

WH SMITH RETAIL LIMITED

Report and Accounts

Year ended 31 August 2004



WH SMITH RETAIL LIMITED

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WH SMITH RETAIL LIMITED

COMPANY INFORMATION

DIRECTORS

K E Swann
A J H Stewart

SECRETARY

I Houghton

REGISTERED OFFICE

Greenbridge Road
Swindon
Wiltshire
SN3 3RX

COMPANY NUMBER

2008952 (England and Wales)

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

WH SMITH RETAIL LIMITED

REPORT OF THE DIRECTORS

The directors present their report to shareholders together with the audited financial statements for the year to 31 August 2004.

PARENT COMPANY

As part of an internal reorganisation of the Group on 25 May 2004, WH Smith PLC sold the company to Greenbridge News Limited, whose ultimate parent is WH Smith PLC ("the Group")

PRINCIPAL ACTIVITIES

The Company continues to be engaged directly in the retailing of books, newspapers, magazines, periodicals, stationery, greetings cards, toys and games, recorded music, and video related products.

REVIEW OF DEVELOPMENTS

The level of loss after tax of the Company's continuing businesses was £62,212,000 (2003 restated loss after tax: £83,977,000). An operating exceptional charge of £43.1m (2003: £118m) has been made in arriving at the loss for the year. This charge resulted from both a full operational and financial review of the UK Retail business, which began in January 2004, and from Corporate advisory costs which were incurred in response to Permira's approach to the parent company, WH Smith PLC and implementing changes to the Company's structure. Further details of these exceptional costs are provided in Note 5 of these accounts.

RESULTS

The results for the year to 31 August 2004 are set out on page 7.

DIVIDENDS

The directors do not recommend the payment of a dividend (2003: nil)

DIRECTORS

The names of the present directors of the Company are shown on page 1. The following changes took place in the composition of the Board of Directors between 31 August 2003 and the date of this report.

R G Handover	(resigned 4 November 2003)
K E Swann	(appointed 4 November 2003)
J A Warren	(resigned 3 March 2005)
A J H Stewart	(appointed 3 March 2005)

DIRECTORS' INTERESTS

As K E Swann is a director of WH Smith PLC and J A Warren was a director of WH Smith PLC until 3 March 2005, their interests in the shares and loan stocks of that company are disclosed in the consolidated financial statements of WH Smith PLC and not required to be recorded in the Register of Directors' Share Interests of this Company.

WH SMITH RETAIL LIMITED

REPORT OF THE DIRECTORS

EMPLOYEES

With employees throughout the United Kingdom, the Company has an established system for communicating information on its performance and other significant issues affecting the business.

The Company also has an ongoing business transformation campaign focused on its employees and has held a series of conferences attended by employees representing all areas of the Company.

The Company's open management style encourages employees to contribute to the development of the business. When visiting the Company's businesses the directors meet informally with employees to discuss issues, which affect the Company. Regular meetings are also held with staff associations.

The Board wishes to encourage employees to acquire a stake in the parent company and operates an Inland Revenue Approved Save-As-You-Earn share option scheme (Sharesave scheme) whereby employees can acquire shares in WH Smith PLC. As at 31 August 2004 some 3,086 WH Smith Retail Limited employees were participating in this scheme.

The Board remains committed to ensuring that the working environment within the Company is one where differences in people are recognised and valued. Equality and meritocracy are the fundamental principles that determine how the Company treats its employees and this is reflected in the Company's employment policies. The Board believes in creating throughout the Company a culture that is free from discrimination and harassment and will not permit or tolerate discrimination in any form.

The Board understands its responsibilities to encourage and assist in the employment, training and personal and career development of disabled people. The Company gives proper consideration to applications for employment when these are received from disabled people and employs them whenever suitable vacancies arise. Should an employee become disabled when working for the Company, efforts are made to continue their employment and retraining is provided if necessary.

