

DIRECTORS' REPORT



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COMPANIES HOUSE 7-8-97

REVIEW OF THE BUSINESS The Group's principal activities and development during the year, its position at the year end and an indication of likely future developments are reviewed in the Chairman's Statement, and in the Chief Executive's, Operational and Financial Reviews on pages 2 to 15.

DIVIDEND The directors recommend a final dividend for 1996/97 of 4.8p per ordinary share, making 8.1p per share for the year. Profit (after tax and exceptional items) for the year was £63.8 million, the total cost of the dividend for the year is £34.0 million, and so the recommended transfer to reserves is £29.8 million. The final dividend will be paid on 14 August 1997 to shareholders on the register on 6 June 1997.

The Board has decided that the alternative of receiving the dividend in shares rather than cash (a scrip dividend) will again be available in relation to the final dividend. Storehouse operates its scrip dividend scheme on an evergreen basis. Mandates apply to all future dividends for which the scrip dividend alternative is offered, until cancelled or otherwise terminated. Only new shareholders (since the last dividend record date) will therefore automatically receive the scrip dividend booklet and mandate form. If however a shareholder wishes to elect to take the dividend in shares and does not have an existing mandate in force, or wishes to change an existing instruction, the Scrip Dividend Team at Lloyds Bank Registrars should be contacted. The share price used as a basis for calculating the allocation of shares instead of cash to an electing shareholder is the average of the middle market quotations from Monday 2 June to Friday 6 June 1997; this price can be ascertained by telephoning the Registrars (01903 702167) after 6 June. The last day for election for the scrip dividend in relation to the final dividend is 14 July 1997. Share certificates issued pursuant to scrip elections will be despatched by first class post on 13 August 1997 and dealings will commence on 14 August 1997. CREST members will have their accounts credited with the new ordinary shares allotted on 14 August 1997. Application will be made to the London Stock Exchange for the shares to be admitted to the Official List.

The total cost of the final dividend if paid wholly in cash is £20.2 million and the applicable tax credit would be £5.0 million.

SUBSTANTIAL SHAREHOLDINGS As at 13 May 1997 the following had advised the Company of interests in three per cent or more of the ordinary share capital.

Name of Company	Number of shares	Percentage held
Scottish Widows Fund and Life Assurance Society	25.0m	5.9%
The Prudential Corporation group of companies	19.2m	4.6%
The Electricity Supply Pension Scheme	15.3m	3.6%
Legal and General	14.8m	3.5%
Sun Life and Provincial Holdings	14.2m	3.4%
General Accident Plc	12.9m	3.1%

DIRECTORS Details of the directors are set out on page 17. All the directors held office throughout the year except for Chris Martin, who was appointed Group Finance Director on the resignation of Dick Steele from the Board on 17 January 1997; Angela Heylin, who was appointed to the Board on 7 March 1997; and Ian Hay Davison and Margaret Downes, who resigned on 10 July 1996. Chris Martin and Angela Heylin stand for election by shareholders at the Annual General Meeting on 10 July 1997, the first AGM since their appointment. Steve Bedford and Brian Hardy retire by rotation at the AGM and are also proposed for re-election. Chris Martin and Steve Bedford have service contracts which can be terminated on 12 months notice; Angela Heylin and Brian Hardy do not have service contracts with the Company. Martin Sorrell will retire from the Board following the AGM. Details of directors' interests in the share capital of the Company are given in the Report of the Remuneration Committee on pages 35 to 38. No director has or had any material interest in any contract of significance with the Group.

CORPORATE GOVERNANCE The Company has complied throughout the year with the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance.

Organisation The Board decides the strategy and objectives of the Group and specific matters are reserved to it for decision. The Board is assisted by a number of committees with written terms of reference covering their delegated authority. The principal committees of the Board are the Remuneration Committee (whose report is set out on pages 35 to 38), the Audit Committee and the Nomination Committee. The strategy is implemented and the operations managed by the boards of the retail companies and by the Company's Executive Committee, which comprises the Storehouse executive directors, the Chief Executive of Mothercare and the Bhs Managing Director.

DIRECTORS' REPORT

Audit Committee The Audit Committee reviews the scope of the audit, the half year and full year accounts, issues arising from the audit and matters relating to financial control. It comprises the non-executive directors, and is chaired by Brian Hardy.

Nomination Committee The Nomination Committee makes recommendations to the board about the appointment of directors. It consists of Alan Smith (Chairman), Keith Edelman and David Tagg.

INTERNAL FINANCIAL CONTROL The Board has overall responsibility for the systems of internal financial control. There are inherent limitations in any system of financial control and so any system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control system that operated throughout the period covered by the accounts are:

- A control environment based on a clearly defined organisational structure, delegation of authority with accountability and a professional approach to financial reporting.
- The identification and evaluation of business risks and control objectives and the establishment of priorities for the allocation of resources.
- The operation of control procedures covering financial transactions, verifications and reconciliations, commitment and authorisation limits, asset recording and protection, and treasury policy.
- A monitoring process, particularly through branch audits and through the budget, forecast review and trading reporting processes, which highlights the key business performance indicators and risks and significant variances from expectations.

The information systems are integral to the reporting of relevant reliable information and a major programme, Genesis 2000, is currently in progress in this area.

The directors have reviewed the effectiveness of the Group's systems of internal financial control.

GOING CONCERN After making enquiries the directors have a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Accounts.

EMPLOYEES The Group's reward philosophy is aligned with increasing business success, and employees are incentivised to share financially in improved performance.

Senior managers participate in annual incentive plans which are related to company profits, departmental objectives and individual performance contribution. Successful individual store sales performance is also rewarded through incentive plans. 'Profit from Success' schemes were successfully launched for a third year.

All employees were given the opportunity to participate in a share scheme, Option 2000, which was launched to recognise the millennium. A further grant will be made to those not eligible in 1996 with one year's service on 1 July 1997. The Sharesave Scheme continues to operate, taking advantage of the reduction in minimum employee contribution and savings period. There are now more than 12,000 employees with an interest in Storehouse shares through either the Option 2000 or Sharesave Schemes.

Information on operational and financial plans and performance is communicated through a number of channels, including video, newspapers and team briefing, ensuring employees are consulted, aware of progress and involved.

Investment in skill building continues to improve capability in core business functions.

Storehouse is an equal opportunities employer, and ensures that recruitment and promotion decisions are made solely on the basis of suitability for the job. Disabled persons are given due consideration for employment opportunities, and if employees become disabled, every effort is made to retain them, providing requisite employment aids.

FIXED ASSETS Changes in fixed assets are shown in Note 8 to the accounts. A valuation of the Group's freehold and long leasehold properties, excluding fully rack rented properties, was carried out by external valuers, primarily Healey & Baker, as at 29 March 1997 in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Manual. The valuation of the properties resulted in a surplus over their net book value of £15 million.

