Registered Number 237511

Arcadia Group Limited

Annual report

for the year ended 28 August 2004

Arcadia Group Limited
Annual report
for the year ended 28 August 2004

Contents

Directors' report for the year ended 28 August 2004

The directors present their report together with the audited financial statements of the Company for the year ended 28 August 2004.

Principal activities

The Company's principal activities are those of a property and investment holding company. The Company also provides administrative and logistical services to its subsidiary undertakings.

Review of business and future developments

Both the level of business and the year end financial position were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

Results for the financial year and dividends

The profit and loss account is set out on page 4.

The Company has paid an interim dividend of £150,000,000 (2003: £50,000,000 declared). The directors do not recommend the payment of a final dividend (2003: £nil) and hence the retained profit for the year of £40,777,000 (2003: £14,754,000 retained loss) will be transferred to reserves.

Directors and their interests

The current directors of the Company, all of whom have held office throughout the year ended 28 August 2004, are:

IM Allkins
PE Budge
P Coackley
Lord Grabiner QC
I Grabiner
PNR Green
JP Readman

PNR Green, IM Allkins and P Coackley are directors of Taveta Investments Limited, the Company's parent undertaking, and their interests in the shares of group undertakings are disclosed in that company's financial statements.

None of the other directors had an interest in the share capital of the Company or any of its subsidiary undertakings. Their beneficial interests in the share capital of Taveta Investments Limited were as follows:

	Number of ordinary shares of 10 pence each	
	At 28 August 2004	At 31 August 2003
Lord Grabiner QC	**515,000**	515,000
I Grabiner	**2,577,380**	1,031,000
JP Readman	**257,500**	257,500

Directors' report for the year ended 28 August 2004 (continued)

Donations
During the year, donations to the value of £727,000 (2003: £250,000) were given to UK charitable organisations. Of this amount, £500,000 was donated to community health and social care services, £146,000 was provided in support of former retail sector employees, with the remainder given to medical research charities and community-based projects.

Employees
All staff are informed about matters concerning their interests as employees and the financial position of the Group through a number of communication channels including face-to-face briefings, an intranet site supplemented by e-mail announcements and a staff magazine.

The board recognises the importance of a highly motivated and well trained workforce. It encourages employees' involvement in the Group's performance through their participation in a variety of incentive bonus schemes linked to the achievement of operational or financial targets in the part of the business for which they work, and it invests in training programmes aimed at achieving the highest standards of personal development and customer service.

The Group is an equal opportunities employer, recruiting and promoting employees on the basis of suitability for the job and no other grounds. Proper consideration is given to employment applications from disabled persons whose aptitude and skills can be utilised within the business and to their training and career progression. Wherever possible, this includes the retraining and retention of staff who become disabled during their employment.

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently, except as explained on page 6. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 28 August 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors
The Company has passed an elective resolution to dispense with the annual appointment of auditors. PricewaterhouseCoopers LLP will therefore continue as auditors in accordance with and subject to Section 386 of the Companies Act 1985.

On behalf of the Board

PE Budge

PE Budge
Director
28 January 2005

Arcadia Group Limited

Independent auditors' report to the members of Arcadia Group Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the accounting policies and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations 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 at 28 August 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
28 January 2005

Arcadia Group Limited

Profit and loss account for the year ended 28 August 2004

	Note	2004 £'000	2003 (restated) £'000
Turnover	1	**309,978**	315,236
Cost of sales (including exceptional items)	3	**(241,426)**	(279,966)
Gross profit		**68,552**	35,270
Distribution costs		**(40,174)**	(44,940)
Administrative expenses (including exceptional items)	3	**(35,717)**	(43,273)
Other operating income	2	**17,815**	19,467
Operating profit / (loss)	2	**10,476**	(33,476)
Operating profit / (loss) before exceptional items		**10,476**	(17,156)
Exceptional items	3	**-**	(16,320)
Profit on sale of fixed assets	3	**-**	9,447
Income from fixed asset investments		**160,589**	60,662
Net interest receivable and similar income	4	**19,805**	10,338
Profit before taxation		**190,870**	46,971
Taxation	6	**(93)**	(11,725)
Profit for the financial year		**190,777**	35,246
Dividends	7	**(150,000)**	(50,000)
Retained profit / (loss) for the year	16	**40,777**	(14,754)

All of the results in the profit and loss account above relate to continuing activities.

The only recognised gains and losses are those dealt with in the profit and loss account above.

