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HOUSE OF FRASER HOLDINGS plc

DIRECTORS' REPORT AND ACCOUNTS

3RD MAY, 1986



HOUSE OF FRASER HOLDINGS plc

DIRECTORS' REPORT

The directors present their report and the audited accounts for the financial year ended 3rd May, 1986.

BUSINESS REVIEW

The business is that of an investment holding company and it is intended to continue this business for the foreseeable future.

On 24th December, 1985 the company changed its name from Alfayed Investment and Trust (UK) plc to House of Fraser Holdings plc.

On 3rd March, 1986 the then outstanding bank loans were refinanced by a syndicated bank loan of £425 million secured by a legal charge over the ordinary shares of House of Fraser plc.

Alfayed Investment and Trust S.A. had previously agreed with the company to lend £50 million to the company on the company's demand. No sums have been drawn down under that agreement. The company's rights under that agreement were subsequently assigned to the banks subscribing the syndicated bank loan.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the period were:

M. Al-Fayed	
A. Fayed	
S. Fayed	
M. Marsh	(appointed 19th September, 1985)
S.W. Frith	(appointed 20th January, 1986)
W.A. Craddock	(appointed 28th April, 1986)
A.J.B. Mawdsley	(appointed 14th August, 1986)
B.L. Walsh	(appointed 14th August, 1986)

Messrs. M. Al-Fayed, A. Fayed and S. Fayed are the registered and beneficial owners of the whole of the issued share capital of the company's holding company, Alfayed Investment and Trust S.A.

None of the directors held any direct beneficial interests in the shares of the company during the period. No such direct beneficial interests were notified in the period up to the date of this report.

FIXED ASSETS

During the period under review the company increased its holding in the ordinary share capital of House of Fraser plc from 89.95% to 100% at a cost of £61.9 million.

HOUSE OF FRASER HOLDINGS plc

DIRECTORS' REPORT

RESULTS AND DIVIDENDS

The results for the financial year are shown in the profit and loss account on page 4. No profits are available for distribution.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Peat, Marwick, Mitchell & Co. as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

14 South Street,
London

14th August 1986

P.P. J.H. Mollay

Secretary

P. Price

Acting Secretary



REPORT OF THE AUDITORS TO THE MEMBERS OF
HOUSE OF FRASER HOLDINGS plc

We have audited the accounts on pages 4 to 13 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared on the basis of the accounting policies set out on page 7, give a true and fair view of the state of the affairs of the company and of the group at 3rd May, 1986 and of the results and source and application of funds of the company and of the group for the financial year to that date and comply with the Companies Act 1985.

14th August 1986

London

Pent, married, Mitchell & Co.

Chartered Accountants

HOUSE OF FRASER HOLDINGS plcPROFIT AND LOSS ACCOUNT
FOR THE FINANCIAL YEAR ENDED 3RD MAY, 1986

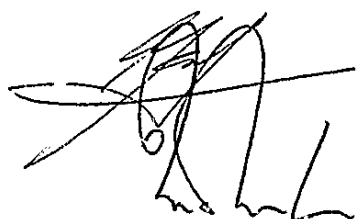
	<u>Note</u>	Financial year ended 3rd May, 1986 £m	34 weeks ended 30th April, 1985 £m
Income from shares in group company		19.2	0.5
Income from other fixed asset investments		0.9	-
Administrative expenses		(1.7)	(0.1)
Interest receivable		0.9	0.1
Interest payable and similar charges	4	(56.7)	(1.4)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(37.4)	(0.9)
Tax on loss on ordinary activities	6	17.4	(0.2)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(20.0)	(1.1)
Extraordinary charges		-	(0.7)
LOSS FOR THE FINANCIAL YEAR		(20.0)	(1.8)
Losses brought forward		(1.8)	-
LOSSES CARRIED FORWARD		<u>(21.8)</u>	<u>(1.8)</u>

The notes on pages 7 to 13 form part of these accounts.

HOUSE OF FRASER HOLDINGS plcBALANCE SHEET AT 3RD MAY, 1986

	Note	3rd May, 1986		30th April, 1985	
		£m	£m	£m	£m
FIXED ASSETS					
Investment in House of Fraser plc	7	609.1		530.3	
Other investments	8	0.0		0.0	
Tangible assets	9	0.6		0.0	
			609.7		530.3
CURRENT ASSETS					
Debtors	10	17.9		2.9	
Cash at bank and in hand		44.7		0.0	
			62.6		2.9
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
	11	(83.2)		(18.3)	
NET CURRENT LIABILITIES					
			(20.6)		(15.4)
TOTAL ASSETS LESS CURRENT LIABILITIES					
			589.1		514.9
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
Bank loans	12	425.0		347.7	
Subordinated loan	13	100.0		100.0	
			525.0		447.7
CAPITAL AND RESERVES					
Called up share capital	14	50.0		50.0	
Revaluation reserve	7	35.9		19.0	
Profit and loss account		(21.8)		(1.8)	
			64.1		67.2
			589.1		514.9

These accounts were approved by the board
of directors on 14th August 1986



)
) Directors
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The notes on pages 7 to 13 form part of these accounts.



HOUSE OF FRASER HOLDINGS plcSTATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE FINANCIAL YEAR ENDED 3RD MAY, 1986

	Financial year ended 3rd May, 1986		34 weeks ended 30th April, 1985	
	£m	£m	£m	£m
SOURCE OF FUNDS				
Loans and net advances on current account from holding company	40.5		157.8	
Less: Amount applied to payment of issued share capital	-		(50.0)	
		40.5		107.8
Guaranteed variable rate loan notes at par		26.9		6.6
Bank loans		51.8		347.7
Syndicated bank loan		425.0		-
Issue of shares		-		50.0
Disposal of other investments		143.7		-
Disposal of tangible fixed assets		0.0		0.0
		<u>687.9</u>		<u>512.1</u>
APPLICATION OF FUNDS				
Investment in House of Fraser plc		61.9		511.3
Purchase of other investments		143.6		0.0
Purchase of tangible fixed assets		0.7		0.0
Guaranteed loan notes repaid		1.4		-
Bank loans repaid		399.5		-
Operations:				
Loss on ordinary activities after taxation		20.0		1.1
Add: Profit on sale of other investments		0.1		-
Extraordinary items		-		0.7
Depreciation		<u>(0.1)</u>		<u>0.0</u>
		20.0		1.8
Changes in working capital:				
Debtors		15.0		2.9
Other creditors and accruals		<u>1.9</u>		<u>(3.9)</u>
		16.9		(1.0)
		<u>644.0</u>		<u>512.1</u>
Increase (decrease) in net liquid funds:				
Cash at bank and in hand		44.7		0.0
Bank overdrafts		<u>(0.8)</u>		<u>0.0</u>
		43.9		0.0
		<u>687.9</u>		<u>512.1</u>

HOUSE OF FRASER HOLDINGS plcNOTES TO THE ACCOUNTS1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's accounts:

(a) Basis of accounting

The accounts have been prepared under the historical cost accounting convention.

(b) Group accounts

The group accounts comprise the accounts of House of Fraser Holdings plc together with the separate accounts of House of Fraser plc for the 66 weeks ended 3rd May, 1986 (included following page 13).

This method of presentation has been chosen in preference to consolidated accounts because, in the opinion of the directors, it provides better information for the users of the accounts.

Information on a dormant subsidiary is given in note 8 on page 10 and is not material in relation to the group's affairs.

(c) Fixed asset investments

The company accounts for its fixed asset investments in subsidiary companies by the equity method whereby the book value of such investments reflects changes in the underlying net assets. Surpluses are credited to a non-distributable revaluation reserve.

