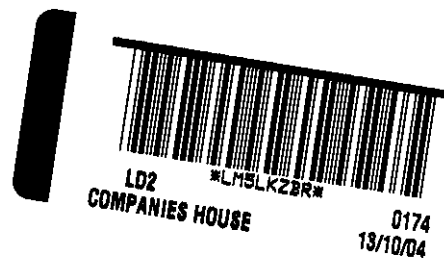


# **BHS GROUP LIMITED**

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

**FOR THE 52 WEEKS ENDED 27 MARCH 2004**



COMPANY REGISTERED NUMBER: 3858895

**BHS GROUP LIMITED**  
**DIRECTORS' REPORT**

The directors submit their report on the financial statements for the 52 weeks ended 27 March 2004.

**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 £26,822,000 (2003: £27,801,000)) amounted to £137,932,000 (2003: £131,751,000) and the profit before taxation amounted to £120,924,000 (2003: £123,300,000). The operating profit before negative goodwill and fair value adjustments was £111,613,000 (2003: £105,537,000). Net assets at the year end were £5,358,000 (2003: £114,894,000).

The Directors paid an interim dividend of £156,750,000 (2003: £nil). The Directors proposed a second interim dividend of £42,750,000 (2003: £57,000,000). The group profit for the year after taxation was £89,964,000 (2003: £87,359,000).

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

**Fixed assets**

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.

**Directors and their interests**

The directors who served during the year were:

- P Green
- P Coackley
- I Allkins
- R Saunders (resigned 26 September 2003)
- C Coles

The interests of P Green and his immediate family 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 27 March 2004 are 1,900,000 ordinary shares. None of the other directors have an interest in shares of the company.

**BHS GROUP LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

**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 £679,680 (2003: £304,198).

**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  
7 July 2004

**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.

## **INDEPENDENT AUDITORS' REPORT 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 27 March 2004, and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

16 July 2004

*KPMG LLP*  
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 27 MARCH 2004**

	Note	52 weeks ended 27 March 2004		52 weeks ended 29 March 2003	
		£000	£000	£000	£000
<b>Turnover</b>	2		889,763		882,199
Cost of sales			(739,352)		(737,854)
<b>Gross profit</b>			150,411		144,345
Administration expenses before amortisation of negative goodwill		(15,936)		(16,816)	
Amortisation of negative goodwill	10	<u>26,822</u>		<u>27,801</u>	
Administration expenses after amortisation of negative goodwill			10,886		10,985
Distribution costs			(23,365)		(23,579)
<b>Operating profit</b>			137,932		131,751
Profit on disposal of fixed assets	4		482		1,344
Other interest receivable and similar income	6		1,841		2,281
Interest payable and similar charges	7		(19,331)		(12,076)
<b>Profit on ordinary activities before taxation</b>	3		120,924		123,300
Tax on profit on ordinary activities	8		(30,960)		(35,941)
<b>Profit on ordinary activities after taxation</b>			89,964		87,359
Dividends	9		(199,500)		(57,000)
<b>Retained (loss)/profit for the financial year</b>	19		(109,536)		<u>30,359</u>

There are no recognised gains or losses other than the profit for each year.

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.

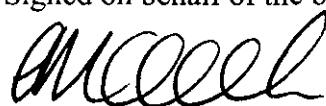
All turnover and operating profit arises from continuing operations. There were no acquisitions or discontinued activities in the year.

