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BRITISH HOME STORES



REPORT AND ACCOUNT
1984-1985



About British Home Stores

British Home Stores began trading in London in 1928, with small stores in East Ham and Peckham. By the end of its first year it had increased its outlets to 5. A wide range of merchandise was offered, embracing products from clothing to household goods including lampshades, all with the slogan "from 3d to 5s"

In December 1932 it became a public company. With steady but continuous growth it was operating from 60 stores throughout England and Wales by the time war broke out in September 1939. Food and cafeterias were added to the original merchandise formula, and since the war growth has continued in many forms.

Today British Home Stores trades in 128 stores in the High Streets of major towns and cities throughout the United Kingdom and in Dublin and St. Helier. Over the years stores have become larger and on average now have nearly 25,000 sq ft of selling area, although many are considerably larger than that, and many include a food hall and/or a restaurant. In total we operate 60 food halls and 73 restaurants of varying sizes.

In addition to the BHIS stores, we have a joint interest with J. Sainsbury PLC through our associate company SavaCentre which now operates 6 hypermarkets, 5 of which are in England and 1 in Scotland.

In 1974 we opened a national distribution centre at Atherstone in Warwickshire which distributes the vast majority of our goods to all stores.

At 57 years of age, BHIS has grown to be a nationally known brand name synonymous with style, quality and reliability at attractive prices. We are the UK market leaders in lighting products and millinery with a substantial market share in childrenswear, womenswear, household textiles and some food products, particularly cheese and bacon. Our restaurants too are held in high regard and obtain a good share of the 'eating out' market.

Contents

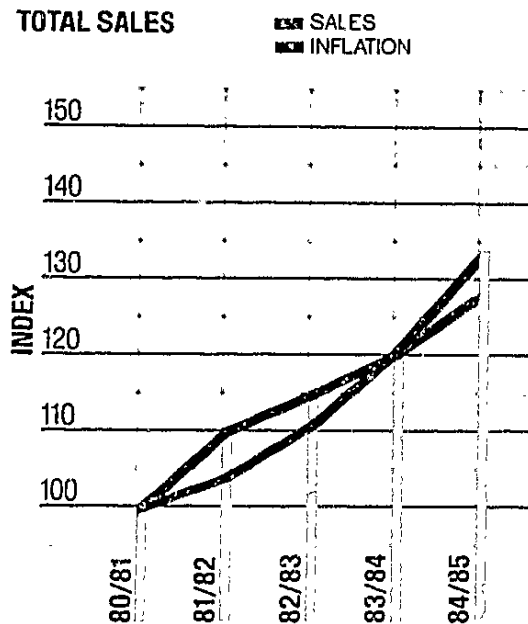
Financial highlights	1
Management	2
General information	2
Chairman's statement	3
Review of operations	6
Commentary on meetings	11
Directors' report	12
Summary of financial results	14
Summary of retail statistics	15
Consolidated profit and loss account	16
Balance sheets	17
Consolidated source and application of funds	18
Notes to the accounts	19
Report of the auditors	28
Shareholder information	Inside back cover



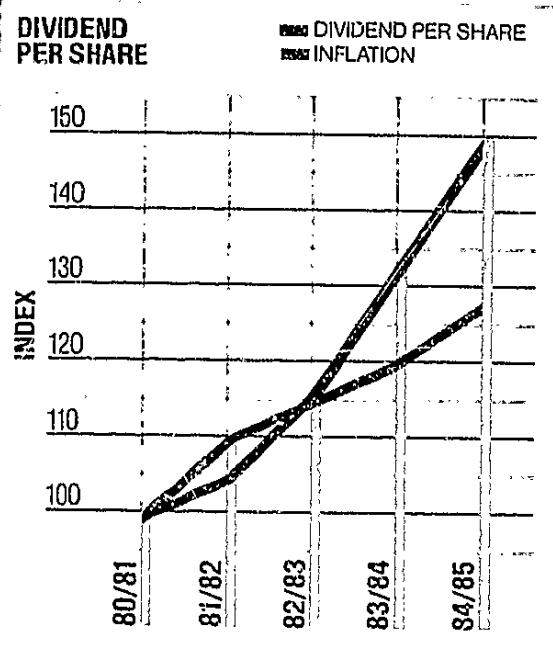
52 weeks to 30 March 1985

	1985 £000	1984 £000	Change %
Turnover (including value added tax)			
Merchandise	486,124	434,762	+11.8
Food	88,277	81,099	+8.9
Restaurant	34,180	30,989	+10.3
	<u>608,581</u>	<u>546,850</u>	+11.3
Turnover (excluding value added tax)	550,444	494,394	+11.3
Profit on ordinary activities before taxation	60,981	55,193	+10.5
Profit on ordinary activities after taxation	37,647	34,009	+10.7
Funds generated from operations	71,653	64,547	+11.0
Capital expenditure	<u>60,553</u>	<u>34,924</u>	+73.4
Earnings per ordinary share	18.1p	16.4p	+10.4
Dividend per ordinary share	<u>6.75p</u>	<u>6.00p</u>	+12.5

TOTAL SALES



DIVIDEND PER SHARE



Management

Directors

Sir Maurice Hodgson *Chairman*
 D. P. Cassidy *Managing Director*
 J. F. Power *Deputy Managing Director*
 Sir Harold Atcherley *Non Executive*
 C. J. Kerr *Projects*
 The Rt Hon The Earl of Lashburne *Non Executive*
 F. H. W. Laster *Merchandise*
 N. McArthur *Merchandise*
 C. B. Williams *Steel Fabrications and Restaurants*

Divisional directors

J. N. Gilder *Secretary*
 A. G. Anderson *Personnel*
 D. T. Barlow *Food*
 F. A. Cokayne *Marketing*
 P. Diamond *Distribution and Management Services*
 J. R. Hobson *Merchandise*
 D. H. Maynard *Exports*
 R. A. Nethercott *Store Planning and Development*
 A. T. Newman *Merchandise*

Directors. Standing, left to right
 Mr C. B. Williams, Mr C. J. Kerr,
 Mr N. McArthur, Mr F. H. W. Laster
Seated, left to right Sir Harold
 Atcherley, Mr D. P. Cassidy,
 Sir Maurice Hodgson, Mr J. F. Power,
 Lord Lashburne



General information

Bankers

Barclays Bank PLC

Solicitors

Clifford-Turner
 Field Fisher & Martineau

Auditors

Peat, Marwick, Mitchel & Co.

Registrars and transfer office

Hill Samuel Registrars Limited,
 6, Greencoat Place,
 London SW1P 1PL

Registered office

Marylebone House,
 129-137 Marylebone Road,
 London NW1 5QD



Divisional Directors. Standing, left to right Mr R. A. Nethercott, Mr A. G. Anderson, Mr F. A. Cokayne,
 Mr D. H. Maynard, Mr J. R. Hobson.
Seated, left to right Mr P. Diamond,
 Mr A. T. Newman, Mr J. N. Gilder,
 Mr D. T. Barlow

STARKMAN'S STATEMENTS

In the year ended 30 March 1985 sales increased by 11.3% to £609m and profits increased by 10.5% to £61m. After providing for Corporation Tax this year's profit is equivalent to earnings per Ordinary Share of 18.1p compared with 16.4p last year. The Board is recommending an increase in the final dividend to 5p per share, giving a total for the year of 6.75p, an increase of 12.5% over last year. On this basis dividend would remain more than twice covered.

