

HARRODS BANK LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 29 JANUARY 1994

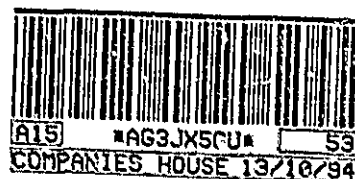
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HARRODS BANK LIMITED

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the financial statements of the company for the year ended 29 January 1994.

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 state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgments 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 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.

DIRECTORS

The Directors at the date of this report are:

MA Lydon ACIB (Chairman)
CJ Campbell CBE FCA
P Carpenter ACIB
G Willoughby CA
AW Wishart MCIBS

In accordance with the Articles of Association, no director is required to seek re-election at the forthcoming Annual General Meeting.

HARRODS BANK LIMITED

PRINCIPAL ACTIVITY

The principal activity of the bank continues to be that of retail banking. No changes are expected in the immediate future.

RESULTS AND DIVIDENDS

The profit after tax for the year ended 29 January 1994 was £224,246 (1993: £67,977).

The holders of the "A" voting shares received a dividend of £3.88 per share on 31 December 1993, in accordance with the Articles of Association. The directors have proposed an interim dividend of £0.04 per share to the holders of the "B" non-voting shares for the year ended 29 January 1994. The balance on the profit and loss account for the period is to be carried forward.

FIXED ASSETS

The movement in tangible fixed assets is detailed in Note 11 to the financial statements.

DIRECTORS' INTERESTS

None of the Directors in office at 29 January 1994 held any interest in the shares of the bank at that date and at 30 January 1993, or date of appointment if later.

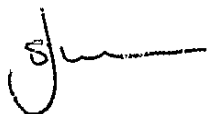
No Director has had a material interest directly or indirectly at any time during the period in any contract significant to the business of the Bank.

Since 28 June 1991, the bank has maintained cover for its Directors under a Directors and Officers Liability Insurance Policy as permitted by Section 310 of the Companies Act 1985.

AUDITORS

Price Waterhouse have expressed their willingness to continue in office as Auditors and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By Order of the Board



S JERMAN ACIS
Secretary

15 March 1994

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF HARRODS BANK LIMITED

We have audited the financial statements on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 8.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 29 January 1994 and of its profit and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Chartered Accountants
and Registered Auditors
London

15 March 1994

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Cities at Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Hull, Leeds, Leicester, Liverpool, London, Manchester, Middlesbrough, Newcastle, Nottingham, Reading, St Albans, Southampton and Windsor

The partnership's principal place of business is at Southwark Towers, 32 London Bridge Street, London SE1 9SY where a list of the partners' names is available for inspection. The firm is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

HARRODS BANK LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 29 JANUARY 1994

	<u>Note</u>	<u>Year ended</u> <u>29 January 1994</u> £	<u>53 weeks ended</u> <u>30 January 1993</u> £
Interest Receivable			
Interest receivable from debt securities		305,490	111,030
Other interest receivable and similar income		1,204,033	2,023,327
Interest Payable		<u>(512,454)</u>	<u>(864,982)</u>
NET INTEREST INCOME		997,069	1,269,375
Other Operating Income	3	<u>1,197,260</u>	<u>818,871</u>
TOTAL INCOME		2,194,329	2,088,246
Administrative expenses	2	(1,505,794)	(1,278,452)
Provisions for bad and doubtful debts		<u>(344,381)</u>	<u>(704,611)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		344,154	105,177
Taxation on profit on ordinary activities	6	<u>(119,908)</u>	<u>(37,200)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		224,246	67,977
Dividends	7	<u>(200,388)</u>	<u>(375)</u>
RETAINED PROFIT FOR THE PERIOD		23,858	67,602
BALANCE BROUGHT FORWARD		<u>3,224,930</u>	<u>3,157,328</u>
BALANCE CARRIED FORWARD		<u>3,248,788</u>	<u>3,224,930</u>

All recognised gains and losses are included in the profit and loss account.

A separate movement of shareholders' funds statement is not provided as there are no charges for the current or previous year other than the retained profit in the profit and loss account.

All results for the year have arisen from continuing operations.

The notes on pages 7 to 16 form part of these accounts.

