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# **Poundland Holdings Limited**

## **Annual Report and Accounts**

**2006**

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# **Poundland Holdings Limited**

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**Registered number: 04386329**

# Poundland Holdings Limited

## Group overview

### Business description

The group operates as a retailer of a wide variety of merchandise, trading under the 'Poundland' banner. All items of merchandise have a selling price of £1.

There are three main companies within the Poundland group. Poundland Holdings Limited is the holding company of the group. Poundland Willenhall Limited, a wholly-owned subsidiary of Poundland Holdings Limited, is the intermediate holding company which holds the investment in Poundland Limited. Poundland Limited is the main trading company of the group, and accounts for all the retail activities of the group. The group also has a number of other subsidiaries, which do not trade.

### Business overview

The year has been one of substantial change for the group.

#### Store portfolio:

The group continued to grow rapidly as a result of its store development programme. During the year 26 new stores were opened in towns where Poundland had not previously traded and three stores were relocated to a better site within the same town. At the end of the year the group traded from 147 stores.

During the 2006/2007 financial year the company has been focusing its effort and resources to improving existing stores within the portfolio. This involves refitting stores and undertaking a programme of upgrading shelving and merchandising equipment so that all stores can more effectively merchandise the new and improved product ranges planned for 2007. So far, in 2006/07, the company has opened 7 new stores, and 2 stores have been relocated to a better site within the same town.

#### Systems and infrastructure:

The major event during the year was the commissioning of the 300,000 sq.ft. Springvale distribution centre through which all store orders are processed. The Wellman's road distribution centre has been retained as a bulk storage location. The changes to the group's distribution arrangements required a significant upgrading of the group's store ordering and warehouse management systems which were completed during the year.

#### Management:

A number of senior management changes took place during the year and subsequently.

Mr Jim McCarthy was appointed CEO in August 2006. Jim joined from J Sainsbury's plc (Sainsbury's) where he served as Managing Director of Convenience from June 2004. Jim (50) has over 30 years experience in retailing. Prior to Sainsbury's, he was CEO at T&S Stores plc, which operated over 1200 stores, driving compound double digit EPS growth over a period of eight years. T&S Stores plc was acquired by Tesco plc in January 2003.

Mr Dave Dodd relinquished his position as CEO in October 2005, becoming Deputy Chairman and resigned as a director in May 2006.

Mr Rob Adams resigned as Finance Director in May 2006 and was succeeded by Mr Nick Hateley in November 2006. Nick (41) joined from Sainsbury's where he worked very closely with Jim McCarthy for two years as the Finance Director of Sainsbury's Convenience. Nick has 20 years experience in finance and business improvement which he gained with PriceWaterhouseCooper's, Accenture and Lucas Industries Plc.

Mr David Coxon joined the group as Buying and Merchandising director in October 2005. David has previously had senior buying and merchandising roles with Kwik Save and Allied Domecq, Mint group and recently Somerfield.

# Poundland Holdings Limited

## Group overview (continued)

### Results

Turnover, net of VAT, for the 52 week period was £281.2 million (*53 weeks 2004: £239.9 million*). This represents an overall increase of 17.2% on the previous period. This increase incorporates the sales increase from like-for-like stores, the impact of new stores opened during the period and the full year effect of new stores opened during the previous period.

The cost base of the business has increased during the period, principally as a result of the increase in the number of stores in the portfolio. Consequently, operating costs have increased to £98.5 million (35.0% of turnover) from £81.4 million (*2005: 33.9%*).

Operating profit, before goodwill amortisation and the exceptional item, was £5.5 million for the period (*53 weeks 2005: £11.1 million*). After taking account of the exceptional item of £1.6m, which principally related to the write down in the stock value of old legacy stock, goodwill amortisation of £2.0 million, interest payable of £3.8 million, profit on disposal of £0.3million and a tax charge of £0.5 million, the group incurred a loss for the period of £2.1 million (*2005: profit of £2.1m*).

### Finances

During the period the group generated cash of £20.6 million (*53 weeks 2005: £14.3 million*) from operating activities. This was used to fund capital expenditure, mainly on new stores, of £7.7 million (*53 weeks 2005: £8.4 million*) and after financing costs, taxation and loan repayments the increase in cash in the period was £3.4 million (*53 weeks 2005: decrease of £3.0 million*).

The group has available to it a substantial facility with Bank of Scotland, which provides adequate headroom for the groups current and future anticipated requirements.

The group uses foreign exchange forward contracts and options only to hedge the cost of unfulfilled orders placed on foreign suppliers for product denominated in foreign currency. The group does not speculate with foreign currency transactions.

