

BHS GROUP LIMITED

**FINANCIAL STATEMENTS,
DIRECTORS' AND INDEPENDENT AUDITORS' REPORTS**

FOR THE 52 WEEKS ENDED 29 MARCH 2003



COMPANY REGISTERED NUMBER: 3858895

BHS GROUP LIMITED

DIRECTORS' REPORT

The directors submit their report on the financial statements for the 52 weeks ended 29 March 2003.

Principal activity

The principal activity of the group is that of retailing, primarily in the United Kingdom.

Business review

During the financial year, operating profit (after amortisation of negative goodwill of £27,801,000 (2002: £30,145,000)) amounted to £131,751,000 (2002: £127,997,000) and the profit before taxation amounted to £123,300,000 (2002: £172,319,000). The operating profit before negative goodwill and fair value adjustments was £105,537,000 (2002: £100,175,000). Net assets at the year end were £114,894,000 (2002: £84,535,000).

The Directors paid no interim dividends (2002: £100,035,000). The Directors proposed final dividends of £57,000,000 (2002: £66,500,000). The group profit for the year after taxation was £87,359,000 (2002: £148,315,000).

The increase in operating profit this year reflects the continuing focus on product quality, supply chain improvements and control of overhead costs.

Employee involvement

Incentive plans related to sales performance operate in stores, rewarding individual store team performance. Senior Managers participate in annual incentive plans which are related to company profits, departmental objectives and individual performance. This is an important part of the group's strategy to attract, motivate and retain high calibre managers, while focusing on continuing to improve business performance.

A comprehensive communication and involvement programme supports incentive plans, including the use of newspapers, face to face briefings and in store communication, ensuring that all employees understand operations and financial progress.

Disabled employees

The group ensures that disabled people are given due consideration for employment opportunities, and if employees become disabled every effort is made to retain them, providing requisite employment aids. Bhs Group Limited is an equal opportunities employer, recruiting and promoting employees on the basis of suitability for the job and on no other grounds.

Donations

The total amount donated for charitable purposes was £304,198 (2002: £287,024).

BHS GROUP LIMITED
DIRECTORS' REPORT (CONTINUED)

Directors and their interests

The directors who served during the year were:

- P Green
- P Coackley
- I Allkins
- R Saunders
- C Coles

The interests of each of the directors and their immediate families in the issued share capital of Bhs Group Limited which has been notified to the company pursuant to Sections 324 or 328 of the Companies Act 1985 or which are required to be entered in the register of directors interests maintained by Bhs Group Limited pursuant to Section 325 of that Act as at 29 March 2003 are as follows:

Director	Number of ordinary shares from 30 March 2002 to 29 March 2003
I Allkins	-
P Coackley	-
C Coles	-
P Green	1,900,000
R Saunders	10,000

Fixed assets

Information relating to changes in tangible fixed assets is shown in note 11 to the accounts.

The market value of freehold and long leasehold properties is, in the opinion of the directors, not likely to materially exceed book value. This view is based on an open market valuation which was carried out in April 2000 by independent property consultants.

Auditors

On 8 May 2001 the company passed an elective resolution to dispense with the annual appointment of auditors.

By Order of the Board



D V Cash
Company Secretary
11 June 2003

BHS GROUP LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and group and of the profit and loss for that year. 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, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and 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 group and company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

BHS GROUP LIMITED**REPORT OF THE INDEPENDENT AUDITORS, KPMG LLP, TO THE MEMBERS OF BHS GROUP LIMITED**

We have audited the financial statements on pages 5 to 27.

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 auditor's 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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the group 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 group'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 affairs of the company and the group as at 29 March 2003, and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
13 June 2003

KPMG LLP
Chartered Accountants
& Registered Auditors
8 Salisbury Square
London EC4Y 8BB

BHS GROUP LIMITED
GROUP PROFIT AND LOSS ACCOUNT
FOR THE 52 WEEKS ENDED 29 MARCH 2003

	Note	52 weeks ended 29 March 2003		52 weeks ended 30 March 2002	
		£000	£000	£000	£000
Turnover	2		882,199		876,025
Cost of sales			(737,854)		(740,939)
Gross profit			144,345		135,086
Administration expenses before amortisation of negative goodwill		(16,816)		(17,234)	
Amortisation of negative goodwill	10	<u>27,801</u>		<u>30,145</u>	
Administration expenses after amortisation of negative goodwill			10,985		12,911
Distribution costs			(23,579)		(20,000)
Operating profit			131,751		127,997
Profit on disposal of fixed assets	4		1,344		64,530
Other interest receivable and similar income	6		2,281		2,684
Interest payable and similar charges	7		(12,076)		(22,892)
Profit on ordinary activities before taxation	3		123,300		172,319
Tax on profit on ordinary activities	8		(35,941)		(24,004)
Profit on ordinary activities after taxation			87,359		148,315
Dividends	9		(57,000)		(166,535)
Retained profit/(loss) for the financial year	19		<u>30,359</u>		<u>(18,220)</u>

The company uses the unmodified historical cost convention which means that the profit for the year is equal to the profit under the historical cost convention.

