

NEXT DISTRIBUTION LIMITED

DIRECTORS' REPORT

AND

ACCOUNTS

FOR THE YEAR ENDED 1ST FEBRUARY 2003

COMPANY REGISTRATION NO. 3045421



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 1st February 2003.

Principal Activity and Business Review

The principal activity of the company continues to be the warehousing and distribution of clothing and home furnishing products. During the year further 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 wherever possible 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 1st February 2003, the company had an average of nil days (2002 nil days) purchases outstanding in trade creditors.

Profit and Dividends

The profit for the financial year after taxation, before dividend, amounted to £16,732k (2002 £13,138k). An interim dividend of £50m was paid during the year (2002:nil). 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.W. Keens

S.A. Wolfson appointed 16th May 2002

D.C. Jones resigned 16th May 2002

No Director had any interest in the share capital of the company or of 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 own and their families' interests in the ordinary shares of Next plc are shown in that company's accounts.

Auditors

Ernst & Young, LLP, have expressed their willingness to continue in office as auditors of the Company and offer themselves for re-appointment as auditors in accordance with Section 384(1) of the Companies Act 1985.

By Order of the Board



30 July 2003

WR Barnes
Company Secretary

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
NEXT DISTRIBUTION LIMITED

We have audited the company's financial statements for the year ended 1st February 2003 which comprise the profit and loss account, balance sheet and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Director's Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 1st February 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

22 August 2003.

NEXT DISTRIBUTION LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 1ST FEBRUARY 2003

	Notes	2003 £000	2002 £000
TURNOVER	2	187,883	150,482
Cost of sales		(163,343)	(130,768)
Gross profit		24,540	19,714
Net operating expenses		(108)	(227)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	24,432	19,487
Tax on profit on ordinary activities	5	(7,700)	(6,349)
PROFIT FOR THE FINANCIAL YEAR		16,732	13,138
Dividend		(50,000)	-
RETAINED (LOSS) / PROFIT FOR THE FINANCIAL YEAR	11	(33,268)	13,138

RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £16,732k in the year ended 1st February 2003 (2002 - £13,138k).

The notes on pages 7 to 14 form part of these financial statements.

NEXT DISTRIBUTION LIMITED

BALANCE SHEET AS AT 1ST FEBRUARY 2003

	Notes	2003 £000	2002 £000
FIXED ASSETS			
Tangible fixed assets	6	63,668	60,643
CURRENT ASSETS			
Debtors	7	120,750	96,105
CREDITORS: Amounts falling due within one year	8	(136,660)	(75,980)
NET CURRENT ASSETS		(15,910)	20,125
TOTAL ASSETS LESS CURRENT LIABILITIES		47,758	80,768
PROVISION FOR LIABILITIES AND CHARGES	9	(8,703)	(8,445)
		39,055	72,323
CAPITAL AND RESERVES			
Called-up share capital	10	25,000	25,000
Profit and loss account	11	14,055	47,323
Equity Shareholders' funds	12	39,055	72,323

These accounts were approved by the Board of Directors on.

On behalf of the Board of Directors

D. W. KEENS

DIRECTOR

30 July 2003

The notes on pages 7 to 14 form part of these financial statements.

NEXT DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 1ST FEBRUARY 2003

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

Full provision is made for deferred tax arising from timing differences between the differing treatment of certain items for taxation and accounting purposes. The provision is calculated at the rates of taxation at which it is estimated the liability will arise and is not discounted. No provision is made in respect of timing differences arising from the sale or revaluation of fixed assets unless there is a commitment to the disposal of the assets at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider there to be suitable taxable profits from which the underlying timing differences can be deducted.

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. The pension cost of the defined contribution section is charged as incurred

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

- 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 FOR THE ACCOUNTS FOR THE YEAR ENDED 1ST FEBRUARY 2003 **(CONTINUED)**

	2003	2002
	£000	£000
b. Operating profit is stated after charging		
Employees Share Ownership Plan contributions	108	227
Depreciation – owned assets	7,641	7,867
Auditors' remuneration – audit services	4	4
Operating lease rentals – plant and machinery	238	269
- land and buildings	4,036	3,960

During the year the company paid contributions totaling £108k 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. DIRECTORS' EMOLUMENTS

None of the Directors received any remuneration from the company during the year 2003 (2002 - £nil). The emoluments of Directors who are also directors of Next plc are dealt with in the accounts of that company.

4. STAFF COSTS

	2003	2002
	£000	£000
Wages and salaries	39,392	32,356
Social Security costs	2,490	2,123
Other pension costs (note 17)	1,292	1,397
	43,174	35,876

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

	2003	2002
	Number	Number
Distribution	3,530	2,428

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 2,548 (2002 – 1,930).

