 £'000	1999 £'000
FIXED ASSETS			
Tangible assets	9	25,970	22,462
CURRENT ASSETS			
Stocks		27,705	21,567
Debtors	10	3,458	2,904
Cash at bank and in hand		1,668	2,036
		<u>32,831</u>	<u>26,507</u>
CREDITORS – amounts falling due within year	11	<u>(24,551)</u>	<u>(19,869)</u>
NET CURRENT ASSETS		<u>8,280</u>	<u>6,638</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		34,250	29,100
CREDITORS – amounts falling due after more than one year	11	(7,049)	(5,856)
PROVISIONS FOR LIABILITIES AND CHARGES	13	(2,380)	(1,919)
NET ASSETS		<u>24,821</u>	<u>21,325</u>
CAPITAL AND RESERVES			
Called up share capital	14	2,683	2,662
Share premium account	15	10,719	10,609
Revaluation reserve	15	434	434
Profit and loss account	15	10,985	7,620
EQUITY SHAREHOLDERS' FUNDS		<u>24,821</u>	<u>21,325</u>

These financial statements were approved by the Boards on 28th March 2000.

G W Foster

A P Potter

Directors

The notes on pages 27 to 36 form part of these financial statements.

# Reconciliation of Movements in Shareholders' Funds

for the 52 weeks ended 29th January 2000

	2000 £'000	1999 £'000
Profit for the financial period	4,564	3,578
Dividends	(1,199)	(1,032)
	<u>3,365</u>	<u>2,546</u>
Net proceeds of issue of shares	131	6,212
Net addition to shareholders' funds	3,496	8,758
Opening shareholders' funds	21,325	12,567
	<u>24,821</u>	<u>21,325</u>
Closing shareholders' funds		

## Cash Flow Statement

for the 52 weeks ended 29th January 2000

	2000 £'000	1999 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	7,488	5,529
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest paid	(534)	(426)
Interest received	<u>11</u>	<u>85</u>
	(523)	(341)
TAXATION		
UK Corporation tax paid	(1,421)	(547)
CAPITAL EXPENDITURE		
Purchase of tangible fixed assets	(5,360)	(8,588)
EQUITY DIVIDENDS PAID	<u>(1,083)</u>	<u>(806)</u>
Cash outflow before financing	(899)	(4,753)
FINANCING		
Proceeds from issue of shares	131	6,702
Issue costs	<u>—</u>	<u>(490)</u>
Increase in debt	<u>400</u>	<u>—</u>
	531	6,212
(DECREASE)/INCREASE IN CASH	<u>(368)</u>	<u>1,459</u>

The notes on pages 27 to 36 form part of these financial statements.

# Cash Flow Statement

for the 52 weeks ended 29th January 2000 (continued)

## Reconciliation of operating profit to net cash flow from operating activities

	2000 52 weeks £'000	1999 52 weeks £'000
Operating profit	7,001	5,479
Depreciation	1,832	1,443
Increase in stocks	(6,138)	(7,040)
Increase in debtors	(313)	(404)
Increase in creditors	3,336	5,342
Amounts received in respect of store openings	2,011	1,365
Adjustments to accruals and prepayments in respect of store openings	(241)	(656)
	<u>7,488</u>	<u>5,529</u>

## Reconciliation of net cash flow to movement in net debt

	2000 52 weeks £'000	1999 52 weeks £'000
(Decrease)/increase in cash in the period	(368)	1,459
Cash inflow from debt	<u>(400)</u>	<u>—</u>
Movements in net debt in period	(768)	1,459
Net debt at 30th January 1999	(1,964)	(3,423)
Net debt at 29th January 2000	<u>(2,732)</u>	<u>(1,964)</u>

## Analysis of net funds

	30th January 1999 £'000	Cash flow £'000	29th January 2000 £'000
Cash in hand and at bank	2,036	(368)	1,668
Debt due within one year	(1,000)	(100)	(1,100)
Debt due after more than one year	(3,000)	(300)	(3,300)
	<u>(1,964)</u>	<u>(768)</u>	<u>(2,732)</u>

The notes on pages 27 to 36 form part of these financial statements.

