

NEXT DISTRIBUTION LIMITED

DIRECTORS' REPORT

AND

ACCOUNTS

FOR THE YEAR ENDED 29<sup>TH</sup> JANUARY 2000

COMPANY REGISTRATION NO. 3045421



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## NEXT DISTRIBUTION LIMITED

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## **NEXT DISTRIBUTION LIMITED**

### **REPORT OF THE DIRECTORS**

The directors submit their report and financial statements for the year ended 29<sup>th</sup> January 2000.

#### **Principal Activity and Business Review**

The principal activity of the company continues to be the warehousing and distribution of clothing products. During the year substantial investment has been made in warehouse equipment.

The directors consider the trading results to have been satisfactory and envisage further growth in the profitability of the company's operations in the following year.

#### **Employees**

The company gives every consideration to applications for employment submitted by disabled persons, having regard to their particular aptitudes and abilities and has continued the employment of any person who has become disabled during employment. Opportunities for training, career development and promotion do not operate to the detriment of disabled persons employed by the company.

#### **Employee Involvement**

During the year, the policy of providing employees with information about the company has been continued with the employees being encouraged to present their suggestions and views on the company's performance.

#### **Supplier Payment Policy**

The company's policy for the payment of suppliers is either to agree terms of payment at the start of business, or to ensure that the supplier is aware of the company's standard payment terms. Payment is made in accordance with contractual and other legal obligations.

At 29<sup>th</sup> January 2000, the company had an average of nil days (1999 nil days) purchases outstanding in trade creditors.

#### **Profit and Dividends**

The profit for the financial year after taxation amounted to £9,999k (1999 £8,452k). The directors do not recommend payment of a final dividend.

## NEXT DISTRIBUTION LIMITED

### REPORT OF THE DIRECTORS (CONTINUED)

#### Directors and their Interests

The following Directors held office during the year and at the date of this report:-

D. C. Jones  
D. W. Keens  
P. Wise

No Director had any interests in the share capital of this company or any subsidiary company of Next plc.

The interests of Mr D.C. Jones and Mr D. W. Keens, who are also Directors of Next plc, and their families in the ordinary shares of Next plc at and 29<sup>th</sup> January 2000 and 30<sup>th</sup> January 1999 are shown in that company's accounts.

Mr P Wise has beneficial interests in Sharesave (SAYE) options of Next Plc as detailed below:

Options over ordinary shares of 10p each:

|        | 29 <sup>th</sup> January 2000 |                                | 30 <sup>th</sup> January 1999 |                          |
|--------|-------------------------------|--------------------------------|-------------------------------|--------------------------|
|        | No of shares                  | Average exercise price pshares | No of                         | Average exercise price p |
| P Wise | 3,920                         | 440                            | 3,920                         | 440                      |

None of these options were exercised in the year

The market price of the shares at 29<sup>th</sup> January 2000 was 491.5p and at 30<sup>th</sup> January 1999 was 638.5p.

The options may be exercised from 1<sup>st</sup> July 2003 to 1<sup>st</sup> January 2004.

#### Year 2000

The company, together with the Next plc Group, continues to work to safeguard its business operations and interests with regard to the impact of the year 2000 issue. The full Group statement which appears in the Next plc Annual Report is as follows:

'Prior to 31 December 1999 the Group addressed the Year 2000 issue by assessing the implications for Information Technology and non-IT areas, both within our own business and in those of our major suppliers and customers, and replaced or adapted systems as required. Although it is not possible to guarantee that no Year 2000 problems remain, the company believes that its internal systems are Year 2000 compliant.

The company continues to address the business risk from third parties with whom it deals on business or financial matters, including key customers and suppliers. Contingency plans have been developed to minimise the risk of disruption. No significant disruption has occurred to date.

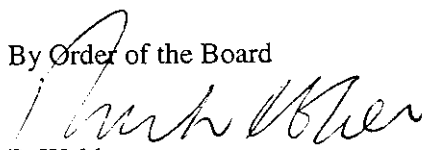
Although the millennium date change has passed and no significant problems have been encountered, the directors recognise that there is still a risk of Year 2000 impacting the business but do not expect this to be significant.

