Next Retail Limited

Report and Financial Statements

29 January 2005

Registered No: 4521150

Financial statements

CONTENTS

Directors' report

The directors present their report and financial statements for the year ended 29 January 2005.

Results and dividends

The profit for the year, after taxation, amounted to £1,632k. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

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.

NEXT Retail

Sales in NEXT Retail increased by 14% compared with the previous year. During the year the company opened 33 new stores, extended 5 of its existing stores and closed 7 stores. At the end of January 2005 the company traded from 384 stores with a total selling space of 3,327,000 square feet compared with 358 stores and 2,844,000 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 2005, the Next Directory had 1,905,000 active customers compared with 1,660,000 the previous year, an increase of 15%.

NEXT Overseas

At 29 January 2005, the company had 80 franchise stores compared with 70 the previous year. The Middle East continues to be NEXT Oversea's largest region with 32 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 29 January 2005, the company had 23 days (2004: 24 days) of purchases outstanding in trade creditors.

Events after the balance sheet date

A Court of Appeal ruling on July 2005 in relation to the Debenhams merchant charges case has impacted the way in which these financial statements are presented. The changes that have been made are discussed in Note 1 to the financial statements.

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

31 January 2006

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 29 January 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 22. 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 29 January 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

31 January 2006

Profit and loss account

for the year ended 29 January 2005

	Notes	*2005* *£000*	*2004* *£000* *Restated*
Turnover	2	2,698,321	2,376,015
Cost of sales		1,982,447	1,775,087
Gross profit		715,874	600,928
Distribution costs		226,791	185,258
Administrative expenses		234,671	230,029
Operating profit	3	254,412	185,641
Interest receivable and similar income	6	297	97
Interest payable and similar charges	7	(195,235)	(178,978)
Profit on ordinary activities before taxation		59,474	6,760
Tax on profit on ordinary activities	8	57,842	33,812
Profit/(loss) for the financial year	20	1,632	(27,052)

Statement of total recognised gains and losses

	Notes	*2005* *£000*	*2004* *£000* *Restated*
Total recognised gains and losses relating to the year		1,632	(27,052)
Prior year adjustment	1	18,852	–
Total gains and losses recognised since last annual report		20,484	(27,052)

Balance sheet

at 29 January 2005

	Notes	*2005* *£000*	*2004* *£000* *Restated*
Fixed assets			
Goodwill	9	2,364,980	2,496,368
Tangible assets	10	239,765	196,759
		2,604,745	2,693,127
Current assets			
Stocks	11	300,266	273,168
Debtors	12	429,393	373,206
Cash at bank		29,499	43,002
		759,158	689,376
Creditors: amounts falling due within one year	13	3,374,832	3,397,525
Net current liabilities		(2,615,674)	(2,708,149)
Total assets less current liabilities		(10,929)	(15,022)
Provisions for liabilities and charges	15	11,333	8,872
		(22,262)	(23,894)
Capital and reserves			
Called up share capital	18	1	1
Profit and loss account	19	(22,263)	(23,895)
Equity shareholders' funds	20	(22,262)	(23,894)

D W Keens
Director

31 January 2006

Notes to the financial statements

at 29 January 2005

1. Accounting policies

Basis of preparation

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

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.

Prior year adjustment

A Court of Appeal ruling in July 2005 in relation to the Debenhams merchant charges case clarified the contract law position of companies involved in arrangements that are substantially the same as those the company entered into with Next Financial Services Limited, a fellow subsidiary undertaking of the company. As a result, that company's activities are treated as if it were acting as an agent of Next Retail Limited and all income, costs and profits arising from its agency activities have been accounted for by Next Retail Limited, whilst all monies from Next Retail Limited are treated as loans to group undertakings. This change in accounts presentation has been accounted for by way of a prior year adjustment.

This adjustment increases the net assets of the company at 31 January 2004 by £18,852k and its profit before tax for the year then ended by £22,422k. The impact on the current year is to increase reported profit before tax by £26,306k. The prior year comparatives have been restated accordingly.

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
All other plant, fixtures, fittings, IT assets and vehicles: 2 to 15 years

Notes to the financial statements

at 29 January 2005

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 29 January 2005

2. Turnover

Turnover represents goods sold and services provided during the year and is stated net of VAT.

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

	2005 £000	2004 £000 Restated
United Kingdom	2,603,862	2,300,275
Europe	68,648	53,199
Asia	7,768	7,132
Other (inc Middle East)	18,043	15,409
	2,698,321	2,376,015

3. Operating profit

This is stated after charging:

	2005 £000	2004 £000
Auditors' remuneration - audit services	105	104
- non-audit services	2	44
	107	148
Depreciation of owned fixed assets	55,525	43,601
Amortisation of goodwill	131,388	131,388
Operating lease rentals - external	2,706	2,803
Operating lease rentals - intercompany	162	33

During the year the company paid no contributions (2004: £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 29 January 2005 (2004: £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 29 January 2005

5. Staff costs

	2005 £000	2004 £000
Wages and salaries	311,436	269,350
Social security costs	20,678	17,949
Other pension costs (note 14)	7,775	6,621
	339,889	293,920

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

	2005 No.	2004 No.
Next Brand	39,978	35,111
Other activities	128	104
	40,106	35,215

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 19,866 (2004: 17,484).