(d) Depreciation

Depreciation is provided on tangible fixed assets by equal annual instalments over their estimated useful lives as follows:

Motor vehicles	- 5 years
Furniture, fixtures, fittings and equipment	- 10 years
Computer equipment	- 5 years
Leasehold	- over the remaining period of the lease

HOUSE OF FRASER HOLDINGS plcNOTES TO THE ACCOUNTS2. STAFF NUMBERS AND COSTS

The average number of persons (including directors) employed by the company during the period was eighteen (1985:five).

The aggregate payroll costs of these persons, all of whom were employed in an administrative capacity, were as follows:

	Financial year ended 3rd May, 1986 <u>£'000</u>	34 weeks ended 30th April, 1985 <u>£'000</u>
Salaries	337	19
Social security costs	29	1
Other pension costs	30	-
	<u>396</u>	<u>20</u>

3. EMOLUMENTS OF DIRECTORS AND HIGHER PAID EMPLOYEES

Excluding pension contributions, the emoluments of the chairman were £nil (1985:£nil) and those of the highest paid director were £46,270 (1985:£nil). The emoluments of the other directors fell within the following ranges:

	Financial year ended 3rd May, 1986 <u>No.</u>	34 weeks ended 30th April, 1985 <u>No.</u>
£0 - £ 5,000	3	3
£15,001 - £20,000	<u>1</u>	<u>-</u>

The number of employees whose emoluments, excluding pension contributions, fell within the following ranges were:

	Financial year ended 3rd May, 1986 <u>No.</u>	34 weeks ended 30th April, 1985 <u>No.</u>
£30,001 - £35,000	1	-
£35,001 - £40,000	<u>1</u>	<u>-</u>

HOUSE OF FRASER HOLDINGS plcNOTES TO THE ACCOUNTS4. INTEREST PAYABLE AND SIMILAR CHARGES

	Financial year ended 3rd May, 1986 £m	34 weeks ended 30th April, 1985 £m
On bank loans, overdrafts and other loans:		
Repayable within 5 years	48.1	1.4
Repayable in more than 5 years	8.6	-
	<u>56.7</u>	<u>1.4</u>

5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The loss on ordinary activities before taxation is stated after charging the following:

	Financial year ended 3rd May, 1986 £'000	34 weeks ended 30th April, 1985 £'000
Depreciation	56	2
Auditors' remuneration and expenses	8	4
Directors' emoluments (note 3)	70	-
Equipment rental	1	-
	<u>135</u>	<u>6</u>

6. TAXATION

	Financial year ended 3rd May, 1986 £m	34 weeks ended 30th April, 1985 £m
Group relief receivable	17.4	-
Tax credit on dividends receivable	-	(0.2)
	<u>17.4</u>	<u>(0.2)</u>

HOUSE OF FRASER HOLDINGS plcNOTES TO THE ACCOUNTS7. INVESTMENT IN HOUSE OF FRASER plc

The investment in House of Fraser plc at 3rd May, 1986 represented 100% (1985:89.95%) of the issued ordinary share capital, and is made up as follows:

	<u>Cost of shares</u> £m	<u>Revaluation reserve</u> £m	<u>Total</u> £m
At 1st May, 1985	511.3	19.0	530.3
Additions at cost and related goodwill	61.9	(2.6)	59.3
Changes in underlying net assets	-	19.5	19.5
At 3rd May, 1986	<u>573.2</u>	<u>35.9</u>	<u>609.1</u>

8. OTHER INVESTMENTS

	<u>Shares in group companies</u> £m	<u>Other listed investments</u> £m	<u>Total</u> £m
At 1st May, 1985	0.0	-	0.0
Additions at cost	-	143.6	143.6
Disposals	-	(143.6)	(143.6)
At 3rd May, 1986	<u>0.0</u>	<u>-</u>	<u>0.0</u>

The investment in Alfayed Investment Holdings plc, the company's only subsidiary other than House of Fraser plc, is shown at cost of £13,000 and represents 100% of the issued ordinary shares of £1 each, 25p paid.

The balance sheet of the subsidiary at 3rd May, 1986 and 30th April, 1985 is given below:

	£'000
Amounts owed by holding company	13
Share capital	<u>13</u>

A separate profit and loss account has not been presented as the subsidiary had not commenced to trade as at 3rd May, 1986.

HOUSE OF FRASER HOLDINGS plcNOTES TO THE ACCOUNTS9. TANGIBLE FIXED ASSETS

	Motor vehicles £'000	Furniture, fixtures, fittings and equipment £'000	Short leasehold £'000	Total £'000
Cost:				
At 1st May, 1985	22	-	-	22
Additions	133	258	358	749
Disposals	(6)	(58)	-	(64)
At 3rd May, 1986	<u>149</u>	<u>200</u>	<u>358</u>	<u>707</u>
Depreciation:				
At 1st May, 1985	2	-	-	2
Charged in period	30	26	-	56
At 3rd May, 1986	<u>32</u>	<u>26</u>	<u>-</u>	<u>58</u>
Net book value:				
At 3rd May, 1986	<u>117</u>	<u>174</u>	<u>358</u>	<u>649</u>
At 30th April, 1985	<u>20</u>	<u>-</u>	<u>-</u>	<u>20</u>

10. DEBTORS

	3rd May, 1986 £m	30th April, 1985 £m
Amount due from House of Fraser plc	17.4	2.8
Prepayments	0.1	0.0
Other debtors	0.4	0.1
	<u>17.9</u>	<u>2.9</u>

HOUSE OF FRASER HOLDINGS plcNOTES TO THE ACCOUNTS11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	3rd May, 1986 £m	30th April, 1985 £m
Guaranteed variable rate loan notes at par	32.1	6.6
Amount due to holding company	48.3	7.8
Amount due to subsidiary	0.0	0.0
Other creditors	0.3	0.0
Accruals:		
Interest secured on the assets of the company	0.4	0.4
Other	1.3	3.5
Taxation and social security	0.0	-
Bank overdrafts	0.8	0.0
	<u>83.2</u>	<u>18.3</u>

The loan notes are repayable at par together with accrued interest (less U.K. income tax) at the option of the loan note holders on any interest payment date with not less than 30 days notice in writing. Any loan notes not thus repaid or purchased by the company will be repayable in full at par on 31st July, 1991 together with accrued interest (less U.K. income tax), or (at the option of the company) on 31st July, 1989 if this date falls on or after the fifth anniversary of appropriation of shares to an approved profit-sharing scheme (the release date under Section 54(6) of the Finance Act 1978 (as amended)).

Interest is payable on the loan notes at the six months London Inter-Bank Offered Rate.

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	3rd May, 1986 £m	30th April, 1985 £m
Repayable within one year subject to refinancing:		
Amount due in respect of House of Fraser plc offer acceptances, subsequently funded by a bank loan and other financing facilities secured, in part, on assets of the company	-	117.7
Bank loan:		
Secured on assets of the company	-	80.3
Other	-	146.2
	<u>-</u>	<u>344.2</u>
Repayable after more than one year and secured on assets of the company:		
Syndicated bank loan	425.0	-
Other bank loans	-	3.5
	<u>425.0</u>	<u>347.7</u>

HOUSE OF FRASER HOLDINGS plcNOTES TO THE ACCOUNTS12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

The syndicated bank loan is repayable as follows:

	£m
Between two and five years	50.0
After more than five years	375.0
	<u>425.0</u>

Of the amounts payable after more than five years, £50 million is payable on 31st January, 1992 and the balance on 31st January, 1993.

Interest is payable at rates varying with the London Inter-Bank Offered Rate.

