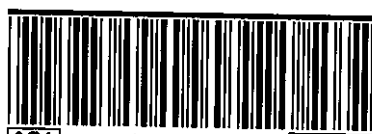


Poundland plc

Directors' report and financial statements

31 December 1996

Registered number 2495645



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Poundland plc

Directors' report and financial statements

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Registered number: 2495645

Poundland plc

Operating review

I am pleased to report that Poundland's formidable sales growth was maintained during 1996 with net sales up by 51% to £56.6m and pre-tax profits up by 172.5% to £1.1m.

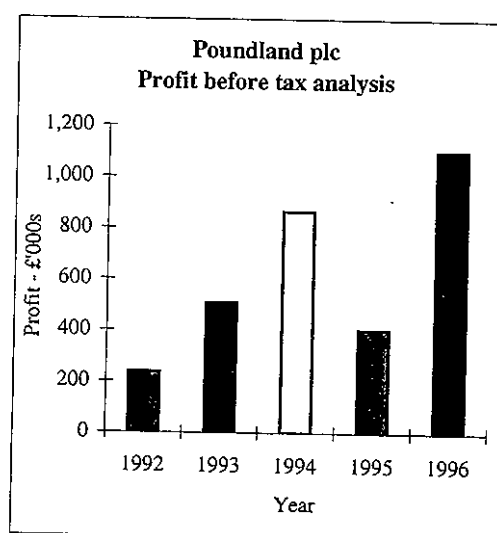
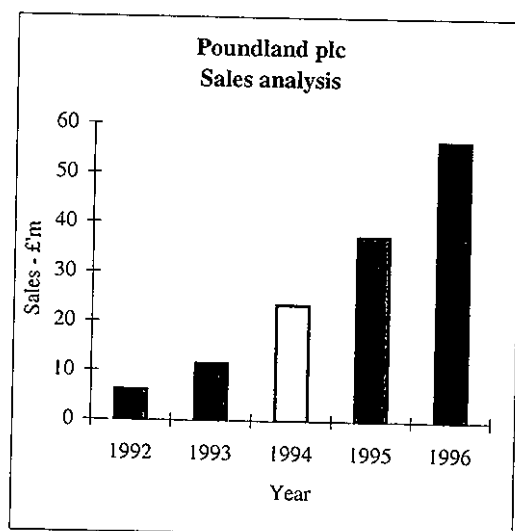
Particularly encouraging is the performance of existing stores which achieved an increase in turnover of 18% over 1995.

In April 1996, we acquired four stores from the receiver of our former competitor, Everything's £1 Limited. It is a testimony to the strength of our merchandise and operating methods that without any change in trading format, these stores achieved a like for like increase in turnover of 43.5%.

Interest costs increased from £0.1m to £0.2m. Our interest cover increased, however, to 7.6 times (1995: 5.5 times).

The effective rate of taxation was 44% (42.3% in 1995), the rate reflecting the value of capital expenditure for which capital allowances are not available.

It is pleasing to note that retained profits have increased by 49.6% to £1.9m (1995: £1.2m).



Consolidation of our business during 1996 saw the operational difficulties associated with having to distribute from separate locations resolved, whilst a much improved middle management infrastructure paid dividends.

One of the most satisfying achievements of 1996 was the success of our loss prevention strategies. Whilst our shrinkage levels are now around the industry benchmark, we are not yet content and will continue to strive towards improved results.

Poundland plc

Operating review *(continued)*

1996 was our sixth full year of trading which saw us retailing from 42 outlets. Our maturity and critical mass brought with it far greater scope for creativity in the manner in which we developed our business and improved margins.

The effect of strategies put in place to improve margins were not fully realised during 1996. An improvement of 0.5%, however, was achieved for the year producing a margin of 29.9%. We expect this trend of improving margins to continue.

A significant contributor to improved margins is the permanent buying presence in Asia that we established late in 1996.

Our Hong Kong Buying Office provides us with the ability to take decisions on available merchandise far more quickly than would ever have been possible previously. This is due to a combination of advanced communication technology which keeps our UK Buyer in "real time" audio and visual communication with our Far East personnel.

Quality Control is a key issue at Poundland, and we invested heavily in this area during 1996. It is our policy to ensure that all of our products exceed all relevant UK requirements. Our Hong Kong Office provides much improved support to our UK Quality Control Department via a network of more than 20 trained inspectors operating throughout Asia.

As a direct result of our presence in Hong Kong, we anticipate an increase in the amount of products imported directly by ourselves, and to benefit from the increased margin that this activity provides.

