

BHS GROUP LIMITED

**FINANCIAL STATEMENTS,
DIRECTORS' AND INDEPENDENT AUDITORS' REPORTS**

FOR THE 53 WEEKS ENDED 2 APRIL 2005



COMPANY REGISTERED NUMBER: 3858895

BHS GROUP LIMITED

DIRECTORS' REPORT

The directors submit their report on the financial statements for the 53 weeks ended 2 April 2005.

Principal activity

The principal activity of the group is that of retailing, primarily in the United Kingdom.

Business review

During the financial year, operating profit (after amortisation of negative goodwill of £15,153,000 (2004: £26,822,000)) amounted to £119,587,000 (2004: £137,932,000) and the profit before taxation amounted to £109,530,000 (2004: £120,924,000). The operating profit before negative goodwill and fair value adjustments was £105,155,000 (2004: £111,613,000). The group profit for the year after taxation was £81,741,000 (2004: £89,964,000). Net assets at the year end were £87,099,000 (2004: £5,358,000).

The movement in operating profit reflects current market conditions mitigated in part by the continuing focus on product quality, supply chain improvements and control of overhead costs.

On 19 May 2005 the unsecured discounted subordinated bond matured and the group paid the total outstanding of £28,975,000.

The company paid no interim dividend (2004: £156,750,000). The directors do not propose a final dividend (2004: £42,750,000).

Directors and their interests

The directors who served during the year were:

- P Green
- P Coackley
- I M Allkins
- C Coles

The interests of P Green and his immediate family in the issued share capital of Bhs Group Limited which has been notified to the company pursuant to Sections 324 or 328 of the Companies Act 1985 or which are required to be entered in the register of directors interests maintained by Bhs Group Limited pursuant to Section 325 of that Act as at 2 April 2005 are 1,900,000 ordinary shares. None of the other directors have an interest in shares of the company.

BHS GROUP LIMITED
DIRECTORS' REPORT (CONTINUED)

Employee involvement

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 group'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 in store communication, ensuring that all employees understand operations and financial progress.

Disabled employees

The group 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 Group Limited is an equal opportunities employer, recruiting and promoting employees on the basis of suitability for the job and on no other grounds.

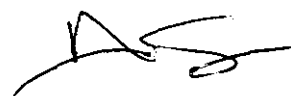
Donations

The total amount donated for charitable purposes was £801,000 (2004: £680,000).

Auditors

On 8 May 2001 the company passed an elective resolution to dispense with the annual appointment of auditors.

By Order of the Board



D V Cash
Company Secretary
20 July 2005

BHS GROUP LIMITED**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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 and group and of the profit and loss for that year. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and 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 group and company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BHS GROUP LIMITED

We have audited the financial statements on pages 5 to 28.

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 auditor's 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 3, 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 group 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 group'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 affairs of the company and the group as at 2 April 2005, and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

20 July 2005

BHS GROUP LIMITED
GROUP PROFIT AND LOSS ACCOUNT
FOR THE 53 WEEKS ENDED 2 APRIL 2005

	Note	53 weeks ended 2 April 2005		52 weeks ended 27 March 2004	
		£000	£000	£000	£000
Turnover	2		889,222		889,763
Cost of sales			(744,465)		(739,352)
Gross profit			144,757		150,411
Administrative expenses before amortisation of negative goodwill		(15,755)		(15,936)	
Amortisation of negative goodwill	10	<u>15,153</u>		<u>26,822</u>	
Administrative expenses after amortisation of negative goodwill			(602)		10,886
Distribution costs			<u>(24,568)</u>		<u>(23,365)</u>
Operating profit			119,587		137,932
Profit on disposal of fixed assets	3		307		482
Other interest receivable and similar income	4		2,899		1,841
Interest payable and similar charges	5		<u>(13,263)</u>		<u>(19,331)</u>
Profit on ordinary activities before taxation	6		109,530		120,924
Tax on profit on ordinary activities	8		<u>(27,789)</u>		<u>(30,960)</u>
Profit on ordinary activities after taxation			81,741		89,964
Dividends payable	9		<u>-</u>		<u>(199,500)</u>
Retained profit/(loss) for the financial year	19		<u>81,741</u>		<u>(109,536)</u>

There are no recognised gains or losses other than the profit for each year.

The company uses the unmodified historical cost convention which means that the profit for the year is equal to the profit under the historical cost convention.

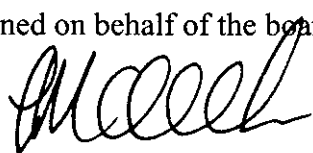
All turnover and operating profit arises from continuing operations. There were no material acquisitions or discontinued activities in the year.

The notes on pages 9 to 28 form an integral part of these financial statements.

