

Registered Number 4464926

Taveta Investments Limited
(formerly Ibis (780) Limited)
Report for the period ended
30 August 2003



Taveta Investments Limited

Report for the period ended 30 August 2003

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Taveta Investments Limited

Directors' report for the period ended 30 August 2003

The directors present their report together with the audited financial statements of the Company and the Group for period from the date of the Company's incorporation to 30 August 2003.

Incorporation, change of name and acquisitions during the period

The Company was incorporated on 19 June 2002 as Ibis (780) Limited and changed its name on 9 August 2002 to Taveta Investments Limited. On 10 September 2002, the Company made a recommended cash offer to acquire the whole of the issued share capital of Arcadia Group plc ('Arcadia'). This offer was declared unconditional in all respects on 15 October 2002 and, accordingly, the Company obtained control of Arcadia on that date.

Principal activities

The principal activities of the Group during the financial period were the retailing of clothing and clothing accessories in the United Kingdom and internationally through stores, home shopping catalogues and the Internet.

Results for the financial period and dividends

The Company was inactive prior to acquiring Arcadia, hence the results in the consolidated profit and loss account on page 4 cover a 46 weeks trading period.

The directors do not recommend the payment of a dividend and hence the retained profit for the period of £103,137,000 will be transferred to reserves.

Review of business and future developments

The directors are satisfied with the Group's financial performance for the period ended 30 August 2003 and its position at that date and expect the present level of activity to be sustained for the foreseeable future. The substantial improvement in the Group's operating profit, as reflected in the unaudited pro forma information in note 24 to the financial statements, is primarily due to higher intake margin and a reduction of overheads.

Directors and their interests

The Company's directors during the period were:

PNR Green	(appointed 4 September 2002)
IM Allkins	(appointed 8 August 2002)
P Coackley	(appointed 8 August 2002)
Dechert Nominees Limited	(appointed 19 June 2002, resigned 8 August 2002)

At the period end, the beneficial interests of the directors and their immediate families in the share capital of the Company were as follows:

	Number of ordinary shares of 10 pence each	
	At date of appointment	At 30 August 2003
PNR Green	100*	92,000,000
IM Allkins	-	257,500
P Coackley	-	1,031,000

* Ordinary shares of £1 each

Taveta Investments Limited

Directors' report for the period ended 30 August 2003 (continued)

Donations

During the period the Group made charitable donations totalling £250,000.

Employees

The Group is committed to the principle of equal opportunity in employment. It seeks to ensure that all applicants or employees receive equal treatment on the grounds of gender, marital status, race, colour, nationality, ethnic or national origin, religion, disability or sexuality and are not disadvantaged by conditions or requirements, including age limits, which cannot be objectively justified on job-related grounds. It applies employment policies that are fair and equitable and which ensure that entry into, and progression within, the Group are determined solely by the application of job criteria and by personal aptitude and competence.

It is the Group's policy to comply with best practice on the employment of disabled people. Full and fair consideration is given to every application for employment from disabled persons whose aptitude and skills can be utilised within the business and to their training and career development. Wherever possible, this includes the retraining and retention of staff who become disabled during their employment.

All staff are kept informed about matters concerning their interests as employees and the financial position of the Group through a variety of communication channels including face-to-face briefings, an intranet site supplemented by e-mail announcements and a quarterly magazine. During the period, the Group promoted the involvement of employees in its performance through their participation in various performance-related bonus schemes. Wherever practicable, part-time employees were eligible to participate in these schemes on the same basis as full-time staff.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business.

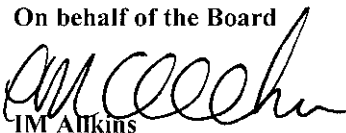
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 30 August 2003 and that applicable accounting standards have been followed.

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

Independent auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 8 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. On 14 April 2003 the Company passed an elective resolution to dispense with the annual appointment of auditors. PricewaterhouseCoopers LLP will therefore continue as auditors in accordance with and subject to Section 386 of the Companies Act 1985.

On behalf of the Board



IM Allkins

Secretary

22 October 2003

Taveta Investments Limited

Independent auditors' report to the members of Taveta Investments Limited

We have audited the financial statements which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the consolidated balance sheet, the Company balance sheet, the consolidated cash flow statement and the related notes.

Respective responsibilities of directors and auditors

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

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

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 August 2003 and of the profit and cash flows of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Report on pro forma consolidated statements

We have reviewed, without performing an audit, the pro forma consolidated profit and loss accounts set out in note 24 on page 28 in respect of the two years ended 30 August 2003, which are the responsibility of, and have been prepared by, the directors of Taveta Investments Limited. The pro forma consolidated profit and loss accounts have been prepared for illustrative purposes only, and are based on the consolidated statutory accounts of Taveta Investments Limited for the 46 weeks ended 30 August 2003, the consolidated statutory accounts of Arcadia Group Limited for the year ended 30 August 2002 and the management accounts of Arcadia Group Limited for the six weeks ended 15 October 2002 (together "the source documents").

Our review, which was substantially less in scope than an audit, consisted primarily of comparing the pro forma consolidated profit and loss accounts with the source documents, of considering the evidence supporting the adjustments and of discussing the pro forma consolidated profit and loss accounts with the management of Taveta Investments Limited.