There is no difference between the profit before taxation and the retained profit for the year stated above and their historical cost equivalents.

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Balance sheet as at 28 August 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	8	**37,176**	43,812
Investments	9	**2,886,797**	3,019,803
		2,923,973	3,063,615
Current assets			
Stocks		**426**	692
Debtors – due within one year	10	**46,484**	24,906
Debtors – due after one year	10	**9,209**	4,662
		55,693	29,568
Cash at bank and in hand		**104,011**	66,563
		160,130	96,823
Creditors: amounts falling due within one year	11	**(127,500)**	(170,679)
Net current assets / (liabilities)		**32,630**	(73,856)
Total assets less current liabilities		**2,956,603**	2,989,759
Creditors: amounts falling due after more than one year	12	**(2,113,847)**	(2,187,780)
Net assets		**842,756**	801,979
Capital and reserves			
Called up share capital	15	**168,163**	168,163
Share premium account	16	**393,676**	393,676
Capital redemption reserve	16	**223,431**	223,431
Profit and loss account	16	**57,486**	16,709
Equity shareholders' funds	17	**842,756**	801,979

The financial statements on pages 4 to 18 were approved by the board of directors on 28 January 2005 and were signed on its behalf by:

PE Budge
Director

Arcadia Group Limited

Accounting policies

Accounting convention
The financial statements are drawn up under the historical cost and in accordance with applicable accounting standards. A summary of the more important accounting policies is set out below, together with an explanation of where a change has been made to a previous policy on the adoption of a new accounting standard in the year.

Change in accounting policy
The Company has adopted UITF abstract 38 'Accounting for ESOP trusts' in these financial statements. The adoption of this abstract represents a change in accounting policy and has resulted in the restatement of certain comparative figures:

- within the profit and loss account, profit on the sale of fixed assets and the tax charge for the year have been reduced by £8,523,000 and £2,557,000, respectively;
- total recognised losses for 2003 have been increased by £5,966,000; and
- a transfer of £5,966,000 has been made from other reserves to the profit and loss account reserve.

The above restatements had no impact on the Company's balance sheet or opening reserves as at 31 August 2003.

Cash flow statement
The Company has taken advantage of the exemption allowed by Financial Reporting Standard 1 (revised) from preparing a cash flow statement, as the Company's cash flows are included within the consolidated cash flow statement of its parent undertaking, Taveta Investments Limited.

Turnover
Turnover represents rents receivable from group undertakings and external tenants, together with amounts charged to group undertakings for the provision of administrative and logistical services. It accrues on a daily basis and is stated net of value added tax.

Other operating income
Income from the operation of the Group's store card business is recognised in the same period as the underlying sales transaction. Upfront contributions towards the Group's store card business have been deferred and are being released to the profit and loss account over the term of the related contract.

Investments
Fixed asset investments are shown at cost less amounts written off. Provision is made where, in the opinion of the directors, there has been an impairment in the carrying value of investments.

Depreciation
Depreciation is provided so as to write off the cost of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Land: not depreciated

Freehold and long leasehold buildings over 50 years: depreciated to their estimated residual value over their estimated useful economic life

Short leasehold land and buildings: life of lease

Office equipment: 10 years

Computer equipment: 3 to 4 years

Motor vehicles are depreciated on the reducing balance basis at a rate of 25% per annum.

Pension costs
The cost of providing pension benefits is charged to the profit and loss account as a constant percentage of pensionable earnings over the period benefiting from scheme employees' services. Actuarial surpluses are amortised over the expected remaining service lives of current scheme employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet. As disclosed in note 20 to the financial statements the Company has taken advantage of the transitional implementation arrangements provided by FRS 17 'Retirement benefits'.

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Accounting policies (continued)

Taxation
Deferred taxation is provided on all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying tax differences can be deducted. Deferred tax is not recognised on revalued assets unless there is a binding agreement at the balance sheet date to sell the revalued asset and the related gain or loss has been recognised in the financial statements. Deferred tax assets and liabilities are not discounted.

Foreign exchange
Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Assets and liabilities recorded in foreign currencies are translated either at the rates ruling at the balance sheet date or the rates fixed by forward contracts. Exchange differences are dealt with in the profit and loss account.

Leased assets
Assets held under finance leases are capitalised as tangible fixed assets and depreciated over the shorter of their estimated useful economic lives and the period of the lease. Rentals are apportioned between reductions in the capital obligations included within creditors and finance charges which are charged to the profit and loss account at a constant effective rate of interest.