The sales increase was the best for some years and was shared by all product groups. Whilst economic conditions during the year were generally favourable to retailing, this nevertheless represents an encouraging improvement in performance. We have continued to maintain tight control over costs.

Progress towards attaining our key marketing objectives has continued, primarily as a result of accelerated product development. We have continued to invest at a high rate in the acquisition of new stores and in the extension and refurbishment of existing stores. Capital expenditure for the year was £60m against £35m in the previous year, an increase which demonstrates continuing commitment to these aspects of our outlet strategy.

It is encouraging to note that we have established consistently improving trends in performance now for three successive years. There is no single measure of performance, but sales both by value and volume, have grown at an increasing rate year by year. Similar trends have been established in terms of sales per unit of selling space, sales per head of stores staff and sales per unit of stock. These improvements have been achieved whilst reducing the number of Head Office staff each year. Our trading profits relative to sales continued to improve. Shareholders have benefited from an improved financial rating in the market place and from the growth in earnings per share, which has permitted dividend increases of 11%, 14% and 12½% respectively in the last three years. These trends and the accelerating rate of capital investment provide a powerful base from which to launch this year's further profit improvement programme. We are confident our marketing strategy will enable us to continue to meet the increasing pressures of High Street competition and that our strong financial base will enable us to take full advantage of development opportunities. We look forward to a period of sustained profitable growth ahead.

Two external issues cause some concern. In Scotland we appear to be facing massive increases in rates which, by adding to the burden of overhead costs, must inhibit the physical expansion through which new jobs are created. We are also experiencing increased shop theft throughout the country. This has now risen to



an alarming extent and major steps have been taken to combat it. Nevertheless, it presents a major obstacle to providing value for money products in an attractive and friendly environment.

Four Directors - Mr. C. W. Paterson, Mr. R. W. Burgess, Mr. N. T. Griffin, and Mr. T. N. Lenthall - retired during the year. I would like to thank them all for their major contributions to the Company over many years and to wish them long and happy retirements. In August last year Mr. D. P. Cassidy was appointed Managing Director and Mr. J. E. Power was appointed Deputy Managing Director. Steps have been taken to strengthen management at the level immediately below Main Board through the appointment of five Divisional Directors and I take particular satisfaction that four of them are internal promotions.

Notices of our Annual General Meeting and an Extraordinary General Meeting to be held on 3 July 1985 appear as separate inserts to this Report and Accounts. On page 11 brief explanations are given of certain resolutions which it is proposed to put to shareholders at these meetings.



Maurice Hodgson

MAURICE HODGSON
7 May 1985

Some of our fresh food and stylish
new products



OF OPERATIONS

Trading conditions throughout the year were favourable for most retailers with a well sustained increase in consumer spending. However, the Miners' strike had an increasingly adverse impact, and this was pronounced in a number of northern regions. Increasing economic uncertainty in the first quarter of 1985 had a temporary depressing effect on retail sales and fluctuating interest rates and sterling exchange rates had to be accommodated in our buying programmes.

The sales performance of £609m showed an increase of 11.3% with merchandise (clothing and household) ranges ahead by 11.8%, restaurants by 10.3% and food by 8.9%. Of this increase, new space accounted for 2.5% with restaurants the biggest beneficiary.

In merchandise, clothing performed best with ladies underwear, ladies leisurewear and fashion outerwear achieving greatest growth, but with childrenswear only marginally behind. All of these product groups had year on year increases of around 20% or more.

In the non-clothing area, footwear performed very strongly, again with a sales increase of more than 20% and whilst lighting achieved the average year on year increase, the volume of lighting sales emphasises the consistent strength of the BHS product

range. In three consecutive weeks prior to Christmas the lighting department produced sales in excess of £2m per week.

During the year, we introduced jewellery into six stores on a trial basis, and having met our performance criteria, this range will be extended shortly to further stores. Financial Services in the shape of a BHS/Boston money shop are also planned for introduction into 7 stores during the year, with the first three opening in Glasgow, Harlow and Bolton early in the new trading year.

Further progress was made in the conversion of product ranges to BHS own brand and this led to the discontinuation of house plants, electronics and branded toiletries with the latter being replaced by three BHS exclusive ranges. 1985/86 will bring some redistribution of selling space to reinforce our push for increased market share in clothing.

Although food sales performance in the second half slowed slightly from that recorded at the halfway mark, it was nevertheless our best performance for some years at a little under 9% increase. The lower second half was due partly to the reduction in price promotional schemes, the impact of the Miners' strike in the north and a general slowing down in consumer demand in the



Examples of elegant new designs being introduced to stores
Top the food hall in Bromley
Middle and bottom the Patio Restaurant and Coffee Shop in Edinburgh

final quarter. Within food, there were some outstanding successes particularly Natural foods which were introduced during the year and frozen foods, wine and pre-packed cooked meats, where extensive new ranges of products were introduced during the year. All of these product groups as well as fruit and vegetables and fresh meat recorded sales increases in excess of 15%.

The strong restaurant performance was helped more by additional space than any other product group, but the success of the newly introduced coffee shops and Country Table restaurants, are an indication that our latest developments are particularly successful.

As a result we increased our market share in all groups through real sales growth of over 8% in M & R and 4% in F averaging over 7%.

During the year, new stores were opened in Ayr, Carlisle, Cheltenham and Canterbury, whilst there were major extensions at Edinburgh and Milton Keynes.

New food halls were opened in Milton Keynes, Leeds, Carlisle, Cheltenham and Canterbury; restaurants in Ayr, Carlisle, Cheltenham, Canterbury and Edinburgh with coffee shops in Edinburgh and Glasgow and these provided an extra 100,000 sq ft to merchandise, 22,000 sq ft to food and 24,000 sq ft to restaurant selling areas.

In addition 13 stores were refurbished bringing the total in our new format to 26 – roughly 20% of the chain.

Given our cash flow position, the capital expenditure of £60m can be comfortably maintained and our plans for 85/86 include new stores in Cardiff and Leicester to replace our existing stores, major extensions at Belfast, Chester, Grimsby, Hull, Wolverhampton and York and 15 refurbishments. These will provide a further 110,000 sq ft – 87,000 sq ft to merchandise, 6,000 sq ft to food and 17,000 sq ft to restaurant, whilst bringing the number of stores in our new format to just under 50.

In our repositioning of BHS we have been assisted by three external consultancies with whom we have major involvement: Management Horizons – in the market analysis and repositioning studies,

Conran Associates – in non-food product development,

Stewart McColl Associates – in the store design and refurbishment.

The evidence emerging from our market studies clearly reveals changing customer needs and perceptions and it is in response to this that our work is devoted. There is abundant evidence in the High Street that the successful retailers are responding to similar pressures and the pace of competition is increasing. We believe that product development is central to success and as part of our attempts to accelerate this we held a Suppliers' Conference during the year, to which our 100 leading suppliers, representing



Examples of elegant new designs being introduced to stores.