All turnover and operating profit arises from continuing operations. There were no acquisitions or discontinued activities in the year.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Profit for the financial year	87,359	148,315
Prior year adjustment	—	(5,517)
Total gains and losses recognised since last financial statements	<u>87,359</u>	<u>142,798</u>

The notes on pages 9 to 27 form an integral part of these financial statements.

BHS GROUP LIMITED
GROUP BALANCE SHEET
AS AT 29 MARCH 2003

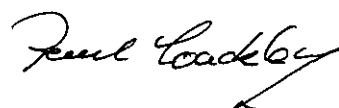
	Note	29 March 2003		30 March 2002	
		£000	£000	£000	£000
Fixed assets					
Negative goodwill	10	(171,294)		(199,095)	
Tangible assets	11	<u>376,196</u>		<u>403,860</u>	
			204,902		204,765
Current assets					
Stocks	13	72,438		71,773	
Debtors recoverable within one year	14	33,478		37,793	
Debtors recoverable after more than one year	14	36,615		35,381	
Cash at bank and in hand		<u>82,048</u>		<u>112,213</u>	
		224,579		257,160	
Creditors: amounts falling due within one year	15	<u>(191,711)</u>		<u>(213,566)</u>	
Net current assets			<u>32,868</u>		<u>43,594</u>
Total assets less current liabilities			237,770		248,359
Creditors: amounts falling due after more than one year	16		(61,996)		(98,935)
Provisions for liabilities and charges					
Deferred tax	17	(50,587)		(50,617)	
Other provisions	17	<u>(10,293)</u>		<u>(14,272)</u>	
			<u>(60,880)</u>		<u>(64,889)</u>
Net assets			<u>114,894</u>		<u>84,535</u>
Capital and reserves					
Called up share capital	18		475		475
Share premium account	19		25		25
Profit and loss account	19		<u>114,394</u>		<u>84,035</u>
Equity shareholders' funds	20		<u>114,894</u>		<u>84,535</u>

Signed on behalf of the board of directors

I M Allkins



P Coackley



11 June 2003

The notes on pages 9 to 27 form an integral part of these financial statements.

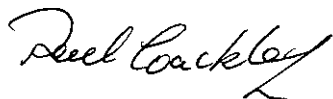
BHS GROUP LIMITED
COMPANY BALANCE SHEET
AS AT 29 MARCH 2003

	Note	29 March 2003 £000	30 March 2002 £000
Fixed assets			
Investments	12	82,668	82,668
Current assets			
Debtors	14	81,160	119,111
Creditors: Amounts falling due within one year	15	<u>(98,320)</u>	<u>(106,054)</u>
Total assets less current liabilities		65,508	95,725
Creditors: amounts falling due after more than one year	16	<u>(59,080)</u>	<u>(91,988)</u>
Net assets		<u>6,428</u>	<u>3,737</u>
Capital and reserves			
Called up share capital	18	475	475
Share premium account	19	25	25
Profit and loss account	19	<u>5,928</u>	<u>3,237</u>
Equity shareholders' funds	20	<u>6,428</u>	<u>3,737</u>

Signed on behalf of the board of directors



I M Allkins



P Coackley

11 June 2003

The notes on pages 9 to 27 form an integral part of these financial statements.