HARRODS BANK LIMITED

BALANCE SHEET AT 29 JANUARY 1994

	Note	29 January 1994 £	30 January 1993 £
ASSETS EMPLOYED			
Cash		325,777	240,778
Loans and advances to banks	8	10,644,010	7,429,260
Loans and advances to customers	9	7,691,699	8,468,823
Debt securities	10	3,526,197	4,869,853
Tangible fixed assets	11	301,613	385,182
Other assets		211,731	403,321
Prepayments and accrued income		<u>193,890</u>	<u>250,876</u>
		<u>22,894,917</u>	<u>22,048,093</u>
LIABILITIES			
Customers' current and deposit accounts	12	13,952,263	13,472,242
Other liabilities	13	618,968	143,876
Accruals and deferred income		37,798	166,945
Provision for deferred taxation	6	<u>37,000</u>	<u>40,000</u>
		<u>14,646,029</u>	<u>13,823,063</u>
SHARE CAPITAL AND RESERVES			
Called up share capital	14	5,000,100	5,000,100
Profit and loss account		<u>3,248,788</u>	<u>3,224,930</u>
		<u>8,248,888</u>	<u>8,225,030</u>
		<u>22,894,917</u>	<u>22,048,093</u>
MEMORANDUM ITEMS			
Contingent liabilities for guarantees		<u>147,300</u>	<u>180,300</u>

The financial statements were approved by the Board of Directors on 15 March 1994 and signed on their behalf by:

M A Lydon (Chairman)

A W Wishart

The notes on pages 7 to 16 form part of these accounts.

HARRODS BANK LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 29 JANUARY 1994

	Note	Year ended 29 January 1994		53 weeks ended 30 January 1993	
		£	£	£	£
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	17		(351,722)		2,039,700
NET CASH OUTFLOW/ FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Dividends paid			(388)		(375)
TAXATION/GROUP RELIEF RECEIVED/(PAID)			2,500		(105,711)
INVESTING ACTIVITIES					
Purchase of investments		(2,039,062)		(4,867,813)	
Sales of investments		3,693,125		-	
Purchase of tangible fixed assets		(4,704)		(365,598)	
Sale of tangible fixed assets		-		1,500	
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES			<u>1,649,359</u>		<u>(5,231,911)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	17		<u>1,299,749</u>		<u>(3,298,297)</u>

The notes on pages 7 to 16 form part of these accounts.

HARRODS BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 JANUARY 1993

1 ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost basis, in compliance with S255, Schedule 9 and other requirements of the Companies Act 1985 and in accordance with applicable accounting standards.

(b) Pensions

Retirement benefits for the present employees of the bank are funded by contributions from the bank and employees. Payments are made to pension trusts, which are financially separate from the bank, in accordance with calculations made periodically by consulting actuaries. Contributions are charged to the profit and loss account on a basis that spreads the expected cost of providing pensions over the average remaining working lives of the group of employees who are members of the plan.

(c) Foreign currencies

All transactions denominated in foreign currencies are translated at the rates of exchange ruling on the date of the transaction. All assets and liabilities at the year-end expressed in foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date. All profits and losses arising are taken through the profit and loss account.

(d) Deferred taxation

Deferred taxation is provided at the appropriate rates of taxation, where there is a reasonable probability that a liability or asset will crystallise in the foreseeable future, in respect of differences arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the accounts, except where the tax reduction is expected to continue for the foreseeable future.

(e) Provision for bad and doubtful debts

Specific provisions are made against advances when, in the opinion of the directors, recovery is doubtful. In addition, a general provision is maintained to cover losses which, although not specifically identified, are known to be present in any portfolio of bank advances. The aggregate provisions which are made during the year (less amounts released and recoveries of bad debts previously written off) are charged against operating profit.

Loans and advances are written off when, in the opinions of the directors, there is no realistic prospect of recovery; interest of doubtful collectability is held in suspense.

HARRODS BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 JANUARY 1994 (Continued)

(f) Depreciation

Fixed assets are depreciated on a straight line basis at rates calculated to write them off over their expected useful lives, which are between two and five years.