In our opinion the pro forma consolidated profit and loss accounts have been properly compiled on the basis stated in note 24 on page 28, and except as noted thereon, such basis is consistent with the accounting policies of Taveta Investments Limited.


PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Leeds

22 October 2003

Taveta Investments Limited

Consolidated profit and loss account for the period ended 30 August 2003

	Notes	£'000
Total turnover	1	1,618,764
Less: Share of turnover of joint venture		(1,391)
Group turnover		1,617,373
Cost of sales		(1,336,770)
Gross profit		280,603
Distribution costs		(36,399)
Administrative expenses		(57,638)
Other operating income	2	18,697
Group operating profit		205,263
Share of joint venture's operating profit		6
Share of associate's operating profit		2,125
Total operating profit	2	207,394
Net interest payable and similar charges	3	(37,481)
Exceptional interest payable and similar charges	3	(9,604)
Total interest payable and similar charges	3	(47,085)
Profit before taxation		160,309
Taxation	5	(57,172)
Retained profit for the period	6,18	103,137

All of the results above relate to acquisitions during the period.

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

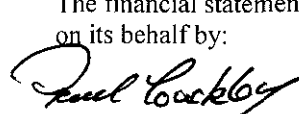
Statement of total recognised gains and losses

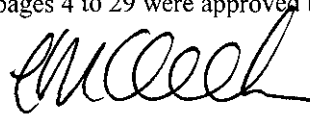
	£'000
Profit for the financial period	103,137
Exchange gain on overseas subsidiary	447
Total recognised gains for the period	103,584

Taveta Investments Limited
Balance sheets as at 30 August 2003

	Note	Group £'000	Company £'000
Fixed assets			
Intangible assets	7	304,674	-
Tangible assets	8	554,351	-
Investments	9	-	866,395
		859,025	866,395
Current assets			
Stocks		94,596	-
Debtors – due within one year	10	80,613	62,120
Debtors – due after one year	10	23,088	656
		103,701	62,776
Cash at bank and in hand		174,959	-
		373,256	62,776
Creditors: amounts falling due within one year	11	(404,680)	(57,743)
Net current (liabilities) / assets		(31,424)	5,033
Total assets less current liabilities		827,601	871,428
Creditors: amounts falling due after more than one year	12	(708,189)	(838,987)
Provisions for liabilities and charges			
- joint venture - share of gross assets		1,939	-
- share of gross liabilities		(5,517)	-
	15	(3,578)	-
Net assets		115,834	32,441
Capital and reserves			
Called up share capital	17	10,309	10,309
Share premium account	18	1,941	1,941
Profit and loss account	18	103,584	20,191
Equity shareholders' funds	18	115,834	32,441

The financial statements on pages 4 to 29 were approved by the board of directors on 22 October 2003 and were signed on its behalf by:


P Coackley
Director


IM Allkins
Director

Taveta Investments Limited

Consolidated cash flow statement for the period ended 30 August 2003

	Note	£'000	£'000
Cash inflow from operating activities	22b		364,108
Returns on investments and servicing of finance			
Interest received		4,925	
Interest paid		(37,317)	
Issue costs of new bank borrowings		(20,154)	
Interest paid on finance lease obligations		(48)	
Dividend paid by subsidiary (declared pre-acquisition)		(5,538)	
			(58,132)
Taxation paid			(18,965)
Capital expenditure			
Purchase of tangible fixed assets		(27,910)	
Sale of tangible fixed assets		22,068	
			(5,842)
Acquisitions and disposals			
Purchase of Arcadia	23	(866,395)	
Net cash and bank acquired with Arcadia		170,566	
Disposal of investment in associate (including repayment of loan)		37,339	
			(658,490)
Cash outflow before financing			(377,321)
Financing			
Issue of ordinary shares		12,250	
Issue of bank borrowings		917,574	
Issue of subordinated loan notes		32,500	
Issue of discounted subordinated bonds		32,500	
Repayment of bank borrowings		(409,240)	
Repayment of subordinated loan notes		(32,500)	
Capital element of finance lease payments		(891)	
Net cash inflow from financing			552,193
Increase in cash	22		174,872

Taveta Investments Limited

Accounting policies

Accounting convention

The financial statements are drawn up under the historical cost convention and in accordance with applicable accounting standards. A summary of the more important group accounting policies is set out below.

Basis of consolidation

The financial statements of all subsidiary undertakings are consolidated from the date of their acquisition to the date of their sale using the acquisition method of accounting.

All transactions with subsidiaries and inter-company profits or losses are eliminated on consolidation.

The Group's share of the results of joint ventures and associates is included in the consolidated profit and loss account. The Group's share of the net assets/liabilities of joint ventures and associates is included in the consolidated balance sheet using the gross equity and equity accounting methods, respectively.

Goodwill

Upon the acquisition of a business, goodwill is capitalised and written off by equal annual instalments over the shorter of 20 years and its estimated useful economic life. Purchased goodwill represents the difference between the fair value of the separately identifiable tangible assets/liabilities acquired and the fair value of the consideration given.