It is not possible to quantify the specific cost of our Year 2000 project, as many of the changes being implemented would otherwise have been made in the normal course of business, or contain an element of business enhancement. Expenditure has been written off to operating costs as incurred or capitalised if appropriate. Costs in achieving compliance have been reduced by a continuous programme of systems replacement and renewal as part of ongoing business development.'

## Auditors

Ernst & Young offer themselves for re-appointment as auditors in accordance with Section 384(1) of the Companies Act 1985.

By Order of the Board

A handwritten signature in dark ink, appearing to read 'P. Webber', is written over the printed name.

P. Webber

Company Secretary

28<sup>th</sup> April 2000

NEXT DISTRIBUTION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, 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 accounts;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## NEXT DISTRIBUTION LIMITED

### REPORT OF THE AUDITORS TO THE MEMBERS OF NEXT DISTRIBUTION LIMITED

We have audited the financial statements on pages 6 to 14, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

#### **Respective responsibilities of directors and auditors**

As described on page 4 the company's directors are responsible for the preparation of accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

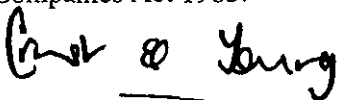
#### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 29<sup>th</sup> January 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Registered Auditor  
Nottingham

28<sup>th</sup> April 2000

**NEXT DISTRIBUTION LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 29<sup>th</sup> JANUARY 2000**

|                                                          | Notes | 2000<br>£000 | 1999<br>£000 |
|----------------------------------------------------------|-------|--------------|--------------|
| <b>TURNOVER</b>                                          | 2     | 114,652      | 98,513       |
| Cost of sales                                            |       | (99,866)     | (86,097)     |
|                                                          |       | <hr/>        | <hr/>        |
| Gross profit                                             |       | 14,786       | 12,416       |
| Net operating expenses                                   | 3     | (187)        | (241)        |
|                                                          |       | <hr/>        | <hr/>        |
| <b>PROFIT ON ORDINARY<br/>ACTIVITIES BEFORE TAXATION</b> | 2     | 14,599       | 12,175       |
| Tax on profit on ordinary activities                     | 6     | (4,600)      | (3,723)      |
|                                                          |       | <hr/>        | <hr/>        |
| <b>RETAINED PROFIT FOR THE<br/>FINANCIAL YEAR</b>        | 12    | 9,999        | 8,452        |
|                                                          |       | <hr/>        | <hr/>        |

**RECOGNISED GAINS AND LOSSES**

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £9,999k in the year ended 29<sup>th</sup> January 2000 (1999 - £8,452k).

The notes on pages 8 to 14 form part of these financial statements.

NEXT DISTRIBUTION LIMITED

BALANCE SHEET AS AT 29<sup>th</sup> JANUARY 2000

|                                                          | Notes | 2000<br>£000 | 1999<br>£000 |
|----------------------------------------------------------|-------|--------------|--------------|
| <b>FIXED ASSETS</b>                                      |       |              |              |
| Tangible fixed assets                                    | 7     | 70,512       | 60,113       |
| <b>CURRENT ASSETS</b>                                    |       |              |              |
| Debtors                                                  | 8     | 42,049       | 29,829       |
| <b>CREDITORS:</b> Amounts falling<br>due within one year | 9     | (58,185)     | (48,101)     |
| <b>NET CURRENT LIABILITIES/<br/>ASSETS</b>               |       | (16,136)     | (18,272)     |
| <b>TOTAL ASSETS LESS<br/>CURRENT LIABILITIES</b>         |       | 54,376       | 41,841       |
| <b>PROVISION FOR<br/>LIABILITIES AND CHARGES</b>         | 10    | (6,468)      | (3,932)      |
|                                                          |       | 47,908       | 37,909       |
| <b>CAPITAL AND RESERVES</b>                              |       |              |              |
| Called-up share capital                                  | 11    | 25,000       | 25,000       |
| Profit and loss account                                  | 12    | 22,908       | 12,909       |
| Equity Shareholders' funds                               | 13    | 47,908       | 37,909       |

These accounts were approved by the Board of Directors on 28<sup>th</sup> April 2000.

On behalf of the Board of Directors

D. W. KEENS

DIRECTOR



The notes on pages 8 to 14 form part of these financial statements.