Our reputation in the marketplace for doing volume business and maintaining high quality business practices has enabled us to open accounts with many of the manufacturers of market leading brands.

Our hallmark of investment in systems has been maintained throughout 1996 with the introduction of software which produces the most pertinent management information as yet available to us, giving us the best data/decision ratio that we have ever enjoyed. This company-wide focus on the key performance indicators within our business has undoubtedly honed us into a leaner, more efficient, goal-orientated business.

We travel the globe in search of the irresistible, maximum value merchandise with which we have become synonymous. Our pursuit of the exceptional has revealed an abundance of merchandise which is equally as exciting as our £1 price point product. This merchandise is not currently represented in any credible manner in mainstream retailing in the UK.

With this merchandise in mind, we piloted a new trading concept designed to compliment Poundland. The early indicators of the trial are exceptionally encouraging, and based on this, we are formulating plans to roll out the concept.

Poundland plc

Operating review *(continued)*

Experience has taught us that a high level of morale is one of the greatest contributors to the success of our business. It is central to the prevention of loss, the achievement of goals and, most importantly, customer delight. We have learnt to promote a culture where everyone has a voice, and everyone shares in the company's successes.

With the support of our loyal workforce, we can ensure that the brand values that we are establishing are reinforced by staff who believe in those values. Our colleagues who meet with our customers on a daily basis must be happy to convey our moral, ethical and environmental philosophies. In order to do this, our products and concepts must be easily understood at a philosophical level by all.

We have also learnt that in a changing retail environment, we must remain "competitively unique" and that in order to remain so, we need a full understanding of what it is that makes our company successful; we refer to this as our "DNA Coding" and most importantly, we have learnt that if necessary, we have to be prepared to "genetically engineer" our code.

To this end, Market Research initiatives have been employed which have taught us that tomorrow's customer will be better informed, more difficult to motivate and influence, and will suffer from "time poverty" as a result of the conflict between shopping and leisure activities. We recognise therefore, that our future retail activities must entertain and fully satisfy our customers' expectations.

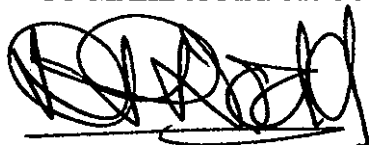
Above all, our relationship with our customers has to be nurtured, and our understanding of them and their expectations must go far beyond the analysis of "what we are selling".

We look forward to 1997 and the turn of the century with enthusiasm and optimism. We have a retail offer which will continue to improve, and an unexploited source of brand new merchandise which allows us to diversify our business without affecting our core activity.

Poundland has changed for the better, we are focused on key issues. Our internal communication, controls and awareness of the needs of our customers has never been higher and as a result, we believe our business has never offered more exciting potential.

We are well on our way to fulfilling our corporate mission:

"TO MAKE A MAJOR CONTRIBUTION TO THE FUTURE OF MODERN RETAILING"

A handwritten signature in black ink, appearing to read 'David Dodd', with a horizontal line underneath it.

David Dodd
Director
Retail & Property

Poundland plc

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1996.

Principal activity and business review

The principal activity of the company was that of homeware and toy retailers. Future developments are likely to be in the same field.

Results and dividends

The results for the year are set out on page 7.

The directors do not recommend the payment of a dividend (1995: £Nil). All retained profits are transferred to reserves.

Directors and directors' interests

The directors of the company during the year and their interests in the shares of the company as recorded in the register of directors' interests were as follows:

	Ordinary shares of £1 each	
	31 December 1996	31 December 1995
SK Smith	24,500	24,500
DP Dodd	Nil	Nil
PL Roberts (appointed 13 June 1996)	Nil	Nil

Employees

The company has developed and maintained arrangements whereby employees are consulted and provided with information about current activities and progress within the company and with training to improve the operational efficiency of the company.

The company supports the employment of disabled people wherever possible, through recruitment, by retention of those who become disabled during their employment and generally through training, career development and promotion, having regard to their particular aptitudes and abilities. It is company policy to provide equal employment opportunities without regard to race, religion, sex, national origin or age.

Poundland plc

Directors' report *(continued)*

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

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

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Mrs T Smith
Secretary

The Meadows
Cannock Road
Wolverhampton
West Midlands
WV10 ORD

23 May 1997



2 Cornwall Street
Birmingham B3 2DL

Auditors' report to the members of Poundland plc

We have audited the financial statements on pages 7 to 18.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 1996 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'KPMG'.