Top the food hall in Bromley;
Middle and bottom the Patio
Restaurant and Coffee Shop in
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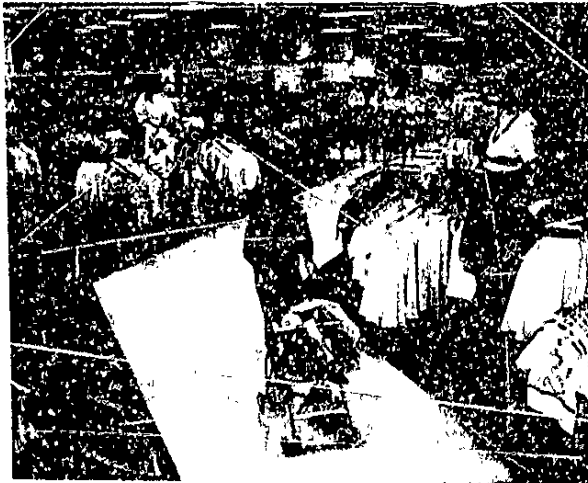
Wide walkways and carpeted sales areas are part of our new, appealing and contemporary environment.

more than 50% of all our purchases, were invited. They are now fully informed and supportive.

Internally we created a new product studio to enable us to bring product stories and developments together and stimulate further progress.

Reference has already been made to the planned redistribution of space which itself derives from the need to match our product offering as closely as possible to customer demands, particularly in those stores where we have a shortage of space. Whilst the Outlet Strategy is being pursued vigorously to create appropriate space to match local market spends, it is clear we will fall short of the optimum space in a number of stores for some time. The key indicator of our improving performance will be increasing sales per sq ft., and plans are in hand to convert more of our existing High Street space to selling.

Stock turn continues to improve and is another manifestation of the development work in information technology of recent years. We have now added a view data link with a number of suppliers in an attempt to shorten distribution lead times. Meanwhile we have secured a second site both to provide for emergency contingency cover for our existing data processing network whilst providing adequate capacity for increasing use of the latest I.T. techniques.



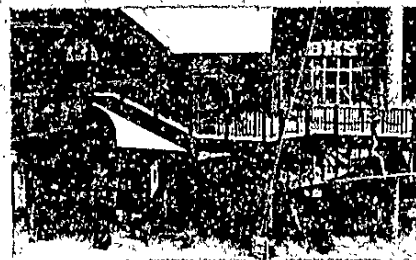
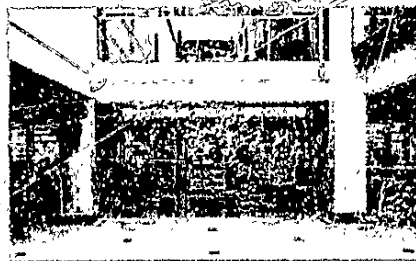
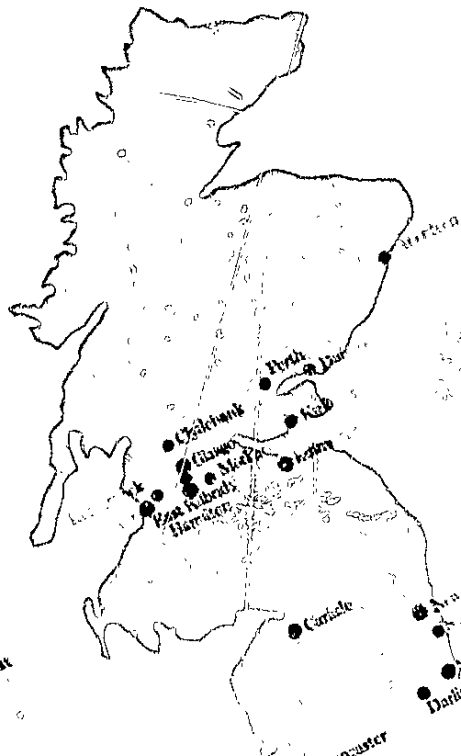
This work has contributed to our progress in improving employee productivity and the sales gains recorded have been accommodated as has the extra space created, with only a marginal increase in numbers employed - less than 1%. Improving staff productivity will receive continuing priority in 1985/86.

During the year we took steps to strengthen our management team whilst reducing numbers overall and a total of nine senior members were recruited to our buying teams. Five new Divisional Directors were appointed who will serve on the Executive Committee and, of these, four are internal promotions, and one an external recruitment for a new role of Divisional Director: Marketing.

The development of our existing staff at all levels is a major activity. We continued with our Senior Management Programme at the London Business School and with a middle management programme at Templeton College Oxford. Internally we ran a whole series of middle management, junior management and staff programmes. In a highly competitive world we shall continue to protect and develop this crucial management resource.

It is confidently expected that the Government will repeal the 1950 Shops Act during the year and the Sunday Trading that

**Our four new stores
At Carlisle, Cheltenham and
Canterbury**



- BHS Stores
(●in the new style)

- Berwick Heath
 ● Brent Cross
 ● Brynaton
 ● East Ham
 ● Hickey
 ● Harlow
 ● Hounslow
 ● Huddersfield
 ● Kingston
 ● Kilmarnock
 ● Leamington

Formal notices of the Annual General Meeting and an Extraordinary General Meeting are given on separate inserts to the Report and Accounts. Set out below are the directors' reasons for proposing some of the resolutions which will be submitted to these meetings.

Directors' Fees

The remuneration of the non-executive directors has been eroded by inflation since the maximum per individual was fixed at £7,500 per annum in 1979. To allow their remuneration to be set at a level consistent with their contribution to the business and to give scope for possible future increases, a special resolution will be proposed at the annual general meeting providing for them to be paid up to a maximum per individual of £15,000 per annum.

Companies Act 1980

At last year's annual general meeting, shareholders gave the directors authority to allot shares in, or convertible securities of, the Company, as provided for by the Companies Act 1980, up to a limit which would be reviewed for renewal each year. At that meeting, the shareholders also gave the directors authority to allot equity securities as if section 17 (1) of that act (which gives shareholders certain pre-emption rights on the issue of shares or convertible securities) did not apply to such allotment, this power being restric-

ted to rights issues to ordinary shareholders and also to other allotments up to a limit, which would be reviewed for renewal each year. Shareholders will be asked to pass resolutions numbered 7 and 8 at the annual general meeting to renew these authorities.

Employee Share Schemes

Changes in the legislation and practice here and abroad and in the guidelines laid down by the institutional investors with regard to these schemes have meant that the rules originally adopted by the Company are in some instances more restrictive than current general practice and in others do not take full advantage of the tax relief available.

The directors therefore would like to introduce a new Share Participation Scheme for BHS (Dublin) Limited to take the place of the Scheme approved at the extraordinary general meeting held in 1977 so far as those employees are concerned, and to make various changes to the BHS Employees 1981 Share Participation Scheme, the BHS Savings-Related Share Option Scheme and the BHS 1984 Share Option Scheme. A letter is enclosed explaining the amendments which are proposed, and giving notice of the extraordinary general meeting and the resolutions which will be submitted to it immediately after the annual general meeting.

The directors submit their report on the accounts for the fifty-two weeks to 30 March 1985.

Review of the business

The group's principal activity continues to be that of retailers through variety chain stores throughout the United Kingdom and in Ireland and Jersey.

Sales for the year of £608.6m were 11.3 per cent higher than last year. The operating profit of £61.0m showed an increase of 10.5 per cent. The charge for taxation of £23.4m represents 38.3 per cent of profits compared with 38.4 per cent for the previous year. The profit for the year after taxation was £37.6m.

An interim dividend of 1.75p per ordinary share and dividends on the preference stocks have been paid at a net cost of £3.6m.