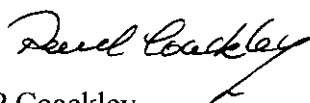
BHS GROUP LIMITED
GROUP BALANCE SHEET
AS AT 2 APRIL 2005

	Note	2 April 2005		27 March 2004	
		£000	£000	£000	£000
Fixed assets					
Negative goodwill	10	(129,319)		(144,472)	
Tangible assets	11	<u>340,556</u>		<u>348,138</u>	
			211,237		203,666
Current assets					
Stocks	13	79,202		73,168	
Debtors recoverable within one year	14	35,073		36,549	
Debtors recoverable after more than one year	14	32,729		34,005	
Cash at bank and in hand		<u>67,331</u>		<u>86,908</u>	
		214,335		230,630	
Creditors: amounts falling due within one year	15	(167,496)		(185,765)	
Net current assets			<u>46,839</u>		<u>44,865</u>
Total assets less current liabilities			258,076		248,531
Creditors: amounts falling due after more than one year	16		(124,345)		(188,105)
Provisions for liabilities and charges					
Deferred tax	17	(39,266)		(46,174)	
Other provisions	17	<u>(7,366)</u>		<u>(8,894)</u>	
			<u>(46,632)</u>		<u>(55,068)</u>
Net assets			<u>87,099</u>		<u>5,358</u>
Capital and reserves					
Called up share capital	18		475		475
Share premium account	19		25		25
Profit and loss account	19		<u>86,599</u>		<u>4,858</u>
Equity shareholders' funds	20		<u>87,099</u>		<u>5,358</u>

Signed on behalf of the board of directors



I M Allkins



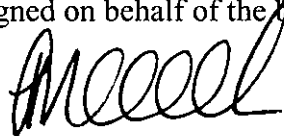
P Coackley

20 July 2005

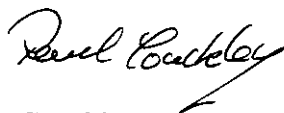
BHS GROUP LIMITED
COMPANY BALANCE SHEET
AS AT 2 APRIL 2005

		2 April 2005		27 March 2004	
	Note	£000	£000	£000	£000
Fixed assets					
Investments	12		82,668		82,668
Current assets					
Debtors	14	116,404		207,048	
Creditors: amounts falling due within one year	15	<u>(71,970)</u>		<u>(92,893)</u>	
Net current assets			<u>44,434</u>		<u>114,155</u>
Total assets less current liabilities			127,102		196,823
Creditors: amounts falling due after more than one year	16		<u>(119,233)</u>		<u>(185,415)</u>
Net assets			<u>7,869</u>		<u>11,408</u>
Capital and reserves					
Called up share capital	18		475		475
Share premium account	19		25		25
Profit and loss account	19		<u>7,369</u>		<u>10,908</u>
Equity shareholders' funds	20		<u>7,869</u>		<u>11,408</u>

Signed on behalf of the board of directors



I M Allkins



P Coackley

20 July 2005

BHS GROUP LIMITED
CONSOLIDATED CASH FLOW STATEMENT

		2005		2004	
	Note	£000	£000	£000	£000
Net cash inflow from operating activities	21		146,764		162,877
Returns on investments and servicing of finance					
Interest received		3,152		1,829	
Interest paid		(10,795)		(6,705)	
Issue costs of loan		-		(1,445)	
Amounts paid to warrant holders (see note 18)		<u>(2,250)</u>		<u>(11,250)</u>	
Net cash outflow from returns on investments and servicing of finance			(9,893)		(17,571)
Taxation					
UK corporation tax paid		(37,049)		(34,513)	
Overseas corporation tax paid		<u>(576)</u>		<u>(308)</u>	
Total tax paid			(37,625)		(34,821)
Capital expenditure					
Purchase of tangible fixed assets		(35,623)		(17,717)	
Sale of tangible fixed assets		<u>-</u>		<u>6</u>	
Net cash outflow from capital expenditure			(35,623)		(17,711)
Equity dividends paid			(42,750)		(213,750)
Net cash inflow/(outflow) before financing			20,873		(120,976)
Financing					
Long term loan		-		200,000	
Capital element of finance lease rental		(450)		(1,664)	
Short term loan		-		(2,500)	
Repayment of long term loan		<u>(40,000)</u>		<u>(70,000)</u>	
Net cash (outflow)/inflow from financing			(40,450)		125,836
(Decrease)/increase in cash in the year	22		<u>(19,577)</u>		<u>4,860</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the current and preceding year. The accounting period covers the 53 weeks ended 2 April 2005. Comparative figures are as shown for the 52 weeks ended 27 March 2004.