13. SUBORDINATED LOAN

The subordinated loan comprises an unsecured interest free loan of £100 million from Alfayed Investment and Trust S.A. repayable on 30th April, 1995 which may not be repaid earlier than this date. The loan is expressed to be subordinated to the payment of all other liabilities of the company arising before that date.

14. SHARE CAPITAL

	3rd May, 1986 £m	30th April, 1985 £m
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	<u>50.0</u>	<u>50.0</u>

15. ULTIMATE HOLDING COMPANY

The ultimate holding company is Alfayed Investment and Trust S.A., a company incorporated in Liechtenstein. The registered and beneficial owners of the whole of the issued share capital of that company are Messrs. M. Al-Fayed, A. Fayed and S. Fayed.

HOUSE OF FRASER PLC

DIRECTORS' REPORT AND ACCOUNTS

3 MAY 1986

STRICTLY PRIVATE AND CONFIDENTIAL

DIRECTORS AND OFFICERS

Directors

A. Fayed, *Chairman*

M. Al-Fayed

B. L. Walsh *Chief Executive*

G. Willoughby, C.A.

M. M. McMaster

W. A. Craddock, L.V.O.

P. K. Brimacombe, M.A.

L. F. Drewitt, B.Sc.(Econ), F.C.A.

B. J. Gladwin, B.Com., F.B.C.S.

S. W. Frith, M.B.A., A.C.I.S.

Registered Office

69 Buchanan Street,

Glasgow, G1 3LE.

Registered in Scotland No. 21928.

Registrars and Transfer Office

Clydesdale Bank PLC,

Stock Exchange Services Department,

30 St. Vincent Place,

Glasgow G1 2HL.

Secretary

R. J. Scott, F.C.A.

DIRECTORS' REPORT

The Directors present their Report and the audited Group Accounts of House of Fraser plc for the period of 66 weeks ended 3rd May 1986.

DIRECTORS

The names of the present Directors are listed on page 1. Directors also serving during the period were Mr D K Milligan (retired 21st November 1985), Mr C F L Head (retired 21st November 1985), Mr C J Benson (resigned 31st January 1986), Mr D C Mair (retired 31st May 1986), Professor R Smith (resigned 1st June 1986), Mr W G Crossan (retired 28th July 1986), Mr E H Sharp (resigned 28th July 1986) and Mr A J B Mawdsley (appointed 1st March 1985, resigned 28th July 1986).

Mr L F Drewitt and Mr B J Gladwin were appointed Directors on 26th September 1985 and their appointments were confirmed at the Annual General Meeting held on 21st November 1985. Mr B L Walsh was appointed a Director on 30th June 1986 and Mr S W Frith was appointed a Director on 28th July 1986. The appointments of Mr B L Walsh and Mr S W Frith fall to be confirmed by re-election at the Annual General Meeting.

The Directors who retire by rotation are Mr G Willoughby and Mr M M McMaster whom being eligible, offer themselves for re-election. Of the Directors being proposed for re-election at the Annual General Meeting, Mr Willoughby and Mr McMaster have service contracts with unexpired periods of two years.

PRINCIPAL ACTIVITIES

There has been no significant change in the activities of the Company and its subsidiaries which continue to be the operation of well known groups of department stores, and other ancillaries, which make up the 'House of Fraser'.

REVIEW OF THE BUSINESS

The financial year end of the Group has been changed to 3rd May 1986, so as to conform with the accounting reference date of its holding Company.

The financial period has seen continued advancement of the store expansion and refurbishment programme and the completion of major rebuilding of the stores in Edinburgh, Aberdeen and Grimsby. In addition, the Company has acquired the businesses of Ingall Industries plc Kurt Geiger Holdings Limited and Turnbull & Asser (Holdings) Limited.

DIRECTORS' REPORT Cont'd

It also acquired the remaining 60% holding in Waterford-Harrods Limited, a company which owns Switzer and Company Limited. This Autumn a new 'Binns' store will open in the Metro Centre in Newcastle.

RESULTS AND DIVIDENDS

Profits before taxation for the period, including the Group share of the profits of Related Companies, amounted to £50.5 million (1985 £48.2 million). A 1st interim dividend of 6.5p per share was paid to new Ordinary Shareholders on 30th January 1986 and a 2nd interim dividend of 6.0p per share was paid to new Ordinary Shareholders on 3rd April 1986. The Directors propose that no further dividends on the new Ordinary Shares be paid in respect of the period ended 3rd May 1986.

The Directors propose that the balance of £22.0 million after the payment of Dividends on Preference and Ordinary Shares be transferred to Reserves.

CHANGES IN FIXED ASSETS

The changes are set out in Notes 11 and 12 in the Accounts. During the period the Group's direct investment in tangible Fixed Assets, including acquisitions, amounted to £118.1 million. Freehold and Leasehold Properties with a book value of £8.6 million were disposed of during the period.

REVALUATION OF PROPERTIES

A revaluation of Freehold and Long Leasehold properties as at 3rd May 1986, based on sample valuations carried out by Conrad Ritblat between January 1985 and April 1986, has been adopted by the Directors. This revaluation showed a surplus of £104.0 million which has been added to the Revaluation Reserve and is shown in note 21 in the accounts.

SHAREHOLDINGS AND OTHER INTERESTS OF DIRECTORS

As at 3rd May 1986		As at 26th January 1985	
Deferred	Preference	Ordinary	Preference
Ordinary Shares	Shares	Shares	Shares
of	of	of	of
25p	£1	25p	£1
BENEFICIAL INTERESTS			
G Willoughby	-	250	5,030
M M McMaster	-	250	2,522
W A Craddock	-	-	3,414
P K Brimacombe	-	-	11,263
Prof. R Smith	-	-	1,000
W G Crossan	-	250	11,514
D C Mair	-	-	20,551
E H Sharp	-	250	1,000

NON-BENEFICIAL INTERESTS

A Fayed	1,000	-	-	-
M Al-Fayed	1,000	-	-	-
G Willoughby	134,830	-	4,261,476	-
M M McMaster	1,000	-	-	-
W A Craddock	1,000	-	-	-
P K Brimacombe	1,000	-	-	-
L F Drewitt	1,000	-	-	-
B J Gladwin	1,000	-	-	-
Prof. R Smith	1,000	-	-	-
W G Crossan	1,000	-	-	-
D C Mair	1,000	-	-	-
E H Sharp	1,000	-	-	-
A J B Mawdsley	1,000	-	-	-

Since the dates of their appointments on 30th June 1986 and 28th July 1986 respectively, Mr B L Walsh and Mr S W Frith have each been allotted 1,000 Deferred Shares by way of Directors' qualification holdings, these being held as a non-beneficial interest. Mr G Willoughby's non-beneficial interests include 133,830 Deferred Ordinary Shares held as Trustee of the Profit Linked Share Plan.

In addition to their interests disclosed above, Mr A Fayed and Mr M Al-Fayed are interested in the shareholding of House of Fraser Holdings plc., referred to below for the purposes of the Companies Act 1985.

No other Director has any interests in any category of the Company's shares, loan stocks or debentures nor in any of the Company's subsidiaries.

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 Company.

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

	Consolidated		Company	
	1986	1985	1986	1985
18. PROVISIONS FOR LIABILITIES AND CHARGES	£m	£m	£m	£m
Deferred taxation - excess Capital Allowances				
Balance at 26th January 1985	34.5	30.4	1.3	0.9
Acquisitions	2.0	-	-	-
(Credited)/charged in taxation (note 5)	(23.0)	4.1	0.2	0.4
Balance at 3rd May 1986	<u>13.5</u>	<u>34.5</u>	<u>1.5</u>	<u>1.3</u>
	=====	=====	=====	=====

In addition to the amount provided for deferred taxation there are potential liabilities in respect of taxation deferred in relation to:

(1) Excess capital allowances	25.0	-	-	-
(2) Corporation tax on capital gains	11.9	12.9	-	-
(3) Revaluation of properties	80.9	52.1	2.5	2.4
	<u>117.8</u>	<u>65.0</u>	<u>2.5</u>	<u>2.4</u>
	=====	=====	=====	=====

In the opinion of the directors the liabilities arising from the reversal of capital allowances and capital gains are unlikely to arise since capital expenditure is expected to remain at a substantial level for the foreseeable future and the majority of the properties will be retained for use in the business and the availability of roll-over relief would eliminate any liability which could otherwise result from disposals.