On disposal, any goodwill, which has not been amortised through the profit and loss account, is taken into account in calculating the profit or loss on disposal.

Goodwill is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Revenue

Turnover comprises the value of sales of all merchandise to third parties, including concession sales, and excludes value added tax. Sales to franchisees and home shopping customers are recognised on despatch of the goods.

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

Depreciation

Fixed assets are stated at cost. Fixed asset values are reviewed for impairment in accordance with FRS 11: Impairment of fixed assets and goodwill.

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

Land : not depreciated

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

Short leasehold land and buildings: life of lease

Fit-out: 15 years

Retail fixtures and fittings: 3 to 10 years

Office equipment: 10 years

Computer equipment: 3 to 4 years

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

Taveta Investments Limited

Accounting policies (continued)

Pension costs

The cost of providing pension benefits is charged to the profit and loss account as a constant percentage of pensionable earnings over the period benefiting from scheme employees' services. Actuarial surpluses are amortised over the expected remaining service lives of current scheme employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet. As disclosed in note 21 to the financial statements the Group has taken advantage of the transitional implementation arrangements provided by FRS 17 'Retirement benefits'.

Taxation

Deferred taxation is provided on all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying tax differences can be deducted. Deferred tax assets and liabilities are not discounted.

Leased assets

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

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

Stock valuation

Stocks are stated at the lower of cost and net realisable value using the retail method and represent goods for resale.

Foreign exchange

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Profits and losses of overseas branches and subsidiaries which have currencies of operation other than sterling are translated into sterling at the average rates of exchange for the period. Assets and liabilities recorded in foreign currencies are translated either at the rates ruling at the balance sheet date or the rates fixed by forward contracts. Exchange differences arising from the re-translation of the opening net assets of overseas subsidiaries are taken to reserves. Other exchange differences are dealt with in the profit and loss account.

Treasury instruments

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

Finance costs

Costs associated with the issue of bank borrowings are deferred and are charged to the profit and loss account over the term of the respective loan at a constant rate to the loan's carrying value. Bank borrowings in the balance sheet are stated net of unamortised issue costs.

Fixed asset investments

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

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003

1 Turnover

Turnover is wholly attributable to the Group's principal activities and apart from £106,305,000 arises in the United Kingdom. Turnover overseas predominantly arises in the Republic of Ireland and Germany.

2 Total operating profit

Total operating profit is stated after charging / (crediting):	£'000
Depreciation - owned assets	54,444
- under finance leases	941
Amortisation of goodwill	14,014
Other operating income (refer below)	(18,697)
Property rentals (net)	146,179
Other operating lease rentals	2,121
Auditors' remuneration (including Company: £nil)	229
Other fees paid to the Group's auditors	279

Other operating income arises primarily from providing services to Rubicon (£9,895,000 – refer note 25) and the operation of the Group's store cards (£8,500,000), including the release of deferred income. The Group's audit fees are borne by Arcadia Group Limited.

3 Net interest payable and similar charges

	£'000
Payable on bank loans and overdrafts	(35,786)
Payable on non-bank loans and bonds	(3,830)
Payable on finance lease obligations	(48)
Amortisation of issue costs of bank loans	(2,396)
Exceptional amortisation of issue costs on bank loans repaid early	(9,604)
	(12,000)
Group interest and similar charges payable	(51,664)
Share of associate's interest payable	(63)
Total interest and similar charges payable	(51,727)
Receivable on:	
Bank deposits	3,900
Other deposits	353
Rubicon loan notes (note 25)	379
Group interest receivable	4,632
Share of joint venture's interest receivable	10
Total interest receivable	4,642
Net interest payable and similar charges	(47,085)

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

4 Employees and directors

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

Employees	£'000
Wages and salaries	223,438
Social security costs	13,327
Pension costs (note 21)	8,140
Total employment costs	244,905

The average number of people employed by the Group during the period was 18,134, including 10,884 part-time employees.

None of the directors received any emoluments in respect of their services to the Company or any of its' subsidiaries.

5 Taxation

a. Analysis of charge for the period	£'000
Based on the profit for the period	
UK corporation tax at 30%:	
- Current year	51,978
- Share of joint venture	4
- Share of associate	619
Overseas taxation	1,231
Total current tax (note 5b)	53,832
Total deferred taxation – origination and reversal of timing differences (note 16)	3,340
Total taxation	57,172

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

5 Taxation (continued)

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

b. Factors affecting the tax charge for the period	£'000
Profit before taxation	<u>160,309</u>
Profit before taxation multiplied by the standard rate of corporation tax in the United Kingdom of 30%	48,093
Effects of:	
Expenses not deductible for tax purposes	9,496
Capital allowances in excess of depreciation	(2,470)
Other short term timing differences	98
Adjustment in respect of foreign tax rates	<u>(1,385)</u>
Current tax charge for the year (note 5a)	<u>53,832</u>

c. Factors that may affect future tax charges

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar rate to the current period.

6 Profit for the financial period

Taveta Investments Limited has not presented its own profit and loss account as permitted by Section 230(1) of the Companies Act 1985. The amount of the consolidated profit for the financial period dealt with in the financial statements of the parent undertaking is £20,191,000.