Basis of preparation

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

Basis of consolidation

The group financial statements consolidate the financial statements of Bhs Group Limited and its subsidiary undertakings. The acquisition method of accounting is used to consolidate the results of subsidiary undertakings in the group accounts from the date on which control passed.

As permitted by Section 230(4) of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

Turnover

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

Goodwill

Negative goodwill arising on the purchase of the group companies is capitalised in the balance sheet and is written off over the useful economic lives of individual tangible fixed assets on a straight line basis.

Tangible fixed assets

Tangible fixed assets are included at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation on other fixed assets is charged on a straight-line basis over the following periods:

Freehold buildings	-	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

Investments

The company's investments in subsidiary undertakings are stated at cost less provisions for impairment. Dividends receivable are credited to the company's 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.

1. Accounting policies (continued)

Leased assets

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

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.

Taxation

The charge on taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future, have occurred at the balance sheet date, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted at the balance sheet date.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Pension costs

The expected cost of the group's defined benefit scheme is charged to the profit and loss account so as to spread the cost of pensions over the remaining service lives of the current employees in the scheme. Variations from the regular costs are spread over the expected remaining service lives of current employees in the scheme. The pension cost is assessed in accordance with the advice of an independent qualified actuary.

Foreign currency

Transactions denominated in foreign currencies are translated into local currency at the rates of exchange ruling at the date of 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 operating profit.

2. Segment information

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

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Profit on disposal of fixed assets

2005	2004
£000	£000

Profit on disposal of property	<u>307</u>	<u>482</u>
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The profit on disposal of property primarily relates to the release of the remaining provision after the disposal of two retail stores during the year. When the provisions were created they were charged through this line in the profit and loss account.

4. Other interest receivable and similar income

2005	2004
£000	£000

Bank interest receivable	2,757	1,745
Other sundry income	<u>142</u>	<u>96</u>
	<u>2,899</u>	<u>1,841</u>

5. Interest payable and similar charges

2005	2004
£000	£000

Bank loans and overdrafts	10,881	6,684
Other loans	2,211	2,005
Other interest payable	144	76
Warrantholder payments (see note 18)	-	10,500
Finance leases	<u>27</u>	<u>66</u>
	<u>13,263</u>	<u>19,331</u>

6. Profit on ordinary activities before taxation

2005	2004
£000	£000

Profit on ordinary activities before taxation after charging:

Operating lease rentals - plant and equipment	5,123	4,850
- land and buildings	93,704	88,983
(Profit) on disposal of properties (see note 3)	(307)	(482)
Depreciation of owned assets	41,980	45,151
Depreciation of leased assets	566	1,559
Auditor's remuneration - for group audit services	86	87
- for company audit services	15	15
- for tax services	38	52
- for other services	<u>73</u>	<u>40</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Staff costs

	2005	2004
	£000	£000
Wages and salaries	110,197	103,044
Social security costs	6,539	5,965
Other pension costs	<u>6,322</u>	<u>6,744</u>
	<u>123,058</u>	<u>115,753</u>

	2005	2004
	Number	Number
UK stores - Full-time	2,952	2,887
- Part-time	10,857	10,026
UK head office	709	649
Overseas	<u>75</u>	<u>80</u>
	<u>14,593</u>	<u>13,642</u>

Directors' emoluments

	2005	2004
	£000	£000
Emoluments	2,751	5,755
Company contributions to money purchase pension schemes	<u>68</u>	<u>68</u>
Total emoluments	<u>2,819</u>	<u>5,823</u>

Pensions

The number of directors who were members of pension schemes were as follows:

	2005	2004
	Number	Number
Money purchase schemes	<u>2</u>	<u>2</u>
Defined benefit schemes	<u>2</u>	<u>2</u>

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2005	2004
	£000	£000
Emoluments	<u>1,962</u>	<u>2,897</u>

The highest paid director was not a member of the company pension scheme and therefore has no accrued pension benefit at the end of the year.

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Taxation

	2005	2004
	£000	£000
a) Analysis of the tax charge in the year		
UK corporation tax		
On profit for the year	34,129	37,939
Adjustment in respect of the previous year	(4)	(2,819)
Foreign tax		
On profit for the year	571	255
Adjustment in respect of the previous year	<u>1</u>	<u>(2)</u>
Total current tax	34,697	35,373
UK deferred tax		
Origination and reversal of timing differences	<u>(6,908)</u>	<u>(4,413)</u>
Tax on profit on ordinary activities	<u>27,789</u>	<u>30,960</u>
b) Factors affecting tax charge for the year		

The tax assessed for the year is greater than the standard rate of UK corporation tax of 30%. The differences are explained below:

	2005	2004
	£000	£000
Profit on ordinary activities before tax	<u>109,530</u>	<u>120,924</u>
Profit on ordinary activities before tax multiplied by standard rate of UK corporation tax of 30%	32,859	36,277
Effects of:		
Accounting depreciation in excess of tax depreciation	4,358	5,609
Consolidation adjustments (including goodwill amortisation)	(4,427)	(7,951)
Costs not deductible for tax purposes	1,279	3,943
Other tax adjustments	631	316
Adjustments relating to prior years corporation tax	<u>(3)</u>	<u>(2,821)</u>
Total current tax	<u>34,697</u>	<u>35,373</u>

c) Factors that may affect future tax charges

The group have unrelieved capital losses of £17,843,000 at year end. As there is no current expectation of future disposals and hence possible capital gains against which the losses may be offset, no deferred tax assets have been recognised in respect of these losses.

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Dividends

	2005	2004
	£000	£000
Interim dividend paid of £nil (2004: £82.50) per ordinary share	-	156,750
Final dividend proposed of £nil (2004: £22.50) per ordinary share	<u>-</u>	<u>42,750</u>
	<u>-</u>	<u>199,500</u>

10. Negative goodwill

	£000
Cost	
As at 27 March 2004 and 2 April 2005	(360,913)
Amortisation	
As at 27 March 2004	216,441
Release for the year	<u>15,153</u>
As at 2 April 2005	<u>231,594</u>
Net book value	
As at 2 April 2005	(129,319)
As at 27 March 2004	(144,472)

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Tangible fixed assets

GROUP	Properties including fixed equipment			Fixtures, fittings & equipment*	Total
	Freehold £000	Long leasehold £000	Short leasehold £000		
Cost					
As at 27 March 2004	25,027	199,746	66,725	212,931	504,429
Additions	62	1,723	11,495	23,659	36,939
Transfer	-	2	277	(279)	-
Disposals	-	(1,509)	(161)	(7,003)	(8,673)
As at 2 April 2005	<u>25,089</u>	<u>199,962</u>	<u>78,336</u>	<u>229,308</u>	<u>532,695</u>
Depreciation					
As at 27 March 2004	1,871	28,764	3,079	122,577	156,291
Charge	661	7,024	3,232	31,629	42,546
Transfer	-	-	1	(1)	-
Disposals	-	(849)	(62)	(5,787)	(6,698)
As at 2 April 2005	<u>2,532</u>	<u>34,939</u>	<u>6,250</u>	<u>148,418</u>	<u>192,139</u>
Net book value					
As at 2 April 2005	<u>22,557</u>	<u>165,023</u>	<u>72,086</u>	<u>80,890</u>	<u>340,556</u>
As at 27 March 2004	<u>23,156</u>	<u>170,982</u>	<u>63,646</u>	<u>90,354</u>	<u>348,138</u>

* Includes construction in progress with costs of £1,444,000 (2004: £749,000).

Freehold properties includes £2,772,000 (2004: £2,772,000) of freehold land which is not depreciated.

Included in fixtures, fitting and equipment are assets held under finance lease agreements, with a net book value of £2,217,000 at 2 April 2005 (2004: £1,678,000). Depreciation charged during the year in respect of these assets amounted to £566,000 (2004: £1,559,000).

The company itself does not have any tangible fixed assets.

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Investments

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
As at 2 April 2005	<u>-</u>	<u>-</u>	<u>82,668</u>	<u>82,668</u>

The parent company has investments in the following subsidiary undertakings which affected the profits or net assets of the group:

Company	Country of Incorporation	Principal Activity	Holding	%
Bhs Limited*	England & Wales	Retailing	Ordinary shares	100
Bhs (Jersey) Limited**	Jersey	Retailing	Ordinary shares	100
Bhs Properties Limited*	England & Wales	Property investment	Ordinary shares	100
Davenbush Limited*	England & Wales	Property investment	Ordinary shares	100
Bhs Properties (Chester) Limited**	England & Wales	Property investment	Ordinary shares	100
Bhs Services Limited**	England & Wales	Financial services	Ordinary shares	100
Bhs (Hong Kong) Limited**	Hong Kong	Inactive	Ordinary shares	100

* Held directly by Bhs Group Limited

** Held directly by subsidiary undertakings

On 7 April 2004 Bhs Properties Limited acquired a property investment company, Bhs Properties (Chester) Limited, with share capital of £1. Bhs Properties (Chester) Limited has an accounting date of 28 February due to the date of incorporation of the company.

On 16 March 2005 Bhs Limited applied to dissolve an investment company, Willow Asset Management Unlimited, with share capital of £13,000.

13. Stock

	Group	
	2005	2004
	£000	£000
Goods for resale	<u>79,202</u>	<u>73,168</u>

The company does not hold any stock.