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

**BHS GROUP LIMITED**  
**GROUP BALANCE SHEET**  
**AS AT 27 MARCH 2004**

	Note	27 March 2004 £000	29 March 2003 £000
<b>Fixed assets</b>			
Negative goodwill	10	(144,472)	(171,294)
Tangible assets	11	<u>348,138</u>	<u>376,196</u>
		203,666	204,902
<b>Current assets</b>			
Stocks	13	73,168	72,438
Debtors recoverable within one year	14	36,549	33,478
Debtors recoverable after more than one year	14	34,005	36,615
Cash at bank and in hand		<u>86,908</u>	<u>82,048</u>
		230,630	224,579
<b>Creditors: amounts falling due within one year</b>	15	<u>(185,765)</u>	<u>(191,711)</u>
<b>Net current assets</b>		<u>44,865</u>	<u>32,868</u>
<b>Total assets less current liabilities</b>		248,531	237,770
<b>Creditors: amounts falling due after more than one year</b>	16	(188,105)	(61,996)
<b>Provisions for liabilities and charges</b>			
Deferred tax	17	(46,174)	(50,587)
Other provisions	17	<u>(8,894)</u>	<u>(10,293)</u>
		<u>(55,068)</u>	<u>(60,880)</u>
<b>Net assets</b>		<u>5,358</u>	<u>114,894</u>
<b>Capital and reserves</b>			
Called up share capital	18	475	475
Share premium account	19	25	25
Profit and loss account	19	<u>4,858</u>	<u>114,394</u>
<b>Equity shareholders' funds</b>	20	<u>5,358</u>	<u>114,894</u>

Signed on behalf of the board of directors



I M Allkins



P Coackley

**7 July 2004**

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

**BHS GROUP LIMITED**  
**COMPANY BALANCE SHEET**  
**AS AT 27 MARCH 2004**

		<b>27 March 2004</b>		<b>29 March 2003</b>	
	<b>Note</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>					
Investments	12		82,668		82,668
<b>Current assets</b>					
Debtors	14	207,048		81,160	
<b>Creditors: amounts falling due within one year</b>	15	<u>(92,893)</u>		<u>(98,320)</u>	
<b>Net current assets/(liabilities)</b>			<u>114,155</u>		<u>(17,160)</u>
<b>Total assets less current liabilities</b>			196,823		65,508
<b>Creditors: amounts falling due after more than one year</b>	16		<u>(185,415)</u>		<u>(59,080)</u>
<b>Net assets</b>			<u>11,408</u>		<u>6,428</u>
<b>Capital and reserves</b>					
Called up share capital	18		475		475
Share premium account	19		25		25
Profit and loss account	19		<u>10,908</u>		<u>5,928</u>
<b>Equity shareholders' funds</b>	20		<u>11,408</u>		<u>6,428</u>

Signed on behalf of the board of directors



I M Allkins



P Coackley

**7 July 2004**

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



**BHS GROUP LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**

		2004		2003	
	Note	£000	£000	£000	£000
<b>Net cash inflow from operating activities</b>	21		162,877		146,673
<b>Returns on investments and servicing of finance</b>					
Interest received		1,829		2,023	
Interest paid		(6,705)		(6,984)	
Issue costs of loan		(1,445)		-	
Amounts paid to warrant holders (see note 18)		<u>(11,250)</u>		<u>(3,500)</u>	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(17,571)		(8,461)
<b>Taxation</b>					
UK corporation tax paid		(34,513)		(35,347)	
Overseas corporation tax paid		<u>(308)</u>		<u>(205)</u>	
<b>Total tax paid</b>			(34,821)		(35,552)
<b>Capital expenditure</b>					
Purchase of tangible fixed assets		(17,717)		(21,400)	
Sale of tangible fixed assets		<u>6</u>		<u>20</u>	
<b>Net cash outflow from capital expenditure</b>			(17,711)		(21,380)
<b>Equity dividends paid</b>			<u>(213,750)</u>		<u>(66,500)</u>
<b>Net cash (outflow)/inflow before financing</b>			(120,976)		14,780
<b>Financing</b>					
Long term loan		200,000		-	
Capital element of finance lease rental		(1,664)		(2,445)	
Repayment of short term loan		(2,500)		(7,500)	
Repayment of long term loan		<u>(70,000)</u>		<u>(35,000)</u>	
<b>Net cash inflow/(outflow) from financing</b>			<u>125,836</u>		<u>(44,945)</u>
<b>Increase/(decrease) in cash in the year</b>	22		<u>4,860</u>		<u>(30,165)</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, except that the group has adopted FRS 5 application note G - Revenue Recognition. The adoption of this application note has not had a material impact on the accounts of the group. The accounting period covers the 52 weeks ended 27 March 2004. Comparative figures are as shown for the 52 weeks ended 29 March 2003.