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

19.	CALLED UP SHARE CAPITAL	Consolidated		Company	
		1986	1985	1986	1985
		£m	£m	£m	£m
	Allotted and fully paid				
	3.15% Cumulative Preference Shares of £1	0.4	0.4	0.4	0.4
	3.85% Cumulative Preference shares of £1	-	-	-	-
	5.25% Cumulative Preference Shares of £1	0.4	0.4	0.4	0.4
	Ordinary Shares of 25 pence	-	38.4	-	38.4
	Deferred ordinary shares of 25 pence	38.4	-	38.4	-
	New ordinary shares of 1 pence	1.5	-	1.5	-
		<u>40.7</u>	<u>39.2</u>	<u>40.7</u>	<u>39.2</u>
	Unissued Capital	9.3	10.8	9.3	10.8
		<u>50.0</u>	<u>50.0</u>	<u>50.0</u>	<u>50.0</u>
		=====	=====	=====	=====
20.	SHARE PREMIUM ACCOUNT				
	Balance at 26th January 1985	26.6	25.2	26.6	25.2
	Premium on shares issued	-	1.5	-	1.5
	Capitalisation for share issue	(1.5)	-	(1.5)	-
		<u>25.1</u>	<u>26.7</u>	<u>25.1</u>	<u>26.7</u>
		=====	=====	=====	=====
21.	RESERVES	Consolidated		Company	
		Revaluation Reserve	Profit & Loss Account	Revaluation Reserve	Profit & Loss Account
		£m	£m	£m	£m
	Balance at 26th January 1985	202.8	227.7	15.2	127.1
	Currency translation differences	0.3	-	-	-
	Profit retained for period	-	21.7	-	(27.0)
	Premiums on acquisitions written off	-	(19.5)	-	-
	Related company acquired	-	7.0	-	-
	Revaluation surplus	104.0	-	3.7	-
	Transfers to profit & loss account				
	- Amount equivalent to depreciation on revaluation surplus	(3.3)	3.3	(0.1)	0.1
	- Revaluation surplus realised on disposals	(1.7)	1.7	0.3	(0.3)
		<u>302.1</u>	<u>241.9</u>	<u>19.1</u>	<u>99.9</u>
		=====	=====	=====	=====

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

22.	CAPITAL COMMITMENTS	Consolidated		Company	
		1986	1985	1986	1985
		£m	£m	£m	£m
	Contracted for but not yet provided	75.9	25.5	34.3	5.5
	Authorised by Directors but not yet contracted for	55.1	78.2	4.9	43.3
		<u>131.0</u>	<u>103.7</u>	<u>39.2</u>	<u>48.8</u>
		=====	=====	=====	=====
23.	CONTINGENT LIABILITIES				
	There are contingent liabilities for guarantees of:	-	-	6.2	4.1
		=====	=====	=====	=====

There is a balance of purchase consideration on an acquisition amounting to £2,250,000 which may become payable depending on the results of the company acquired exceeding certain targets for the three years after acquisition.

Legal proceedings have been instituted in the United States of America against a subsidiary claiming a total of US\$19,475,000 on the grounds of alleged breach of contract. This claim is being strenuously resisted and the directors believe that it will be disposed of without material liability falling on the Group. So far as the directors of House of Fraser are aware, no other material litigation or claim of material importance is threatened or pending against House of Fraser or any of its subsidiaries.

24. ULTIMATE HOLDING COMPANY

The ultimate holding company is Alfayed Investment and Trust S.A., a private company which is wholly and beneficially owned and controlled by Mohamed, Salah and Ali Al-Fayed, and is incorporated in Liechtenstein.

HOUSE OF FRASER plc

PRINCIPAL COMPANIES

SUBSIDIARY COMPANIES

Operating at 3rd May 1986
Department Stores

Registered and operating in Scotland
House of Fraser (Stores) Limited
(also operating in England and Wales)

Other Activities

House of Fraser (Finance) Limited
Retail & General Finance Limited
J & A Ogilvie Limited
Wylie & Lochhead (Funerals) Limited

Finance Company
Finance Company
Coffin Manufacturers
Funeral Directors

Registered and operating in England
and Wales
Harrods Limited

Astral Sports & Leisure (Retail)
Limited
M & I Gay Limited
Harrods (Insurance) Limited
Harrods Trust Limited

Sports Goods Retailers

Wholesale Fancy Goods
Insurance Brokers
Licenced Deposit-taking
Institution
Construction & Decorating
Contractors
Clothing Manufacturers
Fashion Retailers
Consultancy

John Barker (Construction &
Development) Limited
Benjamin Simon & Sons Limited
Chanslle Limited
House of Fraser (International)
Limited
Fraser Insurance Services Limited
Carvera Shoes Limited
Kurt Geiger Limited
Turnbull & Asser Limited
Jermyn Street Shirtmakers Limited
Hawes & Curtis Limited
Hawes & Curtis (Tailors) Limited
Ingall Funerals Limited
Taylor & Osbourne Limited
Bri-Tech Equipment Limited
Ingall Industries PLC

Insurance Consultants
Footwear Retailing
Footwear Retailing
Shirtmakers & Clothiers
Shirtmakers & Clothiers
Shirtmakers & Clothiers
Civil & Military Tailors
Funeral Directors
Light Engineering
Sale of Hand Pumps
Investment Company

Registered and operating in the
Republic of Ireland
Switzer & Company Limited
Cash & Company Limited
Wm. Todd & Company Limited
Alexander Moon Limited

Harrods (Ireland) Limited

Investment Company

Registered and operating in
Denmark
A C Illum A/S

Registered and operating in
Guernsey

Stag Insurance Company Limited

Insurance Underwriting

Registered and operating in
Canada

Turnbull & Asser (Ontario) Limited

Clothiers

The entire share capital of all classes of stock of the above companies is owned directly or indirectly by House of Fraser plc with the exception of House of Fraser (International) Limited which is 55% owned, Bri-Tech Limited which is 51% owned and Turnbull & Asser (Ontario) Limited which is 51% owned.

RELATED COMPANY

At 3rd May 1986

	Accounting Date	Country of Operation & Registration	Share Capital	% Held by House of Fraser plc
The Craigton Crematorium Company Limited Crematorium Operator	30th September	Scotland	25,000 Ordinary Shares of £1	50.0

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF HOUSE OF FRASER PLC

We have audited the financial statements on pages 7 to 25 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 3rd May 1986 and of the profit and source and application of funds of the group for the period of 66 weeks then ended and comply with the Companies Act 1985.