# Notes to the Financial Statements

29th January 2000

## 1. Accounting Policies

The principal accounting policies adopted by the Company, which have been applied on a consistent basis throughout the period, 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

Tangible fixed assets are included at cost, less accumulated depreciation. Depreciation is not provided on the freehold store in Liverpool. An impairment test, under FRS 11, has been carried out on these premises which has confirmed the valuation. The Company has commenced the depreciation of its freehold distribution facility. Depreciation is charged on a straight line basis over the following periods:

- (i) Freehold buildings other than stores – 50 years.
- (ii) Fixed plant in freehold and long leasehold premises – 2.5% to 10% per annum.
- (iii) Short leasehold buildings and fixed plant – over the remaining period of the lease.
- (iv) Fixtures, fittings and equipment – 10% to 20% per annum.

### (e) Leased assets

Operating leases are charged to profit and loss as incurred.

### (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

29th January 2000 – (continued)

## 1. Accounting Policies (continued)

### (g) Goodwill

In accordance with the transitional arrangements of FRS 10, "Goodwill and Intangible Assets", goodwill previously written off immediately against reserves is retained within reserves. Goodwill arising on future acquisitions will be amortised over the shorter of 20 years or the anticipated life of the goodwill.

### (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 17). The pension cost is assessed in accordance with the advice of qualified actuaries. The Company recommenced contributions to the pension fund on the 1st April 1998.

## 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

	2000 £'000	1999 £'000
This has been stated after charging/(crediting):		
Depreciation of tangible fixed assets		
Owned assets	1,832	1,443
Operating lease rentals		
Plant and equipment	278	261
Land and buildings	5,268	3,702
Store pre-opening expenses	689	538
Capital contributions	(1,104)	(878)
Fees payable to auditors		
For audit services	40	35
For other services	22	20
	<hr/>	<hr/>

## 4. Net Interest Payable

	2000 £'000	1999 £'000
On bank loans and overdrafts	501	453
Interest receivable	(11)	(85)
	<hr/>	<hr/>
	490	368

# Notes to the Financial Statements

29th January 2000 – (continued)

## 5. Directors and Employees

	2000	1999
The average number of persons employed by the Company was:		
Full time	802	659
Part time	1,498	1,186
	<u>2,300</u>	<u>1,845</u>
Total expressed in terms of full time equivalent employees	<u>1,209</u>	<u>1,053</u>
	£'000	£'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	14,291	11,309
Social security costs	900	1,032
Pension costs	132	94
	<u>15,323</u>	<u>12,435</u>

Disclosures on Directors' remuneration, share options, incentive scheme, pension contributions and pension entitlements are on pages 14 to 15 within the Director's Report and form part of these financial statements.

## 6. Taxation

The charge for the year comprises:	2000	1999
	£'000	£'000
UK Corporation tax charge at 30% (1999 : 31%)		
Based on taxable profit for the period	1,422	1,046
Deferred tax	525	487
	<u>1,947</u>	<u>1,533</u>

# Notes to the Financial Statements

29th January 2000 – (continued)

## 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 52 weeks ended 29th January 2000 and 52 weeks ended 30th January 1999 were 26,755,432 and 25,657,673 respectively.

For diluted earnings per share the weighted average number of ordinary shares is adjusted for outstanding options as follows:

	2000 £'000	1999 £'000
Weighted average number of shares used for earnings per share calculation	26,755,432	25,657,673
Number of share options that would have been issued at fair value	1,306,428	1,122,774
Weighted average number of shares used for diluted earnings per share calculation	(824,306)	(662,079)
	<u>27,237,554</u>	<u>26,118,368</u>

## 8. Dividends

	2000 £'000	1999 £'000
Ordinary shares:		
Interim paid on 31st December 1999 at 1.29p per share (1999 : 1.12p)	348	297
Final proposed to be paid on 30th July 2000 at 3.17p per share (1999 : 2.76p)	851	735
Dividends on equity shares	<u>1,199</u>	<u>1,032</u>



# Notes to the Financial Statements

29th January 2000 – (continued)

## 9. Tangible Fixed Assets

	Freehold properties and fixed plant £'000	Short leasehold properties and fixed plant £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost or valuation				
At 30th January 1999	5,533	12,497	10,801	28,831
Additions	53	2,574	2,713	5,340
At 29th January 2000	5,586	15,071	13,514	34,171
Comprising				
Valuations	3,265	—	—	3,265
Cost	2,321	15,071	13,514	30,906
	5,586	15,071	13,514	34,171
Depreciation				
At 30th January 1999	225	1,983	4,161	6,369
Charge for period	127	571	1,134	1,832
At 29th January 2000	352	2,554	5,295	8,201
Net book amount				
At 29th January 2000	5,234	12,517	8,219	25,970
At 30th January 1999	5,308	10,514	6,640	22,462

In 1994/5 the Company's two freehold properties were revalued by an independent valuer on open market existing use basis 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 £5,152,000 (1999 : £5,099,000) less accumulated depreciation of £352,000 (1999 : £225,000).