Rentals payable under operating leases are charged to the profit and loss account as incurred except where incentives to sign the leases have been received. Such incentives are spread on a straight-line basis over the lease term, or if shorter, the period to the next open market rent review date.

Treasury instruments
Gains and losses on hedges of payments or receipts are deferred and only recognised as they crystallise. Gains and losses on forward currency contracts entered into as hedges of future purchases denominated in foreign currency are carried forward and are recognised as part of the purchase cost on maturity. Receipts and payments from interest rate swaps used to manage interest on borrowings or deposits are accrued to match the income or expense of the underlying borrowing or deposit.

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Notes to the financial statements for the year ended 28 August 2004

1 Turnover

Turnover is wholly attributable to the Company's principal activities and arises in the United Kingdom. Turnover includes management charges of £100,500,000 (2003: £114,500,000) levied on the Company's subsidiary undertakings.

2 Operating profit / (loss)

Operating profit / (loss) is stated after charging / (crediting):	2004 £'000	2003 £'000
Employment costs (note 5)	**97,977**	95,878
Depreciation		
- owned assets	**13,608**	15,740
- under finance leases	**366**	1,070
Property rentals received	**(171,788)**	(166,047)
Property rentals paid (see below)	**182,230**	185,131
Other operating lease rentals	**2,377**	2,647
Other operating income (see below)	**(17,815)**	(19,467)
Auditors' remuneration (see below)	**240**	229
Other fees paid to auditors	**27**	455

Other operating income arises from providing services to Rubicon and the operation of the Group's store cards. The Company bears the audit fee for the Group. Property rentals are mainly paid to other group undertakings.

3 Exceptional items

	2004 £'000	2003 £'000
Charged in arriving at operating profit / (loss)		
Within cost of sales:		
- Write off of obsolete fixed assets	-	(7,476)
Within administrative expenses:		
- Costs associated with takeover	-	(8,844)
	-	(16,320)
Credited after operating profit / (loss)		
Profit on sale of fixed assets:		
- Profit on sale of shares in Rubicon	-	9,447
Total exceptional items	-	(6,873)

The tax credit during 2003 on the exceptional items above was £2,857,000.

4 Net interest receivable and similar income

	2004 £'000	2003 £'000
Interest payable on:		
Bank overdrafts	**(41)**	(294)
Finance lease obligations	**(12)**	(62)
Other interest payable	**-**	(182)
Interest and similar charges payable	**(53)**	(538)
Interest receivable on:		
Bank deposits	**5,503**	4,654
Other deposits	**475**	661
Loans to group undertakings	**13,880**	5,561
Interest receivable	**19,858**	10,876
Net interest receivable and similar income	**19,805**	10,338

5 Employees and directors

Particulars of employee costs (including executive directors) are shown below:

Employees (including executive directors)	2004 £'000	2003 £'000
Wages and salaries	**87,438**	86,155
Social security costs	**8,708**	7,216
Pension costs (note 20)	**1,831**	2,507
Total employment costs	97,977	95,878

The average monthly number of people employed by the Company during the year was 1,945 (2003: 1,934). The equivalent average number of full-time employees was 1,886 (2003: 1,876).

Total directors' remuneration comprises:	2004 £'000	2003 £'000
Aggregate emoluments	**5,940**	4,737
Company contributions to money purchase pension schemes	**-**	187
	5,940	4,924

At the year end, 3 directors (2003: 3) had retirement benefits accruing under the Company's defined benefit pension schemes.

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Notes to the financial statements for the year ended 28 August 2004 (continued)

5 Employees and directors (continued)

Highest paid director	2004 £'000	2003 £'000
Aggregate emoluments	**3,546**	1,476
Money purchase pension scheme contributions	-	48
	3,546	1,524

The highest paid director does not have an accrued pension under the Company's defined benefit schemes (2003: deferred pension of £6,000 per annum).