HEALTH, SAFETY AND ENVIRONMENT

In the field of health and safety the Board is committed to maintaining high standards for its employees, customers, contractors and anyone affected by its business activities. Within the Company, a Health and Safety Committee represents the interests of employees. The Company, which benchmarks its performance against other companies, is represented on several national bodies concerned with health and safety.

The Group Risk Management Department operates within a broad framework covering issues such as health and safety, environmental impacts, insurance, disability issues and other risk areas. The department provides advice, guidance and support to managers within the Company ensuring that high standards are maintained.

The Company is a member of the World Wide Fund for Nature 1995+ Group, which is committed to increasing the supply of timber products from well-managed forests. This means, at a minimum, ensuring that any wood and pulp in WH Smith branded products is from legally logged forests. Wherever possible, however, the objective is to source products made from materials that originate from certified, well managed forests such as those accredited by the Forestry Stewardship Council ("FSC").

POLITICAL AND CHARITABLE DONATIONS

Charitable donations during the year ended 31 August 2004 totalled nil (2003: £1,000).

It is the Company's policy not to make political donations and no political donations were made in the year (2003: £nil).

WH SMITH RETAIL LIMITED

REPORT OF THE DIRECTORS

PAYMENT POLICY FOR SUPPLIERS

The Company's policy for the payment of suppliers, which complies with the CBI Code of Practice for Buyers, is to agree the terms of payment in advance in line with normal trade practice and, provided a supplier performs in accordance with the agreement, to abide by such terms. The Company's trade creditors figure for the year ended 31 August 2004 was equivalent to 50 days (2003: 64 days).

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue as auditors to the Company. A resolution to re-appoint Deloitte & Touche LLP as auditors to the Company and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

This report was approved by the Board on
By Order of the Board



I Houghton
Company Secretary

8 April 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WH SMITH RETAIL LIMITED

We have audited the financial statements of WH Smith Retail Limited for the year ended 31 August 2004 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in equity shareholders' funds, and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 as at 31 August 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

8 April 2005

WH SMITH RETAIL LIMITED

PROFIT AND LOSS ACCOUNT For the year ended 31 August 2004

	Note	2004 £000	2003 As restated £000
Turnover	3	1,428,411	1,432,167
Cost of Sales		(892,595)	(885,785)
Exceptional Cost of Sales	5	(9,288)	(35,700)
Total Cost of Sales		(901,883)	(921,485)
Gross profit		526,528	510,682
Distribution costs		(448,550)	(424,904)
Administrative expenses before exceptional items		(103,090)	(81,760)
Exceptional administrative expenses	5	(33,847)	(82,310)
Total administrative expenses		(136,937)	(164,070)
Operating loss		(58,959)	(78,292)
Net interest payable	6	(1,910)	(1,922)
Loss on ordinary activities before taxation	7	(60,869)	(80,214)
Tax on loss on ordinary activities	10	(1,343)	(3,763)
Retained loss for the financial year		(62,212)	(83,977)

All results are derived from continuing operations.

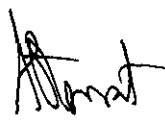
WH SMITH RETAIL LIMITED

BALANCE SHEET As at 31 August 2004

	Note	31 August 2004 £000	31 August 2003 as restated £000
FIXED ASSETS			
Goodwill	11	16,010	17,121
Tangible assets	12	185,303	186,945
Investments	13	22,466	22,168
		<u>223,779</u>	<u>226,234</u>
CURRENT ASSETS			
Stocks		152,697	145,572
Debtors	14	369,278	423,242
Cash		27,623	-
		<u>549,598</u>	<u>568,814</u>
CREDITORS: amounts falling due within one year	15	<u>(576,300)</u>	<u>(537,058)</u>
Net current (liabilities) /assets		<u>(26,702)</u>	<u>31,756</u>
Total assets less current liabilities		<u>197,077</u>	<u>257,990</u>
CREDITORS: amounts falling due within after year	16	(1,754)	(1,471)
Provisions for liabilities and charges	17	<u>(26,754)</u>	<u>(25,758)</u>
Net assets excluding pension liabilities		<u>168,569</u>	<u>230,761</u>
Net pension liability	4	<u>(4,958)</u>	<u>(5,000)</u>
TOTAL NET ASSETS		<u><u>163,611</u></u>	<u><u>225,761</u></u>
CAPITAL AND RESERVES			
Called up equity share capital	18	251,404	251,404
Profit and loss account	19	<u>(87,793)</u>	<u>(25,643)</u>
EQUITY SHAREHOLDERS' FUNDS		<u><u>163,611</u></u>	<u><u>225,761</u></u>