(g) Investment securities

Gilt-edged securities are held at cost plus/less the amortisation of the discount/premium to nominal value which is calculated on a straight line basis to the maturity date. The amortisation of premiums and discounts is included in interest income.

2 ADMINISTRATIVE EXPENSES

	Year ended 29 January 1994 £	53 weeks ended 30 January 1993 £
Administrative expenses include:		
Depreciation	88,273	18,358
Staff costs		
- wages and salaries	440,540	419,918
- social security costs	39,393	37,266
- other pension costs (note 5)	-	-
Auditors' remuneration : Audit fees	36,025	32,313
Non-audit fees	37,130	49,385
Profit on sale of fixed assets	-	1,500
Average Number of Employees (including Executive Director)	29	32

Staff costs are paid by Harrods Limited centrally and recharged to Harrods Bank Limited. The bank paid £260,004 (1992: £261,521) to Harrods Limited in respect of rent and a trademark fee in accordance with its agreement with Harrods Limited.

HARRODS BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 JANUARY 1994 (Continued)

3 OTHER OPERATING INCOME

	Year ended 29 January 1994	53 weeks ended 30 January 1994
Fees and commissions receivable	344,448	307,287
Dealing profits - foreign exchange	545,137	511,584
Profit on sale of investment securities	<u>307,675</u>	<u> </u>
	<u>1,197,260</u>	<u>818,871</u>

4 DIRECTORS' REMUNERATION

	Year ended 29 January 1994	53 weeks ended 30 January 1993
Emoluments including pension contributions:		
Fees	40,000	34,007
Other remuneration	<u>55,193</u>	<u>55,457</u>
	<u>95,193</u>	<u>89,464</u>
Emoluments excluding pension contributions:		
Chairman's emoluments	<u>15,000</u>	<u>12,917</u>
Highest paid director	<u>55,193</u>	<u>54,880</u>

The emoluments of other directors, excluding pension contributions, fell within the ranges of:

	1994	1993
£ nil to £5,000	-	2
£5,001 to £10,000	<u>3</u>	<u>2</u>

At 29 January 1994 there was a loan to one director (1993 : one) of £42,998 (1993 : £43,215).

HARRODS BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 JANUARY 1994 (Continued)

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PENSION COSTS

During the year, the Company participated in the Harrods Group Pension Plan (formerly House of Fraser Group Pension Plan), which operated as a defined benefit group pension scheme in the United Kingdom.

The Group pays such contributions to the plan as required in order to fund benefits for the members and pensioners. The assets of the plan were held in trust separately from the Group.

The regular pension cost charged to the profit and loss account is based on figures calculated for the Group as a whole which are such as to spread the expected pension costs over the average remaining working lives of the group of employees who are members of the plan. The regular cost is expressed as a level percentage of the current and expected future earnings using the projected unit method of calculation, having adopted the following actuarial assumptions:

Investment return	9.0 per cent per annum compound
General growth in pensionable payroll	6.5 per cent per annum compound
Dividend growth for asset valuation purposes	4.5 per cent per annum compound

The total surplus for the Group Pension Plan as at 5 April 1993 has been determined by qualified actuaries who are partners of Bacon & Woodrow, Consulting Actuaries. This total surplus has been allocated to the companies within the Group by the Directors of Harrods Investments plc on a basis that is consistent with that adopted in prior years.

Surpluses or deficiencies and associated interest are spread over the same average period as an adjustment to regular cost.

The Company's pension charge for the 52 weeks to 29 January 1994 was £nil (1992/93 - £nil) and the pension prepayment at 29 January 1994 was £nil (30 January 1993 - £nil).

The market value of the assets held within the pension plan as at 5 April 1993 was £271.8 million. At this date, the assets were sufficient to cover 114.5% of the benefits that had accrued to members, after allowing for the expected future increases in earnings. The actuarial surplus is being spread over the estimated remaining service life of the current employees over 10 years on a straight line basis.

From 9 February 1994 a new pension scheme has been established for the employees and pensioners of the House of Fraser plc group with independent trustees. The assets of the plan have been divided in a manner determined by Bacon & Woodrow, pro rata to the entitlements of the relevant employees and pensioners as at 5 April 1993 and the appropriate proportion of the surplus transferred into the new schemes. The remaining assets continue to reside within the plan.