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

7 Intangible fixed assets

Group	Goodwill £'000
Cost	
At 19 June 2002	-
On acquisition of Arcadia (note 23)	318,688
At 30 August 2003	318,688
Amortisation	
At 19 June 2002	-
Charge for the period	14,014
At 30 August 2003	14,014
Net book amount	
At 30 August 2003	304,674

Goodwill arose during the period on the acquisition of Arcadia Group plc and is being amortised on a straight line basis over 20 years. This period represents the directors' expectation of the period over which the value of the underlying business acquired will exceed the value of the underlying net assets.

8 Tangible fixed assets

Group	Land and buildings £'000	Fit out, fixtures and equipment £'000	Total £'000
Cost			
At 19 June 2002	-	-	-
On acquisition of Arcadia	582,809	465,601	1,048,410
Additions	8,361	20,671	29,032
Disposals	(26,318)	(29,021)	(55,339)
At 30 August 2003	564,852	457,251	1,022,103
Depreciation			
At 19 June 2002	-	-	-
On acquisition of Arcadia	130,640	314,998	445,638
Charge for the period	12,361	43,024	55,385
Disposals	(5,522)	(27,749)	(33,271)
At 30 August 2003	137,479	330,273	467,752
Net book amount			
At 30 August 2003	427,373	126,978	554,351

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

8 Tangible fixed assets (continued)

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

Group	£'000
Cost	4,610
Accumulated depreciation	(1,825)
Net book amount	2,785

Analysis of net book value of land and buildings

Group	£'000
Freehold	88,620
Long leasehold	214,769
Short leasehold	123,984
	427,373

9 Fixed asset investments

	Group £'000	Company £'000
Interest in associate (note 9b)	-	-
Shares in subsidiary undertaking (note 9c)	-	866,395
	-	866,395

a. Interest in joint venture

At 30 August 2003, the Group held a joint venture interest in Zoom.co.uk Limited ('Zoom'). As Zoom had net liabilities at that date the Group has provided for its share of this deficiency within provisions for liabilities and charges (note 15).

Zoom is registered in England and operates in the United Kingdom.

b. Interest in associate

Group	£'000
At 19 June 2002	-
On acquisition of Arcadia	8,354
Share of retained profit	1,443
Disposal (refer note 23)	(9,797)
At 30 August 2003	-

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

9 Fixed asset investments (continued)

c. Shares in subsidiary undertaking

Company	£'000
Cost	
At 19 June 2002	-
Additions during the period	866,395
At 30 August 2003	866,395

Advantage has been taken of Section 231(5) of the Companies Act 1985 not to disclose all group undertakings on the basis that such information would be of excessive length. The group undertakings whose results or financial position, in the opinion of the directors, principally affect the consolidated financial statements are detailed below. The Group owns the whole of the issued share capital of the subsidiary undertakings listed below which, with the exception of Arcadia Group Limited, are indirect subsidiaries of the Company.

Subsidiary undertaking	Country of operation	Country of incorporation or registration	Main activity
Arcadia Group Limited	UK	England	Holding company
Arcadia Group Brands Ltd	UK	England	Brand management
Arcadia Group Multiples (Ireland) Ltd	Ireland	Ireland	Fashion retailing
Burton Retail Ltd	UK	England	Fashion retailing
Dorothy Perkins Retail Ltd	UK	England	Fashion retailing
Evans Ltd	UK	England	Fashion retailing
Miss Selfridge Retail Ltd	UK & Ireland	England	Fashion retailing
Outfit Retail Ltd	UK	England	Fashion retailing
Redcastle Ltd	UK	England	Property investment
Redcastle (214 Oxford Street) Ltd	UK	England	Property investment
Redcastle Properties Ltd	UK	England	Property trading
Redcastle Property Mortgage Ltd	UK	England	Property investment
Top Shop/Top Man Ltd	UK	England	Fashion retailing
Wallis Retail Ltd	UK & Ireland	England	Fashion retailing

A full list of subsidiary undertakings will be annexed to the Company's next annual return.

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

10 Debtors

	Group	Company
Amounts falling due within one year	£'000	£'000
Trade debtors	32,879	-
Amounts due from subsidiary undertakings	-	50,000
Amounts due from joint venture – trading balances	397	-
Amounts due from joint venture – loans	4,463	-
Group relief receivable	-	12,120
Other debtors	2,954	-
Prepayments and accrued income	35,797	-
Deferred tax (note 16)	4,123	-
	80,613	62,120

	Group	Company
Amounts falling due after one year	£'000	£'000
Other debtors	3,740	-
Prepayments and accrued income (see below)	5,445	-
Deferred tax (note 16)	13,903	656
	23,088	656

Other debtors falling due after more than one year comprise deferred consideration arising on a pre-acquisition disposal.

Prepayments and accrued income falling due after one year comprise the pension prepayment of £5,445,000 arising from the application of SSAP 24 (note 21).