KPMG
Chartered Accountants
Registered Auditors

23 May 1997

Poundland plc

Profit and loss account for the year ended 31 December 1996

	Note	Continuing operations	
		1996 £'000	1995 £'000
Turnover	2	56,623	37,364
Cost of sales		(39,681)	(26,381)
Gross profit		16,942	10,983
Distribution costs		(13,137)	(9,821)
Administrative expenses		(2,537)	(668)
Operating profit	3	1,268	494
Interest receivable		13	10
Interest payable	6	(180)	(100)
Profit on ordinary activities before taxation		1,101	404
Tax on profit on ordinary activities	7	(485)	(171)
Retained profit for the financial year	16	616	233

The notes on pages 10 to 18 form part of the financial statements.

Movements on reserves are shown in note 16 to the financial statements.

Statement of total recognised gains and losses

There were no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account.

The reconciliation of movements in shareholders' funds is shown in note 17 to the financial statements.

Note of historical cost profits and losses

There is no difference between the profit as disclosed in the profit and loss account and the profit on an unmodified historical cost basis in either the current or preceding financial year.

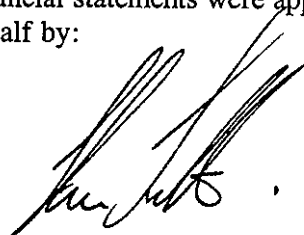
Poundland plc

Balance sheet at 31 December 1996

	Note	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	8	4,469	3,655
Current assets			
Stocks	10	4,378	3,375
Debtors	11	2,261	1,677
Cash at bank and in hand		1,906	880
		<u>8,545</u>	<u>5,932</u>
Creditors: amounts falling due within one year	12	<u>(9,807)</u>	<u>(7,048)</u>
Net current liabilities		<u>(1,262)</u>	<u>(1,116)</u>
Total assets less current liabilities		<u>3,207</u>	<u>2,539</u>
Creditors: amounts falling due after more than one year	13	(1,046)	(1,055)
Provisions for liabilities and charges	14	<u>(290)</u>	<u>(229)</u>
Net assets		<u><u>1,871</u></u>	<u><u>1,255</u></u>
Capital and reserves			
Called up share capital	15	13	13
Profit and loss account	16	<u>1,858</u>	<u>1,242</u>
Total equity shareholders' funds	17	<u><u>1,871</u></u>	<u><u>1,255</u></u>

These financial statements were approved by the board of directors on 23 May 1997 and signed on its behalf by:

SK Smith
Director



Poundland plc

Cash flow statement

for the year ended 31 December 1996

	Note	1996 £'000	1995 £'000
Net cash inflow from operating activities	19	2,701	1,560
Returns on investments and servicing of finance			
Interest received	13	10	
Interest paid	(170)	(94)	
Interest element of finance lease payments	(25)	(6)	
Net cash outflow from returns on investments and servicing of finance		(182)	(90)
Taxation			
Corporation tax paid		(89)	(297)
Net cash inflow before investing and financing activities		2,430	1,173
Investing activities			
Payments to acquire tangible fixed assets	(995)	(1,664)	
Proceeds on disposal of tangible fixed assets	38	9	
Net cash outflow from investing activities		(957)	(1,655)
Net cash inflow/(outflow) before financing activities		1,473	(482)
Financing activities			
Mortgage payments	22	(23)	344
Increase/(repayment) of loan	22	39	30
Capital element of finance lease payments	22	(463)	(63)
Net cash (outflow)/inflow from financing		(447)	311
(Decrease)/increase in cash and cash equivalents	20	1,026	(171)
Cash and cash equivalents at 1 January 1996	20	880	1,051
Cash and cash equivalents at 31 December 1996	20	1,906	880

Poundland plc

Notes

(forming part of 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 company's financial statements:

Basis of accounting

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

Consolidation

Consolidated financial statements for the company and its subsidiary undertaking have not been prepared on the basis that the balance sheet of the subsidiary undertaking, which was dormant throughout the period, is not material.

Turnover

Turnover represents the invoiced amounts of goods sold, excluding VAT.

Fixed assets and depreciation

Depreciation on fixed assets is calculated so as to write off the cost less the estimated residual value of all fixed assets over their estimated useful lives as follows:

Leasehold property	Over the term of the lease
Property improvements	10-15% straight line
Plant and equipment	15-33% straight line
Motor vehicles	25% straight line
Fixtures and fittings	15% straight line

All leasehold properties are held on short term leases of between two and thirty five years.