CREDITOR PAYMENT POLICY Payments are made to merchandise suppliers in accordance with the general conditions of purchase (which are communicated to suppliers) or the specific terms agreed with suppliers. It is the Group's policy to make payments to non-merchandise suppliers, unless otherwise agreed, within the period set out in the supplier's invoice or within 30 days of date of invoice.

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The amount for trade creditors shown in the balance sheet as at the end of the financial year represents nine days of average daily purchases during the year for the Company and 18 days for the Group.

CHARITABLE DONATIONS The Group's charitable donations in the year amounted to £130,000 (1996 - £266,000). In accordance with Board policy, the Group has made no political donations.

CLOSE COMPANY STATUS The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

AUDITORS A resolution to re-appoint Arthur Andersen as auditors to the Company will be proposed at the Annual General Meeting on 10 July 1997.

THE ANNUAL GENERAL MEETING Enclosed with this Annual Report is a pre-paid form for any questions relating to the business which you may wish to put to your Board. Of course you may ask questions in person if you are able to come to the AGM, which is at the Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on Thursday, 10 July at 12.00 noon.

DISAPPLICATION OF PRE-EMPTION RIGHTS In addition to the ordinary business, the directors will propose at the Annual General Meeting a resolution for the annual renewal of the authority to allot equity securities for cash without offering them first to existing shareholders, limited in accordance with institutional guidelines to five per cent of the current issued share capital (21 million shares) (Resolution 8).

PURCHASE OF OWN SHARES BY THE COMPANY The directors consider that it would be advantageous to obtain the authority of the shareholders to allow the Company to acquire its own shares in the market. Storehouse, unlike many publicly quoted companies, does not currently have this flexibility when considering its corporate financial strategy. Accordingly, a Special Resolution (number 9 in the Notice of Meeting) will be put to the Annual General Meeting to authorise the Company to make market purchases of up to 10 per cent of its issued ordinary shares. The price at which shares may be purchased will not be more than five per cent above the average middle market quotations for Storehouse shares (in the London Stock Exchange Daily Official List) for the five business days before the date of purchase. Shares purchased will be cancelled. This authority will expire at the conclusion of the Annual General Meeting in 1998.

Your directors have no present intention of exercising this authority if it is given, but wish to be in a position to act quickly in the interests of the Company and shareholders generally if circumstances so warrant. Purchases of the Company's shares would only be made if this would result in an increase in earnings per share and be in the best interests of the Company at the time.

By order of the Board
G A Johnson, Company Secretary
22 May 1997



DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The following statement has been prepared, in accordance with the Cadbury Code of Best Practice, in order to explain the directors' responsibilities for preparing the accounts. It should be read in conjunction with the Auditors' Report set out below.

The directors are required to prepare accounts which give a true and fair view of the state of affairs of the Company and the Group as at the end of its financial year, and of the profit of the Group for the financial year. The directors are also required to ensure that adequate accounting records are maintained.

In preparing the accounts, the directors consider that appropriate accounting policies consistently applied and supported by reasonable and prudent judgements have been used. Applicable accounting standards have been followed. The accounts have been prepared on a going concern basis.

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

AUDITORS' REPORT

To the Shareholders of Storehouse PLC:

We have audited the accounts on pages 22 to 34 and note 17 on page 38 and page 39 which have been prepared under the historic cost convention and the accounting policies set out on page 26. We have also examined the amounts disclosed relating to the emoluments, share options and Long Term Bonus Scheme interests of the directors which form part of the Remuneration Committee report on pages 35 to 38.

Respective Responsibilities of Directors and Auditors

As described on page 20 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

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

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

Opinion

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

Corporate Governance

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 18 and 19 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company and Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on page 19, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on pages 18 and 19 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Arthur Andersen
Chartered Accountants and Registered Auditors
London
22 May 1997



GROUP PROFIT STATEMENT

For the fifty-two weeks ended 29 March 1997 (Note 1)

	1997 £ million	1996 £ million
Turnover		
Same businesses	1,138.1	1,068.8
Acquisitions	109.2	-
Continuing businesses	1,247.3	1,068.8
Discontinued operations	2.4	14.8
Total (Note 2)	1,249.7	1,083.6
Cost of sales (Note 2)	(1,102.5)	(954.9)
Gross profit	147.2	128.7
Administrative expenses (Note 2)	(28.2)	(26.7)
Profit from retail operations (Note 2)		
Same businesses	115.1	101.6
Acquisitions	4.1	-
Continuing businesses	119.2	101.6
Discontinued operations	(0.2)	0.4
	119.0	102.0
Exceptional items: (Note 3)		
Restructuring of Childrens World	(16.4)	-
Disposal of Blazer	(4.1)	-
Disposal of One Up stores	-	1.2
Interest and other items (Note 4)	(0.7)	6.7
Profit on ordinary activities before taxation	97.8	109.9
Tax on profit on ordinary activities (Note 5)	(34.0)	(35.3)
Profit for the financial year	63.8	74.6
Dividends (Note 6)	(34.0)	(30.4)
Retained profit for the financial year (Note 14)	29.8	44.2
Earnings per share (Note 7)	15.2p	17.8p
Earnings per share excluding exceptional items (Note 7)	19.4p	17.5p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the fifty-two weeks ended 29 March 1997 (Note 1)

	1997 £ million	1996 £ million
Company	6.0	(3.9)
Subsidiary undertakings	57.8	78.5
Profit for the financial year being total recognised gains and losses relating to the year	63.8	74.6

A statement of the movement in reserves is shown in Note 14.

The accounting policies on page 26 and the notes on pages 27 to 39 form an integral part of these Statements.

GROUP AND COMPANY BALANCE SHEETS

As at 29 March 1997 (Note 1)

	1997 £ million	Group 1996 £ million	1997 £ million	Company 1996 £ million
Fixed Assets				
Tangible assets (Note 8)	544.1	489.8	0.2	-
Investments (Note 9)	2.4	1.9	222.6	243.2
	546.5	491.7	222.8	243.2
Current Assets				
Stocks	175.2	124.2	-	-
Debtors (Note 10)	94.1	71.2	148.6	141.9
Cash at bank and in hand and time deposits	41.9	73.5	-	-
	311.2	268.9	148.6	141.9
Creditors (amounts falling due within one year - Note 11)	(257.9)	(207.9)	(81.6)	(72.6)
Net Current Assets	53.3	61.0	67.0	69.3
Total Assets Less Current Liabilities	599.8	552.7	289.8	312.5
Creditors (amounts falling due after one year - Note 11)	(43.9)	(13.3)	-	-
Provisions for Liabilities and Charges (Note 12)	(12.7)	(7.4)	-	-
	543.2	532.0	289.8	312.5
Capital and Reserves attributable to equity interests				
Called-up share capital (Note 13)	42.1	41.9	42.1	41.9
Share premium account (Note 14)	28.2	23.9	28.2	23.9
Acquisition and merger reserves (Note 14)	73.5	95.5	-	-
Profit and loss account (Note 14)	399.4	370.7	219.5	246.7
	543.2	532.0	289.8	312.5

Approved by the Board on 22 May 1997

K G Edelman

C N Martin

Directors

Reconciliation of movements in shareholders' funds for the fifty-two weeks ended 29 March 1997

	1997 £ million	1996 £ million
Profit for the financial year	63.8	74.6
Dividends	(34.0)	(30.4)
	29.8	44.2
Goodwill on acquisition of Childrens World	(27.1)	-
Goodwill on disposal of Blazer	5.1	-
Scrip dividend	0.8	-
New share capital subscribed	2.6	3.6
Net increase in shareholders' funds	11.2	47.8
Opening shareholders' funds	532.0	484.2
Closing shareholders' funds	543.2	532.0

The accounting policies on page 26 and the notes on pages 27 to 39 form an integral part of these Balance Sheets.