HARRODS BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 JANUARY 1994 (Continued)

6 TAXATION

	Year ended 29 January 1994	53 weeks ended 30 January 1993
	£	£
The taxation charge/(credit) based on profit for the period at 33% comprises:		
Taxation or group relief payable/(recoverable)	122,908	(2,800)
Deferred tax	(3,000)	40,000
	<u>119,908</u>	<u>37,200</u>

Movement on Deferred Tax

Balance at 30 January 1993

40,000

Release of deferred tax provision

(3,000)

Balance at 29 January 1994

37,000

The deferred tax liability arises from capital allowances recognised in advance of depreciation.

There is no unprovided liability for deferred taxation (1993: £Nil).

HARRODS BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 JANUARY 1994 (Continued)

7 DIVIDENDS

	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>
	£ Per	£ Per	£	£
	Share	Share		
Dividends paid on Ordinary "A" shares	3.88	3.75	388	375
Dividends proposed on Ordinary "B" shares	<u>0.04</u>	<u>-</u>	<u>200,000</u>	<u>-</u>
			<u>200,388</u>	<u>375</u>

8 LOANS AND ADVANCES TO BANKS

	<u>29 January 1994</u>	<u>30 January 1993</u>
	£	£
Repayable on demand	970,654	2,461,323
Other loans and advances with remaining maturity		
- 3 months or less	7,673,356	4,967,937
- 1 year or less but over 3 months	<u>2,000,000</u>	<u>-</u>
	<u>10,644,010</u>	<u>7,429,260</u>

9 LOANS AND ADVANCES TO CUSTOMERS

	<u>29 January 1994</u>	<u>30 January 1993</u>
	£	£
Remaining maturity:		
Over 5 years	4,168,323	3,801,697
5 years or less but over 1 year	1,035,855	1,415,087
1 year or less but over 3 months	312,738	465,784
3 months or less	154,779	181,656
Amounts repayable on demand	<u>2,919,093</u>	<u>3,451,461</u>
	8,590,788	9,315,685
Less: provision for doubtful accounts	<u>(899,089)</u>	<u>(846,862)</u>
	<u>7,691,699</u>	<u>8,468,823</u>

HARRODS BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 JANUARY 1994 (Continued)

9 LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movement on provision for doubtful accounts

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	£	in suspense £	£
Balance at 30 January 1993	754,399	92,463	846,862
Charge for the year	344,381	-	344,381
Interest suspended in year	-	47,157	47,157
Balances written off	(292,465)	(46,846)	(339,311)
Balance at 29 January 1994	<u>806,315</u>	<u>92,774</u>	<u>899,089</u>

10 DEBT SECURITIES

Debt securities comprise listed UK government securities with maturities in excess of one year all of which are held as investment securities. Investment securities balances include unamortized premiums and (discounts) on securities of £26,197 (1993 - £(130,147)). The market value of these investment securities at 29 January 1994 was £3,846,250 (1993 - £4,887,345).

	<u>Cost</u>	<u>(Discounts)</u>	<u>Carrying</u>
	£	Premiums £	Value £
At 30 January 1993	5,000,000	(130,147)	4,869,853
Acquisitions	2,000,000	39,062	2,039,062
Disposals	(3,500,000)	114,553	(3,385,447)
Amortisation	-	<u>2,729</u>	<u>2,729</u>
At 29 January 1994	<u>3,500,000</u>	<u>26,197</u>	<u>3,526,197</u>

HARRODS BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 JANUARY 1994 (Continued)

11 TANGIBLE FIXED ASSETS

	<u>Equipment, fixtures and fittings</u>	<u>Motor Vehicles</u>	<u>Total</u>
	£	£	£
Cost			
At 30 January 1993	362,062	32,293	414,355
Additions	4,704	-	4,704
Disposals	-	-	-
At 29 January 1994	<u>386,766</u>	<u>32,293</u>	<u>419,059</u>
Depreciation			
At 30 January 1993	24,247	4,926	29,173
Charge for year	80,534	7,739	88,273
Disposals	-	-	-
At 29 January 1994	<u>104,781</u>	<u>12,665</u>	<u>117,446</u>
Net book value			
As at 29 January 1994	<u>281,985</u>	<u>19,628</u>	<u>301,613</u>
As at 30 January 1993	<u>357,815</u>	<u>27,367</u>	<u>385,182</u>
	<u>261,731</u>		<u>403,321</u>

