

T J HUGHES LIMITED
REGISTERED NUMBER: 224422
ANNUAL REPORT & ACCOUNTS
2004 – 2005



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DIRECTORS' REPORT

For the 53 weeks ended 29 January 2005

The Directors present their annual report and the audited Financial Statements for the 53 week period ended 29 January 2005.

Principal Activities

At the period-end the Company traded through 38 specialist department stores.

Business review and future developments

During the 53 week period ended 29 January 2005 total sales increased by 2.3% from £198.9m to £203.4m and the gross margin increased from 34.9% to 37.3%.

The operating profit for the 53 week period ended 29 January 2005 amounted to £7,437,000 (2004: £3,276,000).

During the period a new store was opened at Watford that added 60,000 sq ft of trading space to the company. In addition five stores were refurbished.

Improvements to merchandising, layout and signage are being trialled in two stores and further refurbishments will be carried out based on the results of these trials. In addition a number of potential sites for new stores are being considered.

Results and Dividends

The profit on ordinary activities after taxation for the period amounted to £6,951,000 (2004: £11,480,000; this includes a profit of £8,852,000 on the disposal of freehold properties).

The Directors do not recommend payment of a dividend for the period

Directors

The Directors who held office during the year are set out below.

Mr GW Foster	(resigned 15 September 2004)
Mr AJ Goody	
Mr NW McCausland	(appointed 15 September 2004)
Mr R Dickie	(appointed 15 September 2004)

DIRECTORS' REPORT

For the 53 weeks ended 29 January 2005 – (continued)

Share Capital

No share capital was issued during the period.

Charitable and Political Contributions

Charitable contributions made by the Company in the period amounted to £1,660 (2004: £1,274). No political contributions were made during the period (2004: £nil).

Payment of Suppliers

The Company does not follow any code or standard on payment practice.

The Company's policy concerning the payment of suppliers is either to agree terms of payment at the start of business with each supplier or to ensure that the supplier is made aware of the Company's standard payment terms, and, in either case, to pay in accordance with its contractual or legal obligation, subject to confirmation of receipt of merchandise in good order.

The number of day's purchases outstanding at 29 January 2005 was 39 days (2004: 33 days).

Employees

The Company seeks to ensure that disabled people, whether applying for or in employment, receive equal opportunities and are not discriminated against on the grounds of their disability.

The Company's affairs are discussed with employees on a formalised and regular basis, through management and staff councils, and through annual staff meetings held in each store following the end of the trading period.

The health and safety of the Company's employees, customers and members of the general public is a matter of primary concern. Accordingly it is the Company's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to the health of its employees and members of the public.

Pension Fund

Full details of the Company's defined benefit pension scheme are set out in Note 16 to the Financial Statements. Pension scheme funds are administered by Trustees and are independent of the Company's finances. There is no investment in the shares of the Company.

The defined benefit pension scheme was closed to new members with effect from 28 February 2002. A defined contribution stakeholder pension scheme was made available to all full-time and part-time employees of the Company with effect from 1 February 2002.

DIRECTORS' REPORT

For the 53 weeks ended 29 January 2005 – (continued)

Directors' Interests and Options

None of the Directors held any ordinary shares of the company or any options over ordinary shares of the company at 29 January 2005 or 25 January 2004. The interests of the Directors in the ultimate parent company are disclosed in the accounts of that company.

By Order of the Board

A handwritten signature in black ink, appearing to read 'A J Goody', written in a cursive style.

A J Goody
Secretary

DIRECTORS' RESPONSIBILITIES STATEMENT

United Kingdom company law requires the Directors to prepare Financial Statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the period and the profit or loss for that period. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the 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 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.



KPMG LLP

8 Princes Parade
Liverpool
L31QH

Report of the independent auditors to the members of TJ Hughes Limited

We have audited the financial statements on pages 6 to 23.