These financial statements were approved by the Board of Directors on 8 April 2005.

Signed on behalf of the Board of Directors



A J H Stewart

Director

WH SMITH RETAIL LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 August 2004

	2004	2003
	£000	£000
Loss on ordinary activities after taxation	(62,212)	(83,977)
Net actuarial gain/ (loss) on post retirement medical benefits	62	(2,610)
Total recognised losses for the financial year	(62,150)	(86,587)

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

For the year ended 31 August 2004

	2004	2003
	£000	£000
Opening equity shareholders' funds as previously stated	225,761	312,348
Loss on ordinary activities after taxation	(62,212)	(83,977)
Net actuarial gain/ (loss) on post retirement medical benefits	62	(2,610)
Decrease in equity shareholders' funds	(62,150)	(86,587)
Closing equity shareholders' funds	163,611	225,761

NOTES TO THE ACCOUNTS

Year ended 31 August 2004

1. ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention and are in compliance with the Companies Act 1985 and applicable United Kingdom law and accounting standards. UITF 38 "Accounting for ESOP Trusts" and Application Note G "Revenue Recognition" to Financial Reporting Standard 5 "Substance of Transactions" have been adopted with effect from 1 September 2003 and the prior year results have been adjusted accordingly as explained in note 2. All other accounting policies have been applied consistently throughout the year.

Basis of preparation

The financial statements are for the year ended 31 August 2004.

In accordance with FRS1 'Cash Flow Statements' (Revised), a statement of cash flows has not been prepared as cash flow information has been shown in the financial statements of the ultimate parent company.

Turnover

Turnover represents goods and services sold to customers outside the group, less returns, discounts and sales tax.

Goodwill

Goodwill, representing the excess of purchase consideration over the fair value of net assets acquired, is capitalised and amortised in the profit and loss over its useful life. Where it is considered that an impairment has occurred to goodwill, a provision is made accordingly.

Investments in subsidiary undertakings

Investments in equity and long term loans in subsidiary undertakings are individually valued at historical currency cost less provision for impairment in value and translated into sterling in accordance with the policy set out below.

Fixed assets

As permitted by FRS 15 "Tangible Fixed Assets", the Company has adopted a policy of not revaluing fixed assets. The carrying values of tangible fixed assets previously revalued have been retained at their book amount in accordance with the transitional provisions of FRS 15, which are reviewed on a periodic basis to ensure there is no impairment in their value.

Depreciation

Short leasehold properties are amortised by equal amounts over the period of the leases or their estimated remaining lives if less. Other tangible fixed assets are depreciated on a straight-line basis over their estimated remaining lives within the following ranges:

- Fixtures and fittings - ten years;
- Equipment - eight to ten years;
- Computer equipment - up to five years.

Stocks

Stocks comprise goods for resale and are stated at the lower of cost and net realisable value.

Property provision

In accordance with FRS12 "Provisions, contingent liabilities and contingent assets", the Company's property provisions have been discounted, using the Company's weighted average cost of capital, to the present value of future net lease obligations and related costs of leasehold property (net of estimated sublease income and adjusted for certain risk factors) where the space is vacant or currently not planned to be used for ongoing operations. The periodic unwinding of the discount is treated as an imputed interest charge.

