

Lonrho PLC

Introduction

2.1. A description of Lonrho's history and business until 1981 was included in the Commission's two reports referred to in paragraphs 4.1 and 4.2. Since its original engagement in mining and land in Southern Rhodesia, Lonrho has developed into a major international group of companies carrying out a wide range of activities through over 800 subsidiaries in over 80 countries. Its principal United Kingdom and overseas subsidiary and associated companies are listed by activities in Appendix 1. The Lonrho group's turnover, excluding its share of associated companies' turnover, was £2,357 million in the year to 30 September 1983, of which £1,352 million was in the United Kingdom, £597 million in Africa, £89 million in the Americas and £319 million in Europe and other areas.

Developments in Lonrho's business since 1981

2.2. Lonrho's principal acquisitions, developments and disposals since 1981 are summarised in Appendix 2.

2.3. In 1983 Lonrho had 151,000 employees world-wide, approximately 10,000 more than in 1980. Of these about 20,000 were employed in the United Kingdom, approximately 4,000 less than in 1980. Of this reduction, 2,750 is attributable to the partial closure and subsequent sale of Hadfields to a consortium led by the British Steel Corporation under the Phoenix arrangements (see Appendix 2).

2.4. Lonrho's United Kingdom distribution and retailing activities are confined to motor vehicles, household textiles and wholesale builders' supplies.

2.5. Motor vehicles are dealt with by the VAG and Dutton-Forshaw management regions. VAG is the sole importer and distributor of Volkswagen and Audi vehicles but has no retail outlets. Dutton-Forshaw, which includes Dovercourt and various Jack Barclay companies, retails Volkswagen, Rolls-Royce and British Leyland cars, and imports and distributes agricultural equipment. With only 34 retail outlets it has a small share of the Volkswagen United Kingdom market, about 22 per cent of the Rolls-Royce market and slightly over 5 per cent of the British Leyland market.

2.6. Lonrho Textiles manufactures household textiles at its factory at Cramlington. It also has two retailing divisions, Brentford and Accord. The Brentford division consists of about 60 Brentford shops and about 30 Brentford 'shops within shops', mostly in MFI. Its products are aimed primarily at the lower end of the market and about 60 per cent are manufactured at Cramlington. The Accord division consists of about 110 'shops within shops', mostly in Debenhams and Owen Owen. Also, Lonrho told us, since our 1981 report a range called 'Harrods by Accord' had, at Harrods' suggestion, been developed in conjunction with Harrods buyers. In the year to September 1983 retail sales through the Brentford and Accord shops totalled £28.8 million (Brentford

£22.4 million and Accord £6.4 million). Lonrho said that £25.3 million was bed linen and, since the total United Kingdom bed linen market in 1983 was £583 million, this represented under 5 per cent of the market. These figures, moreover, included bought-in goods sold by the Brentford shops and concessions and, if these were excluded, the figure was around 3 per cent.

Management

2.7. The Rt Hon Sir Edward du Cann MP is now Chairman of Lonrho in place of the Rt Hon Lord Duncan-Sandys, who has retired as Chairman and as a director and has been appointed President of the Lonrho group. Mr A H Ball remains as Deputy Chairman and Mr R W Rowland continues as Managing Director and Chief Executive. Mr Rowland heads a Board of 12 executive directors and is the largest shareholder, owning nearly 17 per cent of the issued ordinary share capital (see paragraph 2.19).

2.8. Lonrho explained that it was a widely diversified group, accustomed to acquiring different types of businesses and improving their performance by the application of its financial and management expertise. Since 1981 it had, in the development of its business, made a number of changes in its management organisation and structure designed to improve its overall management performance.

2.9. It now has 27 management regions (see Appendix 3), each of which represents Lonrho's interest in a particular company or sub-group, territory or activity. Each regional chief executive is accountable for his region's performance and enjoys substantial autonomy in the conduct of its business and the way in which it is organised, subject to a requirement to report in a prescribed form to the group's Head Office. There has also been an increase in the number of executive directors and Head Office senior executives since the start of our last inquiry. Each executive director is responsible for one or more management regions and for certain functions within the business.

