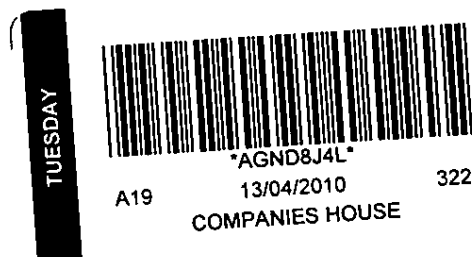


DFS TRADING LIMITED

REPORT AND ACCOUNTS

1 AUGUST 2009



Company no 1735950

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Directors' report

The directors present their report together with the audited financial statements for the 52 weeks ended 1 August 2009. Comparative figures relate to the 53 weeks ended 2 August 2008.

Principal activities

The principal activities of the Company are the retailing and manufacture of upholstered furniture.

Business review and future developments.

DFS has once again achieved excellent results and in a most difficult trading environment. Strong cost control enabled the business to improve profitability despite a small reduction in sales. As a result, operating profit was up by more than 20% to £42.9m (2008: £35.2m).

We continued to focus on the consolidation and improvement of our existing operations, and did not add to our portfolio of 77 stores during the period.

DFS remains the largest retailer of upholstered furniture in the UK, and our growth in market share reflects the strength of our long-established brand, our market-leading product range, the high quality of our stores and people, and 40 years of continuous investment in building customer goodwill. Our retail operations supported by our three UK based factories, give us significant advantages in the control of design, quality and lead times, and these factories delivered record volumes of product during the period.

We will continue to focus on our long term strategy for profitable growth as the biggest and most successful upholstered furniture retailer in the United Kingdom.

Business risks and uncertainty

In common with many other retail businesses, the principal risks in the current period of economic uncertainty include a potential reduction in customer demand. Other significant risks include the potential threats from competitors and from changes in consumer spending patterns. The Company has managed these material risks by ensuring that its customers are provided with a range of products which suits their needs, are competitively priced, offering good value, and are supported by excellent customer service, in order to enhance its market-leading position.

The Company sources products from a variety of locations including international markets. It is exposed to movement in the price and supply of key raw materials and foreign currency fluctuations on certain purchases sourced from overseas. The Company's operations are also exposed to the risk of movements in interest rates with a resulting impact on customer demand and the cost and availability of consumer finance. Raw material prices, currency rates and interest have been subject to increased volatility in the prevailing economic climate. These risks are managed by spreading the source of supply and hedging policies for currency and interest.

Directors' report *(continued)*

Business risks and uncertainty (continued)

The business is also subject to an increasing burden of compliance in many of its activities from regulatory and other authorities and is subject to regulatory risk with potential for significant financial impact. The Group has consciously managed this risk by taking steps to ensure it complies with all relevant legislation and guidelines including treating its customers fairly.

Results and dividends

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

No dividend was paid to shareholders during the period (2008 £nil).

The directors do not recommend any further dividend payments (2008 £nil).

Directors

The directors who held office during the period are shown below:

G Kirkham
J H Massey
W R Barnes
K Baker
B Dennis
H G Ellis
S M Glover
G Mould
D Payling
A S Trofimowicz

G Kirkham, JH Massey and WR Barnes are directors of the ultimate holding company, Full Circle Future Limited.

Political and charitable contributions

The Company made charitable contributions of £142,100 (2008 £26,630) during the period.

The Company made no political contributions during the current or prior period.

Employees

Employees are provided with information and consulted on matters which are, in the opinion of the directors, of concern to them as employees and likely to affect their interests. It is the policy of the Company to support the employment of disabled people wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Company as well as generally through training and career development.

Directors' report *(continued)*

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

By order of the Board



P A Walker
Company Secretary

1 Rockingham Way
Redhouse Interchange
Adwick-le-Street
Doncaster
South Yorkshire
DN6 7NA

24 November 2009

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

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 period. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of their profit or loss for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, 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 in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Independent auditors' report to the shareholder of DFS Trading Limited

We have audited the financial statements of DFS Trading Limited for the 52 weeks ended 1 August 2009 set out on pages 7 to 18. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 1 August 2009 and of its profit for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the shareholder of DFS Trading Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



G Watts
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Birmingham

24 November 2009

Profit and loss account

52 weeks ended 1 August 2009 (53 weeks ended 2 August 2008)

| | Notes | 2009 £m | 2008 £m |
|--|-------|--------------|--------------|
| Turnover | 1 2 | 577.8 | 594.9 |
| Cost of sales | | (501.4) | (537.5) |
| Gross profit | | 76.4 | 57.4 |
| Administrative expenses | | (33.5) | (22.2) |
| Operating profit | | 42.9 | 35.2 |
| Interest receivable and similar income | 3 | 0.1 | 0.6 |
| Profit on ordinary activities before taxation | 2 | 43.0 | 35.8 |
| Taxation on profit on ordinary activities | 6 | (5.2) | (12.2) |
| Profit for the period | 13 | 37.8 | 23.6 |