The directors recommend that a final dividend of 5.0p per ordinary share be paid on 8 July 1985 to those shareholders whose names are recorded in the register at the close of business on 7 June 1985. This dividend requires £10.4m leaving £23.6m to be added to reserves. The total ordinary dividend will absorb £14.0m of the profit after taxation.

Comments on the trading activities underlying these results and on proposed future developments are contained in the Review of Operations.

The BHS 1984 Share Option Scheme

At the extraordinary general meeting held on 4 July 1984, an ordinary resolution was passed adopting the BHS 1984 Share Option Scheme, under which executive directors and senior executives may be granted options to purchase ordinary shares in the company. Certain minor amendments to the BHS Share Option Scheme, which was adopted in 1980 and is expected to remain in suspense as to any further granting of options, were also approved.

Share capital

During the year 621,879 shares were issued under the BHS Employees Share Participation Schemes and on exercising of options, and 215,244 shares were issued on conversion of 9% unsecured loan stock 1992. Details of the issues and of the Share Option Schemes are given in note 19 on page 27.

No substantial interest in the ordinary share capital of the company has been reported by any member.

The following substantial interests have been reported by members in the 7% cumulative preference capital of the company:

Pearl Assurance Company PLC	20,000 stock units
The National Farmers Union	
Mutual Insurance Society Limited	28,000 stock units
G.R.E. Nominees Limited	45,800 stock units
Guardian Royal Exchange Assurance PLC	29,600 stock units

Tangible assets

An independent valuation on an open market for existing use basis of the group's freehold and leasehold properties in the United Kingdom and Channel Islands, with the exception of two stores which the company is in the course of selling, was carried out by Messrs Hillier Parker May & Rowden, Surveyors and Valuers, as at 31 March 1985. This valuation amounted to £156,582,500. After deductions made by the directors for £2,752,000 in respect of outstanding building works and after adding the directors' valuation of the two other stores and the group's properties in the Republic of Ireland amounting to £8,025,000, the resultant asset value is £161,855,500. This valuation produces a surplus of £19,670,500, which has not been taken into the accounts.

Directors

The present directors of the company, whose names are stated on page 2, served as directors for the whole of the financial year. Mr. R. W. Burgess retired on 4 July 1984, having been a director since 1968, Mr. C. W. Paterson retired on 19 August 1984, having been a director since 1960, Mr. N. T. Griffin retired on 2 November 1984, having been a director since 1968 and Mr. T. N. S. Lenthall retired on 31 July 1984, having been a director since 1970.

In accordance with the provisions of article 107 of the company's articles of association Sir Maurice Hodgson and Mr. C. J. Kerr retire as directors and, being eligible, offer themselves for re-election. Neither of these directors has a service contract of more than one year's duration.

Employee Involvement

For many years the group has been active in the field of employee communications and involvement which we believe to be essential in the successful running of our business.

The developments referred to last year have continued. The role of the Consultative Committees at each of the group's locations has been strengthened and the training for our managers is continuing.

We were gratified that the Industrial Participation Association gave our work a Commendation in their 1984 Participation Awards. This recognition was an endorsement of our achievements and an encouragement for the future.

During the year, the house magazine and new videos have made a continuing contribution to communicating the changing stance of our company to the widest possible audience within the group.

Auditors

A resolution to re-appoint the auditors, Peat, Marwick, Mitchell & Co., and authorising the directors to fix their remuneration, will be proposed at the forthcoming annual general meeting.

Directors' interests

The directors' interests in the company's shares and stock at 30 March 1985 were as follows:

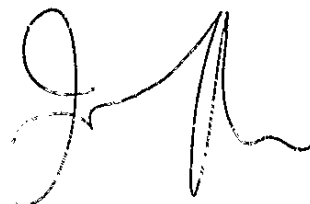
Beneficial interest	Ordinary shares		7% Cumulative preference stock		9% Convertible loan stock		Ordinary shares under option*	
	1985	1984	1985	1984	1985	1984	1985	1984
	Shares	Shares	£	£	£	£	Shares	Shares
Sir Maurice Hodgson	1,000	1,000					87,484	87,484
D.P. Cassidy	5,202	4,598			382	382	96,473	93,870
J.F. Power	2,719	2,069			250	250	77,189	77,000
Sir Harold Atcherley	2,165	2,165	100	100				
C.J. Kerr	7,804	7,295					96,473	93,870
The Earl of Lisburne	35,680	35,680	100	100	4,172	4,172		
F.H.W. Lister	2,252	1,826			85	85	87,749	63,870
N. McArthur	1,278	861					82,965	61,147
C.B. Williams	1,865	1,491			69	69	84,213	60,008

* Options granted under the BHS Share Option Scheme and the BHS Savings-Related Share Option Scheme.

No director held any mortgage debenture stock in the company during the year. There have been no changes in the directors' interests in the company's shares and stock from 31 March to 7 May 1985.

During the year no director was materially interested in any contract which was significant in relation to the company's business.

London, 7 May 1985



By order of the board
J. N. Gilday
Secretary

Disabled Employees

The group continues to do all that is practicable to meet its responsibility to employ disabled persons. It is the group's policy to give due consideration to applications for employment from disabled persons, having regard to their aptitudes and abilities. Continued employment and training of an employee who becomes disabled while employed by the group will be influenced by what is medically and practically in the best interests of the individual. Training and promotion of a disabled employee will be appropriate to the job and career in the business.

Donations

The total amount donated for charitable purposes was £109,800. A contribution of £1,000 was made to British United Industrialists.

Taxation status

The company is not a close company as defined in the Income and Corporation Taxes Act 1970.

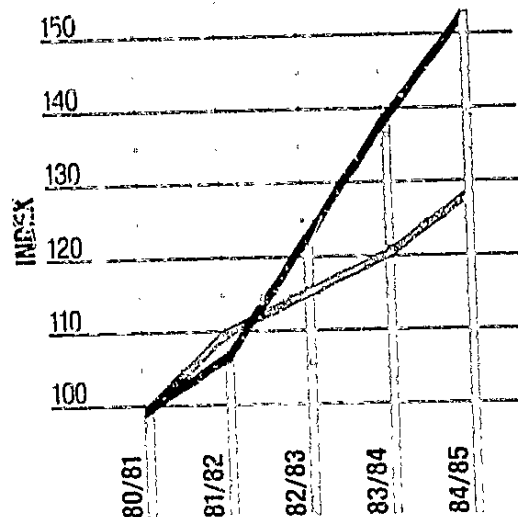
Current Cost Accounts

In view of the uncertainty surrounding the future of inflation accounting and in common with many other companies, the directors have decided not to present current cost accounts, which in their opinion do not enhance the understanding of the group's activities.

