Bhs plc

REPORT AND ACCOUNTS

1996-97

The Company registered number is 229606

DIRECTORS' REPORT

The directors submit their report on the accounts for the fifty-two weeks to 29 March 1997.

Principal Activity and Business Review

Bhs had a successful year, increasing its profit from retail operations by 13 per cent to £73.4 million (1996 - £65.1 million). This was largely due to sales which, excluding some £6.3 million of One Up sales the previous year, grew by 8.4 percent. UK sales increased by seven per cent from a four per cent increase in average trading space, while international franchise sales rose 24 per cent to £52.4 million, Bhs' operating margin improved from 8.7 per cent to 9.1 per cent.

Menswear and gifts were the most successful of the trading divisions but all were ahead of the previous year, including the restaurant division which had its best year for some time. The weakest performing division was childrenswear, although its strong position in schoolwear enabled it to hold its share of a highly competitive market. Sales to older boys were affected by the rising popularity of branded sportswear.

Six new stores

During the year, Bhs opened six new stores and resited the Ipswich store. With extensions to two existing stores, Bhs average trading space increased by four per cent. The 'millennium' store concept, first introduced in 1995, was successfully tested. It makes the stores more attractive and easier to shop, it presents product better and improves sales. Bhs will spend some £25 million in the current year rolling out elements of the concept across the chain. By April 1998, including a further seven new stores and resites, between 50 and 60 Bhs stores will have benefited from the full 'millennium' refit, bringing with it increased sales densities and profit contribution.

Supply chain

The five year programme to improve the efficiency and responsiveness of the supply chain has continued to make good progress. Following last year's internal reorganisation of the buying and merchandising functions, the key supplier relationships were identified in 1996. The dozen or so major suppliers now account for some 60 per cent of the clothing offer and this percentage is expected to grow further, although there will always be room for smaller suppliers and, depending on performance, for changes in the supplier mix.

Genesis 2000

The next stage in the programme is to modernise systems which support the supply chain. This is critical for effective range and assortment planning, merchandise management at all its stages and improved availability in the stores. The introduction of these systems, using the latest state-of-the-art retail management information software packages, is a key element of the programme, Genesis 2000. In this programme all of the Group's systems, including financial and store management, will be modernised over the next three years, Bhs' and Mothercare's systems harmonised, data warehouses created and the threat of Year 2000 compliance from existing systems diminished. The total cost of Genesis 2000, including comprehensive retraining will be some £50 million over three years. Against this needs to be set the prospect of higher sales from improved ranging, availability and responsiveness to market changes. Finally we expect to achieve substantial cost savings through the elimination of manual work and duplication of functions, and above all by saving time.

Building brand value

The drive to improve Bhs sales has again been supported by active marketing, including multi-media advertising, the Choice loyalty card scheme and promotional programmes in the stores. Bhs is well known for the value it gives its customers in its everyday pricing, and we aim to enhance this reputation with seasonal and special offers.

Advertising, effective product publicity and initiatives such as sponsorship of the Graduate Fashion Week, the showcase for new design talent, also help build wider recognition of how far the quality and fashionability of Bhs merchandise has improved in recent years.

DIRECTORS' REPORT (continued)

This of course is fundamental for Bhs going forward.

Dividends

Dividends on the preference stocks have been proposed at a cost of £26,000 (1996 £26,000) this represents amounts due to Bhs (Mothercare) Holdings, the Company's immediate parent company, for 1997. No interim dividend on the ordinary shares was paid (1996 £22,479,000) and no final dividend is proposed.

Share Capital

No shares were issued during the year. Details of outstanding options are given in note 19 on page 14.

Employee Involvement

Continuing its established approach of linking employee reward with business performance, Bhs, successfully launched 'Profit from Success' profit related pay schemes for a third year.

Incentive plans related to sales performance operate in stores, rewarding individual store team performance. Senior Managers participate in annual incentive plans which are related to company profits, departmental objectives and individual performance. This is an important part of the Company's strategy to attract, motivate and retain high calibre managers, while focusing on continuing to improve business performance.

A comprehensive communication and involvement programme supports incentive plans, including the use of newspapers, face to face briefings and videos, ensuring all employees understand operations and financial progress.