GROUP CASH FLOW STATEMENT

For the fifty-two weeks ended 29 March 1997 (Note 1)

	1997 £ million	1997 £ million	1996 £ million	1996 £ million
Reconciliation of net cash inflow from operations				
Profit from retail operations	119.0		102.0	
Depreciation	45.3		39.4	
Increase in stocks	(38.3)		(7.1)	
Increase in Debtors	(22.0)		(4.4)	
(Decrease) increase in Creditors	(1.9)		2.8	
Net cash flow in respect of exceptional costs	(8.8)		-	
Net cash inflow from operating activities		93.3		132.7
GROUP CASH FLOW STATEMENT				
Net cash flow from operating activities		93.3		132.7
Returns on investments and servicing of finance:				
Interest received	2.4		7.1	
Interest paid Note (d)	(3.3)		(0.1)	
		(0.9)		7.0
Taxation:				
Corporation tax including ACT	(41.8)		(20.7)	
Overseas tax	(0.3)		(0.2)	
		(42.1)		(20.9)
Capital expenditure:				
Purchase of tangible fixed assets	(94.1)		(129.0)	
Sale of tangible fixed assets	15.5		33.2	
		(78.6)		(95.8)
		(28.3)		23.0
Acquisitions and disposals				
Acquisition of subsidiaries and shares Note (b) and Note 9	(65.0)		-	
Net cash acquired with subsidiary undertaking Note (b)	2.5		-	
Disposal of subsidiaries Note (c)	7.0		-	
		(55.5)		-
Equity dividends paid				
		(30.5)		(27.8)
		(114.3)		(4.8)
Management of liquid resources: Note (a)				
		(1.3)		(4.7)
Financing				
Issue of share capital	2.6		3.6	
Increase in debt Note (a)	42.8		-	
		45.4		3.6
Decrease in cash in the period		(70.2)		(5.9)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT				
Decrease in cash for the year		(70.2)		(5.9)
Cash flow from liquid resources		1.3		4.7
Cash flow from debt		(42.8)		-
Movement in net debt in the year Note (a)		(111.7)		(1.2)
Net funds at beginning of year		73.5		74.7
Net (debt) funds at end of year		(38.2)		73.5

NOTES TO THE GROUP CASH FLOW STATEMENT

For the fifty-two weeks ended 29 March 1997 (Note 1)

	1995 £ million	Cash Flow £ million	1996 £ million	Cash Flow £ million	1997 £ million
(a) Analysis of net funds (debt)					
*Cash	50.7	(5.9)	44.8	(32.9)	11.9
Overdrafts (Note 11)	—	—	—	(37.3)	(37.3)
Net cash	50.7	(5.9)	44.8	(70.2)	(25.4)
Cash flow from management of liquid resources					
*Time deposits	24.0	4.7	28.7	1.3	30.0
Increase in debt					
Bills of exchange (Note 11)	—	—	—	(10.0)	(10.0)
Obligations under property leases: Due within one year (Note 11)	—	—	—	(6.2)	(6.2)
Due after one year (Note 11)	—	—	—	(26.6)	(26.6)
Increase in debt	—	—	—	(42.8)	(42.8)
Net funds (debt)	74.7	(1.2)	73.5	(111.7)	(38.2)

*Cash and time deposits on the balance sheet represents the total of cash of £11.9 million (1996 – £44.8 million) and time deposits of £30.0 million (1996 – £28.7 million).

(b) Acquisition of subsidiaries and shares

Net assets on acquisition of Childrens World:

	£ million
Tangible fixed assets	26.7
Stocks	15.0
Debtors including £0.3 million taxation recoverable	2.5
Cash at bank and in hand	2.5
Creditors	(10.0)
Net assets on acquisition (Note 9)	36.7
Goodwill (Note 14)	27.1
Cash paid including costs of £1.3 million	63.8
Acquisition of shares by Long Term Incentive Plan (Note 9)	1.2
	65.0

Childrens World during the year utilised £0.5 million of the group's net operating flows and £1.5 million on capital expenditure.

(c) Sale of Blazer

	£ million
Net assets disposed of:	
Fixed assets	2.3
Stocks	2.2
Other net liabilities	(0.7)
Net assets	3.8
Cash consideration after costs of £0.1 million	7.0
Gain on disposal before goodwill written-off	3.2
Provision for termination costs (Note 12)	(2.2)
Net gain on disposal	1.0
Goodwill written off at time of acquisition	(5.1)
Net loss on disposal (Note 3)	(4.1)

d) Obligations under property leases

Proceeds from finance leases during the year amounted to £37.1 million. The capital element of lease payments made in the year was £4.3 million. Interest paid in 1997 includes £1.9 million in relation to obligations under property leases.

ACCOUNTING POLICIES

Accounting Convention The accounts have been prepared under the historic cost convention and in accordance with applicable accounting standards.

Basis of Consolidation The Group accounts include the accounts of the Company and all its subsidiary undertakings drawn up to the close of business on 29 March 1997.

Intercompany transactions have been eliminated on consolidation. The results of companies acquired or disposed of in the year are included to the date of disposal or from the effective date of acquiring control. Goodwill arising on the acquisition of subsidiary undertakings and representing the difference between the consideration given and the fair value of the net assets acquired is written off to reserves but included in the calculation of the loss/gain on subsequent disposal. As provided by the Companies Act 1985, the Company does not disclose its own separate profit and loss account.

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

Leased Assets Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease term and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Operating leases are charged to profit and loss as incurred.

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

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

Freehold buildings other than stores – 50 years
Fixed equipment in freehold buildings – 20 years
Leasehold improvements – the period of the lease
Fixtures, fittings and equipment – 3 to 20 years

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

Foreign Currency Transactions in foreign currencies are translated into local currency at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into local currency at the rates ruling at each balance sheet date. Resulting exchange gains or losses are included in trading profit. For the purposes of consolidation, the results of overseas subsidiary undertakings are translated at average rates of exchange during the year. Translation differences on the opening net assets and results for the year of overseas subsidiary undertakings, net of gains or losses on related foreign currency borrowing, are dealt with through reserves.