### Outlook

Short term financial performance has been affected by the substantial changes the group has been through over the last eighteen months. However, with the new management team in place and key systems and infrastructure changes implemented, the board looks forward to the future with confidence.



**Colin Smith**  
Chairman

31 January 2007

# Poundland Holdings Limited

## Directors' report

The directors present their annual report and the audited financial statements for the 52 weeks ended 2 April 2006 (53 weeks ended 3 April 2005).

### Principal activity and business review

The principal activity of the group is that of a single price value retailer. The principal activity of the company is that of a holding company. The group overview on pages 2 and 3 gives a full review of the business for the period.

### Results and dividend

The results for the period are set out in the group profit and loss account on page 9. The directors do not recommend the payment of a dividend (2005: Nil).

### Directors and directors' interests

The directors who held office during the period and their interest in the share capital of the company at 2 April 2006 were as follows:

	2 April 2006		3 April 2005	
	Ordinary shares	'A' ordinary shares	Ordinary shares	'A' ordinary shares
D P Dodd (resigned 9 May 2006)	202,553	292,735	202,553	292,735
R F Adams (resigned 10 May 2006)	151,915	39,031	151,915	39,031
J J McCarthy (appointed 23 August 2006)	-	-	-	-
N R Hateley (appointed 30 October 2006)	-	-	-	-
C D Smith	4,000	40,000	4,000	40,000
R F Sheldon	Nil	Nil	Nil	Nil
T Franks (appointed 23 August 2006)	Nil	Nil	Nil	Nil
F E Wakeman (resigned 23 August 2006)	Nil	Nil	Nil	Nil

D P Dodd has share options over 58,093 'C' ordinary shares of the company and R F Adams has share options over 43,750 'C' ordinary shares of the company. These options are exercisable at a price of £1 and remained outstanding at 2 April 2006.

Since the period end, some of the directors' interests in the share capital of the company have changed:

On 9 May 2006, 40,665 share options over 'C' ordinary shares held by D P Dodd lapsed, which reduced his holding of these share options to 17,428 at 31 January 2007.

On 10 May 2006, 37,214 share options over 'C' ordinary shares held by R F Adams lapsed, which reduced his holding of these share options to 6,536 at 31 January 2007. R F Adams held no ordinary or 'A' ordinary shares of the company at 31 January 2007.

On 24 August 2006, C D Smith acquired 12,000 additional ordinary shares of the company.

On 24 August 2006, J J McCarthy acquired 61,541 ordinary shares of the company, and was granted a nil paid option over 51,021 ordinary shares of the company.

On 1 November 2006, N R Hateley acquired 30,000 ordinary shares of the company.

There have been no other changes in the directors or their interests since the period end other than as set out above.

# **Poundland Holdings Limited**

## **Directors' report (continued)**

### **Policy and practice on payment of creditors**

Provided that a supplier is complying with the relevant terms and conditions, including prompt and complete submission of all specified documentation, payment will be made in accordance with these agreed terms. Group policy is to ensure that suppliers know the terms on which payment will take place at the time of entering a transaction. The group does not follow any code or standard on payment practice.

Group trade creditors, expressed as the number of days of purchases, represented 20 days at the period end (2005:23 days).

### **Employees**

The group is an equal opportunity employer and makes every effort to ensure disabled people are not discriminated against on the ground of their disabilities. In the event of staff becoming disabled, every effort is made to ensure that their employment continues and that appropriate training is arranged.

Employees are kept informed regarding the group's affairs and are consulted on a regular basis through meetings wherever feasible and appropriate.

### **Financial instruments**

The company is exposed to foreign currency risk on purchases from abroad and uses forward contracts to hedge against these foreign currency risks.

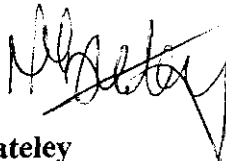
### **Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### **Auditors**

KPMG LLP have expressed their willingness to continue in office as auditors and in accordance with Section 384 of the Companies Act 1985 a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

By order of the board



**N R Hateley**

Director  
Wellmans Road  
Willenhall  
West Midlands  
WV13 2QT

31 January 2007

# **Poundland Holdings Limited**

## **Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards.

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities



KPMG LLP  
2 Cornwall Street  
Birmingham  
B3 2DL

## **Independent auditors' report to the members of Poundland Holdings Limited**

We have audited the group and parent company financial statements (the "financial statements") of Poundland Holdings Limited for the 52 weeks ended 2 April 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, and the related notes. These financial statements have been prepared under 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

The directors' responsibilities for preparing the directors report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Group Overview is cross referred from the Group Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.