BHS GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****14. Debtors: recoverable within one year**

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Trade debtors	5,511	6,573	-	-
Amounts owed by group undertakings	-	-	113,507	152,048
Other debtors	864	1,115	6	-
Pension surplus	1,380	1,239	-	-
Prepayments and accrued income	27,318	27,622	-	-
Dividend	-	-	-	55,000
Deferred tax asset (see note 17)	-	-	2,891	-
	<u>35,073</u>	<u>36,549</u>	<u>116,404</u>	<u>207,048</u>

Debtors: recoverable after one year

A pension surplus of £32,729,000 (2004: £34,005,000) is recoverable after more than one year.

15. Creditors: amounts falling due within one year

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Bank overdraft	-	-	2,844	7,553
Bank loan	39,744	39,738	39,744	39,738
Subordinated bond	28,639	-	28,639	-
Trade creditors	41,324	43,544	-	-
Taxation and social security	22,847	26,418	-	-
Other creditors	8,206	5,546	-	-
Accruals and deferred income	24,741	24,086	743	602
Landlords' contributions	1,832	1,040	-	-
Proposed payment to warrant holders	-	2,250	-	2,250
Proposed dividends	-	42,750	-	42,750
Obligations under finance leases	<u>163</u>	<u>393</u>	<u>-</u>	<u>-</u>
	<u>167,496</u>	<u>185,765</u>	<u>71,970</u>	<u>92,893</u>

The bank loan is shown net of issue costs in accordance with FRS 4 "Capital instruments".

BHS GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****16. Creditors: amounts falling due after more than one year**

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Bank loan	119,234	158,951	119,233	158,951
Subordinated bond	-	26,464	-	26,464
Taxation and social security	422	250	-	-
Accruals and deferred income	-	1,053	-	-
Landlords' contributions	3,583	1,387	-	-
Obligations under finance leases	<u>1,106</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>124,345</u>	<u>188,105</u>	<u>119,233</u>	<u>185,415</u>

The bank loan is shown net of issue costs in accordance with FRS 4 "Capital instruments".

17. Group provisions for liabilities and charges

	Deferred tax £000	Other provisions £000	Total £000
As at 27 March 2004	46,174	8,894	55,068
Charge for the year	-	1,074	1,074
Release for the year	(6,908)	(759)	(7,667)
Utilised during the year	<u>-</u>	<u>(1,843)</u>	<u>(1,843)</u>
As at 2 April 2005	<u>39,266</u>	<u>7,366</u>	<u>46,632</u>
		2005	2004
		£000	£000
Deferred taxation			
Provision in respect of:			
Pension surplus		10,233	10,574
Capital allowances		32,253	36,242
Other timing differences		<u>(3,221)</u>	<u>(642)</u>
		<u>39,265</u>	<u>46,174</u>

The group had an unrecognised deferred tax asset of £5,656,000 (2004: £7,692,000) at year end.

Company

The company had a deferred tax asset held within debtors (see note 14) at the year end of £2,891,000 (2004: £nil). The company had an unrecognised deferred tax asset of £99,000 (2004: £2,099,000) at year end.

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Provisions for liabilities and charges (continued)

Other provisions

	Store closures £000	Other £000	Total £000
As at 27 March 2004	4,565	4,329	8,894
Charge for the year	198	876	1,074
Release for the year	(589)	(170)	(759)
Utilised during the year	<u>(299)</u>	<u>(1,544)</u>	<u>(1,843)</u>
As at 2 April 2005	<u>3,875</u>	<u>3,491</u>	<u>7,366</u>

The store closure provision of £3,875,000 (2004: £4,565,000) includes discounted estimated costs of £3,582,000 (2004: £4,280,000) for future lease obligations and £293,000 (2004: £285,000) of other costs relating to the disposal of two retail stores and a non-operating lease.

Other provisions primarily relate to discounted onerous lease provisions of £2,530,000 (2004: £2,655,000) and provision for dilapidations of £327,000 (2004: £1,054,000) and sales returns provision of £634,000 (2004: £620,000).

18. Share capital

	2005 £000	2004 £000
Authorised		
2,000,000 ordinary shares of 25p each	<u>500</u>	<u>500</u>
Allotted, called up and fully paid		
1,900,000 ordinary shares of 25p each	<u>475</u>	<u>475</u>

Bhs Group has in issue warrants which entitle the warrant holders to subscribe for 100,000 ordinary shares at a strike price of their nominal value of 25p each. They enable the warrant holders to subscribe in cash for ordinary shares upon the occurrence of a change of control sale, disposal or flotation. As no event has yet occurred that would enable the warrants to be exercised, no shares have been issued to warrant holders.