**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 exception:

- 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 (CONTINUED)**

**3. Profit on ordinary activities before taxation**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before taxation after charging:		
Operating lease rentals - plant and equipment	4,850	3,264
- land and buildings	88,983	84,954
Profit on disposal of properties (see note 4)	(482)	(1,344)
Depreciation of owned assets	45,151	45,657
Depreciation of leased assets	1,559	1,920
Auditor's remuneration - for group audit services	87	82
- for company audit services	15	11
- for tax services	52	62
- for other services	<u>40</u>	<u>-</u>

**4. Profit on disposal of fixed assets**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Profit on disposal of property	<u>482</u>	<u>1,344</u>

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

**5. Staff costs**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	103,044	101,771
Social security costs	5,965	5,362
Other pension costs	<u>6,744</u>	<u>4,303</u>
	<u>115,753</u>	<u>111,436</u>
	<b>2004</b>	<b>2003</b>
	<b>Number</b>	<b>Number</b>
UK stores - Full-time	2,887	2,910
- Part-time	10,026	10,131
UK head office	649	626
Overseas	<u>80</u>	<u>89</u>
	<u>13,642</u>	<u>13,756</u>

**BHS GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5. Staff costs (continued)**  
**Directors' emoluments**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Emoluments	5,755	4,469
Company contributions to money purchase pension schemes	<u>68</u>	<u>39</u>
Total emoluments	<u>5,823</u>	<u>4,508</u>

**Pensions**

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

	<b>2004</b>	<b>2003</b>
	<b>Number</b>	<b>Number</b>
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:

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Emoluments	<u>2,897</u>	<u>3,308</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**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Bank interest receivable	1,745	2,240
Other sundry income	<u>96</u>	<u>41</u>
	<u>1,841</u>	<u>2,281</u>

**BHS GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**7. Interest payable and similar charges**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Bank loans and overdrafts	6,684	6,897
Other loans	2,005	1,865
Other interest payable	76	97
Warrant holder payments (see note 18)	10,500	3,000
Finance leases	<u>66</u>	<u>217</u>
	<u>19,331</u>	<u>12,076</u>

**8. Taxation**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
<b>a) Analysis of the tax charge in the year</b>		
<b>UK corporation tax</b>		
On profit for the year	37,939	35,258
Adjustment in respect of the previous year	(2,819)	363
<b>Foreign tax</b>		
On profit for the year	255	348
Adjustment in respect of the previous year	<u>(2)</u>	<u>2</u>
<b>Total current tax</b>	35,373	35,971
<b>UK deferred tax</b>		
Origination and reversal of timing differences	<u>(4,413)</u>	<u>(30)</u>
<b>Tax on profit on ordinary activities</b>	<u>30,960</u>	<u>35,941</u>

**BHS GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**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:

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before tax	<u>120,924</u>	<u>123,300</u>
Profit on ordinary activities before tax multiplied by standard rate of UK corporation tax of 30%	36,277	36,990
<b>Effects of:</b>		
Accounting depreciation in excess of tax depreciation	5,609	5,884
Consolidation adjustments (including goodwill amortisation)	(7,951)	(8,113)
Costs not deductible for tax purposes	3,943	2,376
Other tax adjustments	316	(1,531)
Adjustments relating to prior years corporation tax	<u>(2,821)</u>	<u>365</u>
<b>Total current tax</b>	<u><b>35,373</b></u>	<u><b>35,971</b></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**

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Interim dividend paid of £82.50 (2003: £nil) per ordinary share	156,750	-
Final dividend proposed of £22.50 (2003: £30.00) per ordinary share	<u>42,750</u>	<u>57,000</u>
	<u><b>199,500</b></u>	<u><b>57,000</b></u>

**BHS GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**10. Negative goodwill**

**£000**

**Cost**

As at 29 March 2003 and 27 March 2004 (360,913)

**Amortisation**

As at 29 March 2003 189,619

Release for the year 26,822

As at 27 March 2004 216,441

**Net book value**

As at 27 March 2004 (144,472)

As at 29 March 2003 (171,294)