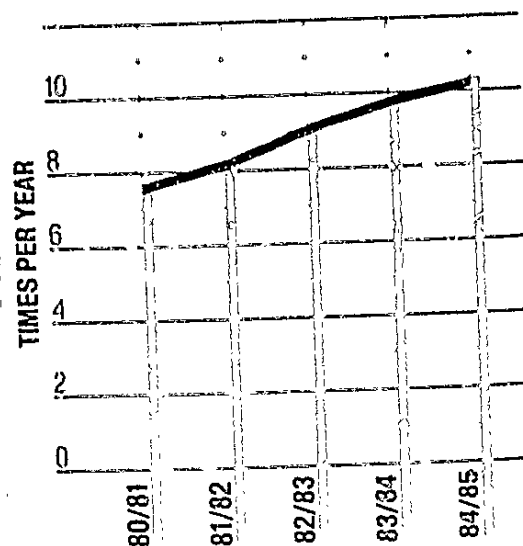
	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
Turnover (including value added tax)					
Merchandise	350,653	366,198	394,301	434,762	466,124
Food	74,929	78,134	78,884	81,099	88,277
Restaurant	26,643	27,308	29,544	30,989	34,180
Total	452,225	471,640	502,729	546,850	588,581
Turnover (excluding value added tax)	410,099	427,563	455,681	491,394	550,444
Trading profit	40,549	39,669	42,783	48,036	54,026
Share of profit of related companies	229	1,506	4,001	4,390	4,855
Interest receivable	1,916	4,182	4,730	5,340	4,675
Interest payable	(3,036)	(2,795)	(2,640)	(2,623)	(2,575)
Profit on ordinary activities	39,653	42,562	48,874	55,193	60,981
Tax on profit on ordinary activities	12,052	15,765	21,711	21,184	23,394
Profit on ordinary activities after taxation and before extraordinary items	27,606	26,797	27,163	34,009	37,647
Extraordinary items		311		(2,734)	
Profit for the financial year	27,606	27,108	27,163	31,275	37,647
Dividend per ordinary share	4.5p	4.75p	5.25p	6.0p	6.75p
Earnings per ordinary share	13.5p	13.0p	13.2p	16.4p	18.1p

PRE-TAX PROFIT

PRE-TAX PROFIT
INFLATION



STOCKTURN



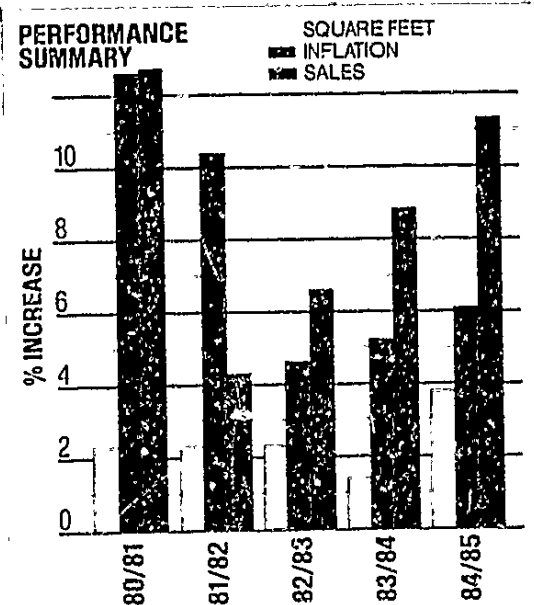
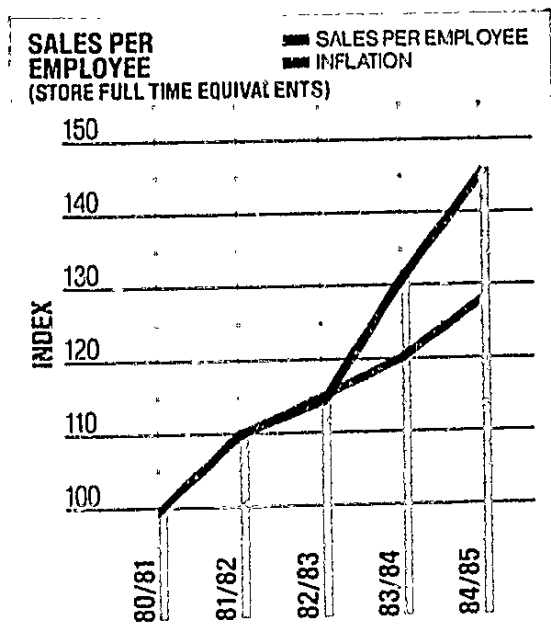
	1981	1982	1983	1984	1985
Sales area at year-end (000 square feet)					
Merchandise	2,392	2,451	2,505	2,535	2,613
Food	203	211	211	209	226
Restaurant	259	264	276	289	309
Total	2,859	2,926	2,992	3,033	3,148

Stores opened in the year	Eastbourne	Redditch Peterborough Motherwell Guildford*	Fareham Harlow Woking	Bexleyheath	Ayr Carlisle Cheltenham Canterbury
*Lighting shop					

Number of stores at year-end	116	120	123	124	128
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Average number of employees					
Stores	24,791	23,444	23,489	22,310	22,613
Head Office & Atherstone	1,826	1,795	1,771	1,775	1,741
Total	26,617	25,239	25,260	24,085	24,354

Store full-time equivalents	13,612	12,860	13,120	12,516	12,555
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	Note	1985 £000	Group 1984 £000
Turnover (including value added tax)		608,581	546,850
Value added tax		<u>58,137</u>	<u>52,456</u>
Turnover (excluding value added tax)		550,444	494,394
Cost of sales		<u>481,219</u>	<u>435,640</u>
Gross profit		66,225	58,754
Administrative expenses		<u>12,199</u>	<u>10,668</u>
Trading profit	2	54,026	48,086
Share of profit of related companies		4,855	4,350
Interest receivable		4,675	5,340
Interest payable	4	<u>(2,575)</u>	<u>(2,623)</u>
Profit on ordinary activities before taxation and extraordinary items		60,981	55,153
Tax on profit on ordinary activities	5	<u>23,334</u>	<u>21,184</u>
Profit on ordinary activities after taxation and before extraordinary items		37,647	34,009
Extraordinary items	6	<u>—</u>	<u>(2,734)</u>
Profit for the financial year		37,647	31,275
Dividends	7	<u>14,045</u>	<u>12,438</u>
Retained profit for the year		<u>23,602</u>	<u>18,839</u>
Earnings per ordinary share	8	<u>18.1p</u>	<u>16.4p</u>

The notes on pages 19 to 28 form part of these accounts.

Parent			Group	
1984	1985		1985	1984
£000	£000		£000	£000
164,229	208,534	Fixed assets		
25,402	31,602	Tangible assets		
<u>189,631</u>	<u>240,136</u>	Investments		
56,371	59,312	Current assets		
8,601	9,079	Stocks		
70,213	42,873	Debtors		
<u>135,185</u>	<u>111,264</u>	Cash at bank and in hand		
81,181	87,916	Creditors: amounts falling due within one year		
<u>54,004</u>	<u>23,348</u>	Net current assets		
243,635	263,484	Total assets less current liabilities		
28,674	28,236	Creditors: amounts falling due after more than one year		
15,778	16,495	Loan capital		
		Corporation tax		
2,651	1,389	Provision for liabilities and charges		
<u>196,532</u>	<u>217,364</u>	Deferred taxation		
52,137	52,346	Capital and reserves		
2,666	4,024	Called up share capital		
2,502	2,463	Share premium account		
		Revaluation reserve		
		Other reserves		
<u>139,227</u>	<u>158,531</u>	Profit and loss account		

MAURICE HODGSON

D. P. CASSIDY

Directors

Approved 7 May 1985

<u>196,532</u>	<u>217,364</u>	<u>231,121</u>	<u>205,952</u>
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The notes on pages 19 to 28 form part of these accounts.