The Storehouse Group considers it important that all employees should have an interest through its Share schemes in the company's shares. The company continues to take advantage of legislation which encourages further ownership. Following the approval at last year's Storehouse Annual General Meeting, of Option 2000, a share option scheme for all except the most senior employees, a further scheme will be launched to include all employees who joined the company during this financial year.

Disabled Employees

The company ensures that disabled people are given due consideration for employment opportunities, and if employees become disabled every effort is made to retain them, providing requisite employment aids. Bhs is an equal opportunities employer, recruiting and promoting employees on the basis of suitability for the job and on no other grounds.

Creditors Payment Policy

Payments are made to merchandise suppliers in accordance with the general conditions of purchase (which are communicated to suppliers) or the specific terms agreed with suppliers. It is the Group's policy to make payments to non-merchandise suppliers, unless otherwise agreed, within the period set out in the supplier's invoice.

Donations

The total amount donated for charitable purposes was £7,000 (1996 £10,000).

Directors and their interests

The directors who held office during the year were:

K Edelman	Chairman and Chief Executive
S Bedford	
N Franks	
R J Steele	Resigned 17 January 1997
C Martin	Appointed 17 January 1997
A Meehan	Appointed 13 September 1996

Under the Long Term Plan selected directors and full-time executives may, subject to the achievements of pre-defined performance criteria over a three year period, receive shares in Storehouse PLC. Storehouse Employee Trust is a discretionary trust for the benefit of employees and former employees (and their dependants) of Storehouse PLC and its

DIRECTORS' REPORT (continued)

subsidiaries. The Storehouse Employee Trust held 411,759 shares at 29 March 1997 and all the executive directors of the Company are technically deemed to be interested in the shares held by Storehouse Employee Trust as potential beneficiaries. Storehouse Employees Share Trustee Limited held 473,572 shares at 29 March 1997 (1996 - 723,841 shares). All the directors are technically deemed to be interested in the shares held by Storehouse Employee Trust as potential beneficiaries.

The share interests of the directors of the Company, who, with the exception of N Franks and A Meehan are also directors of Storehouse PLC, are disclosed in the accounts of Storehouse PLC.

The share interests of N Franks and A Meehan in Storehouse PLC are disclosed in note 19.

No director held any Mortgage Debenture Stock in the Company during the year.

Directors' Responsibilities for the Accounts

The directors are required by Company law to prepare accounts which give a true and fair view of the state of affairs of the Company and the Group as at the end of its financial year, and of the profit of the Group for the financial year. The directors are also required to ensure that adequate accounting records are maintained, which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the accounts comply with the Companies Act 1985. In preparing the accounts, the directors consider that appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements, have been used. Applicable accounting standards have been followed. After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

The directors are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

Auditors

A resolution to re-appoint the auditors, Arthur Andersen, and authorising the directors to fix their remuneration, will be proposed at the forthcoming Annual General Meeting.

By order of the Board

G A Johnson
Secretary
22 July 1997

Registered Office:

Marylebone House
Marylebone Road
London NW1 5QD

GROUP PROFIT AND LOSS ACCOUNT
For the 52 weeks ended 29 March 1997 (Note 1)

	Note	GROUP 1997 £000	GROUP 1996 £000
Turnover	2	805,984	748,951
Cost of sales		(718,537)	(671,646)
Gross profit		87,447	77,305
Administration Expenses		(14,045)	(12,201)
Profit from retail operations	3	73,402	65,104
Exceptional item	5	-	(2,852)
Net interest (payable)/receivable	6	(139)	2,322
Profit on ordinary activities before taxation		73,263	64,574
Tax on profit on ordinary activities	7	(23,695)	(17,095)
Profit for the financial year		49,568	47,479
Dividends paid and proposed on equity and non-equity shares	8	(26)	(22,505)
Retained profit for the year		49,542	24,974

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 52 weeks ended 29 March 1997

	1997	1996
Company	47,226	22,541
Subsidiary Undertakings	2,316	2,433
Profit for the financial year, being the total recognised gains and losses.	49,542	24,974

The movement on reserves is shown in note 17.

The notes on pages 6 to 15 form an integral part of these statements.