**11. Tangible fixed assets**

GROUP	Properties including fixed equipment			Fixtures, fittings & equipment*	Total £000
	Freehold £000	Long leasehold £000	Short leasehold £000		
<b>Cost</b>					
As at 29 March 2003	25,006	164,749	96,559	205,806	492,120
Additions	50	520	4,839	14,511	19,920
Transfer	(29)	34,414	(34,370)	(15)	-
Disposals	<u>-</u>	<u>63</u>	<u>(303)</u>	<u>(7,371)</u>	<u>(7,611)</u>
As at 27 March 2004	<u>25,027</u>	<u>199,746</u>	<u>66,725</u>	<u>212,931</u>	<u>504,429</u>
<b>Depreciation</b>					
As at 29 March 2003	1,204	11,987	10,015	92,718	115,924
Charge	659	6,078	3,788	36,185	46,710
Transfer	8	10,579	(10,572)	(15)	-
Disposals	<u>-</u>	<u>120</u>	<u>(152)</u>	<u>(6,311)</u>	<u>(6,343)</u>
As at 27 March 2004	<u>1,871</u>	<u>28,764</u>	<u>3,079</u>	<u>122,577</u>	<u>156,291</u>
<b>Net book value</b>					
As at 27 March 2004	<u>23,156</u>	<u>170,982</u>	<u>63,646</u>	<u>90,354</u>	<u>348,138</u>
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>

\* Includes construction in progress with costs of £749,000 (2003: £142,000).

Freehold properties includes £2,772,000 (2003: £2,773,000) of freehold land which is not depreciated.



**BHS GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11. Tangible fixed assets (continued)**

Included in fixtures, fitting and equipment are assets held under finance lease agreements, with a net book value of £1,678,000 at 27 March 2004 (2003: £3,237,000). Depreciation charged during the year in respect of these assets amounted to £1,559,000 (2003: £1,920,000).

During the year, the Group completed a re-categorisation of their leasehold assets, which resulted in £34.4m of cost and £10.6m of accumulated depreciation being transferred from short to long leasehold assets. There was no impact on depreciation expense as they were based on their useful economic lives.

The company does not have any tangible fixed assets.

**12. Investments**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
As at 27 March 2004	<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:

<b>Company</b>	<b>Country of Incorporation</b>	<b>Principal Activity</b>	<b>Holding</b>	<b>%</b>
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
Willow Asset Management Unlimited**	England & Wales	Investment Company	Ordinary shares	100

\* Held directly by Bhs Group Limited

\*\* Held directly by subsidiary undertakings

On 1 March 2004 Bhs Limited established an investment company, Willow Asset Management Unlimited.

**BHS GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**13. Stock**

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Goods for resale	<u>73,168</u>	<u>72,438</u>

The company does not hold any stock.

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

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade debtors	6,573	4,776	-	-
Amounts owed by group undertakings	-	-	152,048	11,160
Other debtors	1,115	930	-	-
Pension surplus	1,239	268	-	-
Prepayments and accrued income	27,622	27,504	-	-
Dividend	<u>-</u>	<u>-</u>	<u>55,000</u>	<u>70,000</u>
	<u>36,549</u>	<u>33,478</u>	<u>207,048</u>	<u>81,160</u>

A pension surplus of £34,005,000 (2003: £36,615,000) is recoverable after more than one year.

**15. Creditors: amounts falling due within one year**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Bank overdraft	-	-	7,553	2,724
Bank loan	39,738	37,310	39,738	35,000
Trade creditors	43,544	40,173	-	-
Taxation and social security	26,418	25,444	-	-
Other creditors	5,546	4,300	-	-
Accruals and deferred income	24,086	21,633	602	596
Landlords' contributions	1,040	1,187	-	-
Proposed payment to warrant holders	2,250	3,000	2,250	3,000
Proposed dividends	42,750	57,000	42,750	57,000
Obligations under finance leases	<u>393</u>	<u>1,664</u>	<u>-</u>	<u>-</u>
	<u>185,765</u>	<u>191,711</u>	<u>92,893</u>	<u>98,320</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 (CONTINUED)**