	1985 £000	1984 £000
Source of funds		
Generated from operations	60,981	55,193
Profit on ordinary activities before taxation	14,575	13,544
Depreciation	952	
Exceptional asset write-off	—	200
Amount provided against investment	(4,855)	(4,390)
Share of profit of related companies	<u>71,653</u>	<u>64,547</u>
Other sources		
Share capital	1,241	1,177
Loan repayment from related companies	—	1,500
Disposal of tangible assets	252	184
Extraordinary item - surplus on disposal of related company	—	866
Dividend received from related company	—	424
	<u>1,493</u>	<u>4,151</u>
	<u>73,146</u>	<u>68,698</u>
Application of funds		
Capital expenditure - tangible assets	60,553	34,924
- investments	6,200	200
Dividends	12,441	10,855
Corporation tax	20,159	5,410
Redemption of mortgage debenture stock	112	137
	<u>99,465</u>	<u>51,526</u>
	<u>(26,319)</u>	<u>17,172</u>
Working capital changes		
Increase in stocks	3,313	3,626
Increase in debtors	766	1,806
Increase in creditors	(2,362)	(2,791)
	<u>1,717</u>	<u>2,731</u>
(Decrease)/increase in net liquid funds	<u>(28,036)</u>	<u>14,441</u>
	<u>(26,319)</u>	<u>17,172</u>

Net liquid funds comprises cash at bank and in hand less the bank overdraft.

1. Accounting policies

The principal accounting policies of the group, which are unchanged from last year, are set out below.

- i. **Accounting Convention** The accounts are prepared on the basis of the historical cost convention, modified to include certain properties at a valuation made in 1960.
- ii. **Consolidation** The group accounts comprise a consolidation of the accounts of the parent company and all its subsidiaries for the fifty-two weeks to 30 March 1985. Under the provisions of the Companies Act 1948 the company is not required to publish its own Profit and Loss Account.
- iii. **Related companies** The group proportion of the net income of related companies – those in which the group has a 50% interest and over which it exercises significant control – is included in the consolidated profit and loss account. The investment in these companies represents the group proportion of their net assets.
- iv. **Currency translation** All assets and liabilities of overseas subsidiaries are translated into sterling at the rates of exchange ruling at the balance sheet date with the exception of non-monetary assets which are translated at the rates of exchange ruling when these were acquired. The results of overseas subsidiaries are translated into sterling at average monthly rates of exchange. All exchange differences are treated as part of the results for the year.
- v. **Turnover** The amount reported as turnover represents sales at the group's stores.
- vi. **Depreciation** Depreciation is provided on all fixed assets at rates calculated to write off the cost or valuation of each asset, less estimated residual value, evenly over their expected useful lives, which are primarily as follows:
Freehold properties – 100 years.
Leasehold properties with more than 99 years to run – 100 years.
Leasehold properties with less than 100 years to run – the lease term.
Fixed equipment included in properties – 20 years.
Fixtures, furnishings and equipment – 4 to 10 years depending on the nature of the asset.
- vii. **Stocks** Stocks, which consist primarily of goods held for resale, are valued at selling prices less an appropriate margin to reduce them to the lower of cost and net realisable value, except where the actual cost is known.
- viii. **Deferred taxation** Provision for deferred taxation is made using the liability method, except that no provision is made where there is reasonable probability that no liability will arise in the foreseeable future.
- ix. **Leased assets** The group's principal leased assets are its properties which qualify for accounting as operating leases under the terms of SSAP 21. Annual rentals are charged directly to the profit and loss account.

2. Trading profit

	1985 £000	1984 £000
The trading profit of £54,026,000 (1984 £48,086,000) is stated after charging:		
Directors' emoluments (note 3)		
Staff costs (note 3)	573	561
Auditors' remuneration	79,937	74,400
Hire of equipment	53	49
Rent of properties	551	411
Depreciation and amortisation	11,360	10,225
Provision for store re-organisation, including exceptional depreciation of £376,000	14,951	13,168
Exceptional asset write-off	(726)	806
	952	

3. Directors and employees

1985
£000

1984
£000

The emoluments of the directors of the company, as defined by section 196 (2) of the Companies Act 1948, are as follows:

Fees for services as directors

24 28

Other emoluments, including pension contributions and benefits

549 333

573 361

The emoluments of the directors of the company, as defined by section 6 of the Companies Act 1967, are as follows:

Chairman

£ 47,322

Highest paid director

66,881 68,486

Others in emolument scales

Number Number

£ 5,001 £10,000

3 3

£10,001 £15,000

1 1

£15,001 £20,000

1 1

£20,001 £25,000

1 2

£25,001 £30,000

1 1

£30,001 £35,000

1 2

£35,001 £40,000

2 2

£40,001 £45,000

3 2

£45,001 £50,000

1 1

£50,001 £55,000

1 1

£55,001 £60,000

1 1

Employees whose emoluments exceeded £30,000 are as follows:

Number Number

£30,001 £35,000

12

£35,001 £40,000

2

£40,001 £45,000

1

The average weekly number of employees during the year is made up as follows:

Number Number

UK Stores Full-time

7,592 7,809

Part-time

14,575 14,125

UK Head Office

1,741 1,775

Overseas

446 376

24,354 24,085

Staff costs during the year amount to:

£000 £000

Wages and salaries

69,262 64,203

Social security costs

5,256 5,273

Contribution to pension funds

4,299 3,889

Contribution to employees share participation schemes

1,120 1,035

79,937 74,400

4. Interest payable

1985

1984

£000 £000

Interest payable comprises:

Interest on loans repayable after five years

2,473 2,513

Interest on bank loans and overdrafts

102 110

2,575 2,623

5. Taxation

	1985 £000	1984 £000
Current:		
United Kingdom		
Corporation tax at 45% (1984 50%)	21,827	20,249
Related companies	1,543	2,296
Overseas	392	199
	<u>23,762</u>	<u>22,744</u>
Deferred:		
Parent timing differences	(574)	354
change in rate		(965)
Overseas subsidiaries	264	(209)
Related companies	214	—
	<u>(96)</u>	<u>(820)</u>
	23,666	21,924
Adjustments to provision for earlier periods	(332)	(740)
	<u>23,334</u>	<u>21,184</u>

The taxation charge for 1985 would have been £26,930,000 (1984 £24,689,000) had full provision been made for deferred taxation.

United Kingdom corporation tax of £16,495,000 is payable on 1 April 1986 (1984 £15,778,000 payable on 1 April 1985).

6. Extraordinary items

	1985 £000	1984 £000
Profit arising on the sale of the company's interest in SavaCentre (Leasing) Limited:		
Loss on disposal	—	(6)
Tax provisions no longer required	—	503
current	—	369
deferred	—	866
	<u>—</u>	<u>(3,600)</u>
Charge for deferred taxation in respect of timing differences on capital allowances expected to reverse in future years as a result of the changes to rates of First Year Allowances proposed in the Finance Bill 1984.	<u>—</u>	<u>(2,734)</u>

7. Dividends

	1985 £000	1984 £000
Preference dividends	20	20
Ordinary dividends:		
Interim, paid per share 1.75p (1984 1.75p)	3,636	3,620
Final, proposed per share 5.00p (1984 4.25p)	10,389	8,796
	<u>14,045</u>	<u>12,436</u>

8. Earnings per ordinary share

The earnings per ordinary share is arrived at by dividing the profit on ordinary activities after taxation of £37,647,000 (1984 £34,009,000) less the preference dividend of £20,000 (1984 £20,000) by 207,531,551 ordinary shares, being the weighted average of the number in issue during the year (1984 206,702,001).