BHS GROUP LIMITED
CONSOLIDATED CASH FLOW STATEMENT

		2003		2002	
	Note	£000	£000	£000	£000
Net cash inflow from operating activities	21		146,673		143,948
Returns on investments and servicing of finance					
Interest received		2,023		2,294	
Interest paid		(6,984)		(9,541)	
Amounts paid to warrant holders (see note 18)		<u>(3,500)</u>		<u>(5,265)</u>	
Net cash outflow from returns on investments and servicing of finance			(8,461)		(12,512)
Taxation					
UK corporation tax paid		(35,347)		(9,808)	
Overseas corporation tax paid		<u>(205)</u>		<u>(202)</u>	
Total tax paid			(35,552)		(10,010)
Capital expenditure					
Purchase of tangible fixed assets		(21,400)		(12,279)	
Sale of tangible fixed assets		<u>20</u>		<u>105,351</u>	
Net cash (outflow)/inflow from capital expenditure			(21,380)		93,072
Equity dividends paid			(66,500)		(100,035)
Net cash inflow before financing			14,780		114,463
Financing					
Short term borrowings		-		15,000	
Capital element of finance lease rental					
Payments		(2,445)		(1,974)	
Repayment of short term borrowing		(7,500)		(5,000)	
Repayment of long term borrowing		<u>(35,000)</u>		<u>(15,704)</u>	
Net cash outflow from financing			(44,945)		<u>(7,678)</u>
(Decrease)/increase in cash in the year	22		<u>(30,165)</u>		<u>106,785</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the current and preceding year. The accounting period covers the 52 weeks ended 29 March 2003. Comparative figures are as shown for the 52 weeks ended 30 March 2002.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The group financial statements consolidate the financial statements of Bhs Group Limited and its subsidiary undertakings. The acquisition method of accounting is used to consolidate the results of subsidiary undertakings in the Group accounts from the date on which control passed.

As permitted by Section 230(4) of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

Turnover

Group turnover comprises the value of sales (excluding sales taxes and net of discounts) of goods provided in the normal course of business.

Goodwill

Negative goodwill arising on the purchase of the group companies is capitalised in the balance sheet and is written off over the period of stock turn and the useful economic lives of individual tangible fixed assets on a straight line basis.

Tangible fixed assets

Tangible fixed assets are included at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation on other fixed assets is charged on a straight-line basis over the following periods:

Freehold buildings	-	50 years
Fixed equipment in freehold buildings	-	up to 20 years
Leasehold improvements	-	the shorter of 35 years and the period of the lease
Fixtures, fittings and equipment	-	3 to 10 years

Investments

The company's investments in subsidiary undertakings are stated at cost less provisions for impairment. Dividends receivable are credited to the company's profit and loss account.

Stocks

Stocks consist substantially of goods for resale and are stated at the lower of cost and net realisable value. Cost includes an appropriate element of overhead expenditure.

1. Accounting policies (continued)

Leased assets

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Taxation

The charge on taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted at the balance sheet date.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Pension costs

The expected cost of the Group's defined benefit scheme is charged to the profit and loss account so as to spread the cost of pensions over the remaining service lives of the current employees in the scheme. Variations from the regular costs are spread over the expected remaining service lives of current employees in the scheme. The pension cost is assessed in accordance with the advice of an independent qualified actuary.

Foreign currency

Transactions denominated in foreign currencies are translated into local currency at the rates of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in a foreign currency are translated into local currency at the rates ruling at each balance sheet date. Resulting exchange gains or losses are included in operating profit.

2. Segment information

The group carries on a single class of business, being retailing of clothing and household goods, predominantly within the UK.

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3. Profit on ordinary activities before taxation

	2003	2002
	£000	£000
Profit on ordinary activities before taxation after charging:		
Operating lease rentals - plant and equipment	3,264	3,348
- land and buildings	84,954	77,961
Profit on disposal of properties (see note 4)	1,344	64,530
Depreciation of owned assets	47,577	49,791
Auditor's remuneration - for group audit services	82	77
- for company audit services	11	10
- for other services	<u>62</u>	<u>38</u>

4. Profit on disposal of fixed assets

	2003	2002
	£000	£000
Profit on disposal of property	1,344	10,313
Goodwill amortisation relating to property disposal	<u>-</u>	<u>54,217</u>
	<u>1,344</u>	<u>64,530</u>

The profit on disposal of property primarily relates to the release of a provision that was no longer required.

5. Staff costs

	2003	2002
	£000	£000
Wages and salaries	101,771	102,381
Social security costs	5,362	5,372
Other pension costs	<u>4,303</u>	<u>4,490</u>
	<u>111,436</u>	<u>112,243</u>

	2003	2002
	Number	Number
UK stores - Full-time	2,910	2,941
- Part-time	10,131	10,369
UK head office	626	535
Overseas	<u>89</u>	<u>105</u>
	<u>13,756</u>	<u>13,950</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

5. Staff costs (continued)
Directors' emoluments

	2003	2002
	£000	£000
Emoluments	4,469	3,986
Company contributions to money purchase pension schemes	<u>39</u>	<u>14</u>
Total emoluments	<u>4,508</u>	<u>4,000</u>

Pensions

The number of directors who were members of pension schemes were as follows:

	2003	2002
	Number	Number
Money purchase schemes	<u>2</u>	<u>2</u>
Defined benefit schemes	<u>2</u>	<u>2</u>

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2003	2002
	£000	£000
Emoluments	<u>3,308</u>	<u>1,700</u>

The highest paid director was not a member of the company pension scheme and therefore has no accrued pension benefit at the end of the year.