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

The directors are responsible for preparing the directors' report and, as described on page 4 the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company 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 the company's affairs as at 29 January 2005 and of its profit for the 53 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor

25 April 2005

PROFIT AND LOSS ACCOUNT

For the 53 weeks ended 29 January 2005

	Notes	53 weeks 2005 £'000	52 weeks 2004 £'000
TURNOVER	2	203,410	198,900
Cost of Sales		<u>(127,597)</u>	<u>(129,566)</u>
GROSS PROFIT		75,813	69,334
Distribution costs		(56,982)	(54,808)
Administrative expenses before exceptional expenses		(10,343)	(11,250)
Exceptional administrative expenses	4	(1,051)	-
		<u>(11,394)</u>	<u>(11,250)</u>
OPERATING PROFIT – continuing activities	3	7,437	3,276
Profit on disposal of freehold properties		-	8,852
Net interest receivable/(payable)	5	<u>612</u>	<u>(12)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		8,049	12,116
Tax on profit on ordinary activities	7	<u>(1,098)</u>	<u>(636)</u>
PROFIT FOR THE FINANCIAL PERIOD		6,951	11,480
Dividends		-	-
PROFIT RETAINED FOR THE FINANCIAL PERIOD	14	<u>6,951</u>	<u>11,480</u>

The difference between the profit reported above and that calculated on an historical cost basis is set out on page 7.

All activity has arisen from continuing operations.

The notes on pages 11 to 23 form part of these Financial Statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 53 weeks ended 29 January 2005

	<i>53 weeks 2005 £'000</i>	<i>52 weeks 2004 £'000</i>
Profit for the financial period	6,951	11,480
Prior year adjustment	—	(7,546)
Total gains and losses recognised since last Annual Report	<u>6,951</u>	<u>3,934</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

For the 53 weeks ended 29 January 2005

	<i>53 weeks 2005 £'000</i>	<i>52 weeks 2004 £'000</i>
Reported profit on ordinary activities before taxation	8,049	12,116
Realisation of property revaluation gains of previous years	-	415
Difference between a historical cost depreciation charge and the actual depreciation charge on the revalued amount	—	4
Historical cost profit on ordinary activities before taxation	<u>8,049</u>	<u>12,535</u>
Historical cost profit for the year retained after taxation and dividends	<u>6,951</u>	<u>11,899</u>

The notes on pages 11 to 23 form part of these Financial Statements.

BALANCE SHEET

at 29 January 2005

		2005		2004	
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	8		41,360		38,448
CURRENT ASSETS					
Stocks		21,977		28,390	
Debtors falling due within one year	9	4,029		3,785	
Debtors falling due after more than one year	9	12,463		8,904	
Debtors		16,492		12,689	
Cash at bank and in hand		20,610		6,191	
		59,079		47,270	
CREDITORS – amounts falling due within one year	10	(30,570)		(25,189)	
NET CURRENT ASSETS			28,509		22,081
TOTAL ASSETS LESS CURRENT LIABILITIES			69,869		60,529
CREDITORS – amounts falling due after more than one year	10		(17,459)		(15,575)
PROVISIONS FOR LIABILITIES AND CHARGES	11		(3,841)		(3,336)
NET ASSETS			48,569		41,618
CAPITAL AND RESERVES					
Called up share capital	12		3,035		3,035
Share premium account	13		20,265		20,265
Profit and loss account	13		25,269		18,318
EQUITY SHAREHOLDERS' FUNDS			48,569		41,618

These Financial Statements were approved by the Board of Directors on 25/04/05 and signed on its behalf by:

R Dickie

Director

A J Goody

Director

The notes on pages 11 to 23 form part of these Financial Statements.

CASH FLOW STATEMENT

For the 53 weeks ended 29 January 2005

		53 weeks 2005 £'000	£'000	52 weeks 2004 £'000	£'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(a)		24,414		(3,903)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest paid		(7)		(322)	
Interest received		<u>612</u>		<u>280</u>	
			605		(42)
TAXATION					
UK Corporation tax received/(paid)			607		(324)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS					
Disposal of tangible fixed assets		-		16,062	
Purchase of tangible fixed assets		<u>(7,648)</u>		<u>(4,858)</u>	
			(7,648)		11,204
EQUITY DIVIDENDS PAID			-		<u>(2,000)</u>
Cash inflow before financing			17,978		4,935
FINANCING					
Long term loan to parent undertaking		(3,559)		(8,904)	
(Loan repayment)/Receipt from new loans		-		<u>(8,500)</u>	
			<u>(3,559)</u>		<u>(17,404)</u>
INCREASE / (DECREASE) IN CASH	(b)		<u>14,419</u>		<u>(12,469)</u>

The notes on pages 11 to 23 form part of these Financial Statements.