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

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

NOTES TO THE ACCOUNTS

1 BASIS OF PRESENTATION

The Company's accounting period covers the 52 weeks ended 29 March 1997. The comparative period covered the 52 weeks ended 30 March 1996. The Cash Flow Statement has been restated in accordance with FRS 1 (revised).

2 SUPPLEMENTARY PROFIT AND LOSS INFORMATION

All turnover and retail profit is derived from continuing businesses in the UK.

Turnover by destination can be analysed as follows:

	1997 £ million	1996 £ million
United Kingdom including Channel Islands	1,151.9	1,005.3
Rest of Europe	34.3	29.1
Rest of world	63.5	49.2
	1,249.7	1,083.6

Included within cost of sales is £103.4 million and £1.7 million in administrative expenses relating to acquisitions.

Discontinued businesses represents £2.3 million of costs of sales (1996 – £13.1 million) and £0.3 million (1996 – £1.3 million) of administration expenses.

Profit from retail operations, all from continuing businesses, has been determined after charging the following items:

	1997 £ million	1996 £ million
Depreciation of tangible assets	45.3	39.4
Net rent of properties	90.9	76.4
Auditors' remuneration – audit	0.2	0.2
– non-audit (taxation and advice on acquisition of Childrens World)	0.4	0.2
Staff costs:		
Wages and salaries (including bonuses)	124.8	110.8
Social security costs	6.7	6.2
Other pension costs	0.1	0.1

An analysis of the average number of full and part-time employees throughout the Group, all of whom are employed in the UK, including executive directors, is as follows:

	1997	1996
Number of employees	20,841	19,088
Full-time equivalents	10,866	9,946

3 EXCEPTIONAL ITEMS

Restructuring of Childrens World

The restructuring charge of £16.4 million arises from the acquisition of Childrens World in May 1996. It includes asset write offs and redundancies resulting from the closure of its Nottingham head office, the costs of bringing the Childrens World stores into line with Mothercare and the closure of certain surplus stores. It also includes the costs of integrating the Childrens World business into Mothercare's head office at Watford.

Disposal of Blazer

Blazer was sold to Moss Bros Group PLC on 13 June 1996 for £7.1 million cash. The disposal resulted in a surplus over net assets of £1.0 million after costs. The goodwill of £5.1 million which was written off on acquisition has been charged to the exceptional line with a corresponding credit to shareholders' funds. The loss on disposal after goodwill amounts to £4.1 million.

Disposal of One Up Stores

The exceptional item in 1996 related to the profit on disposal of stores, in particular relating to 16 One Up Stores.

The tax relief on the exceptional costs is £2.8 million (1996 – nil).

NOTES TO THE ACCOUNTS

4 INTEREST AND OTHER ITEMS

	1997 £ million	1996 £ million
Interest payable:		
Bank loans and overdrafts (repayable within five years, not by instalments)	(1.2)	(0.2)
Obligations under property leases (repayable within five years by instalments)	(1.9)	-
Interest receivable	2.4	6.9
	(0.7)	6.7

5 TAXATION

The charge for tax on profit on ordinary activities comprises:

	1997 £ million	1996 £ million
UK corporation tax at 33% (1996 - 33%)	27.0	35.5
Overseas taxation	0.3	0.3
Deferred taxation	4.4	1.3
	31.7	37.1
Adjustment for prior years	2.3	(1.8)
Taxation arising on income of the Group	34.0	35.3

Deferred taxation included in the Balance Sheet comprises:

	1997 £ million	Group 1996 £ million
Excess of capital allowances over book depreciation	12.1	6.2
Other timing differences	1.5	3.0
ACT recoverable	(5.0)	(4.4)
	8.6	4.8

The movement on deferred taxation in the year was as follows:

	Group £ million
Balance at beginning of year	4.8
ACT recoverable	(0.6)
Charged to profit and loss	4.4
Balance at end of year	8.6

The amount of deferred taxation cumulatively not provided, principally arising on capital allowances in the Group Balance Sheet, was £19.8 million (1996 - £16.8 million).

6 DIVIDENDS ON EQUITY SHARES

	1997 £ million	1996 £ million
Interim of 3.3p per share paid (1996 - 3.0p)	13.8	12.8
Final of 4.8p per share proposed (1996 - 4.2p)	20.2	17.6
	34.0	30.4

NOTES TO THE ACCOUNTS

7 EARNINGS PER SHARE

	1997	1996
Average number of ordinary shares in issue	420.2m	418.2m
Profit for the financial year	£63.8m	£74.6m
Earnings per share	15.2p	17.8p
Profit for the financial year excluding exceptional items (Note 3)	£81.5m	£73.4m
Earnings per share excluding exceptional items	19.4p	17.5p

Profit for both financial years excluding exceptional items is shown in order to give the underlying trading performance of the Group. Fully diluted earnings per share are not materially different from the amounts shown above.

8 TANGIBLE ASSETS

The net book value of tangible fixed assets shown in the Group Balance Sheet comprises:

	Properties, including fixed equipment		Fixtures, fittings, equipment £ million	Total £ million
	Freehold £ million	Leasehold £ million		
Cost:				
Balance at beginning of year	77.7	368.8	311.1	757.6
Additions	1.5	38.1	57.9	97.5
Acquisition of Childrens World	–	19.4	26.7	46.1
Disposals and write-offs	(9.4)	(10.1)	(30.7)	(50.2)
Disposal of Blazer	–	(2.3)	(2.2)	(4.5)
Balance at end of year	69.8	413.9	362.8	846.5
Accumulated depreciation:				
Balance at beginning of year	4.6	81.7	181.5	267.8
Charge for the year	0.2	12.7	32.4	45.3
Acquisition of Childrens World	–	6.1	13.3	19.4
Disposals and write-offs	–	(2.6)	(25.3)	(27.9)
Disposal of Blazer	–	(1.0)	(1.2)	(2.2)
Balance at end of year	4.8	96.9	200.7	302.4
Net book value:				
Balance at beginning of year	73.1	287.1	129.6	489.8
Balance at end of year	65.0	317.0	162.1	544.1

The net book value of leasehold properties includes £153.0 million (1996 – £130.8 million) in respect of short leasehold properties. The net book value of leasehold properties includes £58.9 million held under finance leases.

NOTES TO THE ACCOUNTS

8 TANGIBLE ASSETS (continued)

The net book value of tangible fixed assets shown in the Company Balance Sheet comprises:

	Fixtures, fittings, equipment £ million	Total £ million
Cost:		
Balance at beginning of year	-	-
Acquisitions	0.3	0.3
Balance at end of year	0.3	0.3
Accumulated depreciation:		
Balance at beginning of year	-	-
Charge for the year	0.1	0.1
Balance at end of year	0.1	0.1
Net book value:		
Balance at beginning of year	-	-
Balance at end of year	0.2	0.2

9 INVESTMENTS

Investments in the Group Balance Sheet consist of the Group's interests in its own shares through an ESOP (Employee Share Ownership Plan) and the LTIP (Long Term Incentive Plan) which have been accounted for in accordance with UITF Abstract 13. The cost of shares to be allocated is spread over the period of the LTIP. The movement reflects the allocation of 251,025 shares to directors in May 1996 and the acquisition of the shares by the LTIP.