6. Other interest receivable and similar income

	2003	2002
	£000	£000
Bank interest receivable	2,240	2,452
Other sundry income	<u>41</u>	<u>232</u>
	<u>2,281</u>	<u>2,684</u>

BHS GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS****7. Interest payable and similar charges**

	2003	2002
	£000	£000
Bank loans and overdrafts	6,897	12,231
Other loans	1,865	1,717
Other interest payable	97	16
Warrant holder payments (see note 18)	3,000	8,765
Finance leases	<u>217</u>	<u>163</u>
	<u>12,076</u>	<u>22,892</u>

8. Taxation

	2003	2002
	£000	£000
a) Analysis of the tax charge in the year		
UK corporation tax		
Profit for the year	35,258	28,233
Adjustment in respect of the previous year	363	40
Foreign tax		
Profit for the year	348	306
Adjustment in respect of the previous year	<u>2</u>	<u>(147)</u>
Total current tax	35,971	28,432
UK deferred tax		
Origination and reversal of timing differences	<u>(30)</u>	<u>(4,428)</u>
Tax on profit on ordinary activities	<u>35,941</u>	<u>24,004</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

8. Taxation (continued)

b) Factors affecting tax charge for the year

The tax assessed for the year is less than the standard rate of UK corporation tax of 30%. The differences are explained below:

	2003 £000	2002 £000
Profit on ordinary activities before tax	<u>123,300</u>	<u>172,319</u>
Profit on ordinary activities before tax multiplied by standard rate of UK corporation tax of 30%	36,990	51,696
Effects of:		
Accounting depreciation in excess of tax depreciation	5,884	5,153
Consolidation adjustments (including goodwill amortisation)	(8,113)	(7,900)
Other tax adjustments	845	1,768
Profits covered by available losses	-	(22,178)
Adjustments relating to prior years corporation tax	<u>365</u>	<u>(107)</u>
Total current tax	<u>35,971</u>	<u>28,432</u>

c) Factors that may affect future tax charges

Sufficient, unrelieved capital tax losses at the year end are available to offset future capital gains. As there is no current expectation of future disposals, and hence possible capital gains, no deferred tax assets have been recognised.

9. Dividends

	2003 £000	2002 £000
Interim dividend paid of £nil (2002: £52.65) per ordinary share	-	100,035
Final dividend proposed of £30.00 (2002: £35.00) per ordinary share	<u>57,000</u>	<u>66,500</u>
	<u>57,000</u>	<u>166,535</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10. Negative goodwill

	£000
Cost	
As at 30 March 2002 and 29 March 2003	(360,913)
Amortisation	
As at 30 March 2002	161,818
Release for the year	<u>27,801</u>
As at 29 March 2003	<u>189,619</u>
Net book value	
As at 29 March 2003	(171,294)
As at 30 March 2002	<u>(199,095)</u>

11. Tangible fixed assets

GROUP	Properties including fixed equipment			Fixtures, fittings & equipment*	Total £000
	Freehold £000	Long leasehold £000	Short leasehold £000		
Cost					
As at 30 March 2002	24,958	164,184	94,879	191,125	475,146
Additions	-	30	2,992	18,122	21,144
Transfer	48	1,022	(1,070)	-	-
Disposals	<u>-</u>	<u>(487)</u>	<u>(242)</u>	<u>(3,441)</u>	<u>(4,170)</u>
As at 29 March 2003	<u>25,006</u>	<u>164,749</u>	<u>96,559</u>	<u>205,806</u>	<u>492,120</u>
Depreciation					
As at 30 March 2002	486	5,699	6,753	58,348	71,286
Charge	673	5,757	4,121	37,026	47,577
Transfer	45	756	(801)	-	-
Disposals	<u>-</u>	<u>(225)</u>	<u>(58)</u>	<u>(2,656)</u>	<u>(2,939)</u>
As at 29 March 2003	<u>1,204</u>	<u>11,987</u>	<u>10,015</u>	<u>92,718</u>	<u>115,924</u>
Net book value					
As at 29 March 2003	<u>23,802</u>	<u>152,762</u>	<u>86,544</u>	<u>113,088</u>	<u>376,196</u>
As at 30 March 2002	<u>24,472</u>	<u>158,485</u>	<u>88,126</u>	<u>132,777</u>	<u>403,860</u>

* Includes construction in progress of £142,000 (2002: £2,878,000).

