

# **Next Retail Limited**

## **Report and Financial Statements**

31 January 2004

Registered No: 4521150



## Financial statements

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## Directors' report

The directors present their report and financial statements for the year ended 31 January 2004.

### Results and dividends

The loss for the year, after taxation, amounted to £42,747k. The directors do not recommend the payment of any dividends.

### Principal activities and review of the business

The company acquired the business operations and assets of Next Near East Limited (formerly Next Retail Limited) with effect from 1 February 2003 and began trading on 2 February 2003. The principal activities of the company during the year comprised the supply of NEXT brand merchandise including Womenswear, Menswear, Childrenswear, Lingerie, Shoes, Accessories, Fashion Jewellery, Cosmetics and Home Furnishings, through a chain of retail shops in the UK and Eire (NEXT Retail), franchise stores abroad (NEXT Overseas) and a home shopping operation (NEXT Directory).

A summary of the performance of each of these divisions is given below. Comparative information relates to the prior year's trading as recorded in Next Near East Limited (formerly Next Retail Limited).

#### NEXT Retail

Sales in NEXT Retail increased by 15% compared with the previous year from an average increase in selling space of 21%. During the year the company opened 23 new stores, extended 6 of its existing stores and closed 6 stores. At the end of January 2004 the company traded from 358 stores with a total selling space of 2,844,000 square feet compared with 344 stores and 2,338,000 square feet in the previous year.

#### NEXT Directory

Sales in NEXT Directory increased by 13% compared with the previous year. At the end of January 2004, the Next Directory had 1,660,000 active customers compared with 1,467,000 the previous year, an increase of 13%.

#### NEXT Overseas

At 31 January 2004, the company had 70 franchise stores compared with 59 the previous year. The Middle East continues to be the NEXT Overseas's largest region with 30 stores.

### Employees

The company has continued its policy of providing employees with information about the company and ensures that the suggestions and views of employees are taken in to account.

Every possible consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. The company continues the employment wherever possible of any person who becomes disabled during their employment. Opportunities for training, career development and promotion do not operate to the detriment of disabled employees.

### Directors

The directors who served the company during the year were as follows:

D W Keens  
S A Wolfson

No director had any interest in the share capital of the company or of any subsidiary company of Next plc.

The directors are also directors of Next plc, and their own and their families' interests in the ordinary shares of Next plc are shown in the accounts of that company.

## Directors' report (continued)

### Supplier payment policy

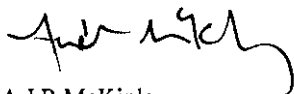
The company's policy for payment of suppliers is either to agree terms of payment at the start of business, or ensure that the supplier is aware of the company's standard payment terms. Payment is made in accordance with contractual and other legal obligations.

At 31 January 2004, the company had 24 days of purchases outstanding in trade creditors.

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board



A J R McKinlay  
Secretary

7 May 2004

## **Statement of directors' responsibilities in respect of the financial statements**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

## **Independent auditors' report**

### **to the members of Next Retail Limited**

We have audited the company's financial statements for the year ended 31 January 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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 company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

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


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

## **Independent auditors' report**

**to the members of Next Retail Limited (continued)**

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 January 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Ernst & Young LLP  
Registered Auditor  
Birmingham

10 May 2004

## Profit and loss account

for the year ended 31 January 2004

	Notes	2004 £000	2003 £000
<b>Turnover</b>	2	2,345,768	—
Cost of sales		1,767,368	—
<b>Gross profit</b>		578,400	—
Distribution costs		185,258	—
Administrative expenses		229,923	—
<b>Operating profit</b>	3	163,219	—
Interest receivable and similar income	6	97	—
Interest payable and similar charges	7	(178,978)	—
<b>Loss on ordinary activities before taxation</b>		(15,662)	—
Tax on loss on ordinary activities	8	27,085	—
<b>Loss for the financial year</b>		(42,747)	—

## Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £42,747k attributable to the shareholders for the year ended 31 January 2004 (2003 - profit of £nil).