Investments in the Company's balance sheet consist of its investments in its subsidiary undertakings.

The trading subsidiary undertakings at 29 March 1997 (all wholly owned and all of which are consolidated in the accounts) and their respective countries of incorporation or registration which in the opinion of the directors principally affected the profits or net assets of the Group are:

	Business	Country of Registration
Bhs plc(i)	Retailing	England
Bhs (Jersey) Limited	Retailing	Jersey
Mothercare UK Limited	Retailing	England
Childrens World Limited	Retailing	England
Storehouse Finance PLC*	Finance Company	England
Storehouse Properties Limited*	Investment Property	England
Davenbush Limited*(i)	Investment Property	England

*Direct subsidiary of Storehouse PLC

Issued share capital represents only ordinary shares or their equivalent except for companies marked (i) where there are also preference shares.

The principal country of operation for the subsidiary undertakings is the United Kingdom except for Bhs (Jersey) Limited which operates in Jersey. Details of investments which are not significant have been omitted to avoid a statement of excessive length.

NOTES TO THE ACCOUNTS

9 INVESTMENTS (continued)

The Company's investment in its subsidiary undertakings is as follows:

	1997 £ million	1996 £ million
Cost of investments less amounts written-off £63.2 million (1996 – £63.2 million)	153.5	153.5
Loans to subsidiary undertakings	69.1	89.7
	222.6	243.2

On 17 May 1996 the Group acquired 100 per cent of the ordinary share capital of Childrens World Limited for cash. The fair value of the total consideration was £62.5 million.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair values to the Group.

	Book value	Revaluation	Accounting policy alignment	Fair value to group
Fixed assets	30.5	(0.1)	(3.7)	26.7
Stocks	17.8	(0.1)	(2.7)	15.0
Debtors	2.2	–	–	2.2
Taxation recoverable	0.3	–	–	0.3
Cash at bank and in hand	2.5	–	–	2.5
Creditors	(9.3)	(0.7)	–	(10.0)
	44.0	(0.9)	(6.4)	36.7

The fair value adjustment arose on the realignment of Childrens World accounting policies to Storehouse Group depreciation and stock policies. The goodwill of £27.1 million has been written off against acquisition and merger reserves as set out in Note 14.

As set out in Note 3, £16.4 million has been charged to the profit and loss account in respect of costs incurred in reorganising, restructuring and integrating the business of Childrens World since its acquisition in May 1996. Note 12 sets out the amount utilised to 29 March 1997.

Childrens World earned a profit after taxation of £0.1 million in the period from 1 April 1996 (the start of its financial year), to 17 May 1996 (year ended 31 March 1996 – loss £1.1 million).

10 DEBTORS

	Group		Company	
	1997 £ million	1996 £ million	1997 £ million	1996 £ million
Trade debtors	41.0	29.6	–	–
Amounts due from subsidiary undertakings	–	–	140.3	139.4
Prepayments and accrued income	43.8	31.8	–	–
Asset held for re-sale	0.4	1.7	–	–
Other debtors	8.9	8.1	8.3	2.5
	94.1	71.2	148.6	141.9

Included within Group debtors is £7.1 million (1996 – £8.1 million) which is due in over one year; included within the Company is £6.1 million (1996 – £1.5 million) which is due in over one year.

NOTES TO THE ACCOUNTS

11 CREDITORS (amounts falling due within one year and after one year)

	Group		Company	
	1997 £ million	1996 £ million	1997 £ million	1996 £ million
Amounts falling due within one year				
Bank loans and overdrafts	37.3	—	8.5	41.6
Bills of exchange	10.0	—	—	—
Obligations under property leases	6.2	—	—	—
Trade creditors	63.4	57.3	0.1	0.1
Proposed dividend	20.2	17.6	20.2	17.6
Current taxation	35.3	48.2	—	—
ACT payable	8.2	7.6	8.2	7.6
Amounts due to subsidiary undertakings	—	—	43.1	4.6
Payroll and other taxes, including social security	7.6	4.5	0.1	0.1
Accruals and deferred income	59.9	64.4	1.4	1.0
Landlords' contributions	8.2	6.3	—	—
Other creditors	1.6	2.0	—	—
	257.9	207.9	81.6	72.6

Amounts falling due after one year

	1997 £ million	Group 1996 £ million
Obligations under property leases	26.6	—
Landlords' contributions	17.0	13.0
Corporation taxation	0.3	0.3
	43.9	13.3

Obligations under property leases are analysed as follows:

	1997 £ million
Amounts payable	
– within one year	8.4
– within two to five years	30.3
	38.7
Finance charges allocated to future periods	(5.9)
	32.8

12 PROVISIONS FOR LIABILITIES AND CHARGES

	1997 £ million	Group 1996 £ million
Pension and similar obligations (Note 15)	—	0.5
Deferred taxation (Note 5)	8.6	4.8
Other provisions	4.1	2.1
	12.7	7.4

NOTES TO THE ACCOUNTS

12 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The movement on other provisions can be analysed as follows

	Acquisition Provisions	Disposal Provisions	Total
Balance at beginning of year	–	2.1	2.1
Charged to profit and loss account	16.4	2.2	18.6
Utilised in year	(13.9)	(2.7)	(16.6)
Balance at end of year	2.5	1.6	4.1

13 CALLED-UP SHARE CAPITAL

The authorised share capital is represented by 549,500,000 (1996 – 549,500,000) ordinary shares of 10p each. The called-up share capital, all fully paid, is as follows:

	Number of shares	£ million
Balance at beginning of year	419,155,666	41.9
Issued under the Storehouse Sharesave Scheme	1,001,121	0.1
Issued under the Storehouse Executive Share Option Scheme	809,013	0.1
Issued under the Scrip Dividend Scheme	385,560	–
Balance at end of year	421,351,360	42.1

14 RESERVES

The movement on reserves is as follows:

	Company			Group	
	Profit and Loss account £ million	Share premium account £ million	Share premium account £ million	Profit and Loss account £ million	Acquisition and merger reserves £ million
Balance at beginning of year	246.7	23.9	23.9	370.7	95.5
Profit for the financial year	6.0	–	–	63.8	–
Dividends paid and proposed	(34.0)	–	–	(34.0)	–
Goodwill – on acquisition of Childrens World	–	–	–	–	(27.1)
Goodwill – transfer on disposal of Blazer	–	–	–	–	5.1
Scrip dividend adjustment	0.8	–	–	0.8	–
Transfer on reserves	–	–	1.9	(1.9)	–
Share issue	–	4.3	2.4	–	–
Balance at end of year	219.5	28.2	28.2	399.4	73.5

The Company's realised gains and losses are the same as the profit for the financial year and the historic cost profit and loss.