Price Waterhouse

Chartered Accountants
7th August 1986

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

	66 Weeks To 3/5/86 £'000	52 Weeks To 25/1/85 £'000
10. INFORMATION REGARDING DIRECTORS AND EMPLOYEES		
Directors		
Directors' remuneration fees	1	3
Other emoluments including pension contributions	1,187	620
Pension to former directors and to widow of director	33	28
	<u>1,221</u>	<u>651</u>
	=====	===
Emoluments of the chairman	120	81
Emoluments of highest paid director	120	95
The range of directors and higher paid employees emoluments and the number within each range were:		NUMBER
The information for 1986 has been presented on an annual basis to make it more readily comparable		
Directors		
£ 0 - £ 5,000	5	6
£ 5,001 - £ 10,000	-	1
£ 10,001 - £ 15,000	-	1
£ 15,001 - £ 20,000	-	-
£ 20,001 - £ 25,000	1	-
£ 25,001 - £ 30,000	1	1
£ 30,001 - £ 35,000	2	4
£ 35,001 - £ 40,000	1	1
£ 40,001 - £ 45,000	1	1
£ 45,001 - £ 50,000	1	-
£ 50,001 - £ 55,000	3	1
Employees		
£ 30,001 - £ 35,000	38	27
£ 35,001 - £ 40,000	23	11
£ 40,001 - £ 45,000	9	6
£ 45,001 - £ 50,000	8	4
£ 50,001 - £ 55,000	6	1
£ 55,001 - £ 60,000	4	2
£ 60,001 - £ 65,000	2	2
£ 65,001 - £ 70,000	1	-
£ 70,001 - £ 75,000	1	-
Employee Costs for 66 weeks (52 weeks)	£m	£m
Wages and salaries	196.6	136.7
Social security costs	14.1	11.4
Other pension costs	9.0	6.5
	<u>219.7</u>	<u>154.6</u>
	=====	=====
The average weekly number of employees during the period was made up as follows:-		
UK	25,837	26,067
Rest of Europe	1,753	738
	<u>27,590</u>	<u>26,805</u>
	=====	=====

Loan

At 3rd May 1986 one of the officers of the company owed £146,575 to a subsidiary finance company. This was fully repaid by 11th July 1986.

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

11 FIXED ASSETS - Tangible assets

CONSOLIDATED	Total	Freeholds	Long Leaseholds	Short Leaseholds	Fixtures Fittings Vehicles & Equipment
	£m	£m	£m	£m	£m
Cost and valuation at 26th January 1985	504.1	265.0	122.7	5.1	111.3
Exchange adjustments	0.2	0.2	-	-	-
Additions	91.6	26.4	10.2	0.9	54.1
Acquisitions	26.5	18.7	0.2	0.4	7.2
Disposals	(23.4)	(6.0)	(3.1)	(0.4)	(13.9)
Reclassifications	-	0.1	(4.2)	0.6	3.5
Revaluation surplus	79.5	98.0	(18.5)	-	-
Cost and valuation at 3rd May 1986	678.5	402.4	107.3	6.6	162.2
Aggregate depreciation to 26th January 1985	71.5	11.3	7.0	1.4	51.8
Charge for period	27.4	4.1	2.7	0.5	20.1
Disposals	(10.5)	(0.4)	(0.2)	(0.3)	(9.6)
Revaluation surplus	(24.5)	(15.0)	(9.5)	-	-
Aggregate depreciation to 3rd May 1986	63.9	-	-	1.6	62.3
Net book value at 3rd May 1986	614.6	402.4	107.3	5.0	99.9
Net book value at 26th January 1985	432.6	253.7	115.7	3.7	59.5
Cost and valuation					
1981 valuation	3.8	-	-	3.8	-
1986 valuation	509.7	402.4	107.3	-	-
Cost	165.0	-	-	2.8	162.2
	678.5	402.4	107.3	6.6	162.2
Historical cost to 26th January 1985	295.3	116.3	63.1	4.6	111.3
Depreciation on historical cost to 26th January 1985	60.8	5.1	3.0	0.9	51.8
Net historical cost at 26th January 1985	234.5	111.2	60.1	3.7	59.5
Historical cost to 3rd May 1986	370.4	134.0	67.8	6.4	162.2
Depreciation on historical cost to 3rd May 1986	73.8	6.0	4.3	1.2	62.3
Net historical cost at 3rd May 1986	296.6	128.0	63.5	5.2	99.9

Freehold and long leasehold properties have been revalued on 3rd May 1986 by the directors, having taken appropriate independent professional advice, on an open market existing use basis.

The net book value of fixed tangible assets include an amount of £8.2m (1985 - NIL) in respect of assets held under Finance Leases.

Included in the cost of fixed tangible assets is £6.8m of capitalised interest of which £3.3m was incurred during the period. The taxation charge has been reduced by £1.3m in respect of this interest.

11 FIXED ASSETS - Tangible Assets

COMPANY	Total £m	Freeholds £m	Long Leaseholds £m	Short Leaseholds £m	Fixtures Fittings Vehicles & Equipment £m
Cost and valuation at 26th January 1985	36.7	29.2	0.1	0.1	7.3
Additions	20.0	7.8	-	-	12.2
Disposals	(3.3)	(3.0)	-	-	(0.3)
Group transfers	0.1	-	-	-	0.1
Revaluation surplus	2.9	2.9	-	-	-
Cost and valuation at 3rd May 1986	56.4	36.9	0.1	0.1	19.3
Aggregate depreciation to 26th January 1985	3.7	0.7	-	-	3.0
Charge for period	2.5	0.2	-	-	2.3
Disposals	(0.3)	(0.1)	-	-	(0.2)
Revaluation surplus	(0.8)	(0.8)	-	-	-
Aggregate depreciation to 3rd May 1986	5.1	-	-	-	5.1
Net book value at 3rd May 1986	51.3	36.9	0.1	0.1	14.2
Net book value at 26th January 1985	33.0	28.5	0.1	0.1	4.3
Cost and valuation 1986 valuation	37.0	36.9	0.1	-	-
Cost	19.4	-	-	0.1	19.3
	56.4	36.9	0.1	0.1	19.3
Historical cost to 26th January 1985	32.1	24.1	0.1	0.6	7.3
Depreciation on historical cost to 26th January 1985	3.6	0.5	-	0.1	3.0
Net historical cost at 26th January 1985	28.5	23.6	0.1	0.5	4.3
Historical cost to 3rd May 1986	48.5	28.6	0.1	0.6	19.2
Depreciation on historical cost to 3rd May 1986	5.6	0.5	-	0.1	5.0
Net historical cost at 3rd May 1986	42.9	28.1	0.1	0.5	14.2

Freehold and long leasehold properties have been revalued on 3rd May 1986 by the directors, having taken appropriate independent professional advice, on an open market existing use basis.

The net book value of fixed tangible assets include an amount of £8.2m (1985 - NIL) in respect of assets held under finance leases.

Included in the cost of fixed tangible assets is £5.4m of capitalised interest of which £2.4m was incurred during the period. The taxation charge has been reduced by £1.0m in respect of this interest.

12 FIXED ASSETS - Investments

	Consolidated			Company		
	Total £m	Related Companies £m	Unlisted Investments £m	Total £m	Group Companies £m	Related Companies £m
(a) Shares						
Cost to 26th January 1985	0.3	-	0.3	48.3	48.3	-
Additions	-	-	-	1.1	-	-
Acquisitions	-	-	-	20.6	20.6	-
Transfers	-	-	-	(21.7)	(20.6)	-
Cost to 3rd May 1986	0.3	-	0.3	48.3	48.3	-
Amounts written off to 3rd May 1986	-	-	-	(11.8)	(11.8)	-
Net book value at 3rd May 1986	0.3	-	0.3	36.5	36.5	-
(b) Loans						
At 26th January 1985	1.5	1.5	-	3.5	2.0	1.5
Reclassifications	(1.5)	(1.5)	-	98.6	100.1	(1.5)
Additions	-	-	-	3.0	3.0	-
Repayments	-	-	-	(1.8)	(1.8)	-
At 3rd May 1986	-	-	-	103.3	103.3	-
(c) Share of post acquisition reserves						
At 26th January 1985	6.5	6.5	-	-	-	-
Exchange adjustments	0.2	0.2	-	-	-	-
Share of retained profits	0.3	0.3	-	-	-	-
Related company acquired	(7.0)	(7.0)	-	-	-	-
At 3rd May 1986	-	-	-	-	-	-
(d) Total net book value - 3rd May 1986	0.3	-	0.3	139.8	139.8	-
Total net book value - 26th January 1985	8.3	8.0	0.3	40.0	38.5	1.5

The Directors value the investments in related companies and unlisted investments at not less than the book value in the consolidated accounts.