All activities were continuing throughout both the current and previous periods

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

Balance sheet

as at 1 August 2009 (2 August 2008)

| | Notes | 2009 | | 2008 | |
|---|-------|---------------|--------------|---------------|--------------|
| | | £m | £m | £m | £m |
| Fixed assets | | | | | |
| Tangible assets | 7 | | 35.8 | | 45.0 |
| Current assets | | | | | |
| Stocks | 8 | 14.3 | | 14.6 | |
| Debtors | 9 | 174.7 | | 134.9 | |
| Cash at bank and in hand | | 5.0 | | 12.0 | |
| | | <u>194.0</u> | | <u>161.5</u> | |
| Creditors: amounts falling due within one year | 10 | <u>(81.7)</u> | | <u>(95.0)</u> | |
| Net current assets | | | <u>112.3</u> | | <u>66.5</u> |
| Total assets less current liabilities | | | <u>148.1</u> | | <u>111.5</u> |
| Provisions for liabilities and charges | 11 | | (10.6) | | (11.8) |
| Net assets | | | <u>137.5</u> | | <u>99.7</u> |
| Capital and reserves | | | | | |
| Called up share capital | 12 | | - | | - |
| Profit and loss account | 13 | | 137.5 | | 99.7 |
| Shareholder's funds | | | <u>137.5</u> | | <u>99.7</u> |

The financial statements were approved by the Board on 24 November 2009 and were signed on its behalf by

G Kirkham
Chairman



WR Barnes
Finance Director



Company number 1735950

Reconciliation of movements in shareholder's funds

52 weeks ended 1 August 2009 (53 weeks ended 2 August 2008)

| | 2009 £m | 2008 £m |
|--|------------|------------|
| Profit for the financial period | 37.8 | 23 6 |
| Net addition to shareholder's funds | 37.8 | 23 6 |
| Shareholder's funds at the beginning of the period | 99.7 | 76 1 |
| Shareholder's funds at the end of the period | 137.5 | 99 7 |

Notes to the financial statements

1 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

1.1 Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules

The Company's ultimate holding company, Full Circle Future Limited, has complied with the requirements of FRS1 (Revised) in producing a Group cash flow statement. The Company has taken advantage of the exemption available in FRS1 (Revised) and does not present its own cash flow statement

1.2 Turnover

Turnover represents the ticket price (excluding value added tax) of furniture delivered to third parties. All sales are made within the United Kingdom

1.3 Store developments

Pre-opening and launch costs for new stores are written off against operating profit as incurred. No interest is capitalised on new store developments

1.4 Tangible fixed assets

Tangible fixed assets are shown at original cost less depreciation and any provision for impairment in value

1.5 Depreciation

Depreciation is provided in equal amounts each period in order to write off the cost of fixed assets less the estimated residual value, over their anticipated useful economic lives. The estimated useful economic lives used are

| | | |
|---------------------|---|--------------|
| Plant and equipment | - | 4 to 7 years |
| Motor vehicles | - | 4 years |

1.6 Impairments of fixed assets

The carrying amounts of the company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated

An impairment loss is recognised whenever the recoverable amount of an asset or its associated income is below its carrying amount. Impairment losses are recognised in the profit and loss account

1.7 Stocks

Stocks are valued at the lower of cost and net realisable value. The cost of finished goods manufactured by the Company includes direct materials, direct labour and appropriate overhead expenditure

1.8 Pensions

The cost of providing pensions through defined contribution schemes is charged to the profit and loss account in the period in respect of which contributions become payable. All contributions are paid into funds managed and held separately from the Company

1.9 Taxation

The charge for taxation is based on the profit 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"

Notes (continued)

1 Accounting policies (continued)

1.10 Operating leases

The costs of operating leases in respect of land and buildings are charged to profit on ordinary activities on a straight line basis over the lease period

1.11 Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

2 Profit on ordinary activities before taxation

| | 2009 £m | 2008 £m |
|--|------------|------------|
| Profit on ordinary activities before taxation is stated after charging | | |
| Depreciation | 13.4 | 12.0 |
| Loss/(profit) on disposal of fixed assets | 1.4 | (0.4) |
| Operating lease payments - properties | 40.1 | 41.5 |
| Redundancy costs | 0.5 | - |
| | <hr/> | <hr/> |
| Auditors' remuneration | | |
| Audit of these financial statements | 0.1 | 0.1 |
| Other services relating to taxation and pension advice | 0.2 | 0.2 |
| | <hr/> | <hr/> |
| | 0.3 | 0.3 |
| | <hr/> | <hr/> |