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

11 Creditors – amounts falling due within one year

	Group £'000	Company £'000
Bank loans (note 13)	58,978	55,571
Lease obligations (note 14)	500	-
Trade creditors	86,942	-
Amounts owed to subsidiary undertakings	-	2,000
Corporation tax payable	44,709	-
Other taxation and social security	27,081	-
Other creditors	58,473	-
Accruals and deferred income	127,997	172
	404,680	57,743

12 Creditors – amounts falling due after one year

	Group £'000	Company £'000
Bank loans (note 13)	549,667	337,371
Other loans (note 14)	10,472	-
Lease obligations (note 14)	312	-
Discounted subordinated bonds (see below):		
- repayable between two and five years	34,687	34,687
Amounts owed to subsidiary undertakings	-	466,929
Other creditors	38,459	-
Accruals and deferred income	74,592	-
	708,189	838,987

The discounted subordinated bonds are unsecured, redeemable in October 2007 and accrue interest at the rate of 8% per annum. Interest accrues until maturity at which date the bonds' redemption value will be £47,753,000.

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

13 Bank loans

Group	Acquisition term loan (see (a) below) £'000	Other bank loans (see (b) below) £'000	Total £'000
Maturity of debt			
Within one year	55,571	3,407	58,978
Between one and two years	62,906	3,524	66,430
Between two and five years	232,921	11,121	244,042
After five years:			
- by instalments	41,544	12,474	54,018
- other than by instalments	-	185,177	185,177
	41,544	197,651	239,195
	392,942	215,703	608,645

Company	Acquisition term loan (see (a) below) £'000
Maturity of debt	
Within one year	55,571
Between one and two years	62,906
Between two and five years	232,921
After five years by instalments	41,544
	392,942

On 6 October 2003 the Company repaid £30,000,000 of the above acquisition term loan ahead of schedule.

Details of the security provided and the repayment terms of the above loans are as follows:

- secured by way of a fixed charge over certain of the Group's freehold properties and by legal charge over its other assets and undertaking. Final instalment of £41,544,000 (net of unamortised issue costs) payable during 2008; and
- secured by a legal mortgage or fixed charge over certain of the Group's long leasehold and freehold interests. Repayable by quarterly instalments and culminating in final payments during 2013 of £60,000,000 and £125,177,000, respectively.

Bank loans attract interest at LIBOR plus a margin of between 1.07% and 2.25% and are stated net of unamortised issue costs of £9,398,000 (Company: £7,058,000).

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

14 Lease obligations

Prior to its acquisition Arcadia had sold a number of properties to certain banks. Arcadia subsequently leased these properties back at peppercorn rentals for a 125 year term and simultaneously entered into full tenant and repairing sub-leases for the same period. The aggregate rentals payable is structured so as to give the lessors a financing return linked to LIBOR. In the early years, the amounts payable are below LIBOR and in the later years are in excess of LIBOR. The financing costs are, however, allocated so as to achieve an annual funding cost, which is consistent with LIBOR. The Group's rental commitment in this respect, together with certain finance lease obligations relating to fixtures and fittings, are as follows:

Group	£'000
Property lease obligations falling due:	
After five years	10,472
Finance lease obligations falling due:	
Within one year	500
Between one and two years	267
Between two and five years	45
	812

15 Provisions for liabilities and charges

	Joint venture £'000
Group	
At 19 June 2002	-
On acquisition of Arcadia	3,590
Credited to profit and loss account	(12)
At 30 August 2003	3,578

As mentioned in note 9, the Group has provided for its share of Zoom.co.uk Limited's net liabilities.

The above provision has not been discounted.

The Company has no provisions.

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

16 Deferred taxation

The movements on the Group and Company's deferred tax assets are as follows:

Group	£'000
At 19 June 2002	-
On acquisition of Arcadia	21,366
Charged to profit and loss account	(3,340)
At 30 August 2003	18,026

Company	£'000
At 19 June 2002	-
Credited to profit and loss account	656
At 30 August 2003	656

The Group and Company's deferred tax assets are classified within debtors (note 10).

Deferred taxation

Group	Provided £'000	Unprovided £'000
Accelerated capital allowances	13,782	-
Other timing differences	4,244	7,704
	18,026	7,704

The Company's deferred tax asset relates to other timing differences. The Company has no unprovided amounts.

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

The Group has not recognised a potential deferred tax asset in respect of agreed capital losses of £7,704,000 as there is insufficient evidence that the subsidiaries concerned will generate enough taxable capital profits to utilise the available losses.

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

17 Called up share capital

	Authorised		Issued and fully paid	
	£'000	No. ('000)	£'000	No. ('000)
Ordinary shares of 10p each	11,111	111,111	10,309	103,092

Between the date of its incorporation and 8 August 2002 the Company issued 100 ordinary shares of £1 each for cash. On 28 October 2002, the nominal value of the Company's shares was amended such that each shareholder received 10 ordinary shares of 10 pence each for every £1 ordinary share previously held. On the same date the Company issued 99,999,000 ordinary shares of 10 pence each for cash.

On 3 July 2003 the Company issued 3,092,000 ordinary shares of 10 pence each for an aggregate cash consideration of £2,250,000.