The cumulative amount of goodwill resulting from acquisitions, net of amounts written back on subsequent disposals, arising since the formation of Storehouse, which has been written off is £30.1 million (1996 – £8.1 million).

NOTES TO THE ACCOUNTS

15 COMMITMENTS

The capital commitments are as follows:

	1997 £ million	Group 1996 £ million
Contracts for capital expenditure	10.6	12.7

Current annual rental commitments of the Group under operating leases are as follows:

	1997 £ million	Buildings 1996 £ million	1997 £ million	Other 1996 £ million
Leases which expire				
– within 1 year	0.7	0.4	2.9	0.8
– between 2 and 5 years	0.7	1.5	3.1	3.1
– over 5 years	102.5	80.0	0.5	0.3
	103.9	81.9	6.5	4.2

The Company has committed to support certain of its subsidiary undertakings and has banking cross guarantees with certain of its principal subsidiary undertakings.

Pensions

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

The majority of the assets of each of the schemes are held in a separate trustee common investment fund, The Storehouse Pension Investment Fund. The pension costs relating to the schemes were assessed in accordance with the advice of qualified actuaries using primarily the projected unit and current unit methods. The latest actuarial valuations were carried out at 1 April 1994 and a further valuation is being carried out effective 1 April 1997.

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

Rate of return on investments	9.0%
Rate of increase in salaries	7.0 – 8.0%
Rate of increase in pensions	4.5%

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

The total pension cost for the Group is £0.1 million (1996 – £0.1 million) and includes a credit of £10.3 million (1995 – £9.3 million) in respect of the amortisation of pension surpluses arising in prior years which are now being allocated over the remaining estimated service lives of employees of between six and 16 years.

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

NOTES TO THE ACCOUNTS

16 THE REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee determines the remuneration of executive directors, and oversees the operation of the Executive Share Option Scheme and the Long Term Incentive Plan. Its members are the non-executive directors, chaired by David Tagg. The Company has adopted the provisions of the Code of Best Practice of the Study Group on Directors' Remuneration. It complies with Section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange and the Remuneration Committee has given full consideration to the provisions of Section B in framing its remuneration policy.

Remuneration Policy

It is Storehouse's policy to provide remuneration in form and amount appropriate to the scale of responsibility and performance of the executive directors, and which will motivate and retain executives of the necessary calibre. Remuneration arrangements are reviewed against external data to ensure that they remain competitive. Storehouse's reward philosophy is geared to performance, and to aligning remuneration with shareholder interests through share schemes.

Service Contracts

In accordance with the Greenbury Report on directors' remuneration, Keith Edelman and Steve Bedford have agreed to reduce the term of notice contained in their service contracts from 24 months to 12 months. In addition, Chris Martin's contract can be terminated on 12 months' notice. The executive directors' contracts provide for liquidated damages on termination by the Company of one year's basic salary, benefits and pension credit, the average of the previous three years' annual bonus, and that exercisable (i.e. three years old) share options may be retained. Alan Smith has a service contract which can be terminated by the Company on one year's notice. The other non-executive directors do not have service contracts with the Company. The elements of the executive directors' remuneration are set out below.

Annual Remuneration

Base salaries are set by reference to individual and business performance, external data and internal Storehouse relativities.

The annual performance bonus is a non-pensionable cash payment based on the profit before tax and exceptional items of the Storehouse Group. The maximum bonus payable to executive directors is 50 per cent of base salary. The bonus paid for the year amounted to 17.7 per cent of base salary.

Long Term Performance

The final allocation of Storehouse shares under the 1993 Long Term Bonus Scheme will be made at the end of May 1997. 116,025 shares will be transferred to Keith Edelman and 42,500 shares to each of Steve Bedford and Dick Steele. The value, as at 16 May 1997, of the shares to be allocated is shown in the details of the executive directors' remuneration on page 38. This scheme was based on two separate and equally weighted performance measures: share price relative to the other major UK non-food retailers, and the aggregate increase in earnings per share (before exceptional items). Over the three years covered by the scheme (ending March 1996), Storehouse's earnings per share before exceptional items increased by 124 per cent and its share price increased by 80 per cent.

The Long Term Incentive Plan was approved by shareholders at last year's AGM. Under the Plan, provisional awards of shares in the Company are made to executives each year to a value of shares at the time of provisional allocation of 50 per cent of base salary. The Plan is based, over rolling three year performance periods, on two separate measures, with 50 per cent of the award payable for each measure. The first is the Company's share price performance compared with the largest 150 companies listed on the London Stock Exchange; the second is the earnings per share before exceptional items (eps) performance against that same comparative group, although the Remuneration Committee will have the discretion to cancel any awards under this eps measure if they consider that the eps performance is unacceptable. 20 per cent of the provisional award is payable for median performance increasing on a straight line basis to 100 per cent for upper quartile performance. The first provisional awards were made under the Plan in August 1996 to 20 executives, including the executive directors of the Company. The maximum provisional awards were 59,726 shares to Keith Edelman, 35,836 shares to Steve Bedford and 16,211 shares to Chris Martin. These awards, or any element of them (depending on performance against the measures set out above), will not normally vest with executives until July 1999.

Executive Share Option Scheme

Under the scheme, which was approved by shareholders in 1995, options over the Company's shares are granted each year to some 130 executive directors and senior executives (at a multiple normally of one times base salary for directors except

NOTES TO THE ACCOUNTS

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THE REPORT OF THE REMUNERATION COMMITTEE (continued)

on appointment to the Storehouse board). Options, which are granted at market value, must normally be held for three years before they are exercisable and lapse if not exercised within ten years from grant. The exercise of options is normally subject to the performance condition that growth in earnings per share, as determined under the scheme, must exceed the growth in the Retail Price Index over a three year period by at least two per cent per annum. The scheme encourages the executive directors to hold shares since further options are granted only if shares representing at least 20 per cent of the after-tax profit on the options which have been exercised are retained. The directors have also received options, granted in 1995 and earlier, under the old Executive Share Option Scheme which was introduced in 1986 and replaced at the 1995 AGM. Directors' share options under all schemes are shown in the following table:

Directors' Share Options

	31 March 1996 (1)	Granted during year	Grant date	Exercise price	29 March 1997
Keith Edelman	522,388	—	Nov 93	201p	522,388
	168,269	—	May 94	208p	168,269
	*10,329	—	June 94	167p	10,329
	132,575	—	May 95	264p	132,575
	—	110,410	June 96	317p	110,410
Total	833,561	110,410			943,971
Steve Bedford	114,783	—	Nov 92	184p	114,783
	75,376	—	May 93	199p	75,376
	*4,312	—	June 93	160p	4,312
	200,000	—	Nov 93	201p	200,000
	79,545	—	May 95	264p	79,545
	*4,882	—	June 95	212p	4,882
	—	66,246	June 96	317p	66,246
Total	478,898	66,246			545,144
Chris Martin	34,090	—	May 95	264p	34,090
	29,968	—	June 96	317p	29,968
	*3,750	—	June 96	260p	3,750
Total	67,808	—			67,808

Notes: (1) Or at date of appointment if later. *Options granted under the five year SAYE Scheme (three years for Chris Martin). The market price of Storehouse shares on 28 March 1997 was 236.5p, with a range during the year of 361p to 235.5p.