The diluted earnings per share, based on the assumptions that the conversion rights attached to the 9% Convertible unsecured loan stock 1992 and the options to acquire shares granted to employees will be fully exercised, shows a dilution which is less than 5 per cent.

9. Tangible assets

The valuation shown in respect of leasehold properties represents a valuation at 2 January 1960.

Reference is made in the Directors' Report to the independent valuation of the group's properties at 31 March 1985. This valuation produced a surplus of £19,670,500 which has not been taken into the accounts.

The net book value of leaseholds at 30 March 1985 in respect of leases with less than fifty years to run is £6,387,000 (1984 £6,478,000) in the case of the group and £6,226,000 (1984 £6,305,000) in the case of the company.

Group	Properties including fixed equipment		Fixtures furnishing and equipment £000	Assets under construction £000	Total £000
	Freehold £000	Leasehold £000			
<i>Gross book value</i>					
At 1 April 1984					
Cost	22,551	116,040	86,262	3,881	228,734
Valuation		3,417			3,417
Total	22,551	119,457	86,262	3,881	232,151
Transfers	2	3,307	572	(3,881)	
Additions	127	22,545	22,679	15,202	60,553
Disposals		(41)	(3,084)		(3,125)
At 30 March 1985					
Cost	22,680	141,851	106,429	15,202	286,162
Valuation		3,417			3,417
<i>Depreciation and amortisation</i>					
At 1 April 1984	1,725	20,630	36,948		61,303
Provided	202	3,206	11,167		14,575
Disposals			(1,921)		(1,921)
At 30 March 1985	1,927	23,836	48,194		73,957
<i>Net book values</i>					
At 30 March 1985	20,753	121,432	58,235	15,202	215,622
At 31 March 1984	20,826	98,827	47,314	3,881	170,848

9. Tangible assets (continued)

Parent	Properties including fixed equipment		Fixtures furnishing and equipment £000	Assets under construction £000	Total £000
	Freehold £000	Leasehold £000			
<i>Gross book value</i>					
At 1 April 1984					
Cost	15,840	115,774	84,755	3,881	220,250
Valuation	—	3,417	—	—	3,417
Total	15,840	119,191	84,755	3,881	223,667
Transfers		3,309	572	(3,881)	—
Additions	98	22,511	22,434	15,202	60,245
Disposals		(41)	(3,084)	—	(3,125)
At 30 March 1985					
Cost	15,938	141,553	104,677	15,202	277,370
Valuation	—	3,417	—	—	3,417
<i>Depreciation and amortisation</i>					
At 1 April 1984	1,066	20,556	37,816	—	59,438
Provided	203	3,191	11,342	—	14,736
Disposals		—	(1,921)	—	(1,921)
At 30 March 1985	1,269	23,747	47,237	—	72,253
<i>Net book values</i>					
At 30 March 1985	14,669	121,223	57,440	15,202	208,534
At 31 March 1984	14,774	98,635	46,939	3,881	164,229

10. Capital commitments

	1985 £000	1984 £000
Commitments for future capital expenditure are estimated as follows:		
Contracted for but not provided in the accounts - Parent company	51,831	6,014
Authorised by the directors but not contracted - Parent company	13,971	27,635
- Subsidiaries	541	—
	66,343	33,649

11. Investments

	Parent		Group	
	1985 £000	1984 £000	1985 £000	1984 £000
Group companies (note 12)	6,560	6,560	—	—
Related company (note 13)	24,842	18,842	32,297	23,199
Other investments (note 14)	200	—	200	—
	31,602	25,402	32,497	23,199

12. Group companies

Cost at 1 April 1984 and 30 March 1985

Shares in group companies £000	Loans to group companies £000	Total £000
2,021	4,539	6,560

The company holds 100% of the share capital of the following subsidiaries, which are registered in England unless otherwise shown:

Trading companies

British Home Stores (Jersey) Limited
(incorporated in Jersey)
BHS (Dublin) Limited
(incorporated in Republic of Ireland)
Prova Investments (Ireland) Limited
(incorporated in Republic of Ireland)

Non-trading companies

British Home Stores Employees Trust Limited
British Home Stores (Wholesale) Limited
BHS Retail Limited
Hall Crown Limited
Henry's Stores Limited
Irish Home Stores Limited
(incorporated in Republic of Ireland)
Scottish Home Stores Limited

13. Related company

The company holds 16,180,050 'A' Ordinary shares of £1 each, being 50% of the share capital of SavaCentre Limited, a company engaged in retailing through hypermarkets in the United Kingdom.

The company disposed of its interest in SavaCentre (Leasing) Limited during the previous financial year.

The investment in related company comprises:

	Shares in related company £000	Loans to related company £000	Parent Total £000	Share of retained profits £000	Group Total £000
Cost or amount under equity method of accounting					
At 1 April 1984	13,942	2,500	13,942	4,357	23,199
Loan advanced		6,000	6,000		6,000
Group share of the retained profit for the 52 weeks to 16 February 1985				3,098	3,098
At 30 March 1985	16,342	8,500	24,842	7,455	32,297
Of which due within one year		1,000			

The share of retained profits amounting to £3,098,000 represents the group share of the post-tax profits of SavaCentre Limited based on its audited accounts for the fifty-two weeks ended 16 February 1985. The comparative figures in the consolidated profit and loss account include the group share of the results of SavaCentre (Leasing) Limited to the date of disposal in 1984.

The turnover of the related company, excluding value added tax, amounts to £219,149,000 (1984 - £188,671,000) and the profit is stated after charging depreciation amounting to £3,441,000 (1984 - £3,496,000).

The assets and liabilities of SavaCentre Limited as shown in its audited accounts are set out below.

	1985 £000	1984 £000
Tangible assets		
land and buildings	61,227	35,967
other	10,865	15,234
Net current assets	(16,386)	(387)
Corporation tax	(3,436)	(4,739)
Loan capital	(5,000)	(5,630)
Capital and reserves	47,270	41,075

14. Other investments

	Cost £000	Provision £000	Net book value £000
At 1 April 1984	200	200	-
Additions	200	-	200
At 30 March 1985	<u>400</u>	<u>200</u>	<u>200</u>

At 1 April 1984 the group owned 14.29% of the issued ordinary share capital of DISC International Limited (DISC), an unlisted company registered in England. During the year the group subscribed for 200,000 9% preference shares of £1 each in DISC. As a result of a restructuring of the share capital of DISC, the group's interest at 30 March 1985 amounted to 16.8%. The investment is stated at directors' valuation.

15. Debtors

	Parent		Group	
	1985 £000	1984 £000	1985 £000	1984 £000
Due within one year:				
Trade debtors	3,987	3,107	3,994	3,121
Amounts owed by group companies	5	50	-	-
Amounts owed by related company	483	407	483	407
Other debtors	500	600	749	671
Prepayments and accrued income	<u>3,489</u>	<u>3,996</u>	<u>3,578</u>	<u>4,042</u>
	8,464	8,160	8,804	8,241
Due after more than one year:				
Other debtors	<u>615</u>	<u>441</u>	<u>644</u>	<u>441</u>
	<u>9,079</u>	<u>8,601</u>	<u>9,448</u>	<u>8,682</u>

Other debtors include loans made to Mr. N. McArthur and Mr. C. B. Williams before they became directors of the company. The amount outstanding on the loan to Mr. McArthur has remained at £11,000 throughout the year. The amount outstanding on the loan to Mr. Williams has reduced from £1,896 at 1 April 1984 to £1,400 at 30 March 1985.