CASH FLOW STATEMENT

For the 53 weeks ended 29 January 2005– (continued)

(a) Reconciliation of operating profit to net cash flow from operating activities

	<i>53 weeks 2005 £'000</i>	<i>52 weeks 2004 £'000</i>
Operating profit	7,437	3,276
Depreciation and other amounts written off tangible fixed assets	4,460	4,673
Decrease in stocks	6,413	5,039
Increase in debtors	(244)	(476)
Increase / (decrease) in creditors	<u>6,348</u>	<u>(16,415)</u>
Net cash inflow/(outflow) from operating activities	<u>24,414</u>	<u>(3,903)</u>

(b) Reconciliation of net cash flow to movement in net debt

	<i>53 weeks 2005 £'000</i>	<i>52 weeks 2004 £'000</i>
Increase/(Decrease) in cash in the period	14,419	(12,469)
Cash inflow from change in debt	<u>—</u>	<u>8,500</u>
Movement in net debt in period	14,419	(3,969)
Net funds at 25 January 2004	<u>6,191</u>	<u>10,160</u>
Net funds at 29 January 2005	<u>20,610</u>	<u>6,191</u>

(c) Analysis of net (debt)/funds

	<i>25 January 2004 £'000</i>	<i>Cash flow £'000</i>	<i>29 January 2005 £'000</i>
Cash at bank and in hand	6,191	14,419	20,610
Debt due within one year	—	—	—
Debt due after more than one year	<u>—</u>	<u>—</u>	<u>—</u>
	<u>6,191</u>	<u>14,419</u>	<u>20,610</u>

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005

1. Accounting Policies

The principal accounting policies adopted by the Company are set out below. These policies have been consistently applied.

(a) **Basis of preparation**

The Financial Statements have been prepared for the 53 week period (*2004: 52 week period*) ended 29 January 2005 under the historical cost convention and in accordance with applicable accounting standards.

(b) **Stocks**

Stocks, representing goods for resale, are valued at the lower of cost and net realisable value.

(c) **Deferred taxation**

Except where otherwise required by Accounting Standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

(d) **Depreciation**

Tangible fixed assets are included at cost less accumulated depreciation. Depreciation is charged on a straight line basis over the following periods:

- (i) Short leasehold buildings and fixed plant – over the remaining period of the lease.
- (ii) Fixtures, fittings and equipment – 10% to 20% per annum.

(e) **Leased assets**

Operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(f) **Capital contributions**

Capital contributions received in respect of new stores are credited to the profit and loss account in equal instalments over the period of the lease.

Other incentives receivable towards the costs of fitting out new stores are credited to the profit and loss account in equal instalments over the period to the first rent review.

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

1. Accounting Policies *(continued)*

(g) **Supplier discounts**

Supplier discounts are credited against costs of sales with corresponding reduction made to the value of stock in respect of discounts receivable on individual stock lives.

(h) **Pensions**

The cost of the Company's defined benefit pension scheme is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees (see Note 16). The pension cost is assessed in accordance with the advice of qualified actuaries.

Whilst the Company continues to account for pension costs in accordance with SSAP 24 "Accounting for Pensions Costs", certain transitional disclosures required by FRS 17 "Retirement Benefits" are presented in Note 16.

(i) **Grants**

Grants in respect of capital expenditure are recognised in the profit and loss account on a straight line basis over the expected useful life of the asset to which they relate. Grants in respect of revenue expenditure are recognised in the profit and loss account in the period in which they become receivable.

(j) **Significant estimates**

FRS 18 requires disclosure of the bases of significant estimations in Company accounts. The only significant estimate in these accounts is in relation to the provision for slow moving stock which is based on current and forecast realisable values.

(k) **Related parties**

As 100% of the company's voting rights are controlled within the group headed by TJ Hughes (Holdings) Company Limited, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the group.

2. Turnover and Profit on Ordinary Activities before Taxation

Turnover consists of the amounts receivable for goods and services supplied by the company as principal, excluding value added tax. Turnover and profit on ordinary activities relate wholly to continuing retailing activities in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

3. Operating Profit

	<i>53 weeks 2005 £'000</i>	<i>52 weeks 2004 £'000</i>
This has been stated after charging/(crediting):		
Depreciation and other amounts written-off tangible fixed assets	4,460	4,631
Loss on disposal of tangible fixed assets	-	42
Operating lease rentals		
Plant and equipment	592	570
Land and buildings	11,490	9,367
Release of government grants	(7)	(7)
Fees payable to auditors		
For audit services	40	30
For other services	-	-

4. Exceptional Items

The exceptional expense of £1,051,000 included in administration expenses comprises restructuring costs.