3 Interest receivable and similar income

| | 2009 £m | 2008 £m |
|--------------------------|------------|------------|
| Bank interest receivable | 0.1 | 0.6 |
| | <hr/> | <hr/> |

Notes (continued)

4 Directors' emoluments

G Kirkham, JH Massey and WR Barnes received no remuneration for their services to the Company (2008 £nil) Their remuneration for services to the immediate holding company, DFS Furniture Company Limited are shown in the financial statements of that company

| | 2009 £000 | 2008 £000 |
|--|--------------|--------------|
| Emoluments | 1,522 | 1,305 |
| Pension contributions | 66 | 64 |
| | <u>1,588</u> | <u>1,369</u> |
| Remuneration of the highest paid director was as follows | | |
| Emoluments | 332 | 318 |
| Pension contributions | 14 | 13 |
| | <u>346</u> | <u>331</u> |

Seven directors accrued retirement benefits under pension schemes in the period (2008 seven) All of the directors' pension contributions are to defined contribution pension schemes

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the period, analysed by category, was as follows

| | Number of employees | |
|----------------------------|---------------------|--------------|
| | 2009 | 2008 |
| Selling and administration | 1,268 | 1,296 |
| Transport and warehouse | 673 | 722 |
| Production | 610 | 666 |
| | <u>2,551</u> | <u>2,684</u> |

The aggregate payroll costs of these persons were as follows

| | £m | £m |
|-----------------------|-------------|-------------|
| Wages and salaries | 67.1 | 70.1 |
| Social security costs | 6.8 | 7.0 |
| Other pension costs | 1.3 | 1.3 |
| | <u>75.2</u> | <u>78.4</u> |

Notes *(continued)*

6 Taxation on profit on ordinary activities

6.1 Analysis of charge for the period

| | 2009 £m | 2008 £m |
|---|------------|------------|
| UK corporation tax | | |
| Current tax on income for the period | 12.4 | 13.6 |
| Adjustments in respect of prior periods | (5.0) | 0.5 |
| | <hr/> | <hr/> |
| Total current tax charge | 7.4 | 14.1 |
| | <hr/> | <hr/> |
| Deferred tax | | |
| Current period | (2.2) | (1.2) |
| Adjustments in respect of prior periods | - | (0.7) |
| | <hr/> | <hr/> |
| Total deferred tax credit (note 11) | (2.2) | (1.9) |
| | <hr/> | <hr/> |
| Total tax charge | 5.2 | 12.2 |
| | <hr/> | <hr/> |

6.2 Factors affecting the tax charge for the period

The tax assessed for the period is higher (2008 higher) than the standard rate of corporation tax in the UK of 28% (2008 29.33%). The differences are explained below

| | 2009 £m | 2008 £m |
|---|------------|------------|
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 29.33%) | 12.0 | 10.5 |
| Expenses not deductible for tax purposes | 1.4 | 1.9 |
| Depreciation for period in excess of capital allowances | 2.3 | 0.8 |
| Short term timing differences | (0.1) | 0.4 |
| Adjustments in respect of prior periods | (5.0) | 0.5 |
| Group relief | (3.2) | - |
| | <hr/> | <hr/> |
| Total current tax charge | 7.4 | 14.1 |
| | <hr/> | <hr/> |

Notes *(continued)*

7 Tangible assets

| | Plant and equipment £m | Motor vehicles £m | Total £m |
|------------------------------|---------------------------------------|----------------------------------|---------------------|
| <i>Cost</i> | | | |
| As at 3 August 2008 | 87.7 | 19.1 | 106.8 |
| Additions | 2.3 | 3.9 | 6.2 |
| Disposals | (3.5) | (3.8) | (7.3) |
| | <hr/> | <hr/> | <hr/> |
| As at 1 August 2009 | 86.5 | 19.2 | 105.7 |
| | <hr/> | <hr/> | <hr/> |
| <i>Depreciation</i> | | | |
| As at 3 August 2008 | 50.7 | 11.1 | 61.8 |
| Provided during the period | 9.6 | 3.8 | 13.4 |
| Disposals | (1.8) | (3.5) | (5.3) |
| | <hr/> | <hr/> | <hr/> |
| As at 1 August 2009 | 58.5 | 11.4 | 69.9 |
| | <hr/> | <hr/> | <hr/> |
| <i>Net book value</i> | | | |
| As at 1 August 2009 | 28.0 | 7.8 | 35.8 |
| | <hr/> | <hr/> | <hr/> |
| As at 2 August 2008 | 37.0 | 8.0 | 45.0 |
| | <hr/> | <hr/> | <hr/> |

Notes (continued)