It is the company's policy to maintain its freehold properties in a state of good repair. Because of this, such properties maintain residual disposal values, based on prices prevailing at the date of purchase, at least equal to their book values and accordingly no provision for depreciation is made. Where there is a permanent diminution in the value of a freehold property a charge is made to the profit and loss account.

Stocks

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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Poundland plc

Notes (continued)

1 Principal accounting policies (continued)

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 lives or the terms of the leases, whichever is the 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 lives of the leases.

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 group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

2 Turnover

Turnover represents amounts receivable, excluding trade discounts and value added tax, for goods and services supplied in the ordinary course of business, wholly within the UK.

3 Operating profit

Operating profit is stated after charging the following:

	1996 £'000	1995 £'000
Auditors' remuneration:		
Audit work	14	13
Non-audit work	11	15
Payments under operating leases:		
Hire of plant and equipment	180	139
Other	3,477	2,309
Depreciation and other amounts written off tangible fixed assets	730	426
	<hr/>	<hr/>

4 Remuneration of directors

	1996 £'000	1995 £'000
Directors' emoluments		
Remuneration	167	115
	<hr/>	<hr/>

The emoluments, excluding pension contributions, of the chairman and the highest paid director were £60,000 (1995: £54,000).

Poundland plc

Notes (continued)

4 Remuneration of directors (continued)

The emoluments, excluding pension contributions, of the directors were within the following ranges:

	1996 Number	1995 Number
£20,001 - £25,000	1	-
£45,001 - £50,000	-	1
£50,001 - £55,000	1	1
£60,001 - £65,000	1	-
	<u>1</u>	<u>1</u>

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	1996 Number	1995 Number
Administration	59	38
Selling and distribution	974	780
	<u>1,033</u>	<u>818</u>

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	7,016	4,735
Social security costs	464	289
Other pension costs	22	15
	<u>7,502</u>	<u>5,039</u>

6 Interest payable

	1996 £'000	1995 £'000
On bank overdrafts	83	62
Secured loan interest	42	30
Finance lease interest	24	6
Other interest payable	31	2
	<u>180</u>	<u>100</u>

Poundland plc

Notes (continued)

7 Taxation

	1996 £'000	1995 £'000
Corporation tax on profit on ordinary activities at 33% (1995: 33%)	457	95
(Over) provision in previous year	(33)	11
Deferred taxation movement:		
- Current year	12	72
- Prior year	49	(7)
	<u>485</u>	<u>171</u>

8 Tangible fixed assets

	Motor vehicles £'000	Plant and equipment £'000	Fixtures and fittings £'000	Short leasehold property £'000	Freehold land and buildings £'000	Total £'000
Cost						
At 1 January 1996	231	1,689	1,187	923	493	4,523
Additions	140	796	21	612	-	1,569
Disposals	(66)	-	-	-	-	(66)
	<u>305</u>	<u>2,485</u>	<u>1,208</u>	<u>1,535</u>	<u>493</u>	<u>6,026</u>
Depreciation						
At 1 January 1996	63	282	401	122	-	868
Charged in year	68	354	180	128	-	730
Disposals	(41)	-	-	-	-	(41)
	<u>90</u>	<u>636</u>	<u>581</u>	<u>250</u>	<u>-</u>	<u>1,557</u>
Net book value						
At 31 December 1996	<u>215</u>	<u>1,849</u>	<u>627</u>	<u>1,285</u>	<u>493</u>	<u>4,469</u>
At 31 December 1995	<u>168</u>	<u>1,407</u>	<u>786</u>	<u>801</u>	<u>493</u>	<u>3,655</u>

The net book value of assets held under finance leases was £257,000 (1995: £235,000) and the depreciation charged for the year on those assets was £67,000 (1995: £21,000).

Poundland plc

Notes (continued)

9 Fixed asset investments

	1996 £	Company 1995 £
Shares in subsidiary undertaking	100	100
Less: provision against investment	(100)	(100)
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

The subsidiary undertaking is:

	Nature of business	Percentage of ordinary shares held
Poundworld Limited, a company registered in England and Wales, which ceased to trade on 31 July 1993	Homeware and toy retailer	100%
	<hr/>	<hr/>

10 Stocks

	1996 £'000	1995 £'000
Goods purchased for resale	4,378	3,375
	<hr/>	<hr/>

11 Debtors

	1996 £'000	1995 £'000
Trade debtors	179	108
Other debtors	186	220
Prepayments and accrued income	1,896	1,349
	<hr/>	<hr/>
	2,261	1,677
	<hr/>	<hr/>

Poundland plc

Notes (continued)