## NEXT DISTRIBUTION LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 29<sup>th</sup> JANUARY 2000

#### 1. ACCOUNTING POLICIES

##### a. Accounting Convention

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

##### b. Depreciation

Depreciation is provided to write-down the cost less residual value of the asset over its remaining useful life by equal installments. The depreciation period generally applicable to plant ranges from two to fifteen years.

##### c. Deferred Taxation

Provision is made for deferred tax using the liability method on timing differences which are expected to reverse in the foreseeable future, calculated at the rate at which it is estimated that tax will be payable/recoverable.

##### d. Pension Costs

The pension cost charged to the profit and loss account is calculated so as to spread the costs of pensions over employees' working lives with the company.

##### e. Leases

The company's leased assets are acquired under operating leases. The costs of all operating leases are charged to operating profit on a straight-line basis over the period of the lease.

#### 2. TURNOVER AND SEGMENTAL ANALYSIS

##### a. Turnover represents the invoiced value of goods and services supplied during the year and is stated net of VAT.

Turnover arises from one continuing activity within the United Kingdom and is derived from group companies.

**NEXT DISTRIBUTION LIMITED**

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 29<sup>th</sup> JANUARY 2000**  
**(CONTINUED)**

|                                               | 2000<br>£000 | 1999<br>£000 |
|-----------------------------------------------|--------------|--------------|
| b. Operating profit is stated after charging  |              |              |
| Employee share ownership plan contributions   | 187          | 241          |
| Depreciation – owned assets                   | 6,822        | 3,615        |
| Auditors' remuneration – Audit services       | 4            | 10           |
| Operating lease rentals - plant and machinery | 319          |              |
| - land and buildings                          | 3,960        | 2,277        |
|                                               | <hr/>        | <hr/>        |

During the year the company paid contributions totaling £187k to the Next employee share ownership plan, which is a discretionary trust fund established for the benefit of the employees of the Next Group.

**3. NET OPERATING EXPENSES**

Net operating expenses are comprised of administration costs. All distribution costs are included in cost of sales in view of the nature of the company's trade.

Certain expenditure in 1999 has been reclassified from net operating expenses to cost of sales as the directors consider it more appropriately reflects the type of costs involved.

**4. DIRECTORS' EMOLUMENTS**

None of the Directors received any remuneration from the company during the year (1999 - £nil). The emoluments of Directors who are also directors of Next plc are dealt with in the accounts of that company.

**5. STAFF COSTS**

|                               | 2000<br>£000 | 1999<br>£000 |
|-------------------------------|--------------|--------------|
| Wages and salaries            | 27,058       | 18,386       |
| Social Security costs         | 1,860        | 1,464        |
| Other pension costs (note 18) | 927          | 667          |
|                               | <hr/>        | <hr/>        |
|                               | 29,845       | 20,517       |
|                               | <hr/>        | <hr/>        |

The average number of employees during the financial year was made up as follows:

|              | 2000<br>Number | 1999<br>Number |
|--------------|----------------|----------------|
| Distribution | 2,355          | 1,724          |
|              | <hr/>          | <hr/>          |

If the number of hours worked were converted on the basis of a full working week, the equivalent average number of full-time employees would have been 1,585 ( 1999 – 1,343).

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 29<sup>th</sup> JANUARY 2000**  
(CONTINUED)

**6. TAX ON PROFIT ON  
ORDINARY ACTIVITIES**

|                                                             | <b>2000</b> | <b>1999</b> |
|-------------------------------------------------------------|-------------|-------------|
|                                                             | <b>£000</b> | <b>£000</b> |
| The charge for taxation for the year is made up as follows: |             |             |
| Corporation tax                                             |             |             |
| -current year                                               | 2,020       | 244         |
| - prior year                                                | 44          | --          |
| Deferred tax (note 10)                                      |             |             |
| - current year                                              | 2,527       | 3,479       |
| - prior year                                                | 9           | --          |
|                                                             | <hr/> 4,600 | <hr/> 3,723 |