6. Interest receivable and similar income

	2005 £000	2004 £000
Other interest receivable	297	97

7. Interest payable and similar charges

	2005 £000	2004 £000
Bank interest payable	82	59
Intercompany loans	195,042	178,905
Other external interest	111	14
	195,235	178,978

Notes to the financial statements
at 29 January 2005

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2005 *£000*	*2004* *£000* *Restated*
Current tax:		
UK corporation tax	55,381	32,585
Relief for overseas tax	(2,433)	(2,196)
Adjustment in respect of prior years	–	(1)
	52,948	30,388
Overseas tax	2,433	2,196
Total current tax	55,381	32,584
Deferred tax:		
Origination and reversal of timing differences	2,461	1,228
Tax on loss on ordinary activities	57,842	33,812

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is not the same as the standard rate of corporation tax in the UK of 30% (2004 - 30%). The differences are reconciled below:

	2005 *%*	*2004* *%* *Restated*
UK corporation tax rate	30.0	30.0
Expenses not deductible for tax purposes	65.6	470.2
Origination and reversal of timing differences	(2.5)	(18.2)
Effective current tax rate on profit on ordinary activities	93.1	482.0

(c) Deferred tax

	2005 *£000*	*2004* *£000*
Accelerated capital allowances	11,391	9,311
Other timing differences	(58)	(439)
Provision for deferred taxation	11,333	8,872

	£000
At 1 February 2004	8,872
Profit and loss account movement arising during the year	2,461
At 29 January 2005	11,333

Notes to the financial statements
at 29 January 2005

9. Goodwill

	Goodwill *£000*
Cost:	
At 1 February 2004 and 29 January 2005	2,627,756
Amortisation:	
At 1 February 2004	131,388
Provided during the year	131,388
At 29 January 2005	262,776
Net book value:	
At 29 January 2005	2,364,980
At 1 February 2004	2,496,368

10. Tangible fixed assets

	Plant & Vehicles *£000*
Cost:	
At 1 February 2004	367,381
Additions	100,062
Disposals	(5,447)
At 29 January 2005	461,996
Depreciation:	
At 1 February 2004	170,622
Provided during the year	55,525
Disposals	(3,916)
At 29 January 2005	222,231
Net book value:	
At 29 January 2005	239,765
At 1 February 2004	196,759

Notes to the financial statements
at 29 January 2005

11. Stocks

	2005 £000	2004 £000
Work in progress	5,245	6,784
Finished goods	295,021	266,384
	300,266	273,168

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

12. Debtors

	2005 £000	2004 £000 Restated
Trade debtors	317,095	276,551
Amounts owed by group undertakings	80,685	64,313
Amounts owed by associated companies	1,308	754
Other debtors	3,562	6,739
Prepayments and accrued income	26,743	24,849
	429,393	373,206

13. Creditors: amounts falling due within one year

	2005 £000	2004 £000 Restated
Bank overdrafts	136,670	19,408
Trade creditors	130,170	120,588
Amounts owed to group undertakings	2,918,174	3,109,471
Corporation tax	54,914	32,310
Other taxation and social security	49,772	41,912
Other creditors	85,132	73,836
	3,374,832	3,397,525

Notes to the financial statements

at 29 January 2005

14. 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 2004 using the project unit method.

At 31 March 2004, the market value of the assets of the defined benefit section was £206m representing 80% 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 29 January 2005 was £64.8m. 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 29 January 2005 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.

15. Provisions for liabilities and charges

	Deferred taxation £000
At 1 February 2004	8,872
Profit and loss account movement arising during the year	2,461
At 29 January 2005	11,333

16. Commitments under operating leases

At 29 January 2005 the company had annual commitments under non-cancellable operating leases as set out below.

	2005		*2004*	
	Land and buildings £000	*Other £000*	*Land and buildings £000*	*Other £000*
Operating leases which expire:				
Within one year	–	310	–	426
In two to five years	143	2,072	73	2,882
In over five years	–	–	183	–
	143	2,382	256	3,308

Notes to the financial statements
at 29 January 2005

17. Contingent liabilities
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.

18. Share capital

		Authorised
	2005	*2004*
	£000	*£000*
Ordinary shares of £1 each	1	1

	Allotted, called up and fully paid			
		2005		*2004*
	No.	*£000*	*No.*	*£000*
Ordinary shares of £1 each	1,000	1	1,000	1

19. Reserves

	Profit and loss account
	£000
At 1 February 2004 as previously stated	(42,747)
Prior year adjustment (note 1)	18,852
At 1 February 2004 as restated	(23,895)
Profit for the year	1,632
At 29 January 2005	(22,263)

20. Reconciliation of movements in shareholders' funds

	2005	*2004*
	£000	*£000*
Profit/(loss) for the financial year	1,632	(27,052)
Opening equity shareholders' (deficit)/funds as restated	(23,894)	3,158
Closing equity shareholders' (deficit)	(22,262)	(23,894)

21. Capital commitments
Amounts contracted for but not provided in the financial statements amounted to £13,684k (2004: £11,650k).

22. 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.