

First Retail Finance Limited

Report and Financial Statements

31 January 2006

Registered No: 2862551



Financial statements

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Registered in England & Wales

Hepworth House
Claypit Lane
Leeds
LS2 8AE

Directors' report

The directors present their report and financial statements for the year ended 31 January 2006.

Results and dividends

The profit for the year, after taxation, amounted to £503,000 (2005: £929,000). A dividend of £900,000 (2005: £600,000) was paid during the year. A dividend of £1,200,000 is proposed to be paid in the year to 31 January 2007.

Principal activities and review of the business

The company's principal activity continues to be the provision of finance and associated services.

Directors

The directors who served the Company during the period were as follows:

DW Keens
SA Wolfson

No director had any interest in the share capital of the Company or of any subsidiary company of NEXT plc. The directors are also directors of NEXT plc, and their own and their families' interests in the ordinary shares of NEXT plc are shown in that accounts of that company.

Financial instruments

The Company's principal financial instruments are cash, finance debtors and other financial liabilities such as trade payables arising directly from its operations. The Company's cash requirements are managed by the NEXT Group Treasury function.

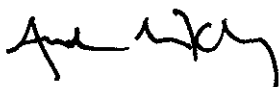
The Company is not exposed to significant foreign currency risks and is not party to any related derivative instruments. The Company is exposed to interest rate risk on its finance debtors, but does not hedge this risk.

All customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board



AJR McKinlay
Secretary

26 July 2006

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the position, financial performance and cash flows of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue its 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of First Retail Finance Limited

We have audited the company's financial statements for the year ended 31 January 2006 which comprise Income Statement, Statement of Recognised Income and Expense, Balance Sheet, Cash Flow Statement, the related Notes 1 to 15 and First Time Adoption of IFRS. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 January 2006 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered auditor
Leeds

7 January, 2006

Income statement

for the year ended 31 January 2006

	<i>Notes</i>	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Revenue	2	1,101	1,495
Net operating expenses		(450)	(177)
Operating profit before interest	3	651	1,318
Finance income	5	67	9
Profit before taxation		718	1,327
Taxation	6	(215)	(398)
Profit for the year		<u>503</u>	<u>929</u>

Statement of recognised income and expense

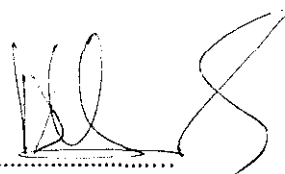
for the year ended 31 January 2006

	<i>Notes</i>	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Net expense recognised directly in equity		-	-
Profit for the year		<u>503</u>	<u>929</u>
Total recognised income and expense for the year	11	<u>503</u>	<u>929</u>

Balance sheet

at 31 January 2006

	Notes	2006 £000	2005 £000
ASSETS AND LIABILITIES			
Non-current assets			
Trade and other receivables	7	1,159	1,547
Deferred tax	6	1	1
		<u>1,160</u>	<u>1,548</u>
Current assets			
Trade and other receivables	7	4,036	4,324
Cash and short term deposits	8	129	145
		<u>4,165</u>	<u>4,469</u>
Total assets		<u>5,325</u>	<u>6,017</u>
Current liabilities			
Trade and other payables	9	(1,137)	(1,204)
Current tax liability		(215)	(443)
		<u>(1,352)</u>	<u>(1,647)</u>
Total liabilities		<u>(1,352)</u>	<u>(1,647)</u>
Net assets		<u>3,973</u>	<u>4,370</u>
EQUITY			
Share capital	10	2,721	2,721
Retained earnings	11	1,252	1,649
Total equity		<u>3,973</u>	<u>4,370</u>