2.10. There are also a number of Board committees which deal, *inter alia*, with finance, pensions, remuneration and casino supervision. The Finance Committee considers regional financial and commercial plans, budgets and management accounts and all other matters relating to regional finance including group funding, the investment return on group activities, the control of working capital, cash flow, capital expenditure and problem areas.

Financial information

2.11. Lonrho makes up its accounts to 30 September each year. Table 2.1 sets out its trading results for the five years to 30 September 1983 according to its consolidated profit and loss accounts prepared under the historical cost convention,¹ adjusted by additional depreciation arising as a result of the revaluation of certain assets, and restated where necessary to reflect changes

¹ Lonrho discontinued the publication of current cost accounts in 1983.

in accounting policies. It also shows Lonrho's unaudited results for the half years to 31 March 1983 and 1984.¹

TABLE 2.1 Lonrho: trading results

	Year to 30 September					£ million	
						Half year to	
	1979	1980	1981	1982	1983	1983	1984
Turnover	1,268	1,745	1,967	2,336	2,357	1,106.1	1,147.6
Group companies profits before interest and tax	98	148	142	129	148		
Interest receivable	6	10	21	20	18		
Interest payable	104 (44)	158 (71)	163 (79)	149 (95)	166 (86)		
Group companies profits before tax	60	87	84	54	80	25.4	28.2
Share of associates companies profits before tax	18	32	28	21	33	18.0	24.8
Profit before tax	78	119	112	75	113	43.4	53.0
Taxation	(32)	(49)	(51)	(39)	(55)	(20.2)	(25.6)
Minority interests	46 (13)	70 (25)	61 (26)	36 (16)	58 (17)	23.2 (7.1)	27.4 (3.9)
Profit (before extraordinary items) attributable to shareholders	33	45	35	20	41	16.1	23.5
Extraordinary items	(14)	(9)	(11)	(11)	(11)		
Dividends payable	19 (16)	36 (24)	24 (24)	9 (24)	30 (24)		
Profit retained	3	12	—	(15)	6		
Earnings per share before extraordinary items (pence)	16.1	19.4	13.5	7.6	15.5	6.1	8.9

Source: Lonrho.

Notes:

1. In 1982 Lonrho changed its accounting policy for the translation of overseas results from the use of closing rates to the use of weighted average exchange rates. The comparative figures for the year ended 30 September 1981 have been restated to reflect this change of accounting policy. Previous years have not been restated.

2. Turnover excludes the group's share of the turnover of associates.

3. Lonrho told us that its policy was to maintain its hotel properties in such condition that their value was not diminished by the passage of time. The relevant expenditure was charged against profits of the year in which it was incurred. Therefore, any element of depreciation was considered to be immaterial and Lonrho did not depreciate hotel property which was freehold or where the lease had over 50 years unexpired.

2.12. Table 2.2 illustrates the distribution of Lonrho's turnover and profits between activities and regions in the five years to 30 September 1983.

¹ On 31 January 1985 Lonrho announced its results for the year to 30 September 1984, which are summarised below:

Turnover	£2,367 million
Profit before tax	£135 million
Profit (before charging extraordinary items of £3 million) attributable to shareholders	£55 million
Earnings per share (before extraordinary items)	20.9 pence
Dividends per share	11.0 pence