NEXT DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 1ST FEBRUARY 2003
(CONTINUED)

5. **TAX ON PROFIT ON
ORDINARY ACTIVITIES**

	2003 £000	2002 £000
The charge for taxation for the year is made up as follows:		
Current tax		
- UK corporation tax on profits in the period	7,442	5,769
Deferred tax (note 9)		
- origination and reversal of timing differences in the current year	(178)	210
- - adjustment in respect of prior years	436	370
Total deferred tax	258	580
Taxation on profit on ordinary activities	7,700	6,349

The tax rate for the current year varied from the standard rate of corporation tax in the UK due to the following factors:

	2003 %	2002 %
UK corporation tax rate	30.0	30.0
Expenses not deductible for tax purposes	(0.3)	0.7
Origination and reversal of timing differences	0.8	(1.1)
Effective current tax rate on profit on ordinary activities	30.5	29.6

NEXT DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 1ST FEBRUARY 2003
(CONTINUED)

6. TANGIBLE FIXED ASSETS

	Plant & Equipment £000
Cost:	
26 th January 2002	75,922
Additions at cost	10,586
Group transfers	(1)
Disposals	50
1 st February 2003	86,557
Depreciation:	
26 th January 2002	15,279
Charge for the year	7,641
Group transfers	-
Disposals	(31)
1 st February 2003	22,889
Net Book Amount:	
1 st February 2003	63,668
26 th January 2002	60,643

7. DEBTORS

	2003 £000	2002 £000
Amounts falling due within one year:		
Amounts due from parent and fellow subsidiary undertakings	116,150	91,060
Other debtors	2,134	2,271
Prepayments	2,466	2,774
Total debtors within one year	120,750	96,105

NEXT DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 1ST FEBRUARY 2003
(CONTINUED)

**8. CREDITORS – AMOUNT FALLING
DUE WITHIN ONE YEAR**

	2003	2002
	£000	£000
Bank loans and overdrafts	414	187
Amounts due to parent and fellow subsidiary undertakings	113,501	59,503
Corporation tax	7,442	5,769
Other creditors and accruals	15,303	10,521
	136,660	75,980

9. PROVISION FOR LIABILITIES AND CHARGES

Deferred Tax:	2003	2002
	£000	£000
Accelerated capital allowances	8,703	8,445

Full provision has been made for all potential deferred tax liabilities

The movement in the year is as follows:

	2003	2002
	£000	£000
Balance at 27 th January 2002	8,445	7,865
Deferred tax charge:		
- origination and reversing timing differences in current year	(178)	210
- adjustments in respect of prior years	436	370
Balance at 1 st February 2003	8,703	8,445

10. SHARE CAPITAL

	Number	2003&2002
		£
Authorised Ordinary shares of £1 each	30,000,000	30,000,000
Allotted	25,000,002	25,000,002
Called up and fully paid	25,000,002	25,000,002

NEXT DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 1ST FEBRUARY 2003

11. RESERVES

	Profit And Loss £000
26 th January 2002	47,323
Deficit for the year	(33,268)
1 st February 2003	14,055

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003 £000	2002 £000
At 26 th January 2002	72,323	59,185
Profit for the year	16,732	13,138
Dividend	(50,000)	-
At 1 st February 2003	39,055	72,323

13. CAPITAL COMMITMENTS

	2003 £000	2002 £000
Contracted for but not provided in these accounts	1,548	9,334

NEXT DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 1ST FEBRUARY 2003 **(CONTINUED)**

14. OTHER FINANCIAL COMMITMENTS

At 1st February 2003 the company had annual commitments under non-cancellable operating leases as set out below:-

	Land & Buildings		Other		Total	
	2003	2002	2003	2002	2003	2002
	£000	£000	£000	£000	£000	£000
Operating leases which expire:						
Within one year	3,960	3,960	4	105	3,964	4,065
Between two to five years	--	--	143	149	143	149
	3,960	3,960	147	254	4,107	4,214

15. 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.

16. 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, its fellow subsidiary undertakings and associates. The guarantee dated 26th November 1997 is limited to the credit balance held on the company's bank account.

17. PENSION COSTS

Employees of the company are members of pension schemes operated by Next plc ("the Group"). The Group operates a pension scheme in the UK which consists of defined benefit and defined contribution sections. The defined benefit section is a funded arrangement which provides benefits based on final pensionable earnings which are salaries, overtime and annual performance bonuses and was closed to new members in 2000. The employer is unable to identify the Company's share of the underlying assets and liabilities of the scheme.

The Group continues to report its pension costs in accordance with SSAP 24 Accounting for Pension Costs. The most recent formal actuarial valuation was undertaken by an independent professionally qualified actuary as at 31 March 2002 using the projected unit method. At 31 March 2002, the market value of the assets was £204m representing 98% of the liability for benefits that had accrued to members after allowing for expected future increases in earnings. Details of the actuarial valuation of the scheme are contained in the accounts of Next plc. 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. The contributions made in respect of the year ending 31 January 2003 are not materially different from the regular cost of the scheme.

NEXT DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 1ST FEBRUARY 2003 **(CONTINUED)**

The defined contribution section is for all members who joined after October 2000 and benefits are based on each individual member's personal account which is invested in an independently administered fund. 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.

18. 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, LE19 4AT. 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.