Beneficial Interests

The beneficial interests of the directors in the share capital of the Company (excluding options which are set out above) are as follows:

	1997	Ordinary shares 1996
Steve Bedford	125,105	98,000
Keith Edelman	127,235	3,000
Brian Hardy	2,566	2,500
Angela Heylin	2,000	—*
Chris Martin	1,000	—*
Alan Smith	20,393	10,000
Martin Sorrell	2,505	2,505
David Tagg	10,000	10,000

* at date of appointment

NOTES TO THE ACCOUNTS

16 THE REPORT OF THE REMUNERATION COMMITTEE (continued)

Alan Smith and David Tagg are the shareholders and directors of Storehouse Employees Share Trustee Limited, which held 473,572 (1996 – 723,841) Storehouse shares in trust on 29 March 1997. In accordance with the terms of the long term bonus plan 116,025 shares will be transferred to Keith Edelman, 42,500 shares to Steve Bedford and 42,500 shares to Dick Steele in May 1997. A separate trust, the Storehouse Employee Trust, held 411,759 Storehouse shares on 29 March 1997 (1996 – nil). The market value of shares held under these trusts at 29 March 1997 was £2.1 million.

The executive directors of the Company are technically deemed to be interested in all the shares held by Storehouse Employees Share Trustee Limited and by the Storehouse Employee Trust as potential beneficiaries.

Non-Beneficial Interests

Steve Bedford is a trustee of the Bhs Ltd Employees' Trust Fund, which holds 200,000 (1996 – 200,000) Storehouse shares.

There have been no movements in directors' interests, whether beneficial or non-beneficial, between 29 March 1997 and 22 May 1997.

Pension

Steve Bedford and Chris Martin are members of the Storehouse Senior Management Scheme. The Scheme is contributory (employee contributions of up to five per cent), the normal retirement age is 60, and the retirement pension accrues at the rate of one forty-fifth of final pensionable salary for each year of pensionable service. No contributions are currently made by the Company to the Scheme. The full basic salary of Steve Bedford is pensionable but Chris Martin, who joined the Scheme in 1995, is subject to the Inland Revenue earnings cap (£82,200 for 1996/97). In addition to his membership of the Senior Management Scheme, a Funded Unapproved Retirement Benefit Scheme (of which Chris Martin is a member) has been established by the Company. The Company made contributions into that scheme in 1996/97 of 10 per cent of Chris Martin's salary in excess of one and a half times the earnings cap.

In 1996/97 the Company made payments of 10 per cent of base salary for Keith Edelman to make his own pension arrangements.

The Institute and Faculty of Actuaries recommended that, for defined benefit schemes (such as the Storehouse Senior Management Scheme), companies should disclose the amount of the increase in the accrued pension to which a director has become entitled during the year, and the capital value of the increase in pension (or sufficient information to enable it to be calculated). The figures, and the accrued entitlements at the 1996 year end and 1997 year end, are as follows:

	Annual pension accrued 1996 £000	Increase in accrued pension during the year £000	Capital value of the increase in pension £000	Annual pension accrued 1997 £000
Steve Bedford	37	5	31	42
Chris Martin	2	3	13	5
(full year basis)				

External Appointments

The Company normally permits an executive director to accept one appointment as a non-executive director of another company, for which the director may retain the fees.

Non-executive Directors

The emoluments of Alan Smith were £164,190 of which £118,181 was earned as Chairman of the Company. Ian Hay Davison retired as Chairman on 10 July 1996; his fees until his retirement were £28,140. The fees of the non-executive directors are determined by the Board. They do not participate in any bonus or share option scheme of the Company and their service is not pensionable.

Directors' Emoluments

Chris Martin was appointed to the Board on 17 January 1997. On the same date Dick Steele resigned from the Board, although he will remain with the Company until July 1997 to ensure a smooth transition. The figures set out in the following table cover their periods as directors of the Company. No compensation for loss of office was paid to Dick Steele. Bonuses and other benefits exercisable up to July 1997 will be paid to him.

Total emoluments (including pension contributions) in 1997 were £1,727,000 (1996 £2,109,000). The following table shows the breakdown of emoluments:

NOTES TO THE ACCOUNTS

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THE REPORT OF THE REMUNERATION COMMITTEE (continued)

		Salary/ Fees £000's	Benefits £000's	Payment for Loss of Options £000's	Annual Bonus £000's	Long Term Bonus @ £2.155 a share (1996-£3.31) £000's	Total Remuner- ation ex. Pension Contributions £000's	Pension Contributions £000's
Executive Directors								
Keith Edelman	1997	350	14	52	62	250	728	35
	1996	350	8	133	35	384	910	35
Steve Bedford	1997	210	23	-	37	92	362	-
	1996	210	19	-	21	306	556	-
Chris Martin	1997	35	2	-	6	-	43	1
Dick Steele	1997	168	7	-	30	73	278	17
	1996	210	6	-	21	141	378	21
Non-Executive Directors								
Alan Smith	1997	150	14	-	-	-	164	-
	1996	32	3	-	-	-	35	-
Ian Hay Davison	1997	28	-	-	-	-	28	-
	1996	100	1	-	-	-	101	-
Margaret Downes	1997	5	-	-	-	-	5	-
	1996	18	-	-	-	-	18	-
Brian Hardy	1997	22	-	-	-	-	22	-
	1996	18	-	-	-	-	18	-
Angela Heylin	1997	1	-	-	-	-	1	-
Martin Sorrell	1997	21	-	-	-	-	21	-
	1996	18	-	-	-	-	18	-
David Tagg	1997	22	-	-	-	-	22	-
	1996	18	-	-	-	-	18	-

17 EMPLOYEES' AND EXECUTIVE SHARE SCHEMES

The Storehouse Executive Share Option Schemes

Under these schemes selected directors and full-time executives are granted options to acquire shares in the Company. Further details of the schemes are given in the Report of the Remuneration Committee. Options are usually granted each year after the announcement of the Company's full year results, but an allocation can also be made after the interim results are announced.

The Storehouse Sharesave Scheme (SAYE)

This scheme enables all employees with at least one year's service to acquire options over ordinary shares of the Company at 80 per cent of market price in conjunction with a save-as-you-earn contract. The options are exercisable either three, five or seven years after the date of commencement (usually two months after the date of grant) of the SAYE contract.