TABLE 2.2 Lonrho: profit and turnover by activities and regions

ACTIVITIES	Year to 30 September																			
	1979				1980				1981				1982				1983			
	Turnover £m	%	Profit £m	%	Turnover £m	%	Profit £m	%	Turnover £m	%	Profit £m	%	Turnover £m	%	Profit £m	%	Turnover £m	%	Profit £m	%
<i>Management based</i>																				
Motor and equipment distribution	439.2	34.6	15.3	19.6	610.9	35.0	15.7	13.2	686.1	34.9	8.7	7.8	839.3	35.9	12.7	16.9	931.3	39.5	17.6	15.5
Manufacturing	287.6	22.7	11.9	15.2	332.8	19.1	8.6	7.2	343.3	17.4	10.9	9.8	410.5	17.6	12.1	16.1	418.9	17.8	14.4	12.7
General Trade	124.3	9.8	7.8	10.0	164.8	9.4	11.6	9.7	216.2	11.0	15.2	13.6	355.3	15.2	14.3	19.1	363.1	15.4	14.0	12.4
Leisure, wine and spirits	92.8	7.3	6.5	8.3	188.1	10.8	15.5	13.0	221.5	11.3	17.8	16.0	281.7	12.1	13.6	18.1	281.0	11.9	20.6	18.2
Financial services	204.0	16.1	6.5	8.3	294.9	16.9	7.8	6.6	330.6	16.8	13.9	12.4	289.6	12.4	8.1	10.8	152.7	6.5	10.6	9.4
	1,147.9	90.5	48.0	61.4	1,591.5	91.2	59.2	49.7	1,797.7	91.4	66.5	59.6	2,176.4	93.2	60.8	81.0	2,147.0	91.1	77.2	68.2
<i>Commodity based</i>																				
Mining and refining	60.5	4.8	21.5	27.5	90.2	5.2	49.7	41.7	92.5	4.7	32.4	29.0	88.7	3.8	12.4	16.5	129.6	5.5	29.5	26.1
Agriculture	60.0	4.7	8.7	11.1	63.3	3.6	10.2	8.6	77.2	3.9	12.7	11.4	71.1	3.0	1.9	2.5	79.9	3.4	6.5	5.7
Totals	1,268.4	100.0	78.2	100.0	1,745.0	100.0	119.1	100.0	1,967.4	100.0	111.6	100.0	2,336.2	100.0	75.1	100.0	2,356.5	100.0	113.2	100.0
REGIONS																				
United Kingdom	789.5	62.2	28.8	36.8	1,140.3	65.3	25.6	21.5	1,252.2	63.7	17.6	15.7	1,424.0	61.0	19.1	25.4	1,352.0	57.4	34.0	30.0
Africa	377.7	29.8	48.9	62.5	439.6	25.2	82.3	69.1	513.2	26.1	82.9	74.3	547.9	23.4	45.1	60.1	596.7	25.3	67.2	59.4
The Americas	12.4	1.0	0.7	0.9	67.2	3.9	11.0	9.2	75.7	3.8	11.7	10.5	101.9	4.4	8.3	11.0	88.9	3.8	10.3	9.1
Europe and Other	88.8	7.0	(0.2)	(0.2)	97.9	5.6	0.2	0.2	126.3	6.4	(0.6)	(0.5)	262.4	11.2	2.6	3.5	318.9	13.5	1.7	1.5
Total	1,268.4	100.0	78.2	100.0	1,745.0	100.0	119.1	100.0	1,967.4	100.0	111.6	100.0	2,336.2	100.0	75.1	100.0	2,356.5	100.0	113.2	100.0

Source: Lonrho.

Notes

1. Turnover excludes the group's share of the turnover of associates.
2. Profit is before tax and after central finance charges.
3. In 1982 Lonrho changed its accounting policy for the translation of overseas results from the use of closing rates to the use of weighted average exchange rates. The comparative figures for the year ended 30 September 1981 have been restated to reflect this change of accounting policy. Previous years have not been restated.

Capital employed

2.13. Lonrho's capital employed, according to its consolidated balance sheets as at 30 September in each of the years 1979 to 1983, which were also prepared under the historical cost convention¹ and which have been restated where necessary to reflect changes in its accounting policies, is shown in Table 2.3.

TABLE 2.3 Lonrho: capital employed

	30 September				
	1979	1980	1981	1982	1983
<i>£ million</i>					
<i>Assets</i>					
Fixed assets	386	540	670	759	810
Associated companies	126	137	189	198	204
Investments	24	25	43	43	42
Stocks and debtors, less creditors	183	258	229	241	195
Cash and bank balances	57	108	136	56	109
	<u>776</u>	<u>1,068</u>	<u>1,267</u>	<u>1,297</u>	<u>1,360</u>
<i>Financed by</i>					
Share capital	53	65	65	66	66
Reserves	326	382	423	472	454
Lonrho shareholders' equity	379	447	488	538	520
Minority interests	82	151	213	111	140
Deferred tax	7	1	1	3	3
Equity (including minority interests) and deferred tax	468	599	702	652	663
Bank loans and overdrafts	171	219	222	242	197
Other loans	137	250	343	403	500
Capital employed	776	1,068	1,267	1,297	1,360

Source: Lonrho.