## Balance sheet

at 31 January 2004

	Notes	2004 £000	2003 £000
<b>Fixed assets</b>			
Goodwill	9	2,496,368	2,627,756
Tangible assets	10	196,759	156,789
		<u>2,693,127</u>	<u>2,784,545</u>
<b>Current assets</b>			
Stocks	11	273,168	244,022
Debtors	12	371,845	367,652
Cash at bank		43,002	38,829
		<u>688,015</u>	<u>650,503</u>
<b>Creditors: amounts falling due within one year</b>	13	3,415,016	3,427,308
<b>Net current liabilities</b>		<u>(2,727,001)</u>	<u>(2,776,805)</u>
<b>Total assets less current liabilities</b>		<u>(33,874)</u>	<u>7,740</u>
<b>Creditors: amounts falling due after more than one year</b>	14	–	95
<b>Provisions for liabilities and charges</b>			
Provisions for liabilities and charges	16	8,872	7,644
		<u>(42,746)</u>	<u>1</u>
<b>Capital and reserves</b>			
Called up share capital	19	1	1
Profit and loss account	20	(42,747)	–
<b>Equity shareholders' funds</b>	21	<u>(42,746)</u>	<u>1</u>



D W Keens  
Director

7 May 2004

## Notes to the financial statements

at 31 January 2004

### 1. Accounting policies

#### ***Basis of preparation***

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

The financial statements contain information about Next Retail Ltd as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of its parent, Next plc, a company registered in England and Wales.

In preparing the financial statements, the directors have considered factors influencing the company's ability to continue in business, including the availability of financial support from its parent company, and have concluded that it is appropriate for the financial statements to be prepared on a going concern basis.

#### ***Cash flow statement***

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

#### ***Related parties transactions***

The company has taken advantage of the exemptions under FRS8(3) not to disclose those transactions with entities that are part of Next plc group on the basis that in excess of 90% of the voting rights are controlled within the group, and the consolidated accounts in which Next Retail Limited is included, are publicly available.

#### ***Goodwill***

Goodwill arising on acquisitions is capitalised and amortised over its useful economic life of 20 years. On disposal, goodwill realised is accounted for through the profit and loss account. The carrying value of goodwill is reviewed annually for impairment. The useful economic life represents the finite period over which benefits are expected to arise, having regard to the nature of the business purchased and the industry in which it operates.

#### ***Depreciation***

All fixed assets are initially recorded at cost. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Fixed equipment in freehold buildings: 6 years

Plant, shop fronts & retail fittings in high street retailing: 2 to 6 years

Plant, fixtures & fittings, computer equipment, motor vehicles & warehouse equipment: 2 to 15 years

## Notes to the financial statements

at 31 January 2004

### 1. Accounting policies (continued)

#### ***Stocks***

Stock is valued at the lower of cost and net realisable value. Net realisable value is based on estimated normal selling prices less further costs to be incurred to disposal. Appropriate provision is made for slow movement and obsolescence.

#### ***Deferred taxation***

Full provision is made for deferred tax arising from timing differences between the differing treatment of certain items for taxation and accounting purposes. The provision is calculated at the rates of taxation at which it is estimated the liability will arise and is not discounted. No provision is made in respect of timing differences arising from the sale or revaluation of fixed assets unless there is a commitment to the disposal of the assets at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider there to be suitable taxable profits from which the underlying timing differences can be deducted.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

#### ***Operating leases***

Rentals payable under operating leases are charged to operating profit on a straight line basis over the lease term.

#### ***Pension costs***

Pension contributions due to group pension schemes are charged to the profit and loss account as incurred.

#### ***Repairs, renewals and refurbishment***

Expenditure on repairs, renewals and refurbishment of existing business assets is written off in the year in which it is incurred.

#### ***Merchandising launch and marketing expenditure***

Merchandising launch and marketing expenditure is written off in the season to which it relates.

#### ***Debtors***

Provision is made for doubtful debts using an arrears based method, which is designed to provide fully for those debts which will be irrecoverable.

## Notes to the financial statements

at 31 January 2004

### 2. Turnover

Turnover represents the invoiced value of goods and services supplied during the year and is stated net of VAT.

All turnover is sourced from the UK. An analysis by destination is given below:

	2004 £000	2003 £000
United Kingdom	2,270,028	-
Europe	53,199	-
Asia	7,132	-
Other (inc Middle East)	15,409	-
	<u>2,345,768</u>	<u>-</u>

### 3. Operating profit

This is stated after charging:

	2004 £000	2003 £000
Auditors' remuneration - audit services	104	-
- non-audit services	44	-
	<u>148</u>	<u>-</u>
Depreciation of owned fixed assets	43,601	-
Amortisation of goodwill	<u>131,388</u>	<u>-</u>
Operating lease rentals - external	2,803	-
Operating lease rentals - intercompany	<u>33</u>	<u>-</u>

During the year the company paid contributions totalling £4,435k to the Next Employee Share Ownership Plan, which is a discretionary fund established for the benefit of the employees of the Next Group. Full details of the Next Employee Share Ownership Plan are in the accounts of Next plc.