BALANCE SHEETS
at 29 March 1997 (Note 1)

	Note	GROUP 1997 £000	GROUP 1996 £000	COMPANY 1997 £000	COMPANY 1996 £000
FIXED ASSETS					
Tangible assets	9	325,547	277,055	323,399	275,769
Investments	11	-	-	1,820	1,820
		325,547	277,055	325,219	277,589
CURRENT ASSETS					
Stocks		102,390	80,625	101,524	79,931
Debtors	13	49,613	40,480	50,846	41,332
Cash at bank and in hand		39,791	35,499	9,272	6,738
		191,794	156,604	161,642	128,001
CREDITORS: Amounts falling due within one year	14	(207,752)	(183,752)	(208,256)	(184,241)
NET CURRENT ASSETS (LIABILITIES)		(15,958)	(27,148)	(46,614)	(56,240)
TOTAL ASSETS LESS CURRENT LIABILITIES		309,589	249,907	278,605	221,349
CREDITORS: Amounts falling due after more than one year					
Corporation tax	7	(297)	(259)	-	-
Landlords' contributions		(13,491)	(8,412)	(13,491)	(8,412)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(6,663)	(1,640)	(6,586)	(1,635)
NET ASSETS		289,138	239,596	258,528	211,302
CAPITAL AND RESERVES					
Called-up share capital	16	53,633	53,633	53,633	53,633
Share premium account	17	13,094	13,094	13,094	13,094
Profit and loss account	17	222,411	172,869	191,801	144,575
SHAREHOLDERS' FUNDS	17	289,138	239,596	258,528	211,302
ANALYSIS OF SHAREHOLDERS' FUNDS					
Equity interests		288,738	239,196	258,128	210,902
Non-equity interests		400	400	400	400
		289,138	239,596	258,528	211,302

Signed on behalf of the Board

K Edelman Director
C Martin Director

22 July 1997

The notes on pages 6 to 15 form an integral part of these balance sheets.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The principal accounting policies of the Group, all of which have been applied consistently throughout the year and the preceding year, are set out below.

ACCOUNTING CONVENTION - The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

BASIS OF CONSOLIDATION - The Group accounts include the accounts of the Company and all its subsidiary undertakings drawn up to the close of business on 29 March 1997.

Intercompany transactions have been eliminated on consolidation. The results of companies acquired or disposed of during the year are included from the date of acquiring control or to the date of disposal. As provided by the Companies Act 1985, the Company does not disclose its own separate profit and loss account.

STOCKS - Stocks consist substantially of goods for resale and are stated at the lower of cost and net realisable value. Cost includes an appropriate element of overhead expenditure.

LEASED ASSETS - All the Group's leased assets are under operating leases. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

DEFERRED TAXATION - Deferred taxation is provided on the excess of capital allowances over book depreciation and in respect of short-term timing differences to the extent that the directors are of the opinion that such tax will become payable in the foreseeable future.

TANGIBLE FIXED ASSETS - Tangible fixed assets are included at cost, less accumulated depreciation. Depreciation is not provided on freehold stores as it is the Group's practice to maintain these assets in a continual state of sound repair. Accordingly, the directors consider that the lives of these assets and the residual values based on prices prevailing at time of acquisition are such that any depreciation charge would be insignificant. Depreciation is charged on a straight-line basis over the following periods.

Freehold buildings (other than stores) - 50 years
Fixed equipment in freehold buildings - up to 20 years
Leasehold improvements - The shorter of 35 years and the period of the lease
Fixtures, fittings and equipment - 3 to 10 years.

Freehold land is not depreciated

PENSION COSTS - The cost of providing pensions is calculated using actuarial valuation methods which reflect the long-term costs. The amount charged to the profit and loss account is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Variations from the regular cost so calculated are allocated to the profit and loss account over the average remaining service lives of employees.

FOREIGN CURRENCY - Transactions in foreign currencies are translated into local currency at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into local currency at the rates ruling at each balance sheet date. Resulting exchange gains or losses are included in profit from retail operations.

INVESTMENTS - The Company's investments in subsidiary undertakings are stated at cost less amounts written off. Dividends receivable are credited to the Company's profit and loss account.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (continued)

TURNOVER - Group turnover comprises the value of sales (excluding sales taxes and net of discounts) of goods in the normal course of business.

CASHFLOW STATEMENT - No cashflow has been prepared because the cashflows of the Group are included in the consolidated accounts of its ultimate parent company Storehouse PLC.

2. SEGMENT INFORMATION

The group carries on a single class of business, being retailing of clothing and household goods, predominantly within the UK.