**Independent auditors' report to the members of Poundland Holdings Limited**  
*(continued)*

***Opinion***

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 2 April 2006 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements

*KPMG LLP*

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

31 January 2007

# Poundland Holdings Limited

## Group profit and loss account

52 weeks ended 2 April 2006 (53 weeks ended 3 April 2005)

	<i>Note</i>	52 weeks 2006 £'000	53 weeks 2005 £'000																
Turnover	1	281,223	239,918																
Cost of sales		(180,777)	(150,502)																
<b>Gross profit</b>		<b>100,446</b>	<b>89,416</b>																
Distribution costs		(81,936)	(64,899)																
Administrative expenses		(16,612)	(16,506)																
<b>Operating profit</b>	2	<b>1,898</b>	<b>8,011</b>																
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;"><i>Operating profit before goodwill amortisation and exceptional item</i></td> <td></td> <td style="text-align: right; padding: 2px;"><b>5,450</b></td> <td style="text-align: right; padding: 2px;">11,052</td> </tr> <tr> <td style="padding: 2px;">Goodwill amortisation</td> <td></td> <td style="text-align: right; padding: 2px;">(1,960)</td> <td style="text-align: right; padding: 2px;">(1,996)</td> </tr> <tr> <td style="padding: 2px;">Exceptional item</td> <td style="text-align: center; padding: 2px;">2</td> <td style="text-align: right; padding: 2px;">(1,592)</td> <td style="text-align: right; padding: 2px;">(1,045)</td> </tr> <tr> <td style="padding: 2px;"><i>Operating profit</i></td> <td></td> <td style="text-align: right; padding: 2px;"><b>1,898</b></td> <td style="text-align: right; padding: 2px;"><b>8,011</b></td> </tr> </table>				<i>Operating profit before goodwill amortisation and exceptional item</i>		<b>5,450</b>	11,052	Goodwill amortisation		(1,960)	(1,996)	Exceptional item	2	(1,592)	(1,045)	<i>Operating profit</i>		<b>1,898</b>	<b>8,011</b>
<i>Operating profit before goodwill amortisation and exceptional item</i>		<b>5,450</b>	11,052																
Goodwill amortisation		(1,960)	(1,996)																
Exceptional item	2	(1,592)	(1,045)																
<i>Operating profit</i>		<b>1,898</b>	<b>8,011</b>																
Profit on disposal of fixed asset	5	293	-																
Net interest payable	6	(3,748)	(3,365)																
<b>(Loss)/ profit on ordinary activities before taxation</b>		<b>(1,557)</b>	<b>4,646</b>																
Tax on (loss)/ profit on ordinary activities	7	(530)	(2,502)																
<b>(Loss) / profit for the financial period</b>	18	<b>(2,087)</b>	<b>2,144</b>																

There were no recognised gains or losses in the period other than those reported in the profit and loss account.

All activities were continuing throughout the current and preceding period.

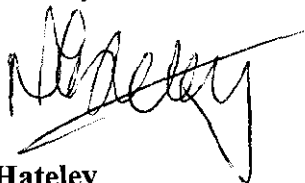
# Poundland Holdings Limited

## Group balance sheet

As at 2 April 2006 (3 April 2005)

	Note	2006 £'000	2005 £'000
<b>Fixed assets</b>			
Intangible assets	8	31,763	33,723
Tangible assets	9	20,053	17,861
		<hr/>	<hr/>
		51,816	51,584
		<hr/>	<hr/>
<b>Current assets</b>			
Stocks	11	20,928	21,131
Debtors	12	7,784	6,137
Cash at bank and in hand		3,385	5
		<hr/>	<hr/>
		32,097	27,273
		<hr/>	<hr/>
<b>Creditors: amounts falling due within one year</b>	13	(34,730)	(23,602)
		<hr/>	<hr/>
<b>Net current (liabilities)/ assets</b>		(2,633)	3,671
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		49,183	55,255
		<hr/>	<hr/>
<b>Creditors: amounts falling due after more than one year</b>	14	(40,458)	(44,571)
		<hr/>	<hr/>
<b>Provisions for liabilities and charges</b>	16	(777)	(712)
		<hr/>	<hr/>
<b>Net assets</b>		7,948	9,972
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	17	400	400
Share premium account	18	3,620	3,620
Profit and loss account	18	3,928	5,952
		<hr/>	<hr/>
<b>Shareholders' funds</b>	19	7,948	9,972
		<hr/>	<hr/>

The financial statements on pages 9 to 27 were approved by the Board of Directors on 31 January 2007 and were signed on its behalf by:



**N R Hateley**  
Director

# Poundland Holdings Limited

## Company balance sheet

As at 2 April 2006 (3 April 2005)