D W Keens
26 July 2006

Director

Cash flow statement

for the year ended 31 January 2006

	<i>Notes</i>	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
<i>Cash flows from operating activities</i>			
Operating profit before interest		651	1,318
Decrease in trade and other receivables		676	881
Decrease in trade and other payables		(67)	(1,083)
Cash generated from operations		1,260	1,116
Corporation taxes paid		(443)	(445)
Net cash from operating activities		817	671
<i>Cash flows from financing activities</i>			
Interest received		67	9
Dividends paid		(900)	(600)
Net cash from financing activities		(833)	(591)
Net (decrease)/increase in cash and cash equivalents		(16)	80
Opening cash and cash equivalents		145	65
Closing cash and cash equivalents	13	129	145

Notes to the financial statements

at 31 January 2006

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The disclosures required by IFRS1 concerning the transition from UK GAAP to IFRS are given on pages 13 to 16. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

The financial statements are presented in sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated.

Trade and other receivables

Trade receivables are stated at gross book value less an allowance for estimated irrecoverable amounts where there is objective evidence that the asset is impaired.

Taxation

Current tax liabilities are measured at the amount expected to be paid, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred tax expected to be payable or recoverable on differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax is calculated at the rates of taxation that are expected to apply when the asset or liability is settled, and is not discounted.

Taxation is charged or credited directly to equity if it relates to items that are credited or charged to equity; otherwise it is recognised in the income statement.

Cash and cash equivalents

Cash and short-term deposits comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits, less bank overdrafts which are repayable on demand.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for finance and other associated charges on credit facilities provided to customers outside of the Company, stated net of value added tax.

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable effective interest rate.

New accounting standards

The Company has not adopted early the requirements of IFRS 7 *Financial instruments: Disclosures*, which will become mandatory with effect from 1 January 2007. The new disclosures will be therefore adopted in the Company's financial statements from the year ending January 2008.

Notes to the financial statements

at 31 January 2006

2. Revenue

	2006 £000	2005 £000
Finance and associated charges	1,101	1,495
	<u>1,101</u>	<u>1,495</u>

3. Operating profit before interest

This is stated after charging:

	2006 £000	2005 £000
Auditors' remuneration		
Audit services	8	8

4. Directors' emoluments

None of the directors received any remuneration from the Company for the year ended 31 January 2006 (2005: £nil). All of the Directors were also directors of the ultimate parent company, NEXT plc, and their emoluments for services to the group are disclosed in the report and accounts of that company.

5. Finance income

	2006 £000	2005 £000
Interest from group undertakings	<u>67</u>	<u>9</u>

Notes to the financial statements

at 31 January 2006

6. Taxation

	2006 £000	2005 £000
<i>Current tax:</i>		
UK corporation tax on profits of the year	215	397
Total current tax	<u>215</u>	<u>397</u>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	-	1
Tax expense reported in the income statement	<u>215</u>	<u>398</u>

The tax rate for the current year was the standard rate of corporation tax in the UK of 30%.

Deferred taxation

	2006 £000	2005 £000
Accelerated capital allowances	1	1
	<u>1</u>	<u>1</u>
The movement in the year is as follows:		
At January 2005	1	2
Charged to the income statement		
Accelerated capital allowances	-	(1)
At January 2006	<u>1</u>	<u>1</u>

7. Trade and other receivables

	2006 £000	2005 £000
<i>Due within one year:</i>		
Finance debtors	2,322	3,071
Amount owed by immediate parent company	1,714	1,233
Prepayments and accrued income	-	20
	<u>4,036</u>	<u>4,324</u>
<i>Due after more than one year:</i>		
Finance debtors	<u>1,159</u>	<u>1,547</u>

Finance debtors bear interest at an average rate of 26.62% (2005: 27.14%). Amounts owed by the immediate parent company bear interest at UK base rate less 1%.

Notes to the financial statements

at 31 January 2006

8. Cash and short-term deposits

	2006 £000	2005 £000
Cash at bank and in hand	<u>129</u>	<u>145</u>

Cash at bank does not attract credit interest.