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

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Bank loan	158,951	34,810	158,951	34,621
Subordinated bond	26,464	24,459	26,464	24,459
Taxation and social security	250	348	-	-
Accruals and deferred income	1,053	294	-	-
Landlords' contributions	1,387	1,698	-	-
Obligations under finance leases	-	387	-	-
	<u>188,105</u>	<u>61,996</u>	<u>185,415</u>	<u>59,080</u>

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

**17. Provisions for liabilities and charges**

	<b>Deferred tax £000</b>	<b>Other provisions £000</b>	<b>Total £000</b>
As at 29 March 2003	50,587	10,293	60,880
Charge for the year	-	1,729	1,729
Release for the year	(4,413)	(1,417)	(5,830)
Utilised during the year	-	(1,711)	(1,711)
As at 27 March 2004	<u>46,174</u>	<u>8,894</u>	<u>55,068</u>

**Deferred taxation**

Provision in respect of:

	<b>2004 £000</b>	<b>2003 £000</b>
Pension surplus	10,574	10,928
Capital allowances	36,242	40,653
Other timing differences	<u>(642)</u>	<u>(994)</u>
	<u>46,174</u>	<u>50,587</u>

**Other provisions**

	<b>Store closures £000</b>	<b>Other £000</b>	<b>Total £000</b>
As at 29 March 2003	5,585	4,708	10,293
Charge for the year	11	1,718	1,729
Release for the year	(493)	(924)	(1,417)
Utilised during the year	<u>(538)</u>	<u>(1,173)</u>	<u>(1,711)</u>
As at 27 March 2004	<u>4,565</u>	<u>4,329</u>	<u>8,894</u>

**BHS GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**17. Provisions for liabilities and charges (continued)**

The store closure provision of £4,565,000 (2003: £5,585,000) includes discounted estimated costs of £4,280,000 (2003: £5,190,000) for future lease obligations and £285,000 (2003: £395,000) of other costs relating to the disposal of three retail stores and a non-operating lease.

Other provisions primarily relate to onerous lease provisions of £2,655,000 (2003: £3,039,000) and provision for dilapidations of £1,054,000 (2003: £1,669,000) and sales returns provision of £620,000 (2003: £nil). These provisions are not discounted.

The company had no provisions at the year end.

**18. Share capital**

	2004 £000	2003 £000
<b>Authorised</b>		
2,000,000 ordinary shares of 25p each	<u>500</u>	<u>500</u>
<b>Allotted, called up and fully paid</b>		
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 £10,500,000 (2003: £3,000,000 (see note 7) equivalent to the total £105.00 dividend per share (2003: £30.00) paid to shareholders (see note 9).

**19. Reserves**

	Group £000	Company £000
<b>Share premium account</b>		
As at 29 March 2003 and 27 March 2004	<u>25</u>	<u>25</u>
<b>Profit and loss account</b>		
As at 29 March 2003	114,394	5,928
Retained profit for the financial year	(109,536)	<u>4,980</u>
As at 27 March 2004	<u>4,858</u>	<u>10,908</u>

**BHS GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**20. Reconciliation of movements in shareholders' funds**

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Profit for the period	89,964	87,359	204,480	59,691
Dividends	(199,500)	(57,000)	(199,500)	(57,000)
Net (reductions)/additions to shareholders' funds	(109,536)	30,359	4,980	2,691
Opening shareholders' funds	<u>114,894</u>	<u>84,535</u>	<u>6,428</u>	<u>3,737</u>
Closing shareholders' funds	<u>5,358</u>	<u>114,894</u>	<u>11,408</u>	<u>6,428</u>

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

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Operating profit	137,932	131,751
Depreciation charge	46,710	47,577
Amortisation of negative goodwill	(26,822)	(27,801)
Amortisation of pension surplus	1,367	2,331
Fixed asset write-off	1,259	1,641
Increase in stock	(730)	(665)
Increase/(decrease) in debtors	(1,633)	1,580
Increase/(decrease) in creditors and provisions	<u>4,794</u>	<u>(9,741)</u>
Net cash inflow from operating activities	<u>162,877</u>	<u>146,673</u>