3. PROFIT FROM RETAIL OPERATIONS

Profit from retail operations of £73,402,000 (1996 £65,104,000) is stated after charging:

	1997 £000	1996 £000
Depreciation	29,864	24,562
Rent of properties	64,970	62,874
Auditors' remuneration	63	56
Staff costs (note 4)	87,215	79,823

Arthur Andersen, the Company's auditors received no payments for non audit services in 1997. (1996 £4,000).

4. DIRECTORS AND EMPLOYEES

The remuneration of the Directors in 1997 and 1996 was paid by Storehouse PLC for services to the Storehouse Group as a whole.

An analysis of the average number of full and part time employees through the Group, is as follows:

	1997 Number	1996 Number
UK Stores - Full-time	2,753	2,850
- Part-time	10,637	10,772
UK Head Office	624	587
Overseas	101	116
	14,115	14,325

Staff costs during the year amounted to:

	1997 £000	1996 £000
Wages and salaries	83,493	76,343
Social security costs	4,172	3,930
Other pension costs (notes 15 & 20)	(450)	(450)
	87,215	79,823

NOTES TO THE ACCOUNTS

5. EXCEPTIONAL ITEM

The exceptional item in 1996 represents the loss on disposal of stores relating to One Up. Assets sold as part of this transaction were also held in other Storehouse group companies. The aggregate profit on disposal is disclosed in the accounts of Storehouse PLC.

6. NET INTEREST (PAYABLE)/RECEIVABLE

	1997 £000	1996 £000
Interest payable:		
On bank loans and overdrafts	(2,060)	(732)
Interest receivable	1,921	3,054
	(139)	2,322

7. TAXATION

	1997 £000	1996 £000
The taxation charge for the year comprises:		
Current:		
UK Corporation tax	16,401	16,155
Overseas taxation	330	300
	16,731	16,455
Deferred taxation	5,473	1,233
	22,204	17,688
Adjustments in respect of prior years:		
Current taxation	1,491	(593)
	23,695	17,095

The amount of deferred tax cumulatively not provided on capital allowances is £6,466,000 (1996 £10,840,000).

Overseas tax of £570,000 is payable: £273,000 payable on 1 January 1998, is included with other tax liabilities in creditors due within one year (1996 : £221,000 payable on 1 January 1997), and £297,000 payable on 1 January 1999, is included in creditors due after more than one year (1996 £259,000 on 1 January 1998)

NOTES TO THE ACCOUNTS

8. DIVIDENDS	1997 £000	1996 £000
Dividends paid and proposed on equity and non-equity shares		
Equity Shares		
- interim paid of 105p per ordinary share	-	22,479
Non-equity Shares		
- 7% per preference share	26	26
	26	22,505

9. TANGIBLE ASSETS

The net book value of leasehold properties includes £100,004,000 (1996 £84,111,000) in respect of short leasehold properties in the case of the group and £98,894,000 (1996 £83,505,000) in the case of the Company.

No interest has been capitalised during the year (1996 £ Nil).

GROUP	Properties including fixed equipment		Fixtures, fittings and equipment	Total
	Freehold £000	Leasehold £000	£000	£000
Cost				
At 30 March 1996	7,225	222,078	233,846	463,149
Additions	49	28,741	50,397	79,187
Disposals	-	(695)	(21,927)	(22,622)
At 29 March 1997	7,274	250,124	262,316	519,714
Depreciation				
At 30 March 1996	724	48,164	137,206	186,094
Charge for the year	121	7,536	22,207	29,864
Disposals	-	(594)	(21,197)	(21,791)
At 29 March 1997	845	55,106	138,216	194,167
Net book value				
At 29 March 1997	6,429	195,018	124,100	325,547
At 30 March 1996	6,501	173,914	96,640	277,055

NOTES TO THE ACCOUNTS

9. TANGIBLE ASSETS (continued)

COMPANY	Properties including fixed equipment Freehold £000	Leasehold £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 30 March 1996	7,209	221,054	232,064	460,327
Additions	49	28,019	50,103	78,171
Disposals	-	(695)	(21,927)	(22,622)
At 29 March 1997	7,258	248,378	260,240	515,876
Depreciation				
At 30 March 1996	723	47,791	136,044	184,558
Charge for the year	122	7,475	22,113	29,710
Disposals	-	(594)	(21,197)	(21,791)
At 29 March 1997	845	54,672	136,960	192,477
Net book value				
At 29 March 1997	6,413	193,706	123,280	323,399
At 30 March 1996	6,486	173,263	96,020	275,769