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

		Consolidated		Company	
		1986	1985	1986	1985
		£m	£m	£m	£m
13.	STOCKS				
	The main categories of stock are:				
	Raw materials and consumables	1.9	0.8	-	-
	Work in progress	1.7	1.2	-	-
	Finished goods for resale	183.1	122.6	-	-
		<u>186.7</u>	<u>124.6</u>	<u>-</u>	<u>-</u>
		=====	=====	=====	=====
	There was no significant difference between the replacement cost of stock at 3rd May 1986 and the amount at which they are stated in the accounts.				
14.	DEBTORS				
	Amounts due within one year				
	Trade debtors	148.4	140.2	1.0	0.4
	Amounts owed by subsidiaries	-	-	287.8	155.6
	Amounts owed by related companies	-	0.8	-	0.8
	Other debtors	4.9	4.6	0.3	0.3
	Prepayments	9.7	5.7	1.0	0.4
	Taxation	1.7	1.2	1.1	1.2
		<u>164.7</u>	<u>152.5</u>	<u>291.2</u>	<u>158.7</u>
		=====	=====	=====	=====
	Amounts due after more than one year				
	Trade debtors	71.5	54.0	-	-
	Amounts owed by subsidiaries	-	-	-	100.0
	Other debtors	0.9	0.2	-	-
	Advance Corporation Tax	1.2	2.3	1.1	2.3
		<u>73.6</u>	<u>56.5</u>	<u>1.1</u>	<u>102.3</u>
		=====	=====	=====	=====
		238.3	209.0	292.3	261.0
		=====	=====	=====	=====
15.	LISTED INVESTMENTS				
	Cost to 26th January 1985	4.0	3.6	-	-
	Additions	2.7	0.4	-	-
	Disposals	(1.3)	-	-	-
		<u>5.4</u>	<u>4.0</u>	<u>-</u>	<u>-</u>
		=====	=====	=====	=====
	Cost to 3rd May 1986	5.4	4.0	-	-
		=====	=====	=====	=====
	Market value 3rd May 1986	5.7	4.0	-	-
		=====	=====	=====	=====
16.	CASH AND BANK BALANCES				
	Money at call and short notice in licenced deposit-taking subsidiary	4.2	4.4	-	-
	Deposits	8.1	2.2	6.6	2.1
	Cash and bank balances	2.8	7.7	7.7	1.3
		<u>15.1</u>	<u>14.3</u>	<u>14.3</u>	<u>3.4</u>
		=====	=====	=====	=====

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

	Consolidated		Company	
	1986	1985	1986	1985
	£m	£m	£m	£m
17. CREDITORS				
Amounts falling due within one year				
Debentures	-	0.4	-	-
Bank overdrafts	20.9	6.0	33.2	11.2
Bank loans	138.5	18.7	134.0	17.9
Other loans	0.9	0.8	-	-
	<u>160.3</u>	<u>25.9</u>	<u>167.2</u>	<u>29.1</u>
Debentures, loans and overdrafts				
Amounts due to subsidiaries	-	-	6.7	8.4
Amounts due to group companies	17.4	-	17.4	-
Current corporation tax	4.3	14.2	0.1	2.9
Other taxes and social security costs	5.9	17.4	-	0.3
Other creditors	16.7	10.3	6.0	4.1
Accruals	23.6	15.6	2.6	0.2
Proposed dividend	-	5.4	-	5.4
	<u>67.9</u>	<u>62.9</u>	<u>32.8</u>	<u>21.3</u>
Other liabilities				
Amounts falling due after more than one year				
Debentures	7.9	6.5	7.9	6.5
Bank loans	105.2	71.0	97.0	71.0
Other loans	7.9	6.0	-	-
	<u>121.0</u>	<u>83.5</u>	<u>104.9</u>	<u>77.5</u>
Taxation	-	0.1	-	-
Other creditors	7.4	0.1	6.5	-
	<u>128.4</u>	<u>83.7</u>	<u>111.4</u>	<u>77.5</u>
	=====	=====	=====	=====
Included in other creditors are obligations under finance leases repayable as follows:				
Under one year	1.5	-	1.5	-
Between two and five years	6.5	-	6.5	-
	<u>8.0</u>	<u>-</u>	<u>8.0</u>	<u>-</u>
	=====	=====	=====	=====

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

17. CREDITORS - continued	Consolidated		Company	
	1986	1985	1986	1985
	£m	£m	£m	£m
(a) Unsecured				
6% unsecured loan stock 1993/98	1.5	1.5	1.5	1.5
8 1/4% unsecured loan stock 1993/98	4.4	4.4	4.4	4.4
8% unsecured loan stock 1986/91	0.1	-	-	-
Unsecured loan notes 1990 (variable rate)	1.3	-	1.3	-
Unsecured loan notes 1990 (1% below inter bank rate)	2.2	-	-	-
Bank loans repayable within one year	138.5	16.5	134.0	16.5
Bank loans repayable in 1986	-	29.5	-	29.5
Bank loans repayable 1987/88	13.0	16.5	13.0	16.5
Bank loans repayable 1988/89	46.0	11.5	46.0	11.5
Bank loans repayable 1989/90	11.0	10.0	10.0	10.0
Bank loans repayable 1992/93	35.3	-	28.1	-
Bank loan repayable from 1983 by half yearly instalments of £700,000	-	4.9	-	4.9
Bank loan in Danish Kroner repayable within one year	-	0.8	-	-
Bank overdraft	18.9	3.9	33.2	11.2
	<u>272.2</u>	<u>99.5</u>	<u>271.5</u>	<u>106.0</u>
(b) Secured (on certain Freehold and Long Leasehold properties)				
8% loan repayable after 6 months in Danish Kroner	0.5	0.5	-	-
Mortgages:				
At 7% annual repayments in Danish Kroner of approximate £123,500	2.5	2.6	-	-
At 7% annual repayments in Danish Kroner of approximately £50,400	1.1	1.2	-	-
At 5 3/4% annual repayments of £50,000 until 1990 when Balance is repayable	1.9	2.0	-	-
6% Debenture stock 1983/85	-	0.4	-	-
At 6 3/4% Repayable in 1994	0.5	0.5	-	-
8% Debenture Stock 1986/91	0.6	0.6	0.6	0.6
Bank overdraft	2.0	2.1	-	-
	<u>281.3</u>	<u>109.4</u>	<u>272.1</u>	<u>106.6</u>
	=====	=====	=====	=====

17. CREDITORS - continued	Consolidated		Company	
	1986	1985	1986	1985
	£m	£m	£m	£m
whereof:				
Debenture Loans				
Repayable within one year or on demand	-	0.4	-	-
Repayable between two and five years	2.0	-	2.0	-
Repayable in five or more years	5.9	6.5	5.9	6.5
	<u>7.9</u>	<u>6.9</u>	<u>7.9</u>	<u>6.5</u>
Bank Loans and Overdrafts				
Repayable within one year or on demand	159.4	24.7	167.2	29.1
Repayable between one and two years	13.0	30.9	13.0	30.9
Repayable between two and five years	56.9	40.1	56.0	40.1
Repayable in five or more years	35.3	-	28.0	-
	<u>264.6</u>	<u>95.7</u>	<u>264.2</u>	<u>100.1</u>
Other Loans				
Repayable within one year or on demand	0.9	0.8	-	-
Repayable between one and two years	0.2	0.3	-	-
Repayable between two and five years	3.8	0.7	-	-
Repayable in five or more years	3.9	5.0	-	-
	<u>8.8</u>	<u>6.8</u>	<u>-</u>	<u>-</u>
	<u>281.3</u>	<u>109.4</u>	<u>272.1</u>	<u>106.6</u>
	=====	=====	=====	=====
Other Loans				
Total repayable by instalments	5.2	5.7	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
Instalments due after five years	2.8	4.5	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

MAJOR SHAREHOLDING

At the date of this Report, House of Fraser (Holdings) plc (Formerly Alfayed Investment and Trust (UK) plc), owned directly or indirectly 100 per cent of the issued Ordinary Share Capital.