6 Taxation

a. Analysis of tax charge for the year	2004 £'000	2003 £'000
Based on the profit for the year		
UK corporation tax at 30% (2003: 30%):		
- Current year	**9,564**	2,490
- Prior years	**(10,573)**	7,758
Total current tax (note 6b)	**(1,009)**	10,248
Deferred tax – origination and reversal of timing differences (note 14)	**1,102**	1,477
Total taxation	**93**	11,725

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

b. Factors affecting the current tax (credit) / charge for the year	2004 £'000	2003 £'000
Profit before taxation	**190,870**	46,971
Profit before taxation multiplied by the standard rate of corporation tax in the United Kingdom of 30% (2003: 30%)	**57,261**	14,091
Effects of:		
Expenses not deductible for tax purposes	**2,212**	928
Income not assessable for tax purposes	**(48,177)**	(18,000)
Payments to QUEST	-	(2,421)
Capital allowances in excess of depreciation	**(1,508)**	579
Other timing differences	**(224)**	7,313
Adjustment in respect of prior years	**(10,573)**	7,758
Current tax (credit) / charge for the year (note 6a)	**(1,009)**	10,248

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Notes to the financial statements for the year ended 28 August 2004 (continued)

6 Taxation (continued)

The Company has entered into a group payment arrangement with the Inland Revenue whereby it undertakes to make corporation tax payments on behalf of all subsidiary companies within the same tax group. Accordingly, at the year end the aggregate corporation tax liability of all companies within this tax group has been included within the Company's creditors (note 11) whilst a corresponding debtor has either been recognised within loans to group undertakings (note 9) or offset against amounts owed to subsidiary undertakings (note 12).

c. Factors that may affect future tax charges
Based on current capital investment plans, the Company expects capital allowances to exceed depreciation in future years at a similar rate to the current year. The Company also expects to incur a similar level of non-deductible expenditure.

7 Dividends

	2004	2003
	£'000	£'000
Interim paid / declared: 71.4p (2003: 23.8p) per ordinary share	**150,000**	50,000

8 Tangible fixed assets

	Short leasehold land and buildings	Fit out, fixtures and equipment	Total
	£'000	£'000	£'000
Cost			
At 31 August 2003	520	140,214	140,734
Additions	-	8,547	8,547
Group transfers out (net)	-	(189)	(189)
Disposals	(302)	(2,194)	(2,496)
At 28 August 2004	**218**	**146,378**	**146,596**
Depreciation			
At 31 August 2003	208	96,714	96,922
Charge for the year	31	13,943	13,974
Group transfers out (net)	-	(83)	(83)
Disposals	(202)	(1,191)	(1,393)
At 28 August 2004	**37**	**109,383**	**109,420**
Net book value			
At 28 August 2004	**181**	**36,995**	**37,176**
At 30 August 2003	312	43,500	43,812

8 Tangible fixed assets (continued)

Assets held under finance leases and included in fit out, fixtures and equipment:

	2004	2003
	£'000	£'000
Cost	**1,398**	4,610
Accumulated depreciation	**(750)**	(1,825)
Net book amount	**648**	2,785

9 Fixed asset investments

	Shares		Loans		
	Cost	Provision	Cost	Provision	Total
Group undertakings	£'000	£'000	£'000	£'000	£'000
At 31 August 2003	1,470,415	(288,929)	1,994,408	(156,091)	3,019,803
Additions	-	-	370,388	-	370,388
Disposals/repayments	(200)	-	(503,194)	-	(503,394)
At 28 August 2004	**1,470,215**	**(288,929)**	**1,861,602**	**(156,091)**	**2,886,797**

Advantage has been taken of Section 231(5) of the Companies Act 1985 not to disclose all group undertakings on the basis that such information would be of excessive length. The Company's principal group undertakings are as follows:

Group undertaking	Country of operation	Country of incorporation or registration	Main activity
Arcadia Group Brands Ltd *	UK	England	Brand management
AG Clothing Ltd*	UK	England	Brand management
Arcadia Card Services Ltd	UK	England	Financial services
Arcadia Group Multiples (Ireland) Ltd *	Ireland	Ireland	Fashion retailing
Burton Retail Ltd*	UK	England	Fashion retailing
Dorothy Perkins Retail Ltd*	UK	England	Fashion retailing
Evans Ltd*	UK	England	Fashion retailing
Miss Selfridge Retail Ltd	UK & Ireland	England	Fashion retailing
Outfit Retail Ltd	UK	England	Fashion retailing
Redcastle Ltd	UK	England	Property investment
Redcastle (214 Oxford Street) Ltd*	UK	England	Property investment
Redcastle Properties Ltd	UK	England	Property trading
Redcastle Property Mortgage Ltd*	UK	England	Property investment
Top Shop/Top Man Ltd*	UK	England	Fashion retailing
Wallis Retail Ltd	UK & Ireland	England	Fashion retailing
Zoom.co.uk Ltd	UK	England	E-commerce

* Denotes indirect subsidiary

9 Fixed asset investments (continued)

Other than Zoom.co.uk Ltd, which is jointly owned by one of the Company's subsidiaries and Associated Newspapers Limited, all of the above investments are wholly-owned subsidiaries. The Company's investment is in the ordinary share capital of the subsidiary concerned.