NOTES TO THE ACCOUNTS

Year ended 31 August 2004

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at rates prevailing at the balance sheet date or, where applicable, at forward contracted rates. Profit and loss account items denominated in foreign currencies are translated at the average exchange rates for the year.

Deferred taxation

In accordance with FRS 19 'Deferred taxation' the Company provides deferred tax in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred taxation is not provided on timing differences arising from the sale or revaluation of fixed assets unless, at the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will qualify for rollover relief. Deferred taxation is measured on a non-discounted basis.

Pension costs

In accordance with FRS17 'Retirement Benefits', the costs in respect of the Company's defined benefit pension scheme are charged to the profit and loss account on a contribution basis, as the directors are unable to identify the Company's share of the underlying assets and liabilities of the Scheme. Costs in respect of the Company's defined contribution pension schemes are charged to the profit and loss account on an accruals basis as contributions become payable.

Leases

Rental costs under operating leases are charged to the profit and loss account over the length of the lease. The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the Company's accounting policy for that class of asset. The capital element of future lease payments is included in creditors. The interest cost is allocated to accounting periods based on the outstanding capital element of the lease.

Incentives received by the Company to enter into leases as a lessee are credited to the profit and loss account on a straight-line basis over the lease term or, if shorter, the period to the first review date on which rent is adjusted to the prevailing market rate.

WH Smith Employees' Share Trust 1999

The WH Smith Employees' Share trust 1999 holds ordinary shares in WH Smith PLC, which may be used to satisfy options granted under the Group share schemes. Full details of the Trust and the share schemes are disclosed in the consolidated financial statements of WH Smith PLC for the year ended 31 August 2004.

The shares held by the WH Smith Employees share Trust 1999 have been allocated to WH Smith Retail Limited and another group undertaking as they are deemed to have de facto control over the assets and liabilities of the WH Smith Employees' Share Trust 1999. The shares are calculated at the historic cost of the shares acquired less provision for impairment.

2. PRIOR YEAR ADJUSTMENT

The Company has adopted Application Note G "Revenue Recognition" to Financial Reporting Standard 5 "Substance of Transactions" ("FRS 5 ANG"). The key impacts of this amendment for the Company are set out below.

FRS 5 ANG states that turnover excludes the sales value of estimated returns. Accordingly the provision for estimated refunds (previously included in cost of sales), which represents the cumulative estimate that will be returned and refunded after the year end, has now been deducted from turnover.

NOTES TO THE ACCOUNTS

Year ended 31 August 2004

2. PRIOR YEAR ADJUSTMENT (continued)

FRS 5 ANG states that turnover should be recorded net of discounts. Accordingly, discounts provided to customers and staff (including loyalty scheme costs) previously shown as deductions against gross margin, have been reclassified as deductions against turnover.

a) Balance sheet

There has been no impact on net assets arising from the adoption of FRS 5 ANG.

b) Profit and loss account

In accordance with the change in accounting policy to adopt FRS 5 ANG, group turnover for the year ended 31 August 2003 has been restated from £1,445,637 to £1,432,167. There has been no impact on profit before tax or profit after tax in respect of the restatements relating to FRS 5 ANG for the year ended 31 August 2003. If the previous policy had been continued in the current year, the impact on profit before and after tax for the year ended 31 August 2004 would have been £nil.

3. TURNOVER

All turnover arises in the United Kingdom from retailing. Turnover by destination is not materially different to turnover by origin.

4. PENSIONS

a) Pension plans

The Company is a participating employer in the WH Smith Group pension schemes. The principal scheme is a defined benefit scheme, WH Smith Pension Trust. The Group also operates a defined contribution scheme, WH Smith Pension Builder.

The directors are unable to identify the Company's share of the underlying assets and liabilities of the defined benefit Scheme. Full details of the scheme are disclosed in the accounts of WH Smith PLC. At 31 August 2004 the schemes had a net deficit after deferred taxation of £144m (2003: deficit £151m). The cost of the defined benefit pension scheme has been accounted for as a defined contribution scheme allocated on the basis of pensionable salaries, for the year this amounted to £29m (2003: £15m).