	<i>Note</i>	2006 £'000	2005 £'000
<b>Fixed assets</b>			
Investments	10	43	43
<b>Current assets</b>			
Debtors	12	8,679	8,668
Creditors: amounts falling due within one year	13	(626)	(655)
<b>Net current assets</b>		8,053	8,013
<b>Total assets less current liabilities</b>		8,096	8,056
Creditors: amounts falling due after more than one year	14	(4,544)	(4,280)
<b>Net assets</b>		3,552	3,776
<b>Capital and reserves</b>			
Called up share capital	17	400	400
Share premium account	18	3,620	3,620
Profit and loss account	18	(468)	(244)
<b>Shareholders' funds</b>	19	3,552	3,776

The company loss was £287,000 for the period (2005:£132,000).

The financial statements on pages 9 to 27 were approved by the Board of Directors on 31 January 2007 and were signed on its behalf by:

  
**N R Hateley**  
 Director

# Poundland Holdings Limited

## Group cash flow statement

52 weeks ended 2 April 2006 (53 weeks ended 3 April 2005)

	<i>Note</i>	2006 £'000	2005 £'000
<b>Net cash inflow from operating activities</b>	22	20,670	14,309
Returns on investment and servicing of finance	23	(3,484)	(6,223)
Taxation		(1,069)	(3,282)
Capital expenditure and financial investment	23	(7,710)	(8,369)
		<hr/>	<hr/>
<b>Net cash inflow / (outflow) before financing</b>		8,407	(3,565)
Financing	23	(5,027)	563
		<hr/>	<hr/>
<b>Increase/ (decrease) in cash in the period</b>		3,380	(3,002)
		<hr/> <hr/>	<hr/> <hr/>

## Reconciliation of net cash flow to movement in net debt

52 weeks ended 2 April 2006 (53 weeks ended 3 April 2005)

	2006 £'000	2005 £'000
Increase/ (decrease) in cash in the period	3,380	(3,002)
Cash outflow from decrease in debt and lease financing	5,090	3,324
	<hr/>	<hr/>
Change in net debt resulting from cash flows	8,470	322
Non cash movements	(570)	(1,129)
	<hr/>	<hr/>
<b>Movement in net debt in the period</b>	7,900	(807)
Net debt at start of the period	(43,615)	(42,808)
	<hr/>	<hr/>
<b>Net debt at the end of the period</b>	23	(35,715)
		<hr/> <hr/>

# Poundland Holdings Limited

## Notes to the financial statements

### 1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group financial statements.

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. In these financial statements, the following new standards have been adopted for the first time:

- FRS 21 – ‘Events after the balance sheet date’;
- FRS 23 – ‘The effects of changes in foreign exchange rates’;
- The presentation requirements of FRS 25 – ‘Financial Instruments: presentation and disclosure’;
- FRS 28 – ‘Corresponding amounts’.

The adoption of these standards has no impact on the financial statements.

#### *Basis of consolidation*

The group financial statements consolidate the results of the company and its subsidiary undertakings at 2 April 2006, excluding intra group transactions. Subsidiary undertakings are accounted for using the acquisition method. No profit and loss account is presented for the company as permitted by section 230(a) of the Companies Act 1985.

#### *Goodwill*

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful life of 20 years.

#### *Investments*

Shares in subsidiary undertakings are stated at cost less any provision for impairment where in the opinion of the directors there has been a diminution in value of the investment.

Consideration paid for own shares is deducted from shareholders’ funds.

#### *Debt costs*

Debt issue costs are offset against debt and amortised over the term of the loan.

#### *Turnover*

Turnover, which excludes value added tax, comprises sales to external customers. All sales are made within the United Kingdom. There is only one class of business.

#### *Fixed assets and depreciation*

The cost of fixed assets is purchase cost together with any incidental costs of acquisition. Depreciation on fixed assets is calculated on a straight line basis so as to write off the cost less the estimated residual value of each asset over the term of its estimated useful life. The principal annual rates used for this purpose are:

Freehold buildings	-	2% per annum
Short leasehold property	-	Over the term of the lease
Property improvements	-	10% to 15% per annum
Plant and equipment	-	15% to 33% per annum
Fixtures and fittings	-	15% per annum
Motor vehicles	-	25% per annum

No depreciation is provided on freehold land.

The maximum useful economic life for short leasehold properties is 35 years.

# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 1 Principal accounting policies (continued)

#### *Foreign currencies*

Transactions in foreign currencies are recorded in sterling using the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date, or, if appropriate, at the forward contract rate, and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of one overseas subsidiary undertaking are translated at the closing exchange rate at the balance sheet date. The profit and loss account of the company is translated at the average rate during the period. Gains and losses arising on the translation are taken to reserves.