Consolidated financial statements have not been prepared, as the Company is a wholly owned subsidiary undertaking of Taveta Investments Limited, which prepares consolidated financial statements. In the opinion of the directors the aggregate value of the Company's investments in its group undertakings is not less than the amount at which they are stated.

10 Debtors

	2004	2003
Amounts falling due within one year	**£'000**	£'000
Amounts due from joint venture	**1,763**	1,226
Other debtors (including VAT)	**37,962**	17,961
Prepayments and accrued income	**5,217**	3,075
Deferred tax (note 14)	**1,542**	2,644
	46,484	24,906

	2004	2003
Amounts falling due after one year	**£'000**	£'000
Prepayments and accrued income	**9,209**	4,662

Prepayments recoverable after more than one year represent the pension prepayment arising from the application of SSAP 24.

11 Creditors – amounts falling due within one year

	2004 £'000	2003 £'000
Bank overdrafts	1,276	-
Finance leases (note 13)	242	500
Trade creditors	8,261	-
Corporation tax (note 6)	61,545	65,399
Other taxation and social security	4,184	4,137
Other creditors	16,131	10,569
Accruals and deferred income	35,861	40,074
Proposed dividend	-	50,000
	127,500	170,679

12 Creditors – amounts falling due after one year

	2004 £'000	2003 £'000
Finance leases (note 13)	46	312
Amounts owed to subsidiary undertakings	2,041,918	2,115,433
Other creditors	5,240	4,300
Accruals and deferred income	66,643	67,735
	2,113,847	2,187,780

13 Lease obligations

The Company's finance lease obligations, which relate to fixtures and fittings, are as follows:

	2004 £'000	2003 £'000
Falling due:		
Within one year	242	500
Between one and two years	46	267
Between two and five years	-	45
	288	812

14 Deferred taxation

The movement on the Company's deferred tax asset is as follows:

	£'000
At 31 August 2003	2,644
Charged to profit and loss account (note 6)	(1,102)
At 28 August 2004	**1,542**

	Amount recognised		Amount unrecognised	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Accelerated capital allowances	**7,031**	3,232	-	-
Other timing differences	**(5,489)**	(588)	-	-
	1,542	2,644	-	-

The Company's deferred tax asset is included within debtors. Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods when timing differences reverse, based on tax rates at the balance sheet date.

15 Called up share capital

	2004		2003	
	£'000	**No. ('000)**	£'000	No. ('000)
Authorised				
Ordinary shares of 80p each	**200,000**	**250,000**	200,000	250,000
Deferred shares of 40p each	**320,000**	**800,000**	320,000	800,000
	520,000	**1,050,000**	520,000	1,050,000
Called up and fully paid				
Ordinary shares of 80p each	**168,163**	**210,204**	168,163	210,204

16 Reserves

	Share premium account	Capital redemption reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 31 August 2003	393,676	223,431	16,709	633,816
Retained profit for the year	-	-	40,777	40,777
At 28 August 2004	**393,676**	**223,431**	**57,486**	**674,593**

Notes to the financial statements for the year ended 28 August 2004 (continued)

17 Reconciliation of movements in shareholders' funds

	2004 £'000	2003 (restated) £'000
Profit for the financial year	**190,777**	35,246
Dividends	**(150,000)**	(50,000)
	40,777	(14,754)
Shares issued net of costs	-	81,311
QUEST and share symmetry	-	(21,194)
Sale of own shares held by ESOP trusts	-	8,523
Tax arising on sale of own shares held by ESOP trusts	-	(2,577)
Net change in shareholders' funds	**40,777**	51,329
Opening shareholders' funds	**801,979**	750,650
Closing shareholders' funds	**842,756**	801,979

18 Financial commitments

At 28 August 2004 the Company had capital commitments contracted but not provided for amounting to £2,103,000 (2003: £3,910,000). In addition, the Company leases a number of properties from external landlords under non-cancellable operating leases that are subject to renegotiation at various dates. The minimum annual rentals under the foregoing are:

	2004 £'000	2003 £'000
Operating leases which expire:		
- within one year	**1,731**	-
- between two and five years inclusive	**235**	-
- after five years	**1,148**	1,568
	3,114	1,568

The Company also leases certain items of plant and machinery along with vehicles whose minimum annual rentals are as follows:

Other assets	2004 £'000	2003 £'000
Operating leases which expire:		
- within one year	**244**	480
- between two and five years inclusive	**1,095**	898
- after five years	**1,816**	1,670
	3,155	3,048

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Notes to the financial statements for the year ended 28 August 2004 (continued)

19 Contingent liabilities

The Company has guaranteed the rents payable by certain subsidiary undertakings which amounted to £47,568,000 (2003: £90,298,000) during the year.