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

	<b>£000</b>	<b>£000</b>
Increase in cash during the year	4,860	
Increase in debt and lease finance	<u>(124,525)</u>	(119,665)
Non cash items		<u>(2,391)</u>
Increase in net debt in the year		(122,056)
Net debt at 29 March 2003		<u>(16,582)</u>
Net debt at 27 March 2004		<u>(138,638)</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 (CONTINUED)**

**23. Analysis of changes in net debt**

	<b>29 March 2003 £000</b>	<b>Cashflow £000</b>	<b>Other non cash changes £000</b>	<b>27 March 2004 £000</b>
Cash in hand, at bank	82,048	4,860	-	86,908
Debt due within one year	(37,310)	(2,238)	(190)	(39,738)
Debt due after one year	(59,269)	(123,951)	(2,195)	(185,415)
Finance leases	<u>(2,051)</u>	<u>1,664</u>	<u>(6)</u>	<u>(393)</u>
	<u>(16,582)</u>	<u>(119,665)</u>	<u>(2,391)</u>	<u>(138,638)</u>

**24. Financial commitments**

**Loans**

	<b>2004</b>		<b>2003</b>	
	<b>Bank loan £000</b>	<b>Sub- ordinated bond £000</b>	<b>Bank loan £000</b>	<b>Sub- ordinated bond £000</b>
<b>Group</b>				
Within one year	40,000	-	37,500	-
Between one year and two years	40,000	28,975	35,000	-
Between two years and five years	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>28,975</u>
	<u>200,000</u>	<u>28,975</u>	<u>72,500</u>	<u>28,975</u>
<b>Company</b>				
Within one year	40,000	-	35,000	-
Between one year and two years	40,000	28,975	35,000	-
Between two years and five years	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>28,975</u>
	<u>200,000</u>	<u>28,975</u>	<u>70,000</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.

The bank loan was issued in November 2003 at £200,000,000. Interest is payable at commercial rates on a regular basis.

**BHS GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**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:

	<b>2004</b>		<b>2003</b>	
	<b>Land &amp; buildings £000</b>	<b>Other £000</b>	<b>Land &amp; buildings £000</b>	<b>Other £000</b>
Operating leases which expire:				
Within one year	239	636	-	200
Within two to five years	990	3,737	1,055	1,143
After five years	<u>90,754</u>	<u>142</u>	<u>87,430</u>	<u>1,899</u>
	<u>91,983</u>	<u>4,515</u>	<u>88,485</u>	<u>3,242</u>

**Finance leases**

The future minimum finance lease payments to which the group is committed at 27 March 2004 are as follows:

	<b>2004 £000</b>	<b>2003 £000</b>
Within one year	393	1,664
Within two to five years inclusive	<u>-</u>	<u>387</u>
	<u>393</u>	<u>2,051</u>

**Capital commitments**

	<b>2004 £000</b>	<b>2003 £000</b>
Contracted for but not provided for - Group	4,842	10,797
- Company	<u>-</u>	<u>-</u>

**Guarantees**

Under a group banking arrangement the company is included in a cross guarantee agreement with other 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 2003.

An actuarial review was carried out at 31 March 2003 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 2006.

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	6.5%
Rate of increase in salaries	4.5% - 5.5%
Rate of increase in pension	2.5%

The aggregate market value of the schemes' investments at 31 March 2003 was £278,700,000 and the actuarial values were sufficient to cover between 105 percent and 133 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 £6,744,000 (2003: £4,303,000).