10. CAPITAL COMMITMENTS

	1997 £000	1996 £000
Capital commitments are as follows:		
Contracted for but not provided for - Company and Group	1,633	10,784

11. INVESTMENTS

	Company 1997 £000	1996 £000
Subsidiary undertakings (note 12)	1,820	1,820

OTES TO THE ACCOUNTS

2. SUBSIDIARY UNDERTAKINGS

Shares in subsidiary undertakings	Company	
	1997	1996
	£000	£000
At beginning of year	1,820	1,821
Amounts written off during the year	-	(1)
At end of year	1,820	1,820

At the balance sheet date the company holds directly or indirectly 100% of the ordinary share capital of the following subsidiary undertakings, which are registered in England and Wales unless otherwise stated:

Trading Companies

Bhs (Jersey) Limited
(incorporated in Jersey)

Mothercare (Jersey) Limited
(incorporated in Jersey)

Non-trading Companies

The One and Only Clothes Co. Limited

British Home Stores Limited

Irish Home Stores Limited
(incorporated in Republic or Ireland)

Scottish Home Stores Limited

Henry's Basement Limited

BHS SA
(incorporated in Spain)

BhS Limited
(incorporated in Hong Kong)

BHS UNIVERSAL LIMITED
(formerly One Up Retail Limited)

13. DEBTORS

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	25,381	17,025	25,379	17,023
Amounts owed by other group undertakings	1,410	1,555	2,854	2,600
Other debtors	9,900	7,123	9,900	7,090
Prepayments and accrued income	12,175	8,168	11,966	8,010
	48,866	33,871	50,099	34,723
Amounts falling due after more than one year:				
Amounts owed by CSC Computer Sciences Ltd	-	5,695	-	5,695
Other debtors	747	914	747	914
	747	6,609	747	6,609
	49,613	40,480	50,846	41,332

NOTES TO THE ACCOUNTS

14. **CREDITORS: Amounts falling due within one year**

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Bank overdraft	68,427	23,881	68,427	23,881
Trade creditors	46,064	44,968	46,056	44,968
Amounts owed to other group undertakings	19,022	24,265	19,320	24,475
Taxation and social security	22,810	40,050	23,123	40,410
Other creditors	1,092	1,366	1,052	1,318
Accruals	44,695	45,802	44,636	45,769
Landlords' Contributions	5,616	3,420	5,616	3,420
Proposed Preference Dividend	26	-	26	-
	207,752	183,752	208,256	184,241

15. **PROVISIONS FOR LIABILITIES AND CHARGES**

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Pensions	-	450	-	450
Deferred taxation	6,663	1,190	6,586	1,185
	6,663	1,640	6,586	1,635

Pensions

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
At beginning of year	450	900	450	900
Utilised during the year	(450)	(450)	(450)	(450)
At end of year	-	450	-	450

Deferred taxation

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
At beginning of year	1,190	(43)	1,185	(52)
Charged to profit and loss account	5,473	1,233	5,401	1,237
At end of year	6,663	1,190	6,586	1,185

The deferred taxation provision comprises:

Provision in respect of:

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Capital allowances	10,753	5,000	10,681	5,000
Other timing differences	(4,090)	(3,810)	(4,095)	(3,815)
	6,663	1,190	6,586	1,185
The further potential liability is: Capital allowances	6,466	10,840	6,466	10,840
	13,129	12,030	13,052	12,025

NOTES TO THE ACCOUNTS

16. CALLED-UP SHARE CAPITAL

	Authorised	Issued and fully paid	
		1997	1996
	£000	£000	£000
Attributable to equity interests:			
Ordinary shares at 25p each	60,000	53,233	53,233
Attributable to non-equity interests:			
400,000 7% cumulative preference shares at £1 each	400	400	400
	60,400	53,633	53,633

Holders of the preference shares are entitled to a fixed cumulative preferential dividend of 7% per annum. On winding up of the Company holders of the preference shares are entitled to repayment of the capital amount together with any arrears or accrual of the preference dividends in priority to any payment on any other class of share.

SHARE OPTIONS

The Bhs Savings-Related Share Option Scheme

Options granted under this scheme since August 1986 have been for shares in Storehouse PLC and not in the Company. There are no outstanding options granted under this scheme for shares in the Company.