5. Net Interest Payable/(Receivable)

	<i>53 weeks 2005 £'000</i>	<i>52 weeks 2004 £'000</i>
On bank loans and overdrafts	4	276
Other interest payable	3	16
Bank interest receivable	(573)	(191)
Other interest receivable	(46)	(89)
	<u>(612)</u>	<u>12</u>

6. Directors and Employees

<i>Employees</i>	<i>53 weeks 2005</i>	<i>52 weeks 2004</i>
The average number of persons employed by the Company was:		
Full time	984	971
Part time	<u>2,395</u>	<u>2,476</u>
	<u>3,379</u>	<u>3,447</u>
Total expressed in terms of full time equivalent employees	<u>1,703</u>	<u>1,698</u>

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

6. Directors and Employees (*continued*)

	<i>53 weeks 2005 £'000</i>	<i>52 weeks 2004 £'000</i>
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	25,319	24,646
Social security costs	1,565	1,520
Pension costs	<u>737</u>	<u>680</u>
	<u>27,621</u>	<u>26,846</u>

The remuneration of the directors was as follows:

	<i>53 weeks 2005 £'000</i>	<i>52 weeks 2004 £'000</i>
Emoluments	464	640
Pension contributions	32	34
Compensation for loss of office	391	171
Fees paid to third parties in respect of directors' services	<u>50</u>	<u>-</u>
	<u>937</u>	<u>845</u>

The above amounts include the following in respect of the highest paid director.

	<i>53 weeks 2005 £'000</i>	<i>52 weeks 2004 £'000</i>
Emoluments	164	369
Compensation for loss of office	391	-
Pension contributions	<u>20</u>	<u>34</u>
	<u>575</u>	<u>403</u>

During the year the highest paid director left the company. At 24 January 2004 his accrued pension entitlement under the company's defined benefit scheme was £22,060.

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

7. Taxation

	53 weeks 2005 £'000	52 weeks 2004 £'000
The charge for the year comprises:		
<i>Corporation tax</i>		
UK Corporation tax charge at 30% (2004: 30%) based on taxable profit for the period	561	931
Adjustment in respect of prior periods	(28)	(882)
	<u>533</u>	<u>49</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	580	268
Adjustment in respect of prior periods	(15)	319
	<u>565</u>	<u>587</u>
 Total tax charge	 <u>1,098</u>	 <u>636</u>

The tax charge for the period is lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below.

	53 weeks 2005 £'000	52 weeks 2004 £'000
Profit on ordinary activities before tax	<u>8,049</u>	<u>12,116</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	2,415	3,635
<i>Effects of:</i>		
Expenses not deductible for tax purposes	31	51
Capital allowances in excess of depreciation	(243)	(11)
Non taxable profit on disposal of property	-	(2,643)
Group relief not paid for	(1,549)	-
Other non taxable income	(93)	(101)
Adjustment to tax charge in respect of previous periods	<u>(28)</u>	<u>(882)</u>
Current tax charge for the period	<u>533</u>	<u>49</u>

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

8. Tangible Fixed Assets

	<i>Short leasehold properties and fixed plant</i>	<i>Fixtures, fittings and equipment</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost			
At 24 January 2004	28,363	30,633	58,996
Additions	2,326	5,046	7,372
Disposals	-	-	-
At 29 January 2005	30,689	35,679	66,368
Depreciation			
At 24 January 2004	6,395	14,153	20,548
Charge for period	1,242	3,218	4,460
Disposals	-	-	-
At 29 January 2005	7,637	17,371	25,008
Net book amount			
At 29 January 2005	23,052	18,308	41,360
At 24 January 2004	21,968	16,480	38,448