Option 2000

All employees (excluding directors and other employees eligible for the executive share option scheme) with one year's service at 1 July 1996 were granted options to purchase shares on 1 June 2000. Full time employees received options over 1,000 shares, with smaller option grants for part-time employees.

Long Term Incentive Plan

Under this plan selected directors and full-time executives may, subject to the achievement of pre-defined performance criteria over a three year period, receive shares in the Company. Further details of the plan are given in the Report of the Remuneration Committee.

NOTES TO THE ACCOUNTS

17 EMPLOYEES' AND EXECUTIVE SHARE SCHEMES (continued)

Storehouse Employee Trust

The Storehouse Employee Trust is a discretionary trust for the benefit of employees and former employees (and their dependants) of the Company and its subsidiaries. The Trust may buy shares in the market or subscribe for new shares in the Company; for example it may buy shares for awards under any of the share schemes. On 19 July 1996 the Trust bought 411,759 Storehouse shares at £2.87 per share. The Trust has waived the payment of any dividends.

Outstanding options at 29 March 1997 under the Group's share option schemes were as follows:

	Ordinary shares 1997	Ordinary shares 1996	Date of grant	Option price
Storehouse Executive Share Option Scheme	-	165,599	June 86	297p
	33,952	52,807	June 87	290p
	63,276	84,223	June 88	254p
	20,680	60,124	June 89	161p
	11,474	11,474	June 90	127p
	18,324	109,251	May 91	99p
	82,591	119,575	May 92	142p
	114,783	114,783	Nov 92	184p
	619,078	979,178	May 93	199p
	786,937	786,937	Nov 93	201p
	1,927,508	2,124,900	May 94	208p
	40,008	40,008	Nov 94	214p
Storehouse 1995 Executive Share Option Scheme	1,251,686	1,511,115	May 95	264p
	169,467	169,467	Dec 95	339p
	1,595,149	-	June 96	317p
	157,647	-	Nov 96	269p
Storehouse Sharesave Scheme	(7 year) 22,582	200,729	Dec 89	90p
	(5 year) 7,119	821,332	June 91	79p
	(7 year) 238,867	242,512	June 91	79p
	(5 year) 628,613	707,545	June 93	160p
	(7 year) 125,166	138,081	June 93	160p
	(5 year) 596,746	734,656	June 94	167p
	(7 year) 92,182	109,926	June 94	167p
	(5 year) 791,709	964,492	June 95	212p
	(7 year) 69,927	76,728	June 95	212p
Storehouse 1995 Sharesave Scheme	(3 year) 514,365	-	June 96	260p
	(5 year) 473,146	-	June 96	260p
	(7 year) 101,160	-	June 96	260p
Storehouse Option 2000 Scheme	7,574,750	-	July 96	293p
	18,128,892	10,325,442		

FIVE YEAR RECORD

SUMMARY OF TURNOVER AND PROFIT

	1997 £ million	1996 £ million	1995 £ million	1994 £ million	1993 £ million
Turnover	1,249.7	1,083.6	1,079.1	1,045.5	1,139.3
Profit from retail operations	119.0	102.0	87.2	65.2	43.0
Profit from associated undertakings and other income	-	-	-	-	5.1
Exceptional items	(20.5)	1.2	-	(6.4)	(31.4)
Interest and other items	(0.7)	6.7	3.6	2.4	(1.5)
Profit before taxation	97.8	109.9	90.8	61.2	15.2
Taxation	(34.0)	(35.3)	(29.2)	(22.3)	(14.8)
Profit for the financial year	63.8	74.6	61.6	38.9	0.4
Earnings per share	15.2p	17.8p	14.8p	9.4p	0.1p
Dividend per share	8.1p	7.2p	6.3p	5.5p	5.0p

SUMMARY OF BALANCE SHEETS

Fixed assets	546.5	491.7	429.2	389.8	356.1
Net current assets	53.3	61.0	76.4	80.6	92.8
Creditors falling due after one year	(43.9)	(13.3)	(11.9)	(4.6)	(6.1)
Provisions for liabilities and charges	(12.7)	(7.4)	(9.5)	(18.5)	(18.9)
Total net assets	543.2	532.0	484.2	447.3	423.9

OTHER KEY DATA/STATISTICS

Share price (p) at year end	236.5	341.0	230.0	226.0	189.0
Net cash (debt)/equity (%)	(7.0)	13.8	15.4	8.5	5.8
Capital expenditure	94.1	129.0	79.0	46.2	41.7
Depreciation	45.3	39.4	33.6	30.6	40.6
Rents	90.9	76.4	67.9	66.0	82.4
Number of stores	481	435	433	431	425
Net selling space (000's sq ft)	6,483	5,268	5,005	4,815	4,704
Average number of employees	20,841	19,088	19,086	18,095	21,916
Average number of full-time equivalents	10,866	9,946	10,046	10,136	12,453

The results for 1994 and 1995 have been restated in accordance with UITF Abstract 13 Employee Share Ownership Plans.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

	1997
Annual General Meeting	10 July
Payment of final dividend	14 August
Announcement of Interim Results	20 November
	1998
Payment of interim dividend	February
Preliminary announcement of results for 52 weeks to 28 March 1998	End-May
Issue of Report and Accounts	Mid-June
Annual General Meeting	Mid-July
Payment of final dividend	Mid-August

SHAREHOLDER ANALYSIS

A summary of holdings as at 14 May 1997 is as follows:

	Number million	Storehouse Ordinary shares Number of holders
Banks	-	11
Insurance companies and pension funds	14.8	38
Nominee companies	363.1	2,716
Other corporate holders	17.2	489
Individuals	25.5	36,093
Employees	0.8	673
	421.4	40,020

As can be seen from the above analysis, many shares are registered in the name of a nominee company as the legal owner. The underlying holder of shares through a nominee account is the beneficial owner of these shares, being entitled to the capital value and the income arising from them. An analysis of these nominee holdings shows that the largest underlying holders are pension funds, with insurance companies and unit trusts the other major types of shareholder.

Individual shareholders owning 500 or more Storehouse shares are entitled to a 10 per cent discount in defined denominations on up to £500 of merchandise in our stores. In response to requests from shareholders we have this year extended the expiry date of the vouchers so that they are valid for 12 months. If an individual shareholding of 500 or more shares is not on the share register but is held through a nominee or trustee, the book of vouchers can nevertheless be obtained by contacting the Company Secretary at Storehouse.

SHARE PRICE DATA

	1997	1996
Share price at 28 March 1997 (29 March 1996)	236.5p	341p
Market capitalisation	£996.5	£1,429m
Share price movement during the year : high	361p	348p
low	235.5p	229p

All share prices are quoted at the mid-market closing price. The market value of the ordinary shares, as calculated for the purpose of capital gains tax, on 31 March 1982 was as follows: Bhs 155p, Habitat Mothercare 133p.