**7. TANGIBLE FIXED ASSETS**

|                               | <b>Plant &amp;<br/>Equipment<br/>£000</b> |
|-------------------------------|-------------------------------------------|
| Cost:                         |                                           |
| 31 <sup>st</sup> January 1999 | 65,574                                    |
| Additions at cost             | 15,800                                    |
| Group transfers               | 598                                       |
| Disposals                     | (3,180)                                   |
| 29 <sup>th</sup> January 2000 | <hr/> 78,792                              |
| Depreciation:                 |                                           |
| 31 <sup>st</sup> January 1999 | 5,461                                     |
| Charge for the year           | 6,822                                     |
| Group transfers               | (2,012)                                   |
| Disposals                     | (1,991)                                   |
| 29 <sup>th</sup> January 2000 | <hr/> 8,280                               |
| Net Book Amount:              |                                           |
| 29 <sup>th</sup> January 2000 | <hr/> 70,512                              |
| 31 <sup>st</sup> January 1999 | <hr/> 60,113                              |

**NEXT DISTRIBUTION LIMITED**

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 29<sup>th</sup> JANUARY 2000**  
**(CONTINUED)**

|                                                            |             |             |
|------------------------------------------------------------|-------------|-------------|
| <b>8. DEBTORS</b>                                          | <b>2000</b> | <b>1999</b> |
|                                                            | <b>£000</b> | <b>£000</b> |
| Amounts falling due within one year:                       |             |             |
| Amounts due from parent and fellow subsidiary undertakings | 38,775      | 27,143      |
| Other debtors                                              | 2,545       | 2,686       |
| Prepayments                                                | 729         | --          |
|                                                            | <hr/>       | <hr/>       |
| Total debtors within one year                              | 42,049      | 29,829      |
|                                                            | <hr/>       | <hr/>       |

|                                                           |             |             |
|-----------------------------------------------------------|-------------|-------------|
| <b>9. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR</b> | <b>2000</b> | <b>1999</b> |
|                                                           | <b>£000</b> | <b>£000</b> |
| Amounts due to parent and fellow Subsidiary undertakings  | 51,930      | 42,945      |
| Corporation tax                                           | 2,065       | 244         |
| Other creditors and accruals                              | 4,190       | 4,912       |
|                                                           | <hr/>       | <hr/>       |
|                                                           | 58,185      | 48,101      |
|                                                           | <hr/>       | <hr/>       |

**10. DEFERRED TAXATION**

|                                |             |             |
|--------------------------------|-------------|-------------|
|                                | <b>2000</b> | <b>1999</b> |
|                                | <b>£000</b> | <b>£000</b> |
| Accelerated capital allowances | 6,468       | 4,032       |
| Other timing differences       | --          | (100)       |
|                                | <hr/>       | <hr/>       |
|                                | 6,468       | 3,932       |
|                                | <hr/>       | <hr/>       |

Full provision has been made for all potential deferred tax liabilities.

**11. SHARE CAPITAL**

|                                       |                        |            |
|---------------------------------------|------------------------|------------|
|                                       | <b>2000 &amp; 1999</b> |            |
|                                       | <b>Number</b>          | <b>£</b>   |
| Authorised Ordinary shares of £1 each | 30,000,000             | 30,000,000 |
|                                       | <hr/>                  | <hr/>      |
| Allotted                              | 25,000,002             | 25,000,002 |
|                                       | <hr/>                  | <hr/>      |
| Called up and fully paid              | 25,000,000             | 25,000,000 |
|                                       | <hr/>                  | <hr/>      |

**NEXT DISTRIBUTION LIMITED**

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 29<sup>th</sup> JANUARY 2000**  
**(CONTINUED)**

**12. RESERVES**

|                               | <b>Profit<br/>and Loss<br/>£000</b> |
|-------------------------------|-------------------------------------|
|                               | <hr/>                               |
| 31st January 1999             | 12,909                              |
| Retained profit for the year  | 9,999                               |
|                               | <hr/>                               |
| 29 <sup>th</sup> January 2000 | 22,908                              |
|                               | <hr/>                               |

**13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

|                                               | <b>2000<br/>£000</b> | <b>1999<br/>£000</b> |
|-----------------------------------------------|----------------------|----------------------|
| At 31st January 1999                          | 37,909               | 29,457               |
| Profit attributable to members of the company | 9,999                | 8,452                |
|                                               | <hr/>                | <hr/>                |
| At 29 <sup>th</sup> January 2000              | 47,908               | 37,909               |
|                                               | <hr/>                | <hr/>                |