12 Creditors: amounts falling due within one year

	1996 £'000	1995 £'000
Mortgage	23	70
Obligations under finance leases	329	140
Trade creditors	6,212	5,575
Corporation tax	475	140
Other taxation and social security	1,449	400
Other creditors	92	112
Accruals and deferred income	1,227	611
	<u>9,807</u>	<u>7,048</u>

13 Creditors: amounts falling due after more than one year

	1996 £'000	1995 £'000
Mortgage	298	274
Secured loan	364	324
Obligations under finance leases repayable within 2 to 5 years	26	116
Accruals and deferred income	358	341
	<u>1,046</u>	<u>1,055</u>

The loan is secured by a fixed charge over the company's assets. The loan has no fixed terms of repayment. Interest is payable on the loan at 9.75% (1995: 9.75%) per annum.

14 Provisions for liabilities and charges

Full provision has been made under the liability method for taxation deferred by accelerated capital allowances and other timing differences. The amounts involved are as follows:

	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 1996	239	(10)	229
Transfer from profit and loss account	58	3	61
	<u>297</u>	<u>(7)</u>	<u>290</u>

Poundland plc

Notes (continued)

15 Called up share capital

	1996	1995
	£	£
<i>Authorised:</i>		
500,000 ordinary shares of £1 each	<u>500,000</u>	<u>500,000</u>
<i>Allotted:</i>		
100 ordinary shares of £1 each fully paid	100	100
49,900 ordinary shares of £1 each partly paid	<u>12,475</u>	<u>12,475</u>
	<u>12,575</u>	<u>12,575</u>

16 Reserves

	Profit and loss account	
	1996	1995
	£'000	£'000
At 1 January 1996	1,242	1,009
Retained profit for the financial year	<u>616</u>	<u>233</u>
At 31 December 1996	<u>1,858</u>	<u>1,242</u>

17 Reconciliation of movements in shareholders' funds

	1996	1995
	£'000	£'000
Profit for the financial year	616	233
Opening shareholders' funds	<u>1,255</u>	<u>1,022</u>
Closing shareholders' funds	<u>1,871</u>	<u>1,255</u>

Poundland plc

Notes (continued)

18 Commitments

Commitments in respect of non-cancellable operating lease rentals to be paid during the next year are:

	Land and buildings		Other	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Operating leases which expire:				
- within one year	-	85	280	16
- within two to five years	578	214	188	163
- after five years	1,714	2,290	-	-
	<u>2,292</u>	<u>2,589</u>	<u>468</u>	<u>179</u>

At 31 December 1996, authorised capital expenditure for which no provision has been made in the financial statements amounted to £Nil (1995: £Nil). Capital expenditure authorised by the directors but not yet contracted for amounted to £Nil (1995: £Nil).

19 Reconciliation of operating profit to net cash inflow from operating activities

	1996	1995
	£'000	£'000
Operating profit	1,268	494
Depreciation charge	730	427
Profit on disposal of fixed assets	(15)	(3)
Increase in stocks	(1,003)	(1,909)
Increase in debtors	(584)	(775)
Increase in creditors	2,305	3,326
Net cash inflow from operating activities	<u>2,701</u>	<u>1,560</u>

20 Analysis of changes in cash and cash equivalents during the year

	1996	1995
	£'000	£'000
Balance at beginning of year	880	1,051
Net cash inflow/(outflow)	1,026	(171)
Balance at end of year	<u>1,906</u>	<u>880</u>

Poundland plc

Notes (continued)

21 Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	1996 £'000	1995 £'000	Change in year £'000
Cash at bank and in hand	<u>1,906</u>	<u>880</u>	<u>1,026</u>

22 Analysis of changes in financing during the year

	Finance leases £'000	Share Capital £'000	Secured loans £'000	Mortgage £'000
At 1 January 1996	256	13	324	344
Inception of finance leases	562	-	-	-
Finance lease capital repayments	(463)	-	-	-
Increase in secured loan	-	-	40	-
Repayment of mortgage	-	-	-	23
	<u>355</u>	<u>13</u>	<u>364</u>	<u>321</u>

23 Related party transactions

In an arm's length transaction, the company incurred fees during the year in respect of consultancy services provided by Mr K Smith, the majority shareholder, amounting to £40,000 (1995: £45,000). At the year end, the balance outstanding in respect of such fees was £6,000 (1995: £2,000).

In addition, Mr K Smith has provided a loan to the company, which at 31 December 1996 amounted to £358,000 (1995: £342,000). Interest is payable on this loan at a rate of 9.75% per annum.