18 Reconciliation of movements in shareholders' funds

Group	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
Profit for the financial period	-	-	103,137	103,137
Shares issued net of costs	10,309	1,941	-	12,250
Exchange gain on overseas subsidiary	-	-	447	447
Net change in shareholders' funds	10,309	1,941	103,584	115,834
Opening shareholders' funds	-	-	-	-
Closing shareholders' funds	10,309	1,941	103,584	115,834

Company	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
Profit for the financial period	-	-	20,191	20,191
Shares issued net of costs	10,309	1,941	-	12,250
Net change in shareholders' funds	10,309	1,941	20,191	32,441
Opening shareholders' funds	-	-	-	-
Closing shareholders' funds	10,309	1,941	20,191	32,441

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

19 Financial commitments

At 30 August 2003 the Group had capital commitments approved, but not provided for, of £11,601,000 (Company: £nil). The Group also had commitments under non-cancellable operating leases that are subject to renegotiation at various dates. The minimum annual rentals under the foregoing are:

	Land and buildings £'000	Other assets £'000
Operating leases which expire:		
- within one year	2,742	480
- between two and five years inclusive	34,888	898
- after five years	153,980	1,670
	191,610	3,048

20 Contingent liabilities

The Group has guaranteed the bank borrowings of a number of overseas franchises, which at 30 August 2003 amounted to £485,000.

21 Pension schemes

The Group operates two funded defined benefit schemes in the UK for the benefit of its employees. The assets of these schemes are held in separate trustee administered funds. The most recent formal actuarial valuations of the schemes were carried out as at 31 March 2001, using the projected unit method. The next formal actuarial valuations are due to take place as at 31 March 2004. For the purpose of the fair value exercise (see note 23) the schemes' qualified independent actuary has conducted a review of the actuarial position of the schemes as at 15 October 2002. The assumptions which had the most significant effect on the outcome of this review are set out below:

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

The review indicated that the actuarial value of the schemes' assets of £460,600,000 exceeded the benefits that had accrued to members by £12,900,000 (3 %), after allowing for assumed future increases in earnings.

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

21 Pension schemes (continued)

Statement of Standard Accounting Practice Number 24 'Accounting for Pension Costs' requires the cost of providing pensions to be recognised over the period benefiting from the employees' services, with any difference between the charge to the profit and loss account and the contributions paid to the scheme being shown as an asset or liability in the balance sheet. The pension cost for the period has been assessed in accordance with the advice of qualified independent actuaries using the projected unit method. Variations in cost are being spread over the estimated average remaining working lifetime of the members of each scheme. The total pension cost in respect of the Group's schemes for the period ended 30 August 2003 was £8,140,000, including £685,000 of pension augmentations. The augmentations were funded by the employer, but no other contributions were made to the Group's schemes during the period under review. Regular contributions will however re-commence during the 2003/04 financial year. At the period end, the Group recognised a pension prepayment of £5,445,000, arising from the application of SSAP 24.

The disclosures required under the transitional arrangements within FRS17 'Retirement Benefits' have been calculated by qualified independent actuaries based on the most recent full actuarial valuation of Arcadia Group Limited's schemes at 31 March 2001 and the review at 15 October 2002 and updated to 30 August 2003. As the Group had no pension arrangements prior to acquiring Arcadia Group Limited the comparative information within the tables below is as at 15 October 2002, the date the Company acquired Arcadia Group Limited.

The main financial assumptions used by the actuaries at 30 August 2003 and 15 October 2002 were:

	% per annum	
	2003	2002
Rate of increase in salaries	4.50	4.25
Rate of increase in pensions in payment	2.50	2.25
Discount rate	5.50	5.80
Inflation	2.50	2.25

The assets in the schemes and the expected rates of return were:

	Expected rate of return	2003	Expected rate of return	2002
	%	£m	%	£m
Equities	8.5	324.6	8.0	279.0
Bonds	4.7	160.5	4.7	167.1
Other	4.0	11.6	3.75	14.5
		496.7		460.6

The following amounts were measured in accordance with the requirements of FRS 17:

	2003	2002
	£m	£m
Total market value of assets	496.7	460.6
Present value of the schemes' liabilities	(495.6)	(408.0)
Surplus in the schemes	1.1	52.6
Related deferred tax liability	(0.3)	(15.8)
Net pension asset	0.8	36.8

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Notes to the financial statements for the period ended 30 August 2003 (continued)

21 Pension schemes (continued)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss account reserve would have been as follows:

	2003	2002
	£m	£m
Net assets	115.8	10.0
Pension prepayment	(5.4)	(12.9)
Pension asset	0.8	36.8
Net assets including pension asset	111.2	33.9
Profit and loss account reserve	103.6	-
Pension prepayment	(5.4)	(12.9)
Pension reserve	0.8	36.8
Profit and loss account reserve	99.0	23.9

The following amounts would have been recognised in the performance statements for the period ended 30 August 2003 under the requirements of FRS17:

Profit and loss account	£m
Operating profit	
Current service cost	(13.4)
Past service cost	(0.7)
Total operating charge	(14.1)
Other finance income	
Expected return on the schemes' assets	26.6
Interest on pension scheme liabilities	(20.4)
Net return	6.2
Net pension cost	(7.9)

