

REGISTERED NO: 4250527

MATALAN INVESTMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEK PERIOD ENDED 25 FEBRUARY 2006



MATALAN INVESTMENTS LIMITED

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE 52 WEEK PERIOD
ENDED 25 FEBRUARY 2006**

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MATALAN INVESTMENTS LIMITED

DIRECTORS AND ADVISERS

EXECUTIVE DIRECTORS

J Hargreaves (Chairman)
J King
P Dutton

SECRETARY AND REGISTERED OFFICE

S Waite (appointed 27 June 2005)
P Dutton (appointed 1 April 2005, resigned 27 June 2005)
J Berry (resigned 1 April 2005)
Matalan Investments Limited
Gillibrands Road
Skelmersdale
West Lancashire
WN8 9TB

REGISTERED AUDITORS

PricewaterhouseCoopers LLP
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

BANKERS

Barclays Bank PLC
City Office
Water Street
Liverpool
L69 2DM

SOLICITORS

Cobbetts
Ship Canal House
King Street
Manchester
M2 4WB

MATALAN INVESTMENTS LIMITED

DIRECTORS' REPORT FOR THE 52 WEEK PERIOD ENDED 25 FEBRUARY 2006

The directors present their report and the audited financial statements for the 52 week period ended 25 February 2006.

PRINCIPAL ACTIVITIES

The principal activity of the company is as a holding company to support overseas companies in the group structure.

REVIEW OF THE BUSINESS

The income statement for the period is set out on page 6. Both the level of business and the year end financial position were considered satisfactory and the directors expect the present level of activity to be sustained for the foreseeable future.

DIVIDENDS

The directors do not recommend the payment of a dividend.

DIRECTORS

The directors of the company are listed on page 1.

DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

None of the directors had an interest in the share capital of the company. The interests of the directors in the share capital of the parent company, Matalan PLC, are shown in the financial statements of that company.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The directors have adopted International Financial Reporting Standards (IFRS) for the 52 week period ended 25 February 2006 and the comparative period. The impact of adoption of IFRS on the reported balances is explained in note 13. The accounting policies adopted under IFRS can be found on page 9.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the 52 week period ended 25 February 2006. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

MATALAN INVESTMENTS LIMITED

**DIRECTORS' REPORT FOR THE 52 WEEK PERIOD ENDED 25 FEBRUARY 2006
(CONTINUED)**

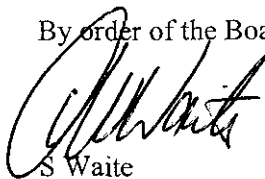
TAXATION STATUS

In the opinion of the directors, the company is a close company within the meaning of the Income and Corporation Taxes Act 1988.

AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the next annual general meeting.

By order of the Board

A handwritten signature in dark ink, appearing to read 'S Waite', is written over the printed name.

S Waite
Secretary
25th September 2006

MATALAN INVESTMENTS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MATALAN INVESTMENTS LIMITED FOR THE 52 WEEK PERIOD ENDED 25 FEBRUARY 2006

We have audited the financial statements of Matalan Investments Limited for the 52 weeks ended 25 February 2006 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been 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.

MATALAN INVESTMENTS LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MATALAN
INVESTMENTS LIMITED FOR THE 52 WEEK PERIOD ENDED 25 FEBRUARY 2006
(CONTINUED)**

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 25 February 2006 and of its profit for the 52 weeks then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', is written over the printed name of the firm.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
25th September 2006

MATALAN INVESTMENTS LIMITED

INCOME STATEMENT FOR THE 52 WEEK PERIOD ENDED 25 FEBRUARY 2006

| | Note | 2006 £ | 2005 £ |
|---|------|--------------|---------------|
| Administrative expenses | | (15) | (15) |
| OPERATING LOSS BEFORE FINANCING INCOME | | (15) | (15) |
| Interest receivable and similar income | | 9,176 | 15,564 |
| Net finance income | | 9,176 | 15,564 |
| PROFIT BEFORE TAXATION | | 9,161 | 15,549 |
| Taxation | 3 | (5) | 5 |
| PROFIT FOR THE FINANCIAL PERIOD | | 9,156 | 15,554 |

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of recognised income and expense has been presented.

All results arose from continuing operations.

The notes on pages 9 to 13 form part of these financial statements.