## 10. Debtors

	2000 £'000	1999 £'000
Trade debtors	464	359
Prepayments and deferred costs	2,994	2,545
	<u>3,458</u>	<u>2,904</u>

Deferred costs which will be expensed after more than one year amount to £651,000 (1999 : £620,000).

# Notes to the Financial Statements

29th January 2000 – (continued)

## 11. Creditors

Amounts falling due within one year and after one year	2000 £'000	1999 £'000
Amounts falling due within one year:		
Bank loan	1,100	—
Trade creditors	14,380	11,484
Taxation and social security	3,757	3,504
Accruals and deferred income	4,463	4,146
Proposed dividend	851	735
	<u>24,551</u>	<u>19,869</u>
Amounts falling due after more than one year:	2000 £'000	1999 £'000
Bank loan	3,300	4,000
Accruals and deferred income	3,749	1,856
	<u>7,049</u>	<u>5,856</u>

## 12. Financial Instruments

These notes should be read in conjunction with the narrative disclosures on FRS 13 'Derivatives and Other Financial Instruments'. FRS 13 was published during the year and requires disclosures in respect of financial assets and liabilities and these are set out below:

(a) The Company does not trade in derivatives.

(b) Short term debtors and creditors.

Short term debtors and creditors have been excluded from all the following disclosures.

(c) Currency and interest rate profile of all financial liabilities at 29th January 2000.

	£'000
Term bank loan (Sterling)	<u>4,400</u>

The term loan is secured by a fixed charge on the Company's Distribution Centre. In addition the Company has an undrawn £3.0m unsecured term loan facility as at the 29th January 2000. Interest is payable at 0.95% above LIBOR. The loan is repayable in quarterly instalments which end in January 2004.

(d) Currency and interest rate profile of financial assets.

	£'000
Cash at bank and in hand (Sterling)	<u>1,668</u>

(d) Cash balances are held with the Company's clearing bank. They earn interest at money market rates.

# Notes to the Financial Statements

29th January 2000 – (continued)

## 12. Financial Instruments (continued)

### (e) Maturity of Financial Liabilities.

The maturity profile of the carrying amount of the Company's financial liabilities, other than short-term creditors such as trade creditors and accruals, was as follows:

	Debt £'000
In one year or less	1,100
In more than one year but not more than two	1,100
In more than two but not more than five	2,200
	<u>4,400</u>

### (f) Borrowing Facilities

The Company has the following undrawn committed borrowing facilities which includes a £7.0m overdraft facility available at 29th January 2000, all of which are at floating rates of interest.

	£'000
Expiring within one year or on demand	<u>10,025</u>

### (g) Fair Values of Financial Assets and Liabilities

	Book Value £'000	Fair Value £'000
Short term borrowings (up to one year)	(1,100)	(1,100)
Long term borrowings	(3,300)	(3,300)
Short term deposits	—	—
Cash at bank and in hand	1,668	1,668

## 13. Provisions for Liabilities and Charges

	2000 £'000	1999 £'000
Deferred taxation	2,380	1,855
Pension obligations	—	64
	<u>2,380</u>	<u>1,919</u>
Deferred taxation has been provided in full in respect of		
Accelerated capital allowances	2,089	1,653
Other short-term timing differences	291	202
	<u>2,380</u>	<u>1,855</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.