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 2003 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 27 March 2004. The contribution made by the group amounted to 10.6% 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 (CONTINUED)**

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

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

	27 March 2004 %	29 March 2003 %	30 March 2002 %
Rate of increase in salaries	4.9	4.4	4.8
Rate of increase of pensions in payment	2.9	2.4	2.8
Rate of increase of deferred pensions	-	-	-
Discount rate	5.5	5.4	6.1
Inflation assumption	2.9	2.4	2.8

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

	Long term expected rate of return %	Value at 27 March 2004 £m	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	8.5	192.1	9.0	154.3	8.0	211.9
Bonds	5.5	79.4	5.0	73.6	5.7	79.9
Other	7.5	49.0	7.5	47.6	7.5	42.1
Cash	-	11.8	-	1.7	-	4.6
Total market value of assets		332.3		277.2		338.5
Present value of scheme liabilities		(413.1)		(353.8)		(321.1)
Deficit in the scheme		(80.8)		(76.6)		17.4
Related deferred tax asset/ (liability)		24.2		23.0		(5.2)
<b>Net pension (liability)/asset</b>		<u>(56.6)</u>		<u>(53.6)</u>		<u>12.2</u>

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

	27 March 2004 £m	29 March 2003 £m	30 March 2002 £m
<b>Net assets</b>			
Net assets excluding pension asset	(19.3)	89.4	58.0
Net pension (liability)/asset	(56.6)	(53.6)	12.2
<b>Net (liabilities)/assets including pension asset</b>	<u>(75.9)</u>	<u>35.8</u>	<u>70.2</u>
<b>Reserves note</b>			
Profit and loss account reserves excluding pension asset	(19.8)	88.9	57.5
Net pension reserve	(56.6)	(53.6)	12.2
<b>Profit and loss reserve including pension asset</b>	<u>(76.4)</u>	<u>35.3</u>	<u>69.7</u>

**BHS GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

	<b>27 March 2004 £m</b>	<b>29 March 2003 £m</b>
<b>Movements in deficit during the year</b>		
(Deficit)/surplus in scheme at beginning of year	(76.6)	17.4
Movement in year:		
Current service cost	(11.0)	(10.5)
Past service cost	-	-
Contributions	5.6	2.8
Other finance income	1.9	5.1
Actuarial loss	<u>(0.7)</u>	<u>(91.4)</u>
Deficit in scheme at end of year	<u>(80.8)</u>	<u>(76.6)</u>

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

	<b>27 March 2004 £m</b>	<b>29 March 2003 £m</b>
Current service cost	(11.0)	(10.5)
Past service cost	<u>-</u>	<u>-</u>
Total operating charge	<u>(11.0)</u>	<u>(10.5)</u>

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

	<b>27 March 2004 £m</b>	<b>29 March 2003 £m</b>
Expected return on pension scheme assets	21.0	24.7
Interest cost	<u>(19.1)</u>	<u>(19.6)</u>
Net return	<u>1.9</u>	<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:**

	27 March 2004 £m	29 March 2003 £m
Annual return less expected return on pension scheme assets	39.3	(78.5)
Experience gains arising on scheme liabilities	(14.1)	9.1
Changes in financial assumptions underlying the scheme liabilities	(25.9)	(22.0)
Actuarial loss recognised in STRGL	(0.7)	(91.4)

**History of amounts recognised in STRGL**

Difference between the expected and actual return on assets	39.3	(78.5)
Percentage of scheme assets	12%	(28%)
Experience gains and losses on scheme liabilities	(14.1)	9.1
Percentage of scheme liabilities	3%	(3%)
Total amount recognised in STRGL	(0.7)	(91.4)
Percentage of scheme liabilities	0%	(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 (2003: £200,400). The group owes £16,700 (2003: £16,700) to Going Plural Limited at the year end.

Bhs Limited rents properties from Carmen Properties Limited, a company under the same ultimate control as Bhs Group Limited. The value of rental transactions in respect of these properties in the year amounted to £11,955,000 (2003: £12,139,000). There were no amounts due to or from Carmen Properties Limited at the year end (2003: £nil).

**BHS GROUP LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. Related parties (continued)**

On 15 October 2002 Arcadia Group Limited came under the same ultimate control as Bhs Group Limited. Transactions relating to the services of certain Bhs Limited and Bhs Group directors to Arcadia Group Limited amounted to £1,584,000 (2003: £640,300). Costs relating to the provision of restaurant services by Bhs Limited to Arcadia and the facilitation of certain activities by Arcadia on behalf of Bhs Limited amounted to a net charge to Bhs Limited of £217,000 (2003: £nil). At the year end Bhs Group was owed £221,000 (2003: £5,875).

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