Freehold properties includes £2,773,000 (2002: £2,773,000) of freehold land which is not depreciated.

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

11. Tangible fixed assets (continued)

Included in fixtures, fitting and equipment are assets held under finance lease agreements, with a net book value of £3,237,000 at 29 March 2003 (2002: £5,157,000). Depreciation charged during the year in respect of these assets amounted to £1,920,000 (2002: £1,330,000).

The company does not have any tangible fixed assets.

12. Investments

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
As at 29 March 2003	<u>-</u>	<u>-</u>	<u>82,668</u>	<u>82,668</u>

The parent company has investments in the following subsidiary undertakings which affected the profits or net assets of the group:

Company	Country of Incorporation	Principal Activity	Holding	%
Bhs Limited*	England & Wales	Retailing	Ordinary shares	100
Bhs Properties Limited*	England & Wales	Property investment	Ordinary shares	100
Bhs (Jersey) Limited**	Jersey	Retailing	Ordinary shares	100
Davenbush Limited*	England & Wales	Property investment	Ordinary shares	100
Bhs Services Limited**	England & Wales	Financial services	Ordinary shares	100
Bhs (Hong Kong) Limited**	Hong Kong	Inactive	Ordinary shares	100

* Held directly by Bhs Group Limited

** Held directly by subsidiary undertakings

13. Stock

	Group	
	2003	2002
	£000	£000
Goods for resale	<u>72,438</u>	<u>71,773</u>

The company does not hold any stock.

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

14. Debtors: recoverable within one year and after one year

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Trade debtors	4,776	4,782	-	-
Amounts owed by group undertakings	-	-	11,160	47,106
Other debtors	930	2,096	-	5
Pension surplus	268	2,548	-	-
Prepayments and accrued income	27,504	28,367	-	-
Dividend	<u>-</u>	<u>-</u>	<u>70,000</u>	<u>72,000</u>
	<u>33,478</u>	<u>37,793</u>	<u>81,160</u>	<u>119,111</u>

A pension surplus of £36,615,000 (2002: £35,381,000) is recoverable after more than one year.

15. Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Bank overdraft	-	-	2,724	485
Bank loan	37,310	42,295	35,000	35,000
Trade creditors	40,173	44,668	-	-
Taxation and social security	25,444	20,857	-	-
Other creditors	4,300	5,531	-	-
Accruals and deferred income	21,633	25,879	596	569
Landlords' contributions	1,187	1,891	-	-
Proposed payment to warrant holders	3,000	3,500	3,000	3,500
Proposed dividends	57,000	66,500	57,000	66,500
Obligations under finance leases	<u>1,664</u>	<u>2,445</u>	<u>-</u>	<u>-</u>
	<u>191,711</u>	<u>213,566</u>	<u>98,320</u>	<u>106,054</u>

The bank loan is shown net of issue costs in accordance with FRS 4 "Capital instruments".

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

16. Creditors: amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Bank loan	34,810	72,091	34,621	69,386
Subordinated bond	24,459	22,602	24,459	22,602
Taxation and social security	348	305	-	-
Accruals and deferred income	294	-	-	-
Landlords' contributions	1,698	1,886	-	-
Obligations under finance leases	<u>387</u>	<u>2,051</u>	<u>-</u>	<u>-</u>
	<u>61,996</u>	<u>98,935</u>	<u>59,080</u>	<u>91,988</u>

The bank loan is shown net of issue costs in accordance with FRS 4 "Capital instruments".