12 CUSTOMERS' CURRENT AND DEPOSIT ACCOUNTS

	<u>29 January 1994</u>	<u>30 January 1993</u>
	£	£
With agreed maturity dates or periods of notice, by remaining maturity:		
- 5 years or less but over 1 year	148,121	119,181
- 1 year or less but over 3 months	177,888	248,965
- 3 months or less but not repayable on demand	<u>2,690,313</u>	<u>3,083,452</u>
	3,016,322	3,451,598
- Repayable on demand	<u>10,935,941</u>	<u>10,020,544</u>
	<u>13,952,263</u>	<u>13,472,242</u>

Included in customers' current and deposit accounts is a balance of £308,235 (1993 : £165,390) owing to Harrods Group companies.

HARRODS BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 JANUARY 1994 (Continued)

13 OTHER LIABILITIES

	<u>29 January 1994</u>	<u>30 January 1993</u>
	£	£
Proposed dividend	200,000	-
Mainstream corporation tax	119,809	-
Other liabilities	<u>299,159</u>	<u>143,876</u>
	<u>618,968</u>	<u>143,876</u>

14 CALLED UP SHARE CAPITAL

	<u>29 January 1994</u>	<u>30 January 1993</u>
	£	£
Authorised, allotted, issued and fully paid ordinary shares of £1 each:		
"A" voting shares	100	100
"B" non-voting shares	<u>5,000,000</u>	<u>5,000,000</u>
	<u>5,000,100</u>	<u>5,000,100</u>

15 FOREIGN CURRENCY BALANCES

The company holds assets denominated in foreign currency of £1,910,471 at 29 January 1994 (30 January 1993 : £1,765,641).

16 CONTINGENT LIABILITIES

Contingent liabilities exist in respect of forward contracts for the sale and purchase of foreign currencies entered into in the normal course of business which are not reflected in the balance sheet. These amounted to £nil at 29 January 1994 (30 January 1993 : £50,216).

HARRODS BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 JANUARY 1994 (Continued)

17 NOTES TO CASH FLOW STATEMENT

- (a) Reconciliation of profit on ordinary activities before taxation to net cash inflow from operating activities

	<u>29 January 1994</u>	<u>30 January 1993</u>
	£	£
Profit on ordinary activities before taxation	344,154	105,177
Depreciation	88,273	18,358
Profit on sale of tangible fixed assets	-	(1,500)
Amortisation of discount on investments	(2,729)	(2,040)
Decrease/(increase) in interest receivable and prepayments	56,986	(340,637)
(Decrease)/increase in interest payable and accruals	(129,147)	102,704
Profit on sale of investment securities	(307,675)	-
Effect of other deferrals and accruals on operating cash flows	478,184	-
Tax on franked investment income	(84,686)	-
Net cash inflow/(outflow) from trading activities	443,360	(117,938)
Net increase in current accounts and deposit accounts	480,021	155,734
Net (increase)/decrease in loans and advances	(1,275,103)	2,001,904
Net cash (outflow)/inflow from operating activities	(351,722)	2,039,700

- (b) Analysis of changes in cash and cash equivalents

	<u>29 January 1994</u>	<u>30 January 1993</u>
	£	£
At beginning of period	7,670,038	10,968,335
Net cash inflow/(outflow)	<u>1,299,749</u>	<u>(3,298,297)</u>
At end of period	<u>8,969,787</u>	<u>7,670,038</u>

- (c) Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	<u>29 January 1994</u>	<u>30 January 1993</u>	<u>Change in period</u>
	£	£	£
Cash	325,777	240,778	84,999
Loans and advances to banks			
- Repayable on demand	970,654	2,461,323	(1,490,669)
- Maturity in 3 months or less	<u>7,673,356</u>	<u>4,967,937</u>	<u>2,705,419</u>
	<u>8,969,787</u>	<u>7,670,038</u>	<u>1,299,749</u>