17. RESERVES

	Group £000	Company £000
Share premium account		
At 30 March 1996 and 29 March 1997	13,094	13,094

STATEMENT OF RETAINED PROFITS

	Group £000	Company £000
Retained profits at beginning of the year	172,869	144,575
Profit for the year	49,568	47,252
Dividends paid and proposed	(26)	(26)
Retained profit at end of the year	222,411	191,801

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	Group 1997 £000	Group 1996 £000
Shareholders' funds at beginning of the year	239,596	214,622
Profit for the year	49,568	47,479
Dividends paid and proposed	(26)	(22,505)
Shareholders' funds at end of the year	289,138	239,596

NOTES TO THE ACCOUNTS

18. LEASING COMMITMENTS

Current annual rental commitments under operating leases are as follows:

	Group 1997 £000	Group 1996 £000
Property:		
Leases which expire - within 1 year	-	55
- between 2 and 5 years	151	139
- over 5 years	67,360	62,319
	67,511	62,513
Non Property:		
Leases which expire - within 1 year	2,641	2,113
- between 2 and 5 years	2,247	4,301
- over 5 years	-	-
	4,888	6,414
	72,399	68,927

19. DIRECTORS' INTERESTS

The share interests of the directors of the company, who, with the exception of N Franks and A Meehan, are also directors of Storehouse PLC, are disclosed in the accounts of Storehouse PLC.

The share interests of N Franks and A Meehan in Storehouse PLC are as follows:

	Ordinary Shares Under Option 1997 Number	Ordinary Shares Under Option 1996 Number	Date of Grant	Option Price
N Franks	96153	96153	May 94	208p
	75757	75757	May 95	264p
	8136	8136*	June 95	212p
	33123	-	June 96	317p
A Meehan	39800	39800	Nov 93	201p
	81730	81730	May 94	208p
	10329	10329*	June 94	167p
	41666	41666	May 95	264p
	34700	-	June 96	317p

*SAYE

All options were granted under the Storehouse Executive Share Option Scheme and are exercisable between three and ten years after the date of grant.

NOTES TO THE ACCOUNTS

20. PENSION COSTS

Employees of the Company are members of the defined benefit pension schemes operated by the Storehouse Group for its UK employees. The majority of the assets of each of the schemes are held in a separate trustee Common Investment Fund.

The pension costs relating to the schemes were assessed in accordance with the advice of qualified actuaries using primarily the projected unit and current unit methods. The latest actuarial valuations were carried out on 1 April 1994 and a further valuation is being carried out effective 1 April 1997.

The assumptions which have the most significant effect on the results of the valuations are set out below:

Rate of return on investments	9%
Rate of increase in salaries	7% - 8%
Rate of increase in pensions	4.5%

The aggregate market value of the investments at 1 April 1994 was £292.6 million and the actuarial values were sufficient to cover between 130 percent and 165 percent (average 138 per cent) of the benefits that had accrued to members after allowing for expected future increases in earnings.

The total pension cost for the Group includes a credit of £7,279,000 (1996 £6,994,000) in respect of the amortisation of pension surpluses arising in prior years which are now being allocated over the remaining service lives of employees of between 6 and 16 years.

For the protection of members' interests, the Group has appointed three trustees, two of whom are independent of the Company. To maintain this independence, the Trustees and not the Group, are responsible for appointing their own successors.

21. RELATED PARTY TRANSACTIONS

As a subsidiary of Storehouse plc, the Company has taken advantage of the exemption in FRS8 "related party disclosures" not to disclose transactions with other members of the group headed by Storehouse plc.

22. CONTINGENT LIABILITY

Under the group banking arrangement the Company is a party to set off against other Storehouse Group member bank accounts. The Company is also party to a Storehouse Group VAT registration.

23. ULTIMATE PARENT COMPANY

The Company is a subsidiary undertaking of Storehouse PLC, which is the Company's ultimate parent company and is registered in England and Wales.

The largest group which consolidates the results of the Company and its subsidiary undertakings is that headed by Storehouse PLC. The smallest group in which the results of the Company are consolidated is that headed by Bhs plc. The consolidated accounts of Storehouse PLC are available to the public and may be obtained from Marylebone House, Marylebone Road, London.

AUDITORS' REPORT

To the shareholders of Bhs plc

We have audited the accounts on pages 4 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 3 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 29 March 1997 and of the Group's profit for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London WC2R 2PS

22 July 1997