The Company's pension cost charge to its defined contribution scheme, WH Smith Pension Builder, for the year amounted to £2m (2003: £2m). Full details of the scheme are disclosed in the accounts of WH Smith PLC.

b) Post retirement medical benefits

WH Smith PLC provides retirement medical benefits to certain pensioners. Total premiums paid during the year in respect of those benefits were £0.4m (2003: £0.1m). The present value of the future liabilities under this arrangement has been assessed by our actuary (Mellon Human Resources & Investor Solutions (Actuaries & Consultants) Limited) and this amount is included on the balance sheet, net of deferred taxation, under pension and other post retirement liabilities as follows:

	2004	2003
	£000	£000
Present value of scheme liabilities	(7,083)	(7,284)
Related deferred tax asset	2,125	2,284
Net scheme liabilities	(4,958)	(5,000)

NOTES TO THE ACCOUNTS
Year ended 31 August 2004

4. PENSIONS (continued)

The weighted average principal long term assumptions used in the actuarial valuation were:

	2004	2003
Discount rate	5.5%	5.5%
Medical Inflation rate	9% for 5 years, reducing to 4.5% over next 5 years, 4.5% thereafter	9% for 5 years, reducing to 4.25% over next 5 years, 4.25% thereafter

Analysis of the amount charged to net finance charges:

	2004	2003
	£000	£000
Interest on pension scheme liabilities	391	400

Analysis of the actuarial loss in the statement of total recognised gains and losses:

	2004	2003
	£000	£000
Experience gains and losses arising on the scheme liabilities	551	428
Changes in assumptions underlying the present value of the scheme liabilities	(304)	(217)
	247	211

Movement in scheme deficit during the year:

	2004	2003
	£000	£000
At beginning of year	(7,284)	(7,440)
Contributions	345	345
Net finance charge	(391)	(400)
Actuarial loss	247	211
Deficit in scheme at end of year	(7,083)	(7,284)

NOTES TO THE ACCOUNTS
Year ended 31 August 2004

4. PENSIONS (continued)

History of the weighted average experience gains and losses

	2004	2003
Experience gains and losses on scheme liabilities:		
Amount (£000)	551	428
% of present value of the scheme liabilities	(7.8%)	5.9%
Total amount recognised in Statement of Total Recognised Gains and Losses:		
Amount (£m)	247	211
% of present value of the scheme liabilities	(3.5%)	2.9%

5. EXCEPTIONAL ITEMS

	2004 £000	2003 £000
UK Retailing operational review		
- Stock write-down	9,288	35,700
- Internal restructuring of UK retailing	12,527	-
- Impairment of intangible and tangible fixed assets	4,693	37,900
- Other items	4,312	-
Corporate advisory costs	11,075	-
Property provisions	-	12,010
Intercompany balances	-	32,400
Other	1,240	-
	<hr/>	<hr/>
	43,135	118,010
	<hr/>	<hr/>

The exceptional operating charge of £43,135,000 (2003: £118,010,000) comprises a £9,288,000 (2003: £35,700,000) stock provision, which has been charged to cost of sales, with the balance of £33,847,000 (2003: £82,310,000) being charged to administrative expenses.

The exceptional operating charge in the years consist of the following:

UK Retailing operational review

As a result of a detailed review, the carrying value of stock has been written down by £9,288,000 (2003: £35,700,000). This reflects redundant and slow moving items, particularly as a result of slow down in the sales of certain entertainment product categories.

The internal restructuring of UK Retailing has led to a material reduction in the number of staff at London and Swindon locations. The total redundancy and associated costs of this programme were £12,527,000.

Tangible and intangible asset impairments of £4,693,000 (2003: £37,900,000) have been charged - the prior year included the write-off of recent research work on our concept store and systems development for UK Travel Retail and the impairment of goodwill and assets in relation to WH Smith Online.