MATALAN INVESTMENTS LIMITED

BALANCE SHEET AT 25 FEBRUARY 2006

| | Notes | 2006 £ | 2005 £ |
|-----------------------------------|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Investments | 4 | 150,000 | 150,000 |
| Trade and other receivables | 5 | 19,500 | 18,155 |
| | | <u>169,500</u> | <u>168,155</u> |
| CURRENT ASSETS | | | |
| Trade and other receivables | 6 | 36,018 | 28,192 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 7 | (150,028) | (150,013) |
| NET CURRENT LIABILITIES | | <u>(114,010)</u> | <u>(121,821)</u> |
| NET ASSETS | | <u>55,490</u> | <u>46,334</u> |
| SHAREHOLDERS' EQUITY | | | |
| Ordinary shares | 8 | 2 | 2 |
| Retained earnings | | 55,488 | 46,332 |
| EQUITY SHAREHOLDERS' FUNDS | | <u>55,490</u> | <u>46,334</u> |

The notes on pages 9 to 13 form part of these financial statements.

Approved by the Board of directors on 25th September 2006 and signed on its behalf by:



P Dutton
Director

MATALAN INVESTMENTS LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE 52 WEEK PERIOD ENDED 25 FEBRUARY 2006

| | Share capital £ | Retained earnings £ | Total equity £ |
|-------------------------------------|-----------------------|---------------------------|----------------------|
| As at 29 February 2004 | 2 | 30,778 | 30,780 |
| Total recognised income and expense | - | 15,554 | 15,554 |
| As at 26 February 2005 | 2 | 46,332 | 46,334 |
| As at 27 February 2005 | 2 | 46,332 | 46,334 |
| Total recognised income and expense | - | 9,156 | 9,156 |
| At 25 February 2006 | 2 | 55,488 | 55,490 |

MATALAN INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR 52 WEEK PERIOD ENDED 25 FEBRUARY 2006

1 PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union issued by the International Accounting Standards Board (IASB), with the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are effective as at the balance sheet date and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The accounts have been prepared on a going concern basis as Matalan PLC, the ultimate parent undertaking, has confirmed that it intends to continue to provide financial support for the foreseeable future to enable the Company to meet its liabilities as they fall due.

The financial statements contain information about Jaymax Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of its parent, Matalan PLC, a company registered in England and Wales.

No cash flow statement has been presented as there have been no cash flows in the year. A reconciliation of operating loss to net cash flow from operating activities is presented in note 10.

Current taxation

Current taxation is expected taxation payable on the taxable income for the year, using taxation rates enacted or substantially enacted at the balance sheet date, and any adjustment to taxation payable in respect of previous years.

Income from investments

Amounts receivable from fixed income investments are recognised as income over the period the income arises.

Investments

All investments are carried at historical cost less a provision for permanent diminution in value if appropriate.

2 PROFIT BEFORE TAXATION

The company had no employees during the period. The directors received no remuneration for the services to the company. Auditors' remuneration is borne by the fellow group company.

3 TAXATION

| Analysis of charge/(credit) in period: | 2006 £ | 2005 £ |
|--|-----------|------------|
| Current taxation | | |
| UK corporation tax – current year | - | (5) |
| UK corporation tax – prior year | 5 | - |
| | <hr/> | <hr/> |
| Total taxation charge/(credit) for the period | 5 | (5) |
| | <hr/> | <hr/> |

MATALAN INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR 52 WEEK PERIOD ENDED 25 FEBRUARY 2006 (CONTINUED)

The taxation charge (2005: credit) for the period is lower (2005: lower) than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below:

| | 2006 £ | 2005 £ |
|--|--------------|--------------|
| Profit before taxation | 9,161 | 15,549 |
| Profit multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%) | <u>2,748</u> | <u>4,665</u> |
| Effects of: | | |
| Expenses not deductible for tax purposes | (2,753) | (4,670) |
| Group relief surrendered/(claimed) not paid | 5 | - |
| Adjustments to tax charge in respect of prior years | <u>5</u> | <u>-</u> |
| | <u>5</u> | <u>(5)</u> |

4 INVESTMENTS

The company subscribed in cash on 17 July 2001 for 50,000 ordinary shares of £1 each and 100,000 preference shares of £1 each for a total value of £150,000 in Matalan Holding Company Limited, a company incorporated in England and Wales. These holdings represent 100% of the preference share capital and 5% of the ordinary share capital of that company. In the period of trading to 25 February 2006, Matalan Holding Company Limited recorded a profit after taxation of £32,615,000 (2005: £(30,306,000) loss (restated)) and had capital and reserves at that date of £(2,625,000) deficit (2005: £(35,240,000) deficit (restated)).

5 TRADE AND OTHER RECEIVABLES – NON-CURRENT

| | 2006 £ | 2005 £ |
|------------------------------------|---------------|---------------|
| Amounts owed by group undertakings | <u>19,500</u> | <u>18,155</u> |

This is in respect of the premium receivable on redemption of the preference shares held in Matalan Holding Company Limited. The shares are redeemable by Matalan Holding Company Limited on 17 July 2016 at £1.35 per share increased by changes in the Retail Price Index between the issue and redemption date.