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

9. Debtors	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Amounts falling due within one year		
Trade debtors	933	819
Prepayments	<u>3,096</u>	<u>2,966</u>
	<u>4,029</u>	<u>3,785</u>
Amounts falling due after more than one year		
Amounts owed from parent undertaking	<u>12,463</u>	<u>8,904</u>
10. Creditors		
	<i>2005</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>
Amounts falling due within one year:		
Trade creditors	16,836	9,759
Corporation tax	424	-
Taxation and social security	4,333	3,246
Accruals and deferred income	<u>8,977</u>	<u>12,184</u>
	<u>30,570</u>	<u>25,189</u>
Amounts falling due after more than one year:		
Accruals and deferred income	<u>17,459</u>	<u>15,575</u>
	<u>17,459</u>	<u>15,575</u>

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

11. Provisions for Liabilities and Charges

	2005 £'000	2004 £'000
Deferred taxation	3,539	2,974
Pension obligations	<u>302</u>	<u>362</u>
	<u>3,841</u>	<u>3,336</u>
Deferred taxation has been provided in full in respect of		
Accelerated capital allowances	3,765	3,207
Other short-term timing differences	<u>(226)</u>	<u>(233)</u>
	<u>3,539</u>	<u>2,974</u>

The movement in provisions is as follows:

	<i>Deferred Taxation</i> £'000	<i>Pension Obligations</i> £'000
At 24 January 2004	2,974	362
Charged/(credited) to profit and loss account	<u>565</u>	<u>(60)</u>
At 29 January 2005	<u>3,539</u>	<u>302</u>

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

12. Called Up Share Capital

The authorised share capital is represented by 47,900,000 (2004: 47,900,000) ordinary shares of 10p each. The called-up share capital, all fully paid, is as follows:

	<i>Number of shares</i>	<i>£'000</i>
Balance at beginning and end of year	<u>30,351,901</u>	<u>3,035</u>

13. Reserves

The movement on reserves is as follows:

	<i>Share premium account £'000</i>	<i>Profit and loss account £'000</i>
At 24 January 2004	20,265	18,318
Retained profit for the period	—	<u>6,951</u>
At 29 January 2005	<u>20,265</u>	<u>25,269</u>

The cumulative amount of goodwill written off directly against reserves amounts to £416,000 (2004 £416,000).

14. Reconciliation of Movements in Shareholders' Funds

	<i>53 weeks 2005 £'000</i>	<i>52 weeks 2004 £'000</i>
Profit for the financial period	6,951	11,480
Dividends	—	—
	6,951	11,480
Net proceeds of issue of shares	—	—
Net addition to shareholders' funds	6,951	11,480
Opening shareholders' funds (originally £37,684,000 at 25 January 2003 restated to £30,138,000 as a result of the prior year adjustment of £7,546,000)	<u>41,618</u>	<u>30,138</u>
Closing shareholders' funds	<u>48,569</u>	<u>41,618</u>

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

15. Commitments

The capital commitments are as follows:

	2005 £'000	2004 £'000
Contracts for capital expenditure	<u>568</u>	<u>1,558</u>

Current annual rental commitments of the Company under operating leases are as follows:

	2005		2004	
	<i>Land and Buildings</i> £'000	<i>Others</i> £'000	<i>Land and Buildings</i> £'000	<i>Others</i> £'000
Lease expiring:				
within one year	-	82	-	79
in the second to fifth year inclusive	-	511	-	491
over five years	<u>12,440</u>	<u>-</u>	<u>11,100</u>	<u>-</u>
	<u>12,440</u>	<u>593</u>	<u>11,100</u>	<u>570</u>

The company is subject to a debenture given in favour of the Royal Bank of Scotland to secure its revolving credit facility of £10 million and guarantees totalling £17.25 million in respect of term loans for TJ Hughes (Investments) Limited.

16. Pensions

The company operates a defined benefit scheme, which is now closed to new members. The scheme is administered through a separate trustee administered fund. Also, the company operates a stakeholder pension.

The pension cost for the defined benefit scheme was £720,000 (2004: £675,000). The pension cost for the stakeholders pension was £17,000 (2004: £5,000).

The pension cost of the defined benefit scheme is assessed in accordance with the advice of an independent professionally qualified actuary. The latest actuarial valuation was at 31 March 2003 and used the attained age method of valuation. The main actuarial assumptions were that:

- i) Salaries would increase by 3.5% per annum.
- ii) The return on scheme investments would be 6.5% per annum.
- iii) Pensions in payment would increase by 2.5% per annum.