### 4. Directors' emoluments

None of the directors received any remuneration from the company for the year ended 31 January 2004 (2003: £nil). All of the Directors were also directors of the ultimate parent company, Next plc, and their emoluments for services to the group are disclosed in the report and accounts of that company.

## Notes to the financial statements

at 31 January 2004

### 5. Staff costs

	2004 £000	2003 £000
Wages and salaries	269,350	—
Social security costs	17,949	—
Other pension costs (note 15)	6,621	—
	<u>293,920</u>	<u>—</u>

The monthly average number of employees during the year was as follows:

	2004 No.	2003 No.
Next Brand	35,111	—
Other activities	104	—
	<u>35,215</u>	<u>—</u>

If the hours worked were converted on the basis of a full working week, the equivalent average number of full time employees would have been 17,484.

### 6. Interest receivable and similar income

	2004 £000	2003 £000
Other interest receivable	<u>97</u>	<u>—</u>

### 7. Interest payable and similar charges

	2004 £000	2003 £000
Bank interest payable	59	—
Intercompany loans	178,905	—
Other external interest	14	—
	<u>178,978</u>	<u>—</u>

## Notes to the financial statements

at 31 January 2004

### 8. Tax

#### (a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2004 £000	2003 £000
<i>Current tax:</i>		
UK corporation tax	25,858	—
Relief for overseas tax	(2,196)	—
Adjustment in respect of prior years	(1)	—
	<u>23,661</u>	<u>—</u>
Overseas tax	2,196	—
Total current tax	<u>25,857</u>	<u>—</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	1,228	—
Tax on loss on ordinary activities	<u>27,085</u>	<u>—</u>

#### (b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is not the same as the standard rate of corporation tax in the UK of 30% (2003 - 30%). The differences are reconciled below:

	2004 %	2003 %
UK Corporation tax rate	30.0	—
Expenses not deductible for tax purposes	(202.9)	—
Origination and reversal of timing differences	7.8	—
Effective current tax rate on loss/result on ordinary activities	<u>(165.1)</u>	<u>—</u>

#### (c) Deferred tax

	2004 £000	2003 £000
Accelerated capital allowances	9,311	7,985
Other timing differences	(439)	(341)
Provision for deferred taxation	<u>8,872</u>	<u>7,644</u>
		£000
At 2 February 2003		7,644
Profit and loss account movement arising during the year		1,228
At 31 January 2004		<u>8,872</u>

## Notes to the financial statements

at 31 January 2004

### 9. Goodwill

	<i>Goodwill</i> <i>£000</i>
Cost:	
At 2 February 2003 and 31 January 2004	<u>2,627,756</u>
Amortisation:	
Provided during the year	<u>131,388</u>
At 31 January 2004	<u>131,388</u>
Net book value:	
At 31 January 2004	<u>2,496,368</u>
At 2 February 2003	<u>2,627,756</u>

### 10. Tangible fixed assets

	<i>Plant &amp; Vehicles</i> <i>£000</i>
Cost:	
At 2 February 2003	307,335
Additions	87,618
Disposals	(27,539)
Transfers	(33)
At 31 January 2004	<u>367,381</u>
Depreciation:	
At 2 February 2003	150,546
Provided during the year	43,601
Disposals	(23,526)
Transfer	1
At 31 January 2004	<u>170,622</u>
Net book value:	
At 31 January 2004	<u>196,759</u>
At 2 February 2003	<u>156,789</u>

## Notes to the financial statements

at 31 January 2004

### 11. Stocks

	2004 £000	2003 £000
Work in progress	6,784	3,268
Finished goods	266,384	240,754
	<u>273,168</u>	<u>244,022</u>

The difference between the purchase price or production cost of stock and their replacement cost is not material.