#### *Finance leases and hire purchase contracts*

Assets acquired under finance leases and similar hire purchase contracts are recorded in the balance sheet as tangible fixed assets and are depreciated over their estimated useful economic lives or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors as obligations under finance leases. Rentals payable are apportioned between the finance element which is charged to the profit and loss account, and the capital element which reduces the outstanding obligations for future instalments.

#### *Operating leases*

All other leases are operating leases. Amounts payable under operating leases are charged to the profit and loss account on a straight-line basis over the life of the lease.

#### *Pensions*

The group operates a defined contribution pension scheme for certain of its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

#### *Stocks*

Stocks are valued at the lower of cost and net realisable value.

#### *Taxation*

The charge for taxation is based on the profit or loss for the period and takes into account deferred tax balances.

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except where otherwise required by FRS 19 "Deferred Tax".

#### *Cash*

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

#### *Store development costs*

New store opening costs are charged to the profit and loss account as incurred. No interest is capitalised on new store developments.

# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 1 Principal accounting policies (continued)

#### *Classification of financial instruments issued by the company*

Following the adoption of FRS 25, financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### *Dividends on shares presented within shareholders' funds*

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

### 2 Operating profit

	52 weeks 2006 £'000	53 weeks 2005 £'000
Operating profit is stated after charging:		
Auditors' remuneration:		
Group - audit	37	37
- fees paid to the auditors and its associates in respect of other services	62	49
Company - audit	4	4
Depreciation and other amounts written off tangible fixed assets:		
Owned	5,248	3,868
Leased	169	275
Loss on disposal of fixed assets	173	-
Amortisation of goodwill	1,960	1,996
Payments under operating leases:		
Hire of plant and equipment	1,705	1,347
Other	18,698	14,286
Exceptional item	1,592	1,045

The operating exceptional item cost incurred in 2006 principally relates to the write down in the stock value of old legacy stock held at the year end, which has subsequently been sold at a loss post year end. The prior year exceptional item, represents costs incurred in 2002 in relation to the group's previous debt facility, which were written off following the refinancing of the group during the prior period. The transaction had no cash impact during the prior period and corporation tax relief at the standard rate applied.



# Poundland Holdings Limited

## Notes to the financial statements (continued)

<b>3</b>	<b>Directors' remuneration</b>	<b>52 weeks</b>	<b>53 weeks</b>
		<b>2006</b>	<b>2005</b>
		<b>£'000</b>	<b>£'000</b>
	Directors' emoluments	599	621
	Company contribution to defined contribution pension scheme	66	66
		<hr/>	<hr/>
		<b>665</b>	<b>687</b>
		<hr/> <hr/>	<hr/> <hr/>
	<b>Highest paid director</b>		
	Director's emoluments	299	311
	Company contribution to defined contribution pension scheme	38	38
		<hr/>	<hr/>
		<b>337</b>	<b>349</b>
		<hr/> <hr/>	<hr/> <hr/>

Two directors (2005: two) were members of defined contribution pension schemes.

<b>4</b>	<b>Staff numbers and costs</b>	<b>2006</b>	<b>2005</b>
		<b>Number</b>	<b>Number</b>
	The average number of persons employed by the group (including directors) during the period, analysed by category, was as follows:		
	Administration	184	185
	Selling and distribution	4,013	3,334
		<hr/>	<hr/>
		<b>4,197</b>	<b>3,519</b>
		<hr/> <hr/>	<hr/> <hr/>
		<b>52 weeks</b>	<b>53 weeks</b>
		<b>2006</b>	<b>2005</b>
		<b>£'000</b>	<b>£'000</b>
	The aggregate payroll costs of these persons were as follows:		
	Wages and salaries	41,333	34,421
	Social security costs	2,735	2,556
	Other pension costs	413	379
		<hr/>	<hr/>
		<b>44,481</b>	<b>37,356</b>
		<hr/> <hr/>	<hr/> <hr/>

# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 5 Profit on disposal of fixed asset

A freehold property was sold during the year resulting in a profit of £293,000. The effect of the above item is to increase the taxation charge by £88,000.