# Notes to the Financial Statements

29th January 2000 – (continued)

## 13. Provisions for Liabilities and Charges (continued)

The movement in provisions is as follows:

	Deferred taxation £'000	Pension obligations £'000
At 30th January 1999	1,855	64
Charged/(released) to profit and loss account	525	(64)
At 29th January 2000	<u>2,380</u>	<u>—</u>

## 14. Called Up Share Capital

The authorised share capital is represented by 47,900,000 (1999 : 47,900,000) ordinary shares of 10p each. The called-up share capital, all fully paid, is as follows:

	Number of shares	£'000
Balance at beginning of year	26,624,114	2,662
Issued under SAYE option scheme	56,250	6
Issued under Executive share option scheme	146,410	15
Balance at end of year	<u>26,826,774</u>	<u>2,683</u>

The Company operates two share option schemes; the executive share option scheme adopted on 22nd April 1992 ("second option scheme"), and the executive share option scheme adopted on 31st October 1997 ("third option scheme").

	Average option price	Ordinary shares of 10p each – Number reserved
Second option scheme – Exercisable not later than 2007	87.8p	253,428
Third option scheme – Exercisable not later than 2009	194.5p	1,053,000

# Notes to the Financial Statements

29th January 2000 – (continued)

## 15. Reserves

The movement on reserves is as follows:

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 30th January 1999	10,609	434	7,620
Retained profit for the period	—	—	3,365
Premium on share issue	110	—	—
At 29th January 2000	<u>10,719</u>	<u>434</u>	<u>10,985</u>

The cumulative amount of goodwill written off directly against reserves amounts to £416,000 (1999 : £416,000).

## 16. Commitments

The capital commitments are as follows:

	2000 £'000	1999 £'000
Contracts for capital expenditure	<u>2,314</u>	<u>4,977</u>

Current annual rental commitments of the Company under operating leases are as follows:

	2000		1999	
	Land and buildings £'000	Others £'000	Land and buildings £'000	Others £'000
Lease expiring:				
within one year	220	43	31	40
in the second to fifth year inclusive	—	259	—	190
over five years	6,168	—	4,034	—
	<u>6,388</u>	<u>302</u>	<u>4,065</u>	<u>230</u>

# *Notes to the Financial Statements*

*29th January 2000 – (continued)*

## **17. Pensions**

The Company operates a defined benefit pension scheme which is available to eligible 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 increase by 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 £4.8 million, which was sufficient on the stated assumptions to cover 124% of the accrued benefits based on expected final salary levels.

Following the valuation of the Fund at 31st March 1997, the Company recommenced contributions from 1st April 1998 at the rate of 5% of pensionable salaries.

The pension charge in respect of these pension schemes was £186,000 (1999 : £94,000).

## **18. Related Party Transaction**

The Company made purchases in the year amounting to £3,219,000 (1999 : £3,184,000) from Pact International Limited, a subsidiary of Electrocomponents plc of which Mr D S Winterbottom is a Non-Executive Director. These purchases were made on an arm's length basis and within normal trading terms.

# *Notice of Annual General Meeting*

Notice is hereby given that an Annual General meeting of T J Hughes plc will be held at the Liverpool Town Hall, situated at High Street, Liverpool L2 on the 6th July 2000 at 12 noon for the following purposes:

## **Ordinary Business**

1. To review and approve the Annual Report for the period ended 29th January 2000.
2. To declare a final dividend of 3.17p per Ordinary Share in respect of the 52 weeks ended 29th January 2000.
3. To re-appoint PricewaterhouseCoopers as auditors of the Company and to authorise the Directors to determine their remuneration.
4. To re-appoint Ms C McDowell as a Director.
5. To re-appoint Mr A P Potter as a Director.
6. To appoint Mr G Wotherspoon as a Director.
7. To appoint Mrs S Tennant as a Director.

## **Special Business**

8. To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That for the purposes of section 80 of the Companies Act 1985 ("Act") the Directors of the Company be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (as defined by section 80(2) of the Act) to such persons at such times and on such terms and conditions as they may determine provided that:

- (a) the aggregate of the nominal amount of such securities that may be allotted under this authority shall not exceed £894,225.80; and
- (b) this authority shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution, save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors of the Company may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired and that any previous authority under section 80 of the Act shall henceforth cease to have effect; and
- (c) this authority is a substitution for any authority to allot relevant securities previously granted to the Directors of the Company, which is revoked, such revocation not to have retrospective effect."