**NEXT DISTRIBUTION LIMITED**

**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 29<sup>th</sup> JANUARY 2000**  
**(CONTINUED)**

**14. CAPITAL COMMITMENTS**

|                                                      | 2000<br>£000 | 1999<br>£000 |
|------------------------------------------------------|--------------|--------------|
| Contracted for but not<br>provided in these accounts | 474          | 11,043       |

**15. OTHER FINANCIAL COMMITMENTS**

At 29<sup>th</sup> January 2000 the company had annual commitments under non-cancellable operating leases as set out below:-

|                                | Land & Buildings |       | Other |      | Total |       |
|--------------------------------|------------------|-------|-------|------|-------|-------|
|                                | 2000             | 1999  | 2000  | 1999 | 2000  | 1999  |
|                                | £000             | £000  | £000  | £000 | £000  | £000  |
| Operating leases which expire: |                  |       |       |      |       |       |
| Within one year                | --               | --    | 87    | 57   | 87    | 57    |
| Between two to five years      | 3,960            | 3,960 | 214   | 79   | 4,174 | 4,039 |
|                                | 3,960            | 3,960 | 301   | 136  | 4,261 | 4,096 |

**16. CASHFLOW STATEMENT**

As the company is a wholly owned subsidiary undertaking of Next plc, a company registered in England and Wales, which prepares a consolidated cashflow statement, the company has taken advantage of the exemption provided under paragraph 5 of the FRS1(Revised), not to prepare a cashflow statement.

**17. CONTINGENT LIABILITIES**

The Company has given a guarantee to Barclays Bank Plc in respect of a bank set-off arrangement with its parent undertaking Next Plc and its fellow subsidiary undertakings. The guarantee dated 26<sup>th</sup> November 1997 is limited to the credit balance held on the company's bank account.

**NEXT DISTRIBUTION LIMITED**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 29<sup>TH</sup> JANUARY 1999**  
**(CONTINUED)**

**18. PENSION COSTS**

Employees of the company are members of pension schemes operated by Next plc. The full note which appears in the accounts of Next plc is as follows:

The Group operates a funded defined benefit pension scheme in the UK, providing benefits based on final pensionable earnings which are salaries, overtime and bonuses. The scheme has equal pension rights with respect to members of either sex. The assets of the scheme are held in a separate trustee administered fund.

The most recent formal actuarial valuation was undertaken by an independent professionally qualified actuary as at 31 March 1999 using the projected unit method. The principal assumptions which have the most significant effect on the computation of the pension costs are those related to the rate of return on the investments and the rates of increase in earnings and pensions. These assumptions have been derived from market yields applying at the valuation date. In particular, the investment return used relating to pre-retirement liabilities was two and a quarter percentage points per annum in excess of the assumed rate of increase in earnings and the investment return used relating to post-retirement liabilities was two and a half percentage points per annum in excess of the assumed rate of pension increases.

At 31 March 1999, the market value of the assets was £193m representing 122% of the liability for benefits that had accrued to members after allowing for expected future increases in earnings. The actuarial surplus has been spread in level annual amounts over the average remaining service lives of the active membership. A surplus of £4.5m (1999: £3.4m) has been recognised in the year and has been offset against regular pension cost amounting to £9.6m (1999: £7.0m), resulting in a charge of £5.1m (1999: £3.6m against profits in the year. No employer contributions have been made to the scheme in the year (1999: Nil). The pension costs for the Group will continue to be set at a level that takes account of the past service funding position of the scheme. Full pension costs of the Group amounted to £5.8m (1999: £4.2m) including the estimated cost of meeting unfunded unapproved pension liabilities relating to scheme members whose benefits would otherwise be restricted by the Inland Revenue salary cap. There is a pension accrual in the balance sheet of £14.3m (1999: £8.6m).

**19. RELATED PARTY TRANSACTIONS**

The company's ultimate parent company and controlling party is Next plc, a company registered in England & Wales. Next plc is the only group preparing group accounts which include Next Distribution Limited. Copies of its group accounts are available from its Company Secretary at its registered office, Desford Road, Enderby, Leicester LE9 5AT. The company has taken advantage of the exemptions under FRS8(3) not to disclose those transactions with entities that are part of Next plc group on the basis that in excess of 90% of the voting rights are controlled within the group, and the consolidated accounts in which Next Distribution Limited is included, are publicly available.