### 6 Net interest payable

	52 weeks 2006 £'000	53 weeks 2005 £'000
Interest payable:		
On bank loans	(3,518)	(2,352)
On loan notes	-	(842)
On deferred consideration	(264)	(159)
On finance leases	(31)	(48)
	<hr/>	<hr/>
	(3,813)	(3,401)
Interest receivable	65	36
	<hr/>	<hr/>
	(3,748)	(3,365)
	<hr/>	<hr/>

### 7 Taxation on (loss)/ profit on ordinary activities

	52 weeks 2006 £'000	53 weeks 2005 £'000
<i>UK corporation tax</i>		
Current tax on income for the period	(565)	(2,246)
Adjustments in respect of prior periods	100	(106)
	<hr/>	<hr/>
Total current tax	(465)	(2,352)
<i>Deferred tax (see note 16)</i>		
Origination of timing differences	(163)	(256)
Adjustments in respect of prior periods	98	106
	<hr/>	<hr/>
	(65)	(150)
	<hr/>	<hr/>
Tax on (loss)/ profit on ordinary activities	(530)	(2,502)
	<hr/>	<hr/>

# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 7 Taxation on (loss)/ profit on ordinary activities (continued)

#### Factors affecting the current tax charge for the period

	52 weeks 2006 £'000	53 weeks 2005 £'000
The current tax charge for the period is higher (2005:higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:		
<i>Current tax reconciliation</i>		
(Loss)/ profit on ordinary activities before taxation	(1,557)	4,646
	<hr/>	<hr/>
Current tax at 30%	(467)	1,394
<i>Effects of:</i>		
Goodwill amortisation	590	599
Expenses not deductible for tax purposes	605	509
Capital allowances for period in excess of depreciation and other timing differences	(163)	(256)
Adjustments to tax in respect of prior periods	(100)	106
	<hr/>	<hr/>
Total current tax charge	465	2,352
	<hr/> <hr/>	<hr/> <hr/>

### 8 Intangible fixed assets

#### *Cost*

At 3 April 2005 and 2 April 2006

**Goodwill**  
£'000

39,222

#### *Amortisation*

At 4 April 2005

5,499

Charge for the period

1,960

At 2 April 2006

7,459

#### *Net book value*

At 2 April 2006

31,763

At 3 April 2005

33,723

# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 9 Tangible fixed assets

	Freehold land and buildings £'000	Short leasehold property £'000	Fixtures and fittings £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
<b>Group</b>						
<i>Cost</i>						
At 4 April 2005	470	11,211	6,351	8,782	207	27,021
Additions	-	4,066	1,198	2,967	-	8,231
Disposals	(470)	(334)	(379)	(143)	-	(1,326)
<b>At 2 April 2006</b>	<b>-</b>	<b>14,943</b>	<b>7,170</b>	<b>11,606</b>	<b>207</b>	<b>33,926</b>
<i>Depreciation</i>						
At 4 April 2005	31	3,379	2,714	2,829	207	9,160
Charge for the period	8	2,223	1,195	1,991	-	5,417
Disposals	(39)	(211)	(352)	(102)	-	(704)
<b>At 2 April 2006</b>	<b>-</b>	<b>5,391</b>	<b>3,557</b>	<b>4,718</b>	<b>207</b>	<b>13,873</b>
<i>Net book value</i>						
<b>At 2 April 2006</b>	<b>-</b>	<b>9,552</b>	<b>3,613</b>	<b>6,888</b>	<b>-</b>	<b>20,053</b>
At 4 April 2005	439	7,832	3,637	5,953	-	17,861

The net book value of plant and equipment includes an amount of £nil (2005:£169,000) in respect of assets held under finance leases. Depreciation charged during the period in respect of these assets amounted to £169,000 (2005:£275,000).

### 10 Investments

	Company £'000
At 3 April 2005 and at 2 April 2006	43

The above investments are shares in Poundland Willenhall Limited not yet issued. These shares will be issued on the earlier of a future refinancing of the company or June 2009.

# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 10 Investments (continued)

The company's subsidiary undertakings are:

Name	Country of incorporation	Principal Activity	Percentage of ordinary shares held
<i>Subsidiary undertakings</i>			
Poundland Willenhall Limited*	Great Britain	Investment company	100%
Poundland Trustee Limited*	Great Britain	Trustee	100%
Poundland Limited	Great Britain	Single price value retailer	100%
M&O Business Systems Limited	Great Britain	Dormant	75%
Bargain Limited	Great Britain	Dormant	100%
Homes & More Limited	Great Britain	Dormant	100%
Poundland Stores Limited	Great Britain	Dormant	100%
Poundland International Limited	Great Britain	Dormant	100%
Sheptonview Limited	Great Britain	Dormant	100%
Poundland Far East Limited	Hong Kong	Product sourcing	100%

\* Directly owned subsidiary. All other subsidiaries are held indirectly.