17. Provisions for liabilities and charges

	Deferred tax £000	Other provisions £000	Total £000
As at 30 March 2002	50,617	14,272	64,889
Charge for the year	-	52	52
Release for the year	(30)	(1,067)	(1,097)
Utilised during the year	<u>-</u>	<u>(2,964)</u>	<u>(2,964)</u>
As at 29 March 2003	<u>50,587</u>	<u>10,293</u>	<u>60,880</u>

	2003 £000	2002 £000
Deferred taxation		
Provision in respect of:		
Pension surplus	10,928	11,379
Capital allowances	40,653	44,214
Other timing differences	<u>(994)</u>	<u>(4,976)</u>
	<u>50,587</u>	<u>50,617</u>

Other provisions

	Store closures £000	Other £000	Total £000
As at 30 March 2002	6,536	7,736	14,272
Charge for the year	-	52	52
Release for the year	(917)	(150)	(1,067)
Utilised during the year	<u>(34)</u>	<u>(2,930)</u>	<u>(2,964)</u>
As at 29 March 2003	<u>5,585</u>	<u>4,708</u>	<u>10,293</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

17. Provisions for liabilities and charges (continued)

The store closure provision of £5,585,000 (2002: £6,536,000) includes estimated costs of £5,190,000 (2002: £6,015,000) for future lease obligations and £395,000 (2002: £521,000) of other costs relating to the disposal of three retail stores and two non-operating leases.

Other provisions primarily relate to onerous lease provisions of £3,039,000 (2002: £3,421,000) and provision for dilapidations of £1,669,000 (2002: £2,815,000).

The company had no provisions at the year end.

18. Share capital

	2003 £000	2002 £000
Authorised		
2,000,000 ordinary shares of 25p each	<u>500</u>	<u>500</u>
Allotted, called up and fully paid		
1,900,000 ordinary shares of 25p each	<u>475</u>	<u>475</u>

Bhs Group Limited have in issue warrants which entitle the warrant holders to subscribe for 100,000 ordinary shares. They enable the warrant holders to subscribe in cash for ordinary shares at the subscription price upon the occurrence of a change in control, sale, disposal or flotation. Warrant holders are entitled to a payment for each subscription share held equivalent to any dividend per share declared payable to shareholders. In the current year the warrant holders have become entitled to £3,000,000 (2002: £8,765,000 (see note 7) equivalent to the total £30.00 dividend per share (2002: £87.65) paid to shareholders (see note 9).

19. Reserves

	Group £000	Company £000
Share premium account		
As at 30 March 2002 and 29 March 2003	<u>25</u>	<u>25</u>
Profit and loss account		
As at 30 March 2002	84,035	3,237
Retained profit for the financial year	<u>30,359</u>	<u>2,691</u>
As at 29 March 2003	<u>114,394</u>	<u>5,928</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

20. Reconciliation of movements in shareholders' funds

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Profit for the period	87,359	148,315	59,691	178,849
Dividends	<u>(57,000)</u>	<u>(166,535)</u>	<u>(57,000)</u>	<u>(166,535)</u>
Net additions/(reductions) to shareholders' funds	30,359	(18,220)	2,691	12,314
Opening shareholders' funds	<u>84,535</u>	<u>102,755</u>	<u>3,737</u>	<u>(8,577)</u>
Closing shareholders' funds	<u>114,894</u>	<u>84,535</u>	<u>6,428</u>	<u>3,737</u>

21. Reconciliation of operating profit to net cash inflow from operating activities

	2003	2002
	£000	£000
Operating profit	131,751	127,997
Depreciation charge	47,577	49,791
Amortisation of negative goodwill	(27,801)	(30,145)
Amortisation of pension surplus	2,331	2,415
Fixed asset write-off	1,641	-
Increase in stock	(665)	(4,414)
Decrease/(increase) in debtors	1,580	(5,581)
(Decrease)/increase in creditors and provisions	<u>(9,741)</u>	<u>3,885</u>
Net cash inflow from operating activities	<u>146,673</u>	<u>143,948</u>

22. Reconciliation of net cash flow to movement in net debt

	£000	£000
Decrease in cash during the year	(30,165)	
Decrease in debt and lease finance	<u>44,945</u>	
		14,780
Non cash items		<u>(2,091)</u>
Reduction in net debt in the year		12,689
Net debt at 30 March 2002		<u>(29,271)</u>
Net debt at 29 March 2003		<u>(16,582)</u>

The main non cash movement is the interest accrued on the subordinated bond (see note 24).