### 12. Debtors

	2004 £000	2003 £000
Trade debtors	276,551	222,649
Amounts owed by group undertakings	62,952	113,026
Amounts owed by associated companies	754	710
Other debtors	6,739	6,623
Prepayments and accrued income	24,849	24,644
	<u>371,845</u>	<u>367,652</u>

Amounts falling due after more than one year included above are:

	2004 £000	2003 £000
Trade debtors	<u>—</u>	<u>109</u>

### 13. Creditors: amounts falling due within one year

	2004 £000	2003 £000
Bank overdrafts	19,408	72,004
Trade creditors	120,588	114,630
Amounts owed to group undertakings	3,133,689	3,059,641
Corporation tax	25,583	71,972
Other taxation and social security	41,912	41,548
Other creditors	73,836	67,513
	<u>3,415,016</u>	<u>3,427,308</u>

### 14. Creditors: amounts falling due after more than one year

	2004 £000	2003 £000
Other creditors	<u>—</u>	<u>95</u>



## Notes to the financial statements

### at 31 January 2004

#### 15. Pensions

Employees of the company are members of pension schemes operated by Next plc ("the Group"). The Group operates a pension scheme in the UK which consists of defined benefit and defined contribution sections. The defined benefit section is a funded arrangement which provides benefits based on final pensionable earnings which are salaries, overtime and annual performance bonuses and was closed to new members in 2000. The Group is unable to identify the Company's share of the underlying assets and liabilities of the scheme.

The Group continues to report its pension costs in accordance with SSAP 24 Accounting for Pension Costs. The most recent formal actuarial valuation was undertaken by an independent professionally qualified actuary as at 31 March 2002 using the project unit method, and was updated as at 31 March 2003.

At 31 March 2003, the market value of the assets of the defined benefit section was £156m representing 68% of the liability for benefits that had accrued to members after allowing for future expected increases in earnings. Details of the actuarial valuation of the scheme are contained in the accounts of Next plc. The net deficit in the scheme on an FRS 17 basis at 31 January 2004 was £60.5m. Pension contributions for the Group will continue to be set at a level that takes account of the past service funding position of the scheme. The contributions made by the company in respect of the year ending 31 January 2004 are not materially different from the regular cost of the scheme.

The defined contribution section is for all members who joined after October 2000 and benefits are based on each individual member's personal account which is invested in an independently administered fund. The scheme has equal pension rights with respect to members of either sex. The assets of the scheme are held in a separate trustee administered fund.

#### 16. Provisions for liabilities and charges

	<i>Deferred taxation £000</i>
At 2 February 2003	7,644
Profit and Loss Account movement arising during the year	1,228
At 31 January 2004	<u>8,872</u>

#### 17. Commitments under operating leases

At 31 January 2004 the company had annual commitments under non-cancellable operating leases as set out below.

	2004		2003	
	<i>Land and buildings £000</i>	<i>Other £000</i>	<i>Land and buildings £000</i>	<i>Other £000</i>
Operating leases which expire:				
Within one year	–	426	65	576
In two to five years	73	2,882	197	1,354
In over five years	183	–	127	–
	<u>256</u>	<u>3,308</u>	<u>389</u>	<u>1,930</u>

## Notes to the financial statements

at 31 January 2004

### 18. Contingent liability

The company has entered into a number of guarantees in respect of a bank set off arrangement with its parent undertaking Next plc and its fellow subsidiary undertakings. These guarantees are limited to the credit balance held on the company's bank account.

### 19. Share capital

	2004 £000	Authorised 2003 £000
Ordinary shares of £1 each	<u>1</u>	<u>1</u>

	No.	Allotted, called up and fully paid 2004 £000	No.	2003 £000
Ordinary shares of £1 each	1,000	<u>1</u>	1,000	<u>1</u>

### 20. Reserves

	Profit and loss account £000
At 2 February 2003	-
Loss for the year	<u>(42,747)</u>
At 31 January 2004	<u>(42,747)</u>

### 21. Reconciliation of movements in shareholders' funds

	2004 £000	2003 £000
Loss for the financial year	(42,747)	-
Opening shareholders' equity funds	<u>1</u>	<u>1</u>
Closing shareholders' equity (deficit)/funds	<u>(42,746)</u>	<u>1</u>

### 22. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £11,650k (2003 - £6,875k).

### 23. Ultimate parent company

The company's ultimate parent company and controlling party is Next plc, a company registered in England and Wales. Next plc is the only group preparing group accounts which include Next Retail Limited. Copies of its group accounts are available from its Company Secretary at its registered office, Desford Rd, Enderby, Leicester, LE19 4AT.