9. Trade and other payables

	2006 £000	2005 £000
Trade payables	46	55
Other creditors and accruals	<u>1,091</u>	<u>1,149</u>
	<u>1,137</u>	<u>1,204</u>

Trade payables are not interest-bearing and are generally settled on 7 day terms. Other creditors and accruals are not interest-bearing.

10. Share capital

	2006 £000	Authorised 2005 £000
"A" Ordinary shares of £1 each	5,000	5,000
"B" Ordinary shares of £1 each	<u>5,000</u>	<u>5,000</u>
	<u>10,000</u>	<u>10,000</u>

	No. '000	Allotted, called up and fully paid 2006 £000	No. '000	2005 £000
"A" Ordinary shares of £1 each	1,360	1,360	1,360	1,360
"B" Ordinary shares of £1 each	<u>1,361</u>	<u>1,361</u>	<u>1,361</u>	<u>1,361</u>
	<u>2,721</u>	<u>2,721</u>	<u>2,721</u>	<u>2,721</u>

There are no differences in rights attached to each class of share in relation to the distribution of dividends, voting rights and any distribution of capital which may result from winding up of the Company

Notes to the financial statements

at 31 January 2006

11. Reconciliation of movements in equity

	<i>Share capital £000</i>	<i>Retained earnings £000</i>	<i>Total £000</i>
At January 2004	2,721	1,320	4,041
Total recognised income and expense for the year	-	929	929
Equity dividends paid	-	(600)	(600)
At January 2005	2,721	1,649	4,370
Total recognised income and expense for the year	-	503	503
Equity dividends paid	-	(900)	(900)
At January 2006	2,721	1,252	3,973

12. Financial instruments: fair values

The fair values of each category of the Company's financial instruments and their carrying value in the Company's balance sheet, excluding short term debtors and creditors, are as follows:

	<i>2006</i>		<i>2005</i>	
	<i>Carrying amount £000</i>	<i>Fair value £000</i>	<i>Carrying amount £000</i>	<i>Fair value £000</i>
<i>Financial assets</i>				
Cash and short-term deposits	129	129	145	145

13. Analysis of net funds

	<i>January 2005 £000</i>	<i>Cash flow £000</i>	<i>January 2006 £000</i>
Cash and short-term deposits	145	(16)	129
Overdrafts	-	-	-
Total net funds	145	(16)	129

	<i>January 2004 £000</i>	<i>Cash flow £000</i>	<i>January 2005 £000</i>
Cash and short-term deposits	65	80	145
Overdrafts	-	-	-
Total net funds	65	80	145

Notes to the financial statements

at 31 January 2006

14. Related party transactions

During the year the Company entered into transactions in the ordinary course of business with related parties as follows:

	2006 £000	2005 £000
Transactions with immediate parent company:		
Rendering of services	(504)	(670)
Recharge of costs	(87)	(188)
Funds advanced/(borrowed)	1,905	3,552
Dividends (paid)	(900)	(600)
Net interest receivable	67	9

There were no transactions with any other group companies.

In addition, the Company has financed a retail credit facility of £271,000 (2005: £620,000) for Cotton Traders Ltd and earned commission of £7,000 (2005: £16,000) on this activity. Cotton Traders Ltd is a subsidiary of Cotton Traders Holdings Ltd, an associate of NEXT plc. The amount owed to Cotton Traders at 31 January 2006 was £nil (2005: £5,000). The agreement between the Company and Cotton Traders Ltd to finance this retail credit facility has been terminated and since 31st January 2006 no transactions have been made.

15. Ultimate parent company and controlling party

The Company's ultimate parent company and controlling party is NEXT plc, a company registered in England & Wales. NEXT plc is the only group preparing accounts which include First Retail Finance Limited. Copies of its group accounts are available from its Company Secretary at its registered office, Desford Road, Enderby, Leicester, LE19 4AT.

First time adoption of IFRS

The year ending 31 January 2006 is the first year that the Company has presented its financial statements under International Financial Reporting Standards ("IFRS"). The last financial statements under UK GAAP were for the year ended 31 January 2005; the Company's date of transition to IFRS was therefore 1 February 2004. The disclosures required in the year of transition are given below.