### 11 Stocks

	Group	
	2006 £'000	2005 £'000
Goods purchased for resale	20,928	21,131

### 12 Debtors

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade debtors	391	153	-	-
Corporation tax	729	68	-	-
Other debtors	27	69	-	-
Amounts owed by group undertakings	-	-	8,669	8,620
Group relief receivable	-	-	10	48
Prepayment and accrued income	6,637	5,847	-	-
	7,784	6,137	8,679	8,668

# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 13 Creditors: amounts falling due within one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Obligations under finance leases	-	136	-	-
Trade creditors	23,461	15,247	-	-
Amount owed to group undertakings	-	-	49	112
Other taxation and social security	3,182	2,927	577	543
Other creditors	627	538	-	-
Accruals and deferred income	7,460	4,754	-	-
	<u>34,730</u>	<u>23,602</u>	<u>626</u>	<u>655</u>

### 14 Creditors: amounts falling due after more than one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank loan	34,556	39,204	-	-
Accruals and deferred income	1,358	1,087	-	-
	<u>35,914</u>	<u>40,291</u>	<u>-</u>	<u>-</u>
Deferred consideration	4,544	4,280	4,544	4,280
	<u>40,458</u>	<u>44,571</u>	<u>4,544</u>	<u>4,280</u>

The bank loan is secured by a charge on the group's leasehold Retail Support Centre. Repayment of capital will be by one payment in August 2008.

The deferred consideration is not secured over any assets of the group. It will be settled in one amount on the earlier of either a future refinancing of the business or June 2009. The interest (6%) element of the deferred consideration rolls up and remains unpaid until repayment of the capital.

# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 15 Analysis of debt

	Group							
	2006				2005			
	Bank loan	Finance leases	Deferred consideration	Total	Bank loan	Finance leases	Deferred consideration	Total
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Payable:								
Within 1 year	-	-	-	-	-	136	-	136
Between 1 and 2 years	-	-	-	-	-	-	-	-
Between 2 and 5 years	34,556	-	4,544	39,100	39,204	-	4,280	43,484
	<u>34,556</u>	<u>-</u>	<u>4,544</u>	<u>39,100</u>	<u>39,204</u>	<u>136</u>	<u>4,280</u>	<u>43,620</u>

### 16 Provisions for liabilities and charges

Group  
£'000

Full provision without discounting has been made under the liability method for taxation deferred by accelerated capital allowances and other timing differences. The amounts involved are as follows:

Deferred tax liability at the beginning of the period		712
Arising in the period		65
		<u>777</u>
Deferred tax liability at the end of the period		777
		<u>777</u>
	2006	2005
	£'000	£'000
Accelerated capital allowances	734	728
Other timing differences	43	(16)
	<u>777</u>	<u>712</u>
Deferred tax liability	777	712

There is no deferred tax arising in the company (2005: nil).

# Poundland Holdings Limited

## Notes to the financial statements (continued)

17	<b>Called up share capital</b>	<b>2006</b>	<b>2005</b>
		<b>£'000</b>	<b>£'000</b>
	<i>Authorised</i>		
	710,540 ordinary shares of 10p each	71	71
	3,500,000 'A' ordinary shares of 10p each	350	350
	257,584 'C' ordinary shares of 10p each	26	26
		<hr/>	<hr/>
		<b>447</b>	<b>447</b>
		<hr/> <hr/>	<hr/> <hr/>

The 'A' ordinary shares carry a preferential right to return of capital on winding up. The ordinary and 'C' ordinary shares have equal rights to return of capital following the distribution made to the 'A' ordinary shareholders. All classes of shares carry equal voting rights and all shares constitute one class for the purpose of any dividend distribution.

		<b>2006</b>	<b>2005</b>
		<b>£'000</b>	<b>£'000</b>
	<i>Allotted, called up and fully paid</i>		
	500,000 ordinary shares of 10p each	50	50
	3,500,000 'A' shares of 10p each	350	350
		<hr/>	<hr/>
		<b>400</b>	<b>400</b>
		<hr/> <hr/>	<hr/> <hr/>

18	<b>Share premium and reserves</b>			
		<b>Profit and loss account</b>	<b>Share premium account</b>	<b>Total</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	<b>Group</b>			
	At 4 April 2005	5,952	3,620	9,572
	Loss for the financial period	(2,087)	-	(2,087)
	Sale of own shares held	63	-	63
		<hr/>	<hr/>	<hr/>
	<b>At 2 April 2006</b>	<b>3,928</b>	<b>3,620</b>	<b>7,548</b>
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
		<b>Profit and loss account</b>	<b>Share premium account</b>	<b>Total</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	<b>Company</b>			
	At 4 April 2005	(244)	3,620	3,376
	Loss for the financial period	(287)	-	(287)
	Sale of own shares held	63	-	63
		<hr/>	<hr/>	<hr/>
	<b>At 2 April 2006</b>	<b>(468)</b>	<b>3,620</b>	<b>3,152</b>
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 18 Share premium and reserves (continued)

During the period, the Poundland Employee Benefit Trust sold 10,000 ordinary 10p shares of the company for £25,000 to C Bales, and 15,000 ordinary 10p shares of the company for £37,500 to D Coxon. The net proceeds are shown as an increase to shareholders' funds above.