20 Pension schemes

The Company operates two funded defined benefit schemes in the UK, for the benefit of the group's eligible employees. The assets of these schemes are held in separate trustee administered funds. The most recent formal actuarial valuations of the schemes for the purposes of SSAP 24 were carried out by a qualified independent actuary as at 31 March 2004, using the projected unit method.

The assumptions which had the most significant effect on the outcome of these valuations are set out below:

	2004	2003
	% per annum	% per annum
Investment return on investments in respect of:		
- non-active members	**5.0**	5.0
- active members	**7.1**	7.4
Rate of increase in salaries	**4.5**	4.5
Rate of increase in pensions	**2.5**	2.5
Rate of price inflation	**2.5**	2.5

The valuations indicated that the market value of the schemes' assets of £536,300,000 exceeded the benefits that had accrued to members by £12,700,000 (2%), after allowing for assumed future increases in earnings.

Statement of Standard Accounting Practice Number 24 'Accounting for Pension Costs' requires the costs of providing pensions to be recognised over the period benefiting from the employees' services, with any difference between the charge to the profit and loss account and the contributions paid to the scheme being shown as an asset or liability in the balance sheet. The pension cost has been assessed in accordance with the advice of qualified independent actuaries using the projected unit method. Variations in cost are being spread over the estimated average remaining working lifetime of the members of each scheme.

As the Group does not allocate surpluses/deficiencies in its schemes to the employing companies, the whole of the pension surplus is accounted for by the Company. Subsidiary undertakings are allocated a pension charge based on regular cost and contribute accordingly. Variations in pension costs are therefore recognised by the Company.

The Company's total pension cost for the year ended 28 August 2004 was £1,831,000 (2003: £2,507,000), including £75,000 (2003: £685,000) of pension augmentations funded by the Company. During 2003 the Company also contributed £187,000 to certain employees' personal pension arrangements. At the year end, the Company recognised a pension prepayment of £9,209,000 (2003: £4,662,000) arising from the application of SSAP 24.

The structure of the Group's pension schemes does not enable the individual participating subsidiaries to identify their share of the schemes' underlying assets and liabilities. In this situation FRS 17 'Retirement Benefits' recommends that each employer accounts for their pension costs as though they participated in defined contribution arrangements. On this basis the Company's pension costs for the year ended 28 August 2004 would have been £6,378,000 (2003: £872,000).

The detailed disclosures required by FRS 17 have been provided for the group as a whole in the consolidated financial statements of the Company's parent undertaking, Taveta Investments Limited.

Notes to the financial statements for the year ended 28 August 2004 (continued)

21 Parent undertaking, controlling party and related party disclosures

The Company's ultimate parent company is Taveta Investments Limited ('Taveta'), a company incorporated in England, which is also the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Taveta's consolidated financial statements can be obtained by writing to the Secretary at Marylebone House, 129 – 137 Marylebone Road, London, NW1 5QD.

The Company has taken advantage of the exemption under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Taveta group or investees of Taveta.

The Company's ultimate controlling party is CS Green and her immediate family.

PNR Green, P Coackley and IM Allkins are directors of both BHS Group Limited and the Company.

During the year BHS Group Limited invoiced the Company £1,670,000 (2003: £1,394,000). These charges mainly related to the provision of management services by BHS Group Limited. At 28 August 2004 the Company owed the BHS Group £126,000 (2003: £287,000).

During the year SGP Property Services Limited ('SGP'), a company in which JP Readman is a director and shareholder, invoiced the Company £516,000 (2003: £301,000) in connection with the management of the Group's properties. No amount was due to SGP at 28 August 2004 (2003: £nil). JP Readman is a director of the Company.

The Group's joint venture undertaking, Zoom.co.uk Limited, hosts and maintains web-sites relating to Arcadia's stores and brands. During the year the Company charged Zoom £1,110,000 (2003: £1,193,000) for the provision of administrative and operational services in support of this business. At 28 August 2004 the Company was owed £1,763,000 (2003: £1,226,000) by Zoom.