8 Stocks

| | 2009 £m | 2008 £m |
|-------------------------------------|-------------|-------------|
| Raw materials and consumables | 3.0 | 2.8 |
| Finished goods and goods for resale | 11.3 | 11.8 |
| | <u>14.3</u> | <u>14.6</u> |

9 Debtors

| | 2009 £m | 2008 £m |
|------------------------------------|--------------|--------------|
| Trade debtors | 2.7 | 2.7 |
| Amounts owed by group undertakings | 159.1 | 120.0 |
| Prepayments and accrued income | 11.5 | 12.2 |
| Deferred tax | 1.4 | - |
| | <u>174.7</u> | <u>134.9</u> |

10 Creditors: amounts falling due within one year

| | 2009 £m | 2008 £m |
|---------------------------------|-------------|-------------|
| Payments received on account | 16.6 | 15.0 |
| Trade creditors | 23.5 | 36.5 |
| Corporation tax | 6.2 | 10.1 |
| Social security and other taxes | 12.8 | 8.1 |
| Accruals and deferred income | 22.6 | 25.3 |
| | <u>81.7</u> | <u>95.0</u> |

Accruals above includes an amount in relation to a dispute under certain regulations. The directors have taken legal advice in relation to this matter and based on this advice and the past outcome of other similar disputes have made their best estimate of the accrual.

Notes (continued)

11 Provisions for liabilities and charges

| | Guarantee provision £m | Deferred taxation £m | Total £m |
|----------------------------|---------------------------------------|-------------------------------------|---------------------|
| As at 2 August 2008 | 11.1 | 0.7 | 11.8 |
| Provided in the period | 5.2 | - | 5.2 |
| Utilised in the period | (5.7) | (0.7) | (6.4) |
| As at 1 August 2009 | 10.6 | - | 10.6 |

The guarantee provision is calculated on the basis of turnover during the current and previous accounting periods and reflects the estimated cost of the guarantee provided to retail customers

Deferred taxation

The amount recognised for deferred taxation, calculated at a corporation tax rate of 28% (2008 28%), is set out below

| | 2009 £m | 2008 £m |
|--------------------------------|--------------------|--------------------|
| Accelerated capital allowances | 1.7 | 3.9 |
| Other timing differences | (3.1) | (3.2) |
| Total | (1.4) | 0.7 |

12 Called up share capital

| | 2009 £ | 2008 £ |
|--|-------------------|-------------------|
| Authorised, allotted, called up and fully paid: | | |
| 100 ordinary shares of £1 each | 100 | 100 |

Notes (continued)

13 Reserves

| | Profit and loss reserves £m |
|-----------------------|-----------------------------------|
| As at 2 August 2008 | 99.7 |
| Profit for the period | 37.8 |
| As at 1 August 2009 | <u>137.5</u> |

14 Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3(c) of FRS 8 "Related Party Transactions" not to disclose transactions with other Group companies. There were no material related party transactions during the 52 weeks ended 1 August 2009.

15 Contingent liabilities

DFS Furniture Company Limited, the immediate parent company, has entered into a limited recourse share charge and the Group has entered into a debenture, containing a fixed and floating charge, as security for bank facilities made available to the Group.

Under this arrangement, the Company has given its bankers unlimited guarantees securing any financial commitments to the bank on behalf of DFS Furniture Company Limited, Galegrove Limited and Full Circle Future Limited. At 1 August 2009, there was a contingent liability under this arrangement of £148m (2008 £164.0m).

Bank guarantees in favour of HMRC amounting to £1,000 (2008 £1,000) have been counter-indemnified by the Company.

16 Lease commitments

The annual commitments under operating leases in respect of land and buildings were

| | 2009 £m | 2008 £m |
|-------------------------------|-------------|-------------|
| Operating leases which expire | | |
| Within one year | 0.1 | 0.3 |
| Within two to five years | 1.6 | 0.8 |
| Over five years | 40.9 | 39.4 |
| | <u>42.6</u> | <u>40.5</u> |

17 Capital commitments

Authorised and contracted capital commitments at 1 August 2009 were £0.6m (2008 £0.2m).

Notes *(continued)*

18 Pension commitments

The Company participates in the Group defined contribution schemes, under which contributions by the employees and the Company are administered by trustees in funds separate from the Company's assets. The cost of these schemes is charged to the profit and loss account as they become payable under the rules of the scheme.

The total pension cost of the Company for the period was £1.3m (2008 £1.3m)

19 Ultimate parent company and controlling party

The Company is a direct subsidiary undertaking of DFS Furniture Company Limited which is registered in England and Wales. The ultimate holding company and controlling party is Full Circle Future Limited which is registered in England and Wales.

The financial statements of the ultimate holding company can be obtained from The Secretary, Full Circle Future Limited, 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, South Yorkshire, DN6 7NA.