PREFERENCE SHARES

The Company has applied to the Court for consent to repay the entire preference share capital of nominal value of £758,000, at par.

EMPLOYEES' PROFIT LINKED BONUS

All eligible staff received a Profit Linked Bonus based on the profit for the period to 1st February 1986.

A new Employees' Share Scheme has been agreed in principle and it is hoped that this will be introduced in 1987.

HEALTH AND SAFETY

In accordance with the provisions of the Health and Safety at Work etc. Act 1974, the Company has issued a written statement of its general policy with respect to the health, safety and welfare at work of its employees and the organisation and arrangements for carrying out the policy.

This statement has been brought to the notice of all employees of the Company.

DISABLED PEOPLE

It is the policy of the Company to give full and fair consideration to applications for employment from disabled people, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotion is afforded to such persons.

EMPLOYEE INVOLVEMENT

Information is provided regularly to employees by means of normal management communication channels using written materials, face to face meetings and video presentations.

Consultation with employees takes place through elected staff committees, health and safety committees and through normal recognised trades union channels. A general awareness of the Company's performance is maintained through regular weekly half-hour training sessions for all staff and, through individual performance appraisals, employees are made aware of their individual contribution to the Company.

DIRECTORS' REPORT Cont'd

DONATIONS

The charitable donations made by the Group and charged in the Accounts were £158,589. There were no political donations.

AUDITORS

Touche Ross resigned as auditors on 28th February 1986. Price Waterhouse were appointed to fill the casual vacancy until the next Annual General Meeting, when a resolution to re-appoint them will be proposed.

CLOSE COMPANY

As at 3rd May 1986 the Company is a Close Company within the meaning of the Income and Corporation Taxes Act 1970.

By Order of the Board
R J SCOTT
COMPANY SECRETARY

Glasgow - August 1986

ACCOUNTING POLICIES

Basis of Accounts. The accounts have been prepared under the historical cost convention modified to include revaluation of the Group's properties.

Basis of Consolidation. The consolidated accounts include the accounts of the company and its subsidiaries and the share of the results and post-acquisition reserves of related companies.

The assets of companies acquired are incorporated at their fair value at the date of acquisition. The premium arising on the acquisition of subsidiaries is charged against distributable reserves.

Stock. Stock is stated at the lower of cost and net realisable value, which is generally computed on the basis of selling price less appropriate trading margin.

Depreciation of Fixed Tangible Assets. Depreciation is provided by the Group in order to write down to estimated residual value (if any), the cost or valuation of fixed assets over their estimated useful lives by equal annual instalments, mainly on the following bases:-

Freehold and long leasehold buildings
Over estimated useful life (21-100 years)

Landlords' plant
Over estimated useful life (1-40 years)

Short Leaseholds
Over remaining period of lease

Fixtures & Fittings
Over 10 years

Vehicles & equipment
Over 4-5 years

Depreciation arising on the revaluation surplus of properties is charged to profit and loss account and then transferred to the revaluation reserve.

Leased Assets. Assets acquired under finance leases are capitalised so as to reflect the fair value of the asset acquired, and depreciated at a rate which is appropriate given the terms of the lease and life of the asset. The interest element of rental charge is taken to profit and loss account in proportion to the capital element outstanding.

Property Development. In the case of major property development projects the interest on the capital borrowed to finance the project is, where separately identifiable and to the extent that it accrues during the period of development, capitalised as part of the cost of the asset.

Property Sales. Surpluses realised on the sale of properties and fixed assets investments, less the reorganisation and closure costs which precede and relate directly to the sale of properties, and similar costs incurred in preparing a property for development, are reported as extraordinary items as these transactions are not considered to be part of the ordinary activities of the Group.

Deferred Taxation. Deferred taxation is provided 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 future.

Credit Sales. Profit is taken on goods sold on credit when the sale is effected, except that a deferral is made in respect of the 10 months extended credit sales which are not subject to interest. The service charge on other credit sales is included in turnover and taken to trading profit as it accrues.

Pensions. Retirement benefits to the present employees of the Group are funded by contributions from the Group and employees. Payments are made to pension trusts, which are financially separate from the Group, in accordance with calculations made periodically by consulting actuaries. The cost of the contributions and of providing pensions to some former employees is charged against the profits of the period.

Foreign Currency. All items in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of the opening net investments in a subsidiary or a related company at the closing rate are recorded as a movement on revaluation reserve. Realised gains and losses are dealt with in the profit and loss account.

HOUSE OF FRASER plc
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE 66 WEEKS ENDED 3RD MAY 1986

NOTE		66 Weeks To 3/5/86	52 Weeks To 26/1/85
		£m	£m
	Total Turnover	1,465.9	1,058.1
	Less Value added tax	175.7	128.0
1	Turnover	<u>1,290.2</u> =====	<u>930.1</u> =====
2	OPERATING PROFIT	71.7	58.0
3	Interest	(20.9)	(9.7)
4	Other operating income	2.4	1.5
	Share of profits of related companies	0.6	0.4
	Employees' profit-linked bonus	(3.3)	(2.0)
	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	<u>50.5</u>	<u>48.2</u>
5	Taxation credit/(charge)	2.5	(20.2)
	PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	<u>53.0</u>	<u>28.0</u>
6	Extraordinary items	(11.8)	(0.2)
7	PROFIT FOR THE FINANCIAL PERIOD	<u>41.2</u>	<u>27.8</u>
8	Dividends	(19.2)	(9.6)
	PROFIT RETAINED	<u>22.0</u> =====	<u>18.2</u> =====
	Whereof:		
	Retained in related companies	0.3	0.1
	Retained in Group	21.7	18.1
		<u>22.0</u> =====	<u>18.2</u> =====
8	Dividend per ordinary share	12.5p	6.25p
9	Earnings per ordinary share	34.5p	18.2p