When a dividend is declared payable to the shareholders the warrant holders are entitled to a dividend. The dividend payable for each subscription share entitlement held is the equivalent to the dividend per ordinary share. In the current year the warrant holders have become entitled to £nil (2004: £10,500,000 (see note 5)) equivalent to the total £nil dividend per share (2004: £105.00) paid to shareholders (see note 9).

In the event a payment is made to the holders of the unsecured subordinated bond then the warrant holders are entitled to a dividend calculated with reference to the percentage of ordinary shares that the warrant holder would hold had they exercised their subscription rights and had the payment to the bond holders have been a dividend.

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Reserves

	Group £000	Company £000
Share premium account		
As at 27 March 2004 and 2 April 2005	<u>25</u>	<u>25</u>
Profit and loss account		
As at 27 March 2004	4,858	10,908
Retained profit/(loss) for the financial year	<u>81,741</u>	<u>(3,539)</u>
As at 2 April 2005	<u>86,599</u>	<u>7,369</u>

20. Reconciliation of movements in shareholders' funds

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Profit/(loss) for the period	81,741	89,964	(3,539)	204,480
Dividends	<u>-</u>	<u>(199,500)</u>	<u>-</u>	<u>(199,500)</u>
Net additions/(reductions) to shareholders' funds	81,741	(109,536)	(3,539)	4,980
Opening shareholders' funds	<u>5,358</u>	<u>114,894</u>	<u>11,408</u>	<u>6,428</u>
Closing shareholders' funds	<u>87,099</u>	<u>5,358</u>	<u>7,869</u>	<u>11,408</u>

21. Reconciliation of operating profit to net cash inflow from operating activities

	2005 £000	2004 £000
Operating profit	119,587	137,932
Depreciation charge	42,546	46,710
Amortisation of negative goodwill	(15,153)	(26,822)
Amortisation of pension surplus	1,462	1,367
Fixed asset write-off	1,355	1,259
Increase in stock	(6,034)	(730)
Decrease/(increase) in debtors	1,609	(1,633)
Increase in creditors and provisions	<u>1,392</u>	<u>4,794</u>
Net cash inflow from operating activities	<u>146,764</u>	<u>162,877</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Reconciliation of net cash flow to movement in net debt

	2005	2005	2004	2004
	£000	£000	£000	£000
(Decrease)/increase in cash during the year	(19,577)		4,860	
Decrease/(increase) in debt and lease finance	<u>40,450</u>		<u>(124,525)</u>	
		20,873		(119,665)
Non cash items		<u>(3,790)</u>		<u>(2,391)</u>
Decrease/(increase) in net debt in the year		17,083		(122,056)
Opening net debt		<u>(138,638)</u>		<u>(16,582)</u>
Closing net debt		<u>(121,555)</u>		<u>(138,638)</u>

The main non cash movement is the interest accrued on the subordinated bond (see note 24). During the year the group also entered into finance lease arrangements in respect of assets with total capital value at inception of the leases of £1,326,000.

23. Analysis of changes in net debt

	27 March		Other	2 April
	2004	Cashflow	non cash	2005
	£000	£000	changes	£000
			£000	
Cash in hand, at bank	86,908	(19,577)	-	67,331
Debt due within one year	(39,738)	40,000	(68,646)	(68,384)
Debt due after one year	(185,415)	-	66,182	(119,233)
Finance leases	<u>(393)</u>	<u>450</u>	<u>(1,326)</u>	<u>(1,269)</u>
	<u>(138,638)</u>	<u>20,873</u>	<u>(3,790)</u>	<u>(121,555)</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial commitments

Loans
Group and Company

	Bank loan £000	Fees £000	Creditor £000	Sub- ordinated bond £000
2005				
Within one year	40,000	256	39,744	28,975
Between one year and two years	40,000	256	39,744	-
Between two years and five years	<u>80,000</u>	<u>510</u>	<u>79,490</u>	<u>-</u>
	<u>160,000</u>	<u>1,022</u>	<u>158,978</u>	<u>28,975</u>
2004				
Within one year	40,000	262	39,738	-
Between one year and two years	40,000	262	39,738	28,975
Between two years and five years	<u>120,000</u>	<u>787</u>	<u>119,213</u>	<u>-</u>
	<u>200,000</u>	<u>1,311</u>	<u>198,689</u>	<u>28,975</u>

The unsecured discounted subordinated bond was issued in May 2000 at £19,500,000 and interest is accrued at a rate of 8% until maturity in May 2005 when £28,975,000 will become payable.

The bank loan was issued in November 2003 at £200,000,000. Interest is payable at commercial rates on a regular basis. The bank loan is guaranteed by the company and its subsidiaries, Bhs Limited, Bhs Properties Limited and Davenbush Limited.