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

21 Pension schemes (continued)

Statement of total recognised gains and losses	£m
Actual return less expected return on the schemes' assets	20.6
Experience gains and losses arising on the schemes' liabilities	(11.4)
Changes in assumptions underlying the present value of the schemes' liabilities	(53.5)
Actuarial loss recognised in the statement of total recognised gains and losses	(44.3)

Movement in surplus during the period	£m
Surplus in schemes on acquisition of Arcadia	52.6
Movement in the period:	
Employer contributions	0.7
Current service cost	(13.4)
Past service costs	(0.7)
Other finance income	6.2
Actuarial loss	(44.3)
Surplus in schemes at 30 August 2003	1.1

Details of experience gains and losses for the period ended 30 August 2003	£m	%
Difference between the expected and actual return on the schemes' assets:		
<i>Amount</i>	20.6	
<i>Percentage of the schemes' assets</i>		4.1
Experience gains and losses on the schemes' liabilities:		
<i>Amount</i>	(11.4)	
<i>Percentage of the present value of the schemes' liabilities</i>		(2.3)
Total amount recognised in statement of total recognised gains and losses:		
<i>Amount</i>	(44.3)	
<i>Percentage of the present value of the schemes' liabilities</i>		(8.9)

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Notes to the financial statements for the period ended 30 August 2003 (continued)

22 Notes to the consolidated cash flow statement

a. Reconciliation to net debt	£'000
At 19 June 2002	-
Increase in cash	174,872
Debt acquired with Arcadia	(120,180)
Cashflow from movement in debt and lease financing	(539,943)
Non-cash movements in net debt	5,507
Exchange movements	87
At 30 August 2003	(479,657)

b. Reconciliation of operating profit to net cash inflow from operating activities	£'000
Group operating profit	205,263
Depreciation and amortisation of goodwill	69,399
Decrease in stocks	30,579
Decrease in debtors	34,025
Decrease in creditors	(47,858)
Cash inflow from operating activities	291,408
Contribution to store card operations (see below)	72,700
Total cash inflow from operating activities	364,108

The contribution to store card operations represents amounts received in respect of a 13 year agreement which commenced on 1 January 2003.

c. Reconciliation of movement in net debt	At 19 June 2002 £'000	Acquisitions (excluding cash and overdrafts) £'000	Cash flow £'000	Non-cash changes £'000	Exchange movements £'000	At 30 August 2003 £'000
Cash at bank and in hand	-	-	174,872	-	87	174,959
Debt due after one year	-	(119,248)	(479,417)	3,527	-	(595,138)
Debt due within one year	-	(932)	(60,526)	1,980	-	(59,478)
	-	(120,180)	(539,943)	5,507	-	(654,616)
	-	(120,180)	(365,071)	5,507	87	(479,657)

Non-cash changes comprise the amortisation of deferred debt issue costs, the inception of finance leases, transfers between categories of finance leases and accrued interest on the discounted bonds.

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Notes to the financial statements for the period ended 30 August 2003 (continued)

23 Acquisitions

On 15 October 2002, the Company acquired Arcadia Group Limited ('Arcadia'). A reconciliation between the book values and the provisional fair values of Arcadia's assets and liabilities at the date of acquisition, is provided below:

	Book value £'000	Revaluation adjustments £'000	Other adjustments £'000	Provisional fair value £'000
Goodwill	33,447	-	(33,447)	-
Tangible fixed assets	501,665	108,583	(7,476)	602,772
Investment in Rubicon	1,572	6,782	-	8,354
Stocks	124,996	-	-	124,996
Deferred tax	10,680	-	10,686	21,366
Pension assets	12,117	783	-	12,900
Other debtors	137,872	(3,553)	-	134,319
Net funds	50,386	-	-	50,386
Corporation tax	(22,231)	-	11,767	(10,464)
Other creditors	(371,598)	(17,779)	(3,955)	(393,332)
Provisions for liabilities and charges	(3,580)	-	(10)	(3,590)
Net assets acquired	475,326	94,816	(22,435)	547,707
Goodwill				318,688
Consideration (including expenses) satisfied in cash				866,395

The fair value adjustments above include some provisional amounts, as indicated below, which will be finalised in the 2003/04 financial statements when the detailed acquisition investigation has been completed. The book values of assets and liabilities have been taken from Arcadia's management accounts at the date of acquisition.

Revaluation adjustments have arisen in the following areas:

- Freehold and leasehold properties have been revalued to reflect their open market values;
- the Group disposed of its investment in Rubicon on 13 December 2002. The book value of the investment has therefore been revalued in line with the sales proceeds;
- an actuarial review of Arcadia's pension schemes identified a surplus, on a SSAP 24 basis, of £12,900,000. This was £783,000 higher than the pension asset recognised in Arcadia's management accounts;
- debtors have been reduced by £3,553,000 to reflect the expected realisable value of the prepaid premia on certain foreign currency options; and
- creditors have been adjusted by £17,779,000 to recognise the market value, based on interest rates currently available, of the Group's future interest rate swap.

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

23 Acquisitions (continued)

The main other adjustments comprise:

- purchased goodwill recognised on previous acquisitions has been disregarded for the purpose of the fair value exercise in accordance with FRS 7 'Fair value accounting';
- writing off certain obsolete fixed assets;
- recognising a deferred tax asset (net) on the revaluation adjustments referred to above and reassessing the level of timing differences which are expected to crystallise;
- reassessing the Group's corporation tax liabilities. This assessment may need to be revised when the outstanding computations have been agreed; and
- providing for certain employee-related obligations.