HOUSE OF FRASER plc
BALANCE SHEETS
AT 3RD MAY 1986

NOTE		Consolidated		Company	
		1986	1985	1986	1985
		£m	£m	£m	£m
	FIXED ASSETS				
11	Tangible assets	614.6	432.6	51.3	33.0
12	Investments	0.3	8.3	139.8	40.0
		<u>614.9</u>	<u>440.9</u>	<u>191.1</u>	<u>73.0</u>
	CURRENT ASSETS				
13	Stocks	186.7	124.6	-	-
14	Debtors	238.3	209.0	292.3	261.0
15	Listed investments	5.4	4.0	-	-
16	Cash and bank balances	15.1	14.3	14.3	3.4
		<u>445.5</u>	<u>351.9</u>	<u>306.6</u>	<u>264.4</u>
	CURRENT LIABILITIES - CREDITORS amounts falling due within one year				
	Trade creditors	80.5	82.9	-	-
17	Debentures, loans and overdrafts	160.3	25.9	167.2	29.1
17	Other liabilities	67.9	62.9	32.8	21.3
		<u>308.7</u>	<u>171.7</u>	<u>200.0</u>	<u>50.4</u>
	NET CURRENT ASSETS	<u>136.8</u>	<u>180.2</u>	<u>106.6</u>	<u>214.0</u>
	TOTAL ASSETS LESS CURRENT LIABILITIES	<u>751.7</u>	<u>621.1</u>	<u>297.7</u>	<u>287.0</u>
17	CREDITORS: amounts falling due after more than one year	(128.4)	(83.7)	(111.4)	(77.5)
	PROVISIONS FOR LIABILITIES AND CHARGES				
18	Deferred taxation	(13.5)	(34.5)	(1.5)	(1.3)
		<u>609.8</u>	<u>502.9</u>	<u>184.8</u>	<u>208.2</u>
		=====	=====	=====	=====
	CAPITAL AND RESERVES				
19	Called up share capital	40.7	39.2	40.7	39.2
20	Share premium account	25.1	26.7	25.1	26.7
21	Revaluation reserve	302.1	202.8	19.1	15.2
21	Profit and loss account	241.9	227.7	99.9	127.1
21	Related companies' reserves	-	6.5	-	-
		<u>609.8</u>	<u>502.9</u>	<u>184.8</u>	<u>208.2</u>
		=====	=====	=====	=====

Approved by the Board on 7th August 1986

M AL-FAYED Director

GEORGE WILLOUGHBY Director

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the 66 weeks ended 3rd May 1986

	66 Weeks To 3/5/86	52 Weeks To 26/1/85
	£m	£m
SOURCE OF FUNDS		
Profit on ordinary activities before taxation		
Adjustments for items not involving the movement of funds:	50.5	48.2
Depreciation		
Profit retained in related companies	27.4 (0.3)	17.8 (0.1)
Total generated from operations		
Proceeds of sale of fixed tangible assets	77.6	65.9
Increase in trade and sundry creditors	8.6	3.8
Loan capital received	0.5	13.3
Shares issued (including share premium) to Trustees of Profit Linked Share Plan	70.0	11.2
Currency translation differences	-	1.6
	-	0.1
	156.7	95.9
APPLICATION OF FUNDS		
Expenditure on fixed tangible assets	118.1	41.1
Decrease in investment in related company	(8.4)	-
Premium on acquisition	19.5	-
Tax paid	9.0	10.9
Dividends paid	24.6	13.4
Extraordinary charges	9.4	1.1
Increase in stocks	62.1	0.7
Increase in debtors	29.3	16.2
Increase in current asset investments	1.4	0.4
Loan capital repaid	25.3	16.1
	290.3	99.9
Decrease in net liquid funds	133.6	4.0

Net liquid funds comprise bank overdrafts and other short term loans less cash and bank balances

SUMMARY OF THE EFFECTS OF THE ACQUISITION OF SUBSIDIARIES
(These items are included in the appropriate heading above)

	£m
ASSETS	
Fixed tangible assets	26.5
Previous investment in related company now acquired	(8.4)
Stocks	18.2
Debtors	17.0
Premium on acquisition	19.5
	72.8
LIABILITIES	
Creditors	18.7
Loan capital	8.5
Deferred tax	2.0
Net liquid funds	8.9
	38.1
	34.7
DISCHARGED BY	
Cash	31.2
Loan notes	3.5
	34.7

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

	66 Weeks To 3/5/86 £m	52 Weeks To 26/1/85 £m
1. TURNOVER is the amount receivable for goods and services supplied to customers and includes the sales of concession departments Geographical area: United Kingdom Rest of Europe	1,234.3 55.9 <hr/> 1,290.2 =====	897.6 32.5 <hr/> 930.1 =====
The profit on ordinary activities before taxation attributable to the Rest of Europe is 2.2% (4.6%)		
2. OPERATING PROFIT is arrived at as follows:		
Turnover	1,290.2	930.1
Cost of sales	832.2	609.1
Gross profit	<hr/> 458.0	<hr/> 321.0
Distribution and store costs	342.8	238.8
Administrative and central expenses	43.5	24.2
	<hr/> 71.7 =====	<hr/> 58.0 =====
Included in distribution costs and administrative expenses are:		
Depreciation of fixed tangible assets	26.8	17.8
Depreciation on assets held under finance leases	0.6	-
Auditors' fees and expenses	0.7	0.6
Hire of plant and machinery	1.3	1.2
	<hr/> =====	<hr/> =====
3. INTEREST		
Payable:		
Bank loans and overdrafts	20.7	9.4
Loans and deposits repayable within 5 years	1.1	0.4
Loans not repayable within 5 years	1.6	0.9
	<hr/> 23.4	<hr/> 10.7
Less: Receivable	2.5	1.0
	<hr/> 20.9 =====	<hr/> 9.7 =====
4. OTHER OPERATING INCOME		
Rental income	1.6	1.0
Investment income: Income from fixed asset investments-		
unlisted	0.1	0.2
Less: From related companies	-	0.1
	<hr/> 0.1	<hr/> 0.1
Income from current asset investments-		
listed	0.7	0.4
	<hr/> 2.4 =====	<hr/> 1.5 =====

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

5. TAXATION

	66 Weeks To 3/5/86 £m	52 Weeks To 26/1/85 £m
Taxation based on the profits of the period		
Corporation tax	(20.3)	(16.3)
Overseas tax	(1.0)	(0.7)
Deferred tax	(1.9)	(3.9)
Provision for Deferred tax no longer required	25.0	-
Adjustment for earlier periods		
Corporation tax	1.2	1.1
Deferred tax	(0.1)	(0.2)
Related companies	(0.4)	(0.2)
	<u>2.5</u>	<u>(20.2)</u>
	=====	=====

The Directors have re-appraised the forecasts of future capital expenditure in relation to excess capital allowances. As a result, it is considered that £25m of the provision for deferred taxation is no longer required.

The taxation charge for the period has been reduced by Stock relief

-	0.8
=====	=====

Corporation tax is provided at an effective rate of 40.33% (45.83%).

6. EXTRAORDINARY ITEMS

Loss/(Surplus) on disposal of businesses and properties	4.1	(0.9)
Reorganisation and store closure costs	8.0	0.6
Cost of Government enquiries and bid expenses	2.3	0.5
	<u>14.4</u>	<u>0.2</u>
Taxation	(2.6)	-
Extraordinary loss	<u>11.8</u>	<u>0.2</u>
	=====	=====

HOUSE OF FRASER plc
NOTES ON THE ACCOUNTS

	66 Weeks To 3/5/86 £m	52 Weeks To 26/1/85 £m
7. PROFIT FOR THE FINANCIAL PERIOD		
As permitted by Section 228(7) of the Companies Act 1985 the profit and loss account of House of Fraser plc is not presented as part of these accounts.		
The (Loss)/Profit attributable to House of Fraser plc for the period after taxation and extraordinary items dealt with in the accounts of the company is:	(7.8) =====	16.3 =====
8. DIVIDENDS		
On ordinary shares - 1st Interim (Paid)	10.0	4.2
- 2nd Interim (Paid)	9.2	-
- Special Interim (Proposed)	-	5.4
	<u>19.2</u>	<u>9.6</u>
On Preference Shares - £32,000 (1985 £32,000)	-	-
	<u>19.2</u> =====	<u>9.6</u> =====
9. EARNINGS PER ORDINARY SHARE		

The earnings per ordinary share calculations are based on earnings (after deducting preference dividends of £32,000) after taxation and before extraordinary items of £52,967,000 (£27,947,000). The respective average number of shares in issue in 1985/86 and 1984/85 were 153,679,045 new ordinary shares and 153,397,874 ordinary shares.