16. Creditors: amounts falling due within one year

	Parent		Group	
	1985 £000	1984 £000	1985 £000	1984 £000
Mortgage debenture stock (note 17)	112	112	112	112
Bank overdraft	11,788	10,055	11,788	10,055
Trade creditors	16,979	15,293	17,021	15,432
Amounts owed to group companies	1,709	2,360	-	-
Amounts owed to related company	3,700	1,200	3,700	1,200
Taxation and social security	31,711	30,306	32,293	30,801
Other creditors	5,473	4,032	5,640	4,151
Accruals	6,045	9,027	6,109	9,148
Proposed dividend	<u>10,399</u>	<u>8,796</u>	<u>10,399</u>	<u>8,796</u>
	<u>87,916</u>	<u>91,181</u>	<u>87,067</u>	<u>79,695</u>

19. Called up share capital

	Authorised	Issued and fully paid	
		1985	1984
	£000	£000	£000
Ordinary shares at 25p each	60,000	51,916	51,737
7% Cumulative preference stock (4 9% plus tax credit)	400	400	400
	<u>60,400</u>	<u>52,316</u>	<u>52,137</u>

Share issues

Shares have been issued during the year as follows:

	Number	Nominal value £	Consideration £
For cash:			
The BHS Employees 1981 Share Participation Scheme	474,164	118,541	1,005,228
The BHS Employees Share Participation Scheme (1977)	3,820	2,205	18,698
The BHS Savings-Related Share Option Scheme	8,276	2,069	10,462
The BHS Share Option Scheme (1980)	130,619	32,655	206,543
	<u>621,879</u>	<u>155,470</u>	<u>1,240,931</u>
By conversion of 9% unsecured loan stock 1992:	215,244	53,811	326,254
	<u>837,123</u>	<u>209,281</u>	<u>1,567,185</u>

Share options

The BHS Savings-Related Share Option Scheme

This scheme enables eligible employees to acquire options on ordinary shares of the company at approximately 90% of market price, in conjunction with a Save-As-You-Earn contract. The options are normally exercisable within a period of six months after the repayment date of the relevant SAYE contracts which are for terms of five or seven years. In certain circumstances, however, options can be exercised earlier.

The BHS Share Option Schemes

Under these schemes executive directors and selected senior executives may be granted options to purchase ordinary shares in the company. The options are normally exercisable between three and ten years after the date of the grant. At 30 March 1985 there were 96 participants in these schemes.

Outstanding options granted under these schemes are as follows:

	Ordinary shares		Dates normally exercisable	Option price per share
	1985	1984		
The BHS Savings-Related Share Option Scheme	255,411	299,545	October 1986/March 1987	124.00p
	440,714	449,574	October 1988/March 1989	124.00p
	30,398	36,049	October 1987/March 1988	138.00p
	38,870	42,711	October 1989/March 1990	138.00p
	70,142	79,194	October 1988/March 1989	185.18p
	72,923	76,962	October 1990/March 1991	185.18p
	128,695	-	October 1989/March 1990	169.00p
	111,224	-	October 1991/March 1992	169.00p
The BHS Share Option Scheme (1980)	401,902	485,521	July 1983/July 1990	150.75p
	152,479	199,479	May 1984/May 1991	171.25p
	510,000	560,000	May 1985/May 1992	163.25p
	779,443	815,669	July 1986/July 1993	205.75p
The BHS 1984 Share Option Scheme	542,138	-	November 1987/November 1994	230.75p

20. Reserves

	Parent £000	Group £000
Share premium account		
At 1 April 1984	2,666	2,666
Arising on share issues during the year	1,358	1,358
At 30 March 1985	<u>4,024</u>	<u>4,024</u>
Revaluation reserve		
At 1 April 1984	2,502	2,502
Transfer from profit and loss account	(39)	(39)
At 30 March 1985	<u>2,463</u>	<u>2,463</u>
Other reserves		
Pre-acquisition reserves		
At 1 April 1984 and 30 March 1985		<u>3,861</u>
Profit and loss account		
At 1 April 1984	139,227	144,786
Profit for the year	33,310	37,647
Dividends	(14,015)	(14,015)
Transfer to revaluation reserve	39	39
At 30 March 1985	<u>158,531</u>	<u>168,427</u>

Total reserves of £165,018,000 (1984 - £144,395,000) in the parent company include £6,487,000 which is not distributable (1984 - £5,168,000).
Total reserves of £178,775,000 (1984 - £153,815,000) in the group include £17,803,000 which is not currently distributable (1984 - £13,386,000).

21. Leasing Commitments

	1985 £000	1984 £000
Annual rental commitments under operating leases extending for periods of up to 125 years are as follows:		
Leases which expire within 1 year	22	1
between 2 and 5 years	227	199
over 5 years	<u>12,253</u>	<u>11,391</u>
	<u>12,502</u>	<u>11,591</u>

To the members of British Home Stores PLC

We have audited the accounts on pages 16 to 28 in accordance with approved Auditing Standards

In our opinion the accounts, which have been prepared on the basis of the accounting policies on page 19, give a true and fair view of the state of affairs of the company and of the group at 30 March 1985 and of the profit and the source and application of funds of the group for the period to that date and comply with the Companies Acts 1948 to 1981

The accounts do not include current cost accounts as required by Statement of Standard Accounting Practice No. 16.

Robert Marwick Mitchell & Co.
Paul Marwick, Mitchell & Co.
Chartered accountants

London, 7 May 1985

Analysis of ordinary shareholdings

	Shareholders		Shares	
	Number	%	Number	%
Over 400,000 shares	94	0.27	114,036,675	54.88
200,001-400,000	51	0.15	14,956,039	7.20
40,001-200,000	250	0.73	21,462,342	11.77
20,001-40,000	203	0.59	5,871,155	2.83
8,001-20,000	751	2.17	9,123,499	4.39
4,001-8,000	1,732	5.00	9,533,428	4.59
2,001-4,000	4,363	12.60	12,321,294	5.93
401-2,000	15,395	44.47	15,922,912	7.56
1-400	11,777	34.02	1,556,934	0.75
	<u>34,616</u>	<u>100.00</u>	<u>207,784,278</u>	<u>100.00</u>

Category of shareholders

Banks, nominees and trustee companies	1,984	5.73	83,458,840	40.17
Insurance companies	188	0.55	30,985,283	14.91
Pension funds	112	0.32	26,665,401	12.83
Other corporate bodies	285	0.82	14,583,735	7.02
Individuals	32,047	92.58	52,091,019	25.07
	<u>34,616</u>	<u>100.00</u>	<u>207,784,278</u>	<u>100.00</u>

Capital gains tax

The market values of the company's shares and stocks at 6 April 1965 (as adjusted for subsequent capitalisation and rights issues) for the purposes of capital gains tax were as follows:

Ordinary shares	36.858p per 25p share
7% cumulative preference stock (4.9% plus tax credit)	100p per £1 unit
5½% mortgage debenture stock 1989/94	£85.50 per £100 stock
6½% mortgage debenture stock 1989/94	£97.50 per £100 stock
9% convertible unsecured loan stock 1992	£28.3011 per £100 stock

Financial calendar

	1985
2 January	Interim ordinary dividend payment
7 May	Preliminary announcement of results for year
June	Publication of report and accounts
3 July	Annual general meeting
8 July	Final ordinary dividend payment
October	Publication of half-year interim results