# Notice of Annual General Meeting *(continued)*

9. To consider and, if thought fit, pass the following resolution as a special resolution:

"That subject to the passing of the ordinary resolution set out above, the Directors of the Company be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 ("Act") to allot equity securities (as defined by section 94(2) of the Act) for cash pursuant to the authority conferred by the previous resolution, as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited:

- (a) to the allotment of equity securities in connection with an offer (whether by way of rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to the respective numbers of shares held by them provided that the Directors of the Company may make such exclusions or other arrangements to deal with any legal or practical problems under the laws of any territory or the requirement of any regulatory authority or any stock exchange or with fractional entitlements as they consider necessary or expedient; and
- (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £134,133.80 (being 5% of the Company's issued ordinary share capital as at 29 January 2000), and that the authority contained in this resolution shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier fifteen months after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired."

10. To consider, and if thought fit, pass the following resolution as a special resolution:

"That in accordance with article 46 of the articles of association of the Company and part V of the Companies Act 1985 ("Act"), the Company be and is hereby granted general and unconditional authority (pursuant to section 166 of the Act) to make market purchases (as defined in section 163 of the Act) of any of its own ordinary shares of 10p each on such terms and in such manner as the Board of Directors of the Company may from time to time determine provided that:

- (a) the maximum number of ordinary shares authorised to be purchased is 2,682,677;
- (b) the maximum price which may be paid for an ordinary share is an amount equal to not more than 105 per cent of the average of the middle market quotations for the ordinary shares taken from the London Stock Exchange Daily Official List for five business days before the day on which the purchase is made exclusive of advance corporation tax (if any) and attributable expenses payable by the Company;



# Notice of Annual General Meeting *(continued)*

- (c) the minimum price which may be paid for an ordinary share is 10p exclusive of advance corporation tax (if any) and attributable expenses payable by the Company; and
- (d) unless renewed, the authority conferred by this resolution shall expire on the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution except that the Company may, before such expiry, enter into a contract for the purchase of its own ordinary shares which may be completed or executed wholly or partly after the expiration of this authority."

Dated: 28th March 2000

By Order of the Board

A P Potter  
Secretary

Registered Office:  
Hughes House  
London Road  
Liverpool L3 8JA  
[www.tjhughes.co.uk](http://www.tjhughes.co.uk)

## 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 11.45 am 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.

## **Explanation of Special Business**

### **Renewal of Directors Authority to allot shares and disapplication of pre-emption rights**

At the Annual General Meeting held on 8th July 1999 the Directors were empowered to allot shares and, in certain circumstances, to allot shares for cash otherwise than pro-rata to existing shareholdings.

Resolutions 8 and 9 seek approval for the renewal of such authority.

Resolution 8 seeks approval for the renewal of the Directors' authority to allot ordinary shares in accordance with Section 80 of the Companies Act 1985. The authority will be limited to an aggregate nominal value of £894,225.80 of ordinary shares. This limit, calculated in accordance with ABI guidelines, comprises a number of ordinary shares equivalent to one third of the ordinary shares in issue as at 29th January 2000.

Resolution 9 seeks approval for the renewal of the Directors' power to allot equity securities for cash other than by way of rights issue or other offer to Shareholders or for the purpose of the Company's share option schemes. This power will be limited to an aggregate nominal value of £134,133.80 being 5% of the issued ordinary share capital at 29th January 2000.

The authority given under resolutions 8 and 9 will lapse at the conclusion of the next Annual General Meeting of the Company or, in the case of resolution 9, if earlier, fifteen months after the passing of this resolution.

The renewal of the authority to allot shares in the Company will enable your Board to take full advantage of any business or financing opportunities which may arise in future. Your Board also considers it desirable that the Company should, in certain circumstances, have the ability to issue shares for cash other than on a pro rata basis. Your Directors consider the passing of these resolutions to be in the best interests of the Company and its Shareholders and accordingly recommend that you vote in favour of both resolutions as they intend to do in respect of their own shareholdings.

### **Renewal of Company's Authority to purchase ordinary shares**

A special resolution (numbered 10) will be proposed to seek authority for the Company to make market purchases of up to 2,682,677 ordinary shares, representing 10% of the Company's issued ordinary share capital as at 29th January 2000.

The authority given under this resolution will lapse, unless renewed, at the conclusion of the next Annual General Meeting of the Company.

The Directors have no present intention of purchasing ordinary shares in the market.

Renewing the authority for the Company to purchase ordinary shares in the market will allow your Board to take advantage of any opportunities that may arise to increase Shareholder value.

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