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

23. Analysis of changes in net debt

	30 March 2002 £000	Cashflow £000	Other non cash changes £000	29 March 2003 £000
Cash in hand, at bank	112,213	(30,165)	-	82,048
Debt due within one year	(42,295)	42,500	(37,515)	(37,310)
Debt due after one year	(94,693)	-	35,424	(59,269)
Finance leases	<u>(4,496)</u>	<u>2,445</u>	<u>-</u>	<u>(2,051)</u>
	<u>(29,271)</u>	<u>14,780</u>	<u>(2,091)</u>	<u>(16,582)</u>

24. Financial commitments

Loans

	2003		2002	
	Bank loan £000	Sub- ordinated bond £000	Bank loan £000	Sub- ordinated bond £000
Group				
Within one year	37,500	-	42,500	-
Between one year and two years	35,000	-	37,500	-
Between two years and five years	<u>-</u>	<u>28,975</u>	<u>35,000</u>	<u>28,975</u>
	<u>72,500</u>	<u>28,975</u>	<u>115,000</u>	<u>28,975</u>
Company				
Within one year	35,000	-	35,000	-
Between one year and two years	35,000	-	35,000	-
Between two years and five years	<u>-</u>	<u>28,975</u>	<u>35,000</u>	<u>28,975</u>
	<u>70,000</u>	<u>28,975</u>	<u>105,000</u>	<u>28,975</u>

The subordinated bond was issued in May 2000 at £19,500,000 and interest is accrued at a rate of 8% until maturity in May 2005 when £28,975,000 will become payable.

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

24. Financial commitments (continued)

Operating leases

The group leases certain land and buildings on short and long term leases. The rents payable on these leases are subject to negotiation at various intervals specified in the leases. Annual commitments under non-cancellable operating leases are as follows:

	2003		2002	
	Land & buildings £000	Other £000	Land & buildings £000	Other £000
Operating leases which expire:				
Within one year	-	200	-	3,005
Within two to five years	1,055	1,143	1,191	1,386
After five years	<u>87,430</u>	<u>1,899</u>	<u>85,071</u>	<u>1,031</u>
	<u>88,485</u>	<u>3,242</u>	<u>86,262</u>	<u>5,422</u>

Finance leases

The future minimum finance lease payments to which the group is committed at 29 March 2003 are as follows:

	2003 £000	2002 £000
Within one year	1,664	2,445
Within two to five years inclusive	<u>387</u>	<u>2,051</u>
	<u>2,051</u>	<u>4,496</u>

Capital commitments

	2003 £000	2002 £000
Contracted for but not provided for - Group	10,797	10,023
- Company	<u>-</u>	<u>-</u>

Guarantees

Under a group banking arrangement the company is included in a cross guarantee agreement between all Bhs Group companies. The company is also included within the Bhs Group VAT registration.

25. Pension costs (SSAP 24)

The group has operated two defined benefit pension schemes for its employees in the period.

Non-property assets are held by the trustees of each individual scheme whereas the schemes' property assets are held jointly, by trustees, in a separate common investment fund. Each scheme owns a proportion of the common investment fund calculated pro-rata to the value of its assets held in the fund. The pension costs relating to the schemes were assessed in accordance with the advice of qualified actuaries using primarily the projected unit methods. The latest actuarial valuations were carried out at 31 March 2000.

An actuarial review was carried out at 31 March 2001 to assess the schemes position relative to the minimum funding requirements introduced by the 1995 Pension Act. The next formal actuarial valuations are due to be carried out as at 31 March 2003.

The assumptions which have the most significant effect on the results of the valuations are set out below:

Actual valuation

Rate of return on investments	8.00%
Rate of increase in salaries	6.0% - 7.0%
Rate of increase in pension	3.75%

The aggregate market value of the schemes' investments at 31 March 2000 was £374,700,000 and the actuarial values were sufficient to cover between 113 percent and 145 percent of the benefits that had accrued to members after allowing for expected future increases in earnings.

The total pension cost for the group is £4,303,000 (2002: £4,490,000).

For the protection of members' interests, the group has appointed three trustees, two of whom are independent of the group. To maintain this independence, the Trustees and not the group, are responsible for appointing their own successors.

26. Pension costs (FRS 17 - disclosure)

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. The full implementation of a new pension cost accounting standard, FRS 17 "Retirement Benefits", has been deferred. However, under transitional arrangements of FRS 17 the group is required to disclose the following information about the group scheme and the figures that would have been shown under FRS 17 in the current balance sheet.

The group operates two defined benefit schemes for its employees. The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuations at 31 March 2000 and updated by a qualified independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 29 March 2003. The contribution made by the group amounted to 5.0% of pensionable pay and it has been agreed that contributions will remain at this level until the results of the triennial valuation are confirmed by the actuary.