At 31 March 2003, the date of the last actuarial valuation, the market value of the assets of the scheme was £6,124,000 and this gave a deficit of £1,685,000 in covering the guaranteed benefits accrued to members at that date after allowing for expected future increases in earnings and pensions.

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

16. Pension arrangements *(continued)*

The pension contributions made to the defined benefit scheme by the company during the period amounted to £720,000, reflecting the actuarial valuation at 31 March 2003. Employees contribute at 4% of pensionable salary.

As noted above, and as required by SSAP 24, the figures included in the financial statements in respect of the company pension scheme are based on an actuarial valuation carried out at 31 March 2003.

Additional disclosures regarding the company's defined benefit pension scheme are required under the transitional provisions of FRS 17, Retirement Benefits', and these are set out below. They provide information that will be necessary for full implementation of FRS 17.

The actuarial valuation described above has been updated at 29 January 2005 by a qualified independent actuary using revised assumptions that are consistent with the requirement of FRS 17. Investments have been valued, for this purpose, at fair value.

The major assumptions used for the valuation were:

	<i>2005</i> <i>% per</i> <i>annum</i>	<i>2004</i> <i>% per</i> <i>annum</i>	<i>2003</i> <i>% per</i> <i>annum</i>
Rate of increase of salaries	3.4%	3.3%	2.9%
Rate of increase of pensions in payment	2.9%	2.8%	2.4%
Discount rate	5.2%	5.4%	5.25%
Inflation rate	2.9%	2.8%	2.4%
Total return on assets	6.4%	6.7%	6.25%

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	<i>2005</i> <i>Value</i> <i>£'000</i>	<i>2004</i> <i>Value</i> <i>£'000</i>
Total fair value of assets	9,009	7,691
Present value of scheme liabilities	<u>(10,542)</u>	<u>(9,002)</u>
(Deficit) in the scheme	(1,533)	(1,311)
Deferred tax asset	<u>460</u>	<u>393</u>
Net pension (liability)	<u>(1,073)</u>	<u>(918)</u>

The amounts above are in respect of the entire defined benefit scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

16. Pension arrangements *(continued)*

Analysis of amount that would have been charged to operating profit under FRS 17:

	2005 Value £'000	2004 Value £'000
Current service cost	554	518
Past service cost	<u>12</u>	<u>-</u>
Total operating cost	<u>566</u>	<u>518</u>

Analysis of the amount that would have been credited to net finance income under FRS 17:

	2005 Value £'000	2004 Value £'000
Expected return	535	394
Interest on pension liability	<u>(498)</u>	<u>(454)</u>
Net return	<u>37</u>	<u>(60)</u>

Analysis of the amounts that would have been recognised in the statement of total recognised gains and losses:

	2005 Value £'000	2004 Value £'000
Actual return in excess of expected	245	781
Experience gain/(loss) on liabilities	72	(709)
Change in financial assumptions	<u>(674)</u>	<u>1,018</u>
Actuarial (loss)/gain	<u>(357)</u>	<u>1,090</u>

Movement in deficit during the year:

	2005 Value £'000	2004 Value £'000
Deficit at start of year	(1,311)	(2,350)
Current service cost	(554)	(518)
Contributions - employer	720	527
- other	(68)	-
Net return	37	(60)
Actuarial (loss)/gain	<u>(357)</u>	<u>1,090</u>
Deficit at end of year	<u>(1,533)</u>	<u>(1,311)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the 53 weeks ended 29 January 2005– (continued)

16. Pension arrangements (*continued*)

History of experience gains and losses

	2005 Value £'000	2004 Value £'000
Difference between the actual and expected return on scheme assets	245	781
Value of plan assets	9,009	7,691
Percentage of scheme assets	2.72%	10.15%
Experience gains on scheme liabilities	72	(709)
Present value of scheme liabilities	10,542	9,002
Percentage of the present value of scheme liabilities	0.68%	(7.87%)

	2005 Value £'000	2004 Value £'000
Actuarial (losses)/gains recognised in STRGL	(357)	1,090
Present value of scheme liabilities	10,542	9,002
Percentage of the present value of scheme liabilities	(3.38%)	12.11%

17. Ultimate controlling party

The directors regard TJ Hughes (Holdings) Company Limited, a company incorporated in the United Kingdom, as the ultimate parent company and ultimate controlling party.