NOTES TO THE ACCOUNTS

Year ended 31 August 2004

5. EXCEPTIONAL ITEMS (continued)

Corporate advisory costs

In responding to the approach from Permira to WH Smith PLC, and implementing the consequent change to the Group's structure, the Company has incurred exceptional operating costs of £11,075,000.

Surplus property provisions

In the prior year, as a result of a sub-tenant default and deterioration in the London commercial property market in the year to 31 August 2003, a requirement arose to significantly increase the provision for onerous leases. Following a review of the provision, it was increased by £12,010,000.

Irrecoverable intercompany debtors

In the prior year, provisions were recorded of £32,400,000 against intercompany balances, including the balance due from the USA Travel Retail businesses that have now been sold.

Tax on exceptional items

For the year ended 31 August 2004 a credit of £9m was included within the corporation tax charge for the year in respect of the internal restructuring (£3.3m), corporate advisory costs (£2.2m), other items (£0.7m) and the stock write down (£2.8m).

For the year ended 31 August 2003 a credit of £10m was included within the corporation tax charge for the year in respect of the property provision (£3.6m) and the stock write down (£6.4m).

6. NET INTEREST PAYABLE

	2004 £000	2003 £000
Payable:		
Other interest payable and similar charges	(1,445)	(1,939)
Unwinding of discount on property provision	(952)	-
Receivable:		
Other interest receivable and similar income	487	17
Net interest payable	<u>(1,910)</u>	<u>(1,922)</u>

NOTES TO THE ACCOUNTS

Year ended 31 August 2004

7. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION IS STATED AFTER CHARGING/(CREDITING):

	2004 £000	2003 £000
Depreciation and Impairment of fixed assets	38,408	29,245
Amortisation of goodwill	1,111	1,111
Operating lease rentals on land and buildings:		
- base rents	96,565	91,461
- turnover rents	47,765	45,125
Hire of plant and machinery	7,789	8,088
Auditors' fees - audit	285	290
- non-audit	827	412
Operating lease rental income on land and buildings	<u>(8,863)</u>	<u>(9,268)</u>

8. EMPLOYEES AND STAFF COSTS

	2004 £000	2003 £000
Staff costs		
Wages and salaries	176,329	172,839
Social security	12,137	11,028
Pension costs	30,809	16,922
	<u>219,275</u>	<u>200,789</u>
	No.	No.
Average number of employees		
Retailing	19,561	19,937
Central functions	106	126
Total number of employees at year end	<u>19,667</u>	<u>20,063</u>

9. DIRECTORS' REMUNERATION

The directors' remuneration is disclosed in the consolidated financial statements for WH Smith PLC for the year ended 31 August 2004.

NOTES TO THE ACCOUNTS
Year ended 31 August 2004

10. TAX ON LOSS ON ORDINARY ACTIVITIES

	2004 £000	2003 £000
Tax on loss at the standard rate of UK corporation tax 30% (2003 – 30%)	-	2,185
Total current tax charge	-	2,185
Deferred tax:		
Origination and reversal of timing differences	1,343	1,578
Tax on loss on ordinary activities	1,343	3,763
Effective tax rate	(2)%	(5)%
Reconciliation of the current tax charge		
	2004 £000	2003 £000
Loss on ordinary activities before taxation	(60,869)	(80,214)
Tax on loss on ordinary activities before taxation at the UK statutory rate of 30% (2003 – 30%)	(18,261)	(24,064)
Group relief surrendered for nil consideration	17,140	-
Adjustment in respect of prior years	-	1,414
Capital allowances in excess of depreciation	(1,343)	(1,578)
Permanent differences	2,464	26,413
Total current tax charge	-	2,185

NOTES TO THE ACCOUNTS
Year ended 31 August 2004

11. GOODWILL

	2004 £000
Cost	
At 1 September 2003 and at 31 August 2004	55,877
Accumulated amortisation	
At 1 September 2003	(38,756)
Charge in the year	(1,111)
At 31 August 2004	(39,867)
Net book value	
At 31 August 2004	16,010
At 31 August 2003	17,121

Goodwill is amortised over a 20 year period.