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

26. Pension costs (FRS 17 - disclosure) (continued)

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

	29 March 2003 %	30 March 2002 %
Rate of increase in salaries	4.4	4.8
Rate of increase of pensions in payment	2.4	2.8
Rate of increase of deferred pensions	-	-
Discount rate	5.4	6.1
Inflation assumption	2.4	2.8

The assets in the scheme and the expected rate of return were:

	Long term expected rate of return %	Value at 29 March 2003 £m	Long term expected rate of return %	Value at 30 March 2002 £m
Equities	9.0	154.3	8.0	211.9
Bonds	5.0	73.6	5.7	79.9
Other	7.5	47.6	7.5	42.1
Cash		<u>1.7</u>	-	<u>4.6</u>
Total market value of assets		277.2		338.5
Present value of scheme liabilities		(353.8)		(321.1)
(Deficit)/surplus in the scheme		(76.6)		17.4
Related deferred tax asset/(liability)		<u>23.0</u>		<u>(5.2)</u>
Net pension (liability)/asset		<u>(53.6)</u>		<u>12.2</u>

If the above pension (liability)/asset was recognised in the financial statements, the group's net assets and profit and loss reserve would be as follows:

	29 March 2003 £m	30 March 2002 £m
Net assets		
Net assets excluding pension asset	89.4	58.0
Net pension (liability)/asset	(53.6)	12.2
Net assets including pension asset	<u>35.8</u>	<u>70.2</u>
Reserves note		
Profit and loss account reserves excluding pension asset	88.9	57.5
Net pension reserve	(53.6)	12.2
Profit and loss reserve including pension asset	<u>35.3</u>	<u>69.7</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

26. Pension costs (FRS 17 - disclosure) (continued)

Movements in surplus during the year

	£m
Surplus in scheme at beginning of year	17.4
Movement in year:	
Current service cost	(10.5)
Contributions	2.8
Past service costs	-
Other finance income	5.1
Actuarial loss	<u>(91.4)</u>
Deficit in scheme at end of year	<u>(76.6)</u>

An analysis of the amounts which would be charged to operating profit is as follows:

	29 March 2003 £m
Current service cost	(10.5)
Past service cost	<u>-</u>
Total operating charge	<u>(10.5)</u>

An analysis of the amount which would be credited/(charged) to other financial income is as follows:

	29 March 2003 £m
Expected return on pension scheme assets	24.7
Interest cost	<u>(19.6)</u>
Net return	<u>5.1</u>

26. Pension costs (FRS 17 - disclosure) (continued)

An analysis of amounts which would be recognised in the Statement of total recognised gains and losses (STRGL) is as follows:

	29 March 2003 £m
Annual return less expected return on pension scheme assets	(78.5)
Experience gains arising on scheme liabilities	9.1
Changes in financial assumptions underlying the scheme liabilities	(22.0)
Actuarial loss recognised in STRGL	(91.4)

History of amounts recognised in STRGL

Difference between the expected and actual return on assets	(78.5)
Percentage of scheme assets	(28%)
Experience gains and losses on scheme liabilities	9.1
Percentage of scheme liabilities	(3%)
Total amount recognised in STRGL	(91.4)
Percentage of scheme liabilities	(26%)

27. Ultimate controlling party

P Green and his immediate family are the ultimate controlling party of Bhs Group Limited. The registered office of Bhs Group Limited is Marylebone House, 129-137 Marylebone Road, London, NW1 5QD.

28. Related parties

A Leighton, a director of Bhs Limited, is also a director of Going Plural Limited, a company in which he has a controlling interest. During the year Bhs Limited paid £200,400 to Going Plural Limited for the services of A Leighton (2002: £1,625,000 for the services of A Leighton and £150,000 for other services). The company owes £16,700 (2002: £1,525,000) to Going Plural Limited at the year end.

In the previous financial year certain fellow subsidiaries of Bhs Group Limited entered into a sale and leaseback transaction when they sold the interests in certain properties to Carmen Properties Limited, a company under the same ultimate control as Bhs Group Limited. Bhs Limited previously rented these properties from other Bhs Group subsidiaries. Bhs Limited now rents the properties from Carmen Properties Limited. The value of rental transactions in respect of these properties in the year amounted to £12,139,000 (2002: £5,867,000). There were no amounts due to or from Carmen Properties Limited at the year end (2002: £nil).

28. Related parties (continued)

On 15 October 2002 Arcadia Group Limited came under the same ultimate control as Bhs Group Limited. Since this date the value of transactions with Arcadia Group Limited was £640,300. The transactions related mainly to the services of certain Bhs Limited and Bhs Group directors. The company was owed £5,875 at the year end.

The subordinated bond (notes 16 and 24) is held by a company that is ultimately controlled by P Green and his immediate family.