MATALAN INVESTMENTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR 52 WEEK PERIOD ENDED 25 FEBRUARY 2006 (CONTINUED)**

6 TRADE AND OTHER RECEIVABLES – CURRENT

| | 2006 £ | 2005 £ |
|------------------------------------|---------------|---------------|
| Amounts owed by group undertakings | <u>36,018</u> | <u>28,192</u> |

7 TRADE AND OTHER PAYABLES – CURRENT

| | 2006 £ | 2005 £ |
|------------------------------------|----------------|----------------|
| Amounts owed to group undertakings | <u>150,028</u> | <u>150,013</u> |

The intercompany creditor is interest free and has no specified repayment terms.

8 SHARE CAPITAL

| | 2006 £ | 2005 £ |
|--|-----------|-----------|
| Authorised, allotted, called up and fully paid 2 (2005: 2) ordinary shares of £1 each | <u>2</u> | <u>2</u> |

9 CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of operating loss to net cash flow from operating activities:

| | 2006 £ | 2005 £ |
|---|-------------|-------------|
| Operating loss | <u>(15)</u> | <u>(15)</u> |
| Operating cash flows before movement in working capital | <u>(15)</u> | <u>(15)</u> |
| Movements in working capital: | | |
| Increase in trade and other payables | <u>15</u> | <u>15</u> |
| Net cash from operating activities | <u>-</u> | <u>-</u> |

MATALAN INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR 52 WEEK PERIOD ENDED 25 FEBRUARY 2006 (CONTINUED)

10 RELATED PARTY TRANSACTIONS

During the period the following transactions were carried out with related parties.

| | 2006 £ | 2005 £ |
|---|---------------|---------------|
| Preference dividend receivable | <u>9,176</u> | <u>15,564</u> |
| Balance outstanding in respect of dividends and associated redemption premium | <u>55,518</u> | <u>46,342</u> |

Of this £19,500 (2005: £18,155) is due after one year.

The company has entered into a cash pooling arrangement with other group companies.

| | 2006 £ | 2005 £ |
|---|-----------|-----------|
| Liabilities settled by other group companies under the cash pooling arrangement | | |
| Administrative expenses | <u>15</u> | <u>15</u> |

11 CONTINGENT LIABILITIES

An unlimited guarantee under a composite accounting agreement operates for all group company bank accounts. Group bank loans and overdrafts are secured by fixed and floating charges on all the assets of the group.

12 ULTIMATE PARENT COMPANY

The directors regard Matalan PLC, a company registered in England and Wales, as the ultimate parent company, which is also the largest and smallest group to consolidate these financial statements. According to the register kept by the company, Matalan PLC has a 100% interest in the equity capital of Matalan Investments Limited at 25 February 2006. Copies of the financial statements of Matalan PLC may be obtained from Companies House. The company regards the Hargreaves family as the ultimate controlling party, in accordance with the definition in the Listing Rules.

MATALAN INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR 52 WEEK PERIOD ENDED 25 FEBRUARY 2006 (CONTINUED)

13 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

These financial statements and associated notes to the accounts have been prepared in accordance with the accounting policies on page 9. The financial statements include restated comparative information for the 52 weeks ended 26 February 2005 and an opening balance sheet at 29 February 2004 (the company's date of transition).

An explanation of how the transition from UK GAAP to IFRS has affected the company's financial position and financial performance is set out in the following table and the notes that accompany the table. There is no impact of IFRS on the reported balance sheets, or on the opening balance sheet at the date of transition. The adoption of IFRS is an accounting change and will not change how Matalan Investments Limited is managed.

INCOME STATEMENT FOR THE 52 WEEK PERIOD ENDED 26 FEBRUARY 2005

| | As reported under UK GAAP £ | Preference dividends £ | As reported under IFRS £ |
|---|-----------------------------------|------------------------------|--------------------------------|
| Administrative expenses | (15) | | (15) |
| OPERATING LOSS BEFORE FINANCING INCOME | (15) | | (15) |
| Interest receivable and similar income | - | 15,564 | 15,564 |
| Net finance income | - | 15,564 | 15,564 |
| (LOSS)/PROFIT BEFORE TAXATION | (15) | 15,564 | 15,549 |
| Taxation | 5 | | 5 |
| (LOSS)/PROFIT AFTER TAXATION | (10) | 15,564 | 15,554 |
| Income from shares in group undertaking | 15,564 | (15,564) | - |
| PROFIT FOR THE FINANCIAL PERIOD | 15,554 | - | 15,554 |

Preference dividends

Preference dividends are recognised as part of finance income under IFRS rather than as post tax income.