12. TANGIBLE FIXED ASSETS

	Properties short-term leasehold £000	Assets held under finance leases £000	Equipment and vehicles £000	Fixtures and fittings £000	Total £000
Cost:					
At 1 September 2003	140,401	45	69,686	136,752	346,884
Additions	9,997	-	15,098	16,475	41,570
Disposals	(6,674)	-	(145)	(410)	(7,229)
Translation differences	(12)	-	(6)	(7)	(25)
At 31 August 2004	143,712	45	84,633	152,810	381,200
Accumulated depreciation					
At 1 September 2003	67,310	18	24,814	67,797	159,939
Depreciation charged	8,514	27	10,257	14,917	33,715
Reclassification	(350)	-	-	350	-
Impairment charge in the year	-	-	3,114	1,579	4,693
Disposals	(2,129)	-	(85)	(210)	(2,424)
Translation differences	(6)	-	(12)	(8)	(26)
At 31 August 2004	73,339	45	38,088	84,425	195,897
Net book value					
At 31 August 2004	70,373	-	46,545	68,385	185,303
At 31 August 2003	73,091	27	44,872	68,955	186,945

The book value of assets held under finance leases at 31 August 2004 was nil (2003: £27,000).

NOTES TO THE ACCOUNTS
Year ended 31 August 2004

13. INVESTMENTS

	Shares owned by employee share schemes £000
Cost:	
At 1 September 2003	22,806
Additions	426
	<hr/>
At 31 August 2004	23,232
	<hr/>
Provisions for impairment:	
At 1 September 2003	638
Provision for impairment	128
	<hr/>
At 31 August 2004	766
	<hr/>
Net book value	
At 31 August 2004	22,466
	<hr/>
At 31 August 2003	22,168
	<hr/>

At 31 August 2004 the nominal value of the shares held in WH Smith PLC was £6,682,660 (2003: £3,093,486) and the market value was £20m (2003: £19.6m). The shares are held by an employee trust for the sole purpose of satisfying obligations under the parent company's Employee Share Scheme.

14. DEBTORS

	2004 £000	2003 £000
Trade debtors	11,988	8,476
Amounts owed by parent and group undertakings	309,871	364,352
Other debtors	19,203	25,527
Corporation tax	-	1,524
Prepayments and accrued income	28,216	23,363
	<hr/>	<hr/>
	369,278	423,242
	<hr/>	<hr/>

Debtors falling due after more than one year of £5,199,000 (2003: £4,500,000), included above within other debtors, consist of payments to landlords.

NOTES TO THE ACCOUNTS
Year ended 31 August 2004

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003 as restated
	£000	£000
Bank loans and overdrafts	-	8,081
Trade creditors	106,833	140,186
Amounts owed to parent and group undertakings	337,366	305,324
VAT, payroll tax and social security	18,167	17,179
Corporation tax	5,263	-
Other creditors*	39,192	40,433
Accruals and deferred income	69,479	25,855
	<u>576,300</u>	<u>537,058</u>

*The balance stated at the year ended 31 August 2003 has been restated to exclude amounts falling due after more than 1 year of £1,471,000 (see note 16).

16. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2004	2003 as restated
	£000	£000
Other creditors	<u>1,754</u>	<u>1,471</u>

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £000	Non trading property provisions £000	Total £000
Cost:			
At 1 September 2003	11,980	18,320	30,300
Utilised during the year	-	(4,012)	(4,012)
Profit and loss account	1,343	3,711	5,054
	<u>13,323</u>	<u>18,019</u>	<u>31,342</u>
Discount:			
At 1 September 2003	-	4,542	4,542
Unwinding of discount	-	(952)	(952)
Profit and loss account	-	998	998
	<u>-</u>	<u>4,588</u>	<u>4,588</u>
Net book value			
At 31 August 2004	<u>13,323</u>	<u>13,431</u>	<u>26,754</u>
At 31 August 2003	<u>11,980</u>	<u>13,778</u>	<u>25,758</u>

In the year to 31 August 2004 £4,012,000 was utilised against non trading property provisions for vacant or surplus properties which will continue to be charged for around six years.

NOTES TO THE ACCOUNTS
Year ended 31 August 2004

17. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

	2004	2003
	£000	£000
Analysis of deferred taxation:		
Capital allowances in excess of depreciation	<u>13,323</u>	<u>11,980</u>

18. CALLED UP EQUITY SHARE CAPITAL

	2004		2003	
	Number of shares	Nominal value £	Number of shares	Nominal value £
Authorised :				
Ordinary shares of £1 each	<u>251,654,000</u>	<u>251,654,000</u>	<u>251,654,000</u>	<u>251,654,000</u>
Allotted and fully paid :				
Ordinary shares of £1 each	<u>251,404,002</u>	<u>251,404,002</u>	<u>251,404,002</u>	<u>251,404,002</u>

19. RESERVES

	Profit and loss account £000
At 31 August 2003	(25,643)
Retained loss for the year	(62,212)
Net actuarial gain on post retirement medical benefits	<u>62</u>
At 31 August 2004	<u>(87,793)</u>

20. CAPITAL COMMITMENTS

Contracts placed for future capital expenditure approved by the directors but not incurred in these financial statements amounts to £31,733,000 (2003: £44,098,000).

21. CONTINGENT LIABILITIES

	2004	2003
	£000	£000
VAT bond	2,000	1,000
Bank and other loans guaranteed	<u>6,343</u>	<u>662</u>
	<u>8,343</u>	<u>1,662</u>

NOTES TO THE ACCOUNTS
Year ended 31 August 2004

22. ANNUAL COMMITMENTS UNDER OPERATING LEASES

At the year end the Company had the following future commitments in respect of operating leases for the following year:

	2004	2004	2004	2003	2003	2003
	Land and buildings £000	Equipment and vehicles £000	Total £000	Land and buildings £000	Equipment and vehicles £000	Total £000
Annual net lease commitments expiring:						
Within one year	7,666	1,110	8,776	15,410	97	15,507
Within two to five years	45,793	2,565	48,358	34,989	4,551	39,540
In more than five years	71,157	194	71,351	67,143	-	67,143
Total	<u>124,616</u>	<u>3,869</u>	<u>128,485</u>	<u>117,542</u>	<u>4,648</u>	<u>122,190</u>

23. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemptions granted by paragraph 3(c) of FRS 8, Related Party Disclosures, not to disclose transactions with WH Smith Group companies and interests of the Group who are related parties.

24. POST BALANCE SHEET EVENT

Under a joint and several contractual arrangement, on 27 July 2004, WH Smith Retail Limited, Greenbridge News Limited, and WH Smith Trading Limited entered into new committed 3 year borrowing facilities comprising a £120m unsecured term loan facility (of which £30m was cancelled on 20 September 2004) and a renegotiated £150m working capital facility. Both facilities were contingent on the satisfactory completion of the disposal of Hodder Headline, a fellow group undertaking of the Company. The facilities therefore became available on 27 September 2004 following the successful completion of this disposal.

25. ULTIMATE PARENT COMPANY

The ultimate parent and controlling company is WH Smith PLC, a company incorporated in Great Britain. This is the smallest and largest group including the company for which consolidated financial statements are prepared. The immediate parent company is Greenbridge News Limited, which is incorporated in Great Britain. Copies of the Group financial statements are available from:

The Company Secretary
 WH Smith PLC
 Greenbridge Road
 Swindon
 Wiltshire
 SN3 3RX