The Trust has not entered into any other transactions during the period. The shares are not under option to employees.

### 19 Reconciliation of movements in shareholders' funds for the 52 weeks ended 2 April 2006 (53 weeks ended 3 April 2005)

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
(Loss)/ profit for the financial period	(2,087)	2,144	(287)	(132)
New share capital subscribed	-	40	-	40
Sale/ (purchase) of own shares	63	(31)	63	(31)
<b>Net (reduction)/ addition to shareholders' funds</b>	<b>(2,024)</b>	<b>2,153</b>	<b>(224)</b>	<b>(123)</b>
Opening shareholders' funds	9,972	7,819	3,776	3,899
<b>Closing shareholders' funds</b>	<b>7,948</b>	<b>9,972</b>	<b>3,552</b>	<b>3,776</b>

### 20 Capital commitments

	Group	
	2006 £'000	2005 £'000
Capital commitments for which no provision has been made in the financial statements of the group were as follows:		
Contracted	1,372	2,732

The company has no capital commitments (2005:£ nil).

# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 21 Operating lease commitments

	Group			
	2006	Other	2005	Other
	Land and buildings £'000	£'000	Land and buildings £'000	£'000
Annual commitments under non-cancellable operating leases for the group are as follows:				
Operating leases which expire:				
- within one year	100	83	494	85
- in the second to fifth years inclusive	2,253	1,033	1,640	688
- in over five years	16,475	85	13,092	-
	18,828	1,201	15,226	773

The company has no annual commitments (2005: £nil) under non-cancellable operating leases.

### 22 Reconciliation of operating profit to operating cash flows

	52 weeks 2006 £'000	53 weeks 2005 £'000
Operating profit	1,898	8,011
Depreciation	5,417	4,143
Amortisation of goodwill	1,960	1,996
Loss/ (profit) on disposal of fixed assets	173	(3)
Decrease/ (increase) in stocks	203	(6,815)
Increase in debtors	(944)	(1,364)
Increase in creditors	11,963	8,341
	20,670	14,309
<b>Net cash inflow from operating activities</b>	<b>20,670</b>	<b>14,309</b>

# Poundland Holdings Limited

## Notes to the financial statements (continued)

### 23 Analysis of cash flows

	52 weeks 2006 £'000	53 weeks 2005 £'000
<b>Returns on investment and servicing of finance</b>		
Interest received	65	37
Interest paid	(3,518)	(6,212)
Interest element of finance lease payments	(31)	(48)
	<u>(3,484)</u>	<u>(6,223)</u>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(8,452)	(8,376)
Proceeds on disposal of tangible fixed assets	742	7
	<u>(7,710)</u>	<u>(8,369)</u>
<b>Financing</b>		
Issue of ordinary share capital	-	40
Sale/ (purchase) of own shares	63	(31)
Finance lease payments	(136)	(282)
Receipt of bank loans	-	45,454
Repayment of bank loans and loan notes	(4,954)	(44,618)
	<u>(5,027)</u>	<u>563</u>

### Analysis of net debt

	At 3 April 2005 £'000	Cash flow £'000	Non-cash changes * £'000	At 2 April 2006 £'000
Cash at bank and in hand	5	3,380	-	3,385
Debt due after one year	(43,484)	4,954	(570)	(39,100)
Debt due within one year	-	-	-	-
Finance leases	(136)	136	-	-
<b>Total</b>	<u>(43,615)</u>	<u>8,470</u>	<u>(570)</u>	<u>(35,715)</u>

\*Net increase in debt due to rolled up interest on loans off-set by amortisation of arrangement fees

## **Poundland Holdings Limited**

### **Notes to the financial statements (continued)**

#### **24 Transactions with related parties**

During the period the group engaged in transactions with the following related parties as defined in 'FRS 8 - Related Party Disclosures':

Poundland Limited paid market rent totalling £215,000 (2005:£215,000) plus VAT to a company in which D P Dodd had an interest. There were no amounts outstanding to this company at the period end.

#### **25 Financial Instruments**

The fair value of forward contracts outstanding as at 2 April 2006 is a liability of £236,765 (2005: asset £92,412). The fair value has not been recognised as forward contracts mature over varying periods from the balance sheet date and the exchange rate is expected to fluctuate in the period up to maturity.