The adoption of IFRS represents an accounting change only and does not affect the operations or cash flows of the Company.

Reconciliation of equity at 1 February 2004 (date of transition to IFRS)

	<i>UK GAAP</i> <i>£000</i>	<i>Dividends</i> <i>IAS 10</i> <i>£000</i>	<i>Effect of</i> <i>transition to</i> <i>IFRS</i> <i>£000</i>	<i>Restated</i> <i>under IFRS</i> <i>£000</i>
ASSETS AND LIABILITIES				
<i>Non-current assets</i>				
Trade and other receivables	2,104	-	-	2,104
Deferred tax assets	2	-	-	2
	<u>2,106</u>			<u>2,106</u>
<i>Current assets</i>				
Trade and other receivables	4,648	-	-	4,648
Cash and short-term deposits	65	-	-	65
	<u>4,713</u>			<u>4,713</u>
Total assets	<u>6,819</u>			<u>6,819</u>
<i>Current liabilities</i>				
Trade and other payables	(2,887)	600	600	(2,287)
Current tax liability	(491)	-	-	(491)
	<u>(3,378)</u>			<u>(2,778)</u>
Total liabilities	<u>(3,378)</u>			<u>(2,778)</u>
Net assets	<u>3,441</u>	<u>600</u>	<u>600</u>	<u>4,041</u>
EQUITY				
Share capital	2,721	-	-	2,721
Retained earnings	720	600	600	1,320
Total equity	<u>3,441</u>	<u>600</u>	<u>600</u>	<u>4,041</u>

First time adoption of IFRS

Reconciliation of profit for the year ended 31 January 2005

	<i>UK GAAP</i> <i>£000</i>	<i>Effect of transition to IFRS</i> <i>£000</i>	<i>Restated under IFRS</i> <i>£000</i>
Revenue	1,495	-	1,495
Operating profit before interest	1,318	-	1,318
Finance income	9	-	9
Profit before taxation	1,327		1,327
Tax	(398)	-	(398)
Profit for the year	929	-	929

First time adoption of IFRS

Reconciliation of equity at 31 January 2005

	<i>UK GAAP</i> <i>£000</i>	<i>Dividends</i> <i>IAS 10</i> <i>£000</i>	<i>Effect of</i> <i>transition to</i> <i>IFRS</i> <i>£000</i>	<i>Restated</i> <i>under</i> <i>IFRS</i> <i>£000</i>
ASSETS AND LIABILITIES				
<i>Non-current assets</i>				
Trade and other receivables	1,547	-	-	1,547
Deferred tax assets	1	-	-	1
	<u>1,548</u>			<u>1,548</u>
<i>Current assets</i>				
Trade and other receivables	4,324	-	-	4,324
Cash and short-term deposits	145	-	-	145
	<u>4,469</u>			<u>4,469</u>
Total assets	<u>6,017</u>			<u>6,017</u>
<i>Current liabilities</i>				
Trade and other payables	(2,104)	900	900	(1,204)
Current tax liability	(443)	-	-	(443)
	<u>(2,547)</u>			<u>(1,647)</u>
Total liabilities	<u>(2,547)</u>			<u>(1,647)</u>
Net assets	<u>3,470</u>	<u>900</u>	<u>900</u>	<u>4,370</u>
EQUITY				
Share capital	2,721	-	-	2,721
Retained earnings	749	900	900	1,649
Total equity	<u>3,470</u>	<u>900</u>	<u>900</u>	<u>4,370</u>

First time adoption of IFRS

Notes to the reconciliations

Dividends (IAS 10)

Dividends are now recognised only when they are declared and approved, rather than accrued for in the period to which they relate. Compared to the treatment under UK GAAP this has the effect of deferring the recognition of proposed dividends to the following year. In addition, dividends are shown as a movement directly in equity instead of through the income statement.