The purchase of Arcadia has been accounted for as an acquisition.

During its last financial year to 31 August 2002, Arcadia made a profit after tax of £72,400,000. For the period from that date to the date of its' acquisition, Arcadia's management accounts show the following results:

	£'000
Turnover	205,888
Gross profit	17,581
Net operating expenses	(9,562)
Group operating profit	8,019
Share of associate/joint venture's operating profit	1,887
Net interest payable	(376)
Profit before taxation	9,530
Taxation	(2,454)
Profit after taxation	7,076

Arcadia had no recognised gains or losses for the period, other than those disclosed above.

From the date of its' acquisition to 30 August 2003, Arcadia contributed the following towards the Group's cash flows:

	£'000
Net cash inflow from operating activities	363,936
Returns on investments and servicing of finance	(11,304)
Taxation paid	(18,965)
Capital expenditure	(5,842)
Acquisitions and disposals	37,339
Net cash inflow before financing	365,164

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

24 Unaudited pro forma information

The unaudited pro forma consolidated profit and loss account for the year ended 30 August 2003 and its comparative, set out below, is based on a full 52 weeks (2002: 53 weeks) trading for those brands which became and have remained part of the Group since 15 October 2002. The pro forma results have been prepared for illustrative purposes only, to aid comparison.

The unaudited pro forma consolidated profit and loss account for the year ended 30 August 2003 represents the Group's audited post-acquisition results for the 46 weeks ended 30 August 2003, as adjusted to eliminate the goodwill charge arising as a result of the acquisition amounting to £14,014,000 and the Group's share of Rubicon's profits up to the date of its disposal of £3,808,000.

It also includes the unaudited pre-acquisition results of Arcadia Group Limited ('Arcadia') for the six weeks ended 15 October 2002, being the date of Taveta Investments Limited's acquisition of Arcadia, as adjusted to eliminate £321,000 of net costs associated with the takeover and goodwill of £268,000.

The comparative figures represent the consolidated profit and loss account of Arcadia Group Limited for the 53 weeks ended 31 August 2002, adjusted to exclude:

- the results of the Rubicon brands;
- the exceptional loss arising on the disposal of the Rubicon brands; and
- a goodwill charge of £1,993,000.

Except as noted above, the pro forma information has been prepared using accounting policies consistent with the accounting policies of the Group.

	Year ended 30 August 2003 £'000	53 weeks ended 31 August 2002 £'000
Group turnover	1,823,261	1,764,349
Cost of sales	(1,524,756)	(1,566,479)
Gross profit	298,505	197,870
Distribution costs	(42,051)	(43,050)
Administrative expenses	(48,350)	(51,513)
Other operating income	19,781	13,268
Group operating profit	227,885	116,575
Share of joint venture's operating profit / (loss)	3	(147)
Total operating profit	227,888	116,428
Total interest payable and similar charges	(47,254)	(10,571)
Profit before taxation	180,634	105,857
Taxation	(56,450)	(23,819)
Profit for the financial year	124,184	82,038
Dividends	-	(11,749)
Retained profit for the year	124,184	70,289

Taveta Investments Limited

Notes to the financial statements for the period ended 30 August 2003 (continued)

25 Parent undertaking, controlling party and related party transactions

The Company's ultimate parent company is Taveta Limited, a company incorporated in Jersey.

PNR Green and his immediate family are the Company's ultimate controlling party.

During the period the Company issued subordinated loan notes with a principal value of £29,900,000 to a company ultimately controlled by PNR Green and his immediate family. These were subsequently redeemed. Accrued interest of £983,000 was paid on the redemption of the loan notes.

The Company has also issued discounted subordinated bonds to the value of £29,900,000 to a company ultimately controlled by PNR Green and his immediate family. The amount outstanding on these bonds at 30 August 2003, including accrued interest, was £31,912,000.

During the period BHS Group Limited invoiced the Group £1,394,000. These charges mainly related to the provision of management services by BHS Group Limited. At 30 August 2003 the Group owed the BHS Group £287,000. PNR Green, P Coackley and IM Allkins are directors of both BHS Group Limited and the Company.

The Group's joint venture undertaking, Zoom.co.uk Limited, hosts and maintains web-sites relating to Arcadia's stores and brands. During the period Zoom invoiced the Group £2,581,000 in respect of these services, whilst the Group charged Zoom £1,480,000 for the provision of administrative and operational support. At 30 August 2003 Zoom owed the Group £4,860,000.

On 13 December 2002, the Group sold its 45.5% shareholding in Rubicon Retail Limited ('Rubicon'), but continued to provide Rubicon with financial, administrative and logistical support. During the period prior to the disposal of its' shares, the Group invoiced Rubicon £1,695,000 for these services. The Group also received interest of £379,000 on the £27,542,000 of loan notes issued as a consequence of the Group's sale of certain brands to Rubicon during 2002. These loan notes were redeemed when the Group sold its shares.