Returns on capital employed and equity

2.14. Lonrho's returns on average capital employed based on its balance sheet figures for each of the five years to 30 September 1983 are shown in Table 2.4.

TABLE 2.4 Lonrho: returns on average capital employed

	Year to 30 September				
	1979	1980	1981	1982	1983
<i>£ million</i>					
Average capital employed	738	922	1,168	1,282	1,329
Profit before interest payable and tax	122	190	191	170	199
Return on average capital employed (%)	16.5	20.6	16.4	13.3	15.0

Source: MMC.

2.15. The somewhat higher returns, shown in Table 2.5, on Lonrho's average equity (including minority interests) and deferred tax for years other than 1982 demonstrate the effect of Lonrho's gearing.

¹ It is, however, Lonrho's practice to revalue its fixed assets at regular intervals.

TABLE 2.5 Lonrho: returns on average equity (including minority interests) and deferred tax

	£ million				
	Year to 30 September				
	1979	1980	1981	1982	1983
Average equity and deferred tax	444	534	650	677	657
Profit before tax	78	119	112	75	113
Return on equity and deferred tax (%)	17.6	22.3	17.2	11.1	17.2

Source: MMC.

Borrowings and gearing

2.16. Table 2.6 shows Lonrho's gross debt/equity ratios at 30 September in each of the years 1979 to 1983, calculated both on Lonrho shareholders' equity and equity including minority interests.

TABLE 2.6 Lonrho: gross debt/equity ratios

	£ million				
	30 September				
	1979	1980	1981	1982	1983
Gross borrowings	308	469	565	645	697
Lonrho shareholders' equity	379	447	488	538	520
Gross debt/equity ratio (%)	81.3	104.9	115.8	119.9	134.0
Equity including minority interests	461	598	701	649	660
Gross debt/equity ratio including minority interests (%)	66.8	78.4	80.6	99.4	105.6

Source: MMC.

2.17. Lonrho's borrowings at the same dates are analysed between long-term, medium-term and short-term borrowings in Table 2.7.

TABLE 2.7 Lonrho: analysis of borrowings

	£ million				
	30 September				
	1979	1980	1981	1982	1983
Long-term loans (over five years)	58	114	134	126	132
Medium-term loans (one to five years)	65	124	195	258	335
Short-term loans and overdrafts (under one year)	185	231	236	261	230
Gross borrowings	308	469	565	645	697
Cash balances	(57)	(108)	(136)	(56)	(109)
Net borrowings	251	361	429	589	588

Source: Lonrho.

Note: At 30 September 1983 £138 million of Lonrho's loans were denominated in Swiss francs, DM and US dollars.

It will be seen that Lonrho's borrowings had more than doubled during the five years to September 1983.

Source and application of funds

2.18. Appendix 4 summarises Lonrho's source and application of funds statements for the five years to 30 September 1983.

Share capital

2.19. Lonrho's issued share capital consists of 263 million ordinary shares of 25p each. The principal shareholdings are listed in Table 2.8.

TABLE 2.8 Lonrho: principal shareholdings (13 December 1984)

	<i>Number of shares m</i>	<i>Percentage of total %</i>
Mr R W Rowland	44.3	16.8
Gulf Fisheries (Overseas) Limited and related interests	28.6	10.9
American depository receipts	14.8	5.6
Main institutions	67.5	25.6
Others	107.9	41.1
Total	263.1	100.0

Source: Lonrho.

Lonrho drew our attention to the substantial rise in the percentage of institutional shareholders from 9.6 per cent in December 1981 to 25.6 per cent as shown above, and to the reduction in the holding of Gulf Fisheries from 15.1 per cent to 10.9 per cent during the same period.