Operating leases

The group leases certain land and buildings on short and long term leases. The rents payable on these leases are subject to negotiation at various intervals specified in the leases. Annual commitments under non-cancellable operating leases are as follows:

	2005		2004	
	Land & buildings £000	Other £000	Land & buildings £000	Other £000
Operating leases which expire:				
Within one year	651	552	239	636
Within two to five years	945	3,986	990	3,737
After five years	<u>100,244</u>	<u>164</u>	<u>90,754</u>	<u>142</u>
	<u>101,840</u>	<u>4,702</u>	<u>91,983</u>	<u>4,515</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial commitments (continued)

Finance leases

The future minimum finance lease payments to which the group is committed at 2 April 2005 are as follows:

	2005	2004
	£000	£000
Within one year	163	393
Within two to five years inclusive	689	-
After five years	<u>417</u>	<u>-</u>
	<u>1,269</u>	<u>393</u>

Capital commitments

	2005	2004
	£000	£000
Contracted for but not provided for - Group	7,561	4,842
- Company	<u>-</u>	<u>-</u>

Guarantees

Under a group banking arrangement the company is included in a cross guarantee agreement with other Bhs Group companies. The company is also included within the Bhs Group VAT registration.

25. Pension costs (SSAP 24)

The group has operated two defined benefit pension schemes for its employees in the year.

Non-property assets are held by the trustees of each individual scheme whereas the schemes' property assets are held jointly, by trustees, in a separate common investment fund. Each scheme owns a proportion of the common investment fund calculated pro-rata to the value of its assets held in the fund. The pension costs relating to the schemes were assessed in accordance with the advice of qualified actuaries using primarily the projected unit methods. The latest actuarial valuations were carried out at 31 March 2003.

An actuarial valuation was carried out at 31 March 2003 to assess the schemes position relative to the minimum funding requirements introduced by the 1995 Pension Act. The next formal actuarial valuations are due to be carried out as at 31 March 2006.

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

Rate of return on investments	6.5%
Rate of increase in salaries	4.5% - 5.5%
Rate of increase in pension	2.5%

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Pension costs (SSAP 24) (continued)

The aggregate market value of the schemes' investments at 31 March 2003 was £278,700,000 and the actuarial values were sufficient to cover between 105 percent and 133 percent of the benefits that had accrued to members after allowing for expected future increases in earnings.

The total pension cost for the group is £6,322,000 (2004: £6,744,000).

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

26. Pension costs (FRS 17 - disclosure)

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. The full implementation of a new pension cost accounting standard, FRS 17 "Retirement Benefits", has been deferred. However, under transitional arrangements of FRS 17 the group is required to disclose the following information about the group scheme and the figures that would have been shown under FRS 17 in the current balance sheet.

The group operates two defined benefit schemes for its employees. The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuations at 31 March 2003 and updated by a qualified independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 2 April 2005. The contribution made by the group amounted to 10.7% of pensionable pay and it has been agreed that contributions will remain at this level until the results of the triennial valuation are confirmed by the actuary.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

	2 April 2005 %	27 March 2004 %	29 March 2003 %
Rate of increase in salaries	4.9	4.9	4.4
Rate of increase of pensions in payment	2.9	2.9	2.4
Rate of increase of deferred pensions	2.9	-	-
Discount rate	5.4	5.5	5.4
Inflation assumption	2.9	2.9	2.4

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Pension costs (FRS 17 - disclosure) (continued)

The assets in the scheme and the expected rate of return were:

	Long term expected rate of return %	Value at 2 April 2005 £m	Long term expected rate of return %	Value at 27 March 2004 £m	Long term expected rate of return %	Value at 29 March 2003 £m
Equities	8.1	173.4	8.5	192.1	9.0	154.3
Bonds	5.2	111.6	5.4	79.4	5.4	73.6
Other	7.0	74.4	7.5	49.0	7.5	47.6
Cash	3.9	<u>8.7</u>	-	<u>11.8</u>	-	<u>1.7</u>
Total market value of assets		368.1		332.3		277.2
Present value of scheme liabilities		<u>(442.8)</u>		<u>(413.1)</u>		<u>(353.8)</u>
Deficit in the scheme		(74.7)		(80.8)		(76.6)
Related deferred tax asset		<u>22.4</u>		<u>24.2</u>		<u>23.0</u>
Net pension liability		<u>(52.3)</u>		<u>(56.6)</u>		<u>(53.6)</u>

If the above pension liability was recognised in the financial statements, the group's net assets and profit and loss reserve would be as follows:

	2 April 2005 £m	27 March 2004 £m
Net assets		
Net assets/(liabilities) excluding pension asset	87.1	5.3
Fair value pension adjustment (including deferred tax)	(23.9)	(24.6)
Net pension liability	<u>(52.3)</u>	<u>(56.6)</u>
Net assets/(liabilities) including pension asset	<u>10.9</u>	<u>(75.9)</u>
Reserves note		
Profit and loss account reserves excluding pension asset	86.6	4.8
Fair value pension adjustment (including deferred tax)	(23.9)	(24.6)
Net pension reserve	<u>(52.3)</u>	<u>(56.6)</u>
Profit and loss reserve including pension asset	<u>10.4</u>	<u>(76.4)</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Pension costs (FRS 17 - disclosure) (continued)

	2 April 2005 £m	27 March 2004 £m
Movements in deficit during the year		
(Deficit)/surplus in scheme at beginning of year	(80.8)	(76.6)
Movement in year:		
Current service cost	(12.0)	(11.0)
Past service cost	-	-
Contributions	5.5	5.6
Other finance income	2.6	1.9
Actuarial gain/(loss)	<u>10.0</u>	<u>(0.7)</u>
Deficit in scheme at end of year	<u>(74.7)</u>	<u>(80.8)</u>

An analysis of the amounts which would be charged to operating profit is as follows:

	2 April 2005 £m	27 March 2004 £m
Current service cost	(12.0)	(11.0)
Past service cost	-	-
Total operating charge	<u>(12.0)</u>	<u>(11.0)</u>

An analysis of the amount which would be credited to other financial income is as follows:

	2 April 2005 £m	27 March 2004 £m
Expected return on pension scheme assets	24.9	21.0
Interest cost	<u>(22.3)</u>	<u>(19.1)</u>
Net return	<u>2.6</u>	<u>1.9</u>

BHS GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Pension costs (FRS 17 - disclosure) (continued)

An analysis of amounts which would be recognised in the Statement of total recognised gains and losses (STRGL) is as follows:

	2 April 2005 £m	27 March 2004 £m	29 March 2003 £m
Annual return less expected return on pension scheme assets	16.2	39.3	(78.5)
Experience gains/(losses) arising on scheme liabilities	3.1	(14.1)	9.1
Changes in financial assumptions underlying the scheme liabilities	(9.3)	(25.9)	(22.0)
Actuarial loss recognised in STRGL	(10.0)	(0.7)	(91.4)

History of amounts recognised in STRGL

Difference between the expected and actual return on assets	16.2	39.3	(78.5)
Percentage of scheme assets	4%	12%	(28)%
Experience gains and losses on scheme liabilities	3.1	(14.1)	9.1
Percentage of scheme liabilities	(1)%	3%	(3)%
Total amount recognised in STRGL	10.0	(0.7)	(91.4)
Percentage of scheme liabilities	2%	0%	(26)%

27. Ultimate controlling party

C S Green and her immediate family are the ultimate controlling party of Bhs Group Limited. The registered office of Bhs Group Limited is Marylebone House, 129-137 Marylebone Road, London, NW1 5QD.

28. Related parties

A Leighton, a director of Bhs Limited, is also a director of Going Plural Limited, a company in which he has a controlling interest. During the year Bhs Limited paid £200,000 to Going Plural Limited for the services of A Leighton (2004: £200,000). The group owes £nil (2004: £17,000) to Going Plural Limited at the year end.

Bhs Limited rents properties from Carmen Properties Limited, a company under the same ultimate control as Bhs Group Limited. The value of rental transactions in respect of these properties in the year amounted to £12,154,000 (2004: £11,955,000). There were no amounts due to or from Carmen Properties Limited at the year end (2004: £nil).

Bhs rents a property from Mildenhall Holdings Limited, a company under the same ultimate control as Bhs Group Limited. The value of rental transactions in respect of this property in the year amounted to £12,000 (2004: £nil). The group owes £12,000 (2004: £nil) to Mildenhall Holdings Limited at the year end.

BHS GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****28. Related parties (continued)**

Arcadia Group Limited is under the same ultimate control as Bhs Group Limited. Bhs Group Limited invoiced Arcadia Group Limited £1,370,000 (2004: £1,792,000) relating to the services of certain Bhs Limited and Bhs Group Limited directors and employees to Arcadia Group Limited and the provision of certain restaurant services to Arcadia Group Limited. Arcadia Group Limited invoiced Bhs Limited £4,815,000 (2004: £730,000) relating principally to the provision of certain sourcing activities. At the year end Bhs Group Limited owes Arcadia Group Limited £562,000 (2004: debtor £117,000).

The subordinated bond (notes 15 and 24) is held by a company that is ultimately controlled by C S Green and her immediate family.