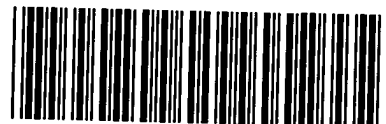


DFS TRADING LIMITED

REPORT AND ACCOUNTS

2 AUGUST 2014

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COMPANIES HOUSE

Company no 1735950

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Strategic report

The directors present their strategic report for the year ended 2 August 2014.

Business review and future developments

The financial statements cover the 53 week period ended 2 August 2014. Comparative figures relate to the 52 weeks ended 27 July 2013.

The Company has achieved satisfactory results and improved market share. Turnover for the year was £690.0m (2013: £670.8m), a 2.9% increase on the previous year, whilst operating profit decreased by 8.9% to £64.4m (2013: £70.7m).

The Company's profit on ordinary activities before taxation was £64.2m (2013: £70.6m). After paying interim dividends of £40.0m (2013: £80.0m) during the year, providing for taxation and a capital contribution, an amount of £16.9m has been transferred to reserves (2013: £14.2m transferred from reserves).

The directors anticipate that the Company will continue to make progress and deliver satisfactory results.

Key performance indicators

The Company is a wholly owned subsidiary of DFS Furniture Holdings plc, and the management and reporting of key performance indicators is undertaken at the group level. For this reason, the directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of its business. The development, performance and position of the DFS Furniture Holdings plc Group ("the Group"), which includes the Company, is discussed on pages 4-7 of the Group's annual report, which does not form part of this report.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with those of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed on pages 8-9 of the Group's annual report which does not form part of this report.

By order of the Board



P A Walker
Company Secretary

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

2 October 2014

Directors' report

The directors present their report together with the audited financial statements for the year ended 2 August 2014.

Principal Activities

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

Dividends

An interim dividend of £40.0m (2013:£80.0m) was paid during the year. The directors do not recommend the payment of a final dividend (2013: £nil).

Directors

The directors of the Company are listed below.

I.F. Filby
J.H. Massey
W.R. Barnes
K. Baker
B. Dennis (Resigned 31 July 2014)
H.G. Ellis
G. Mould
D.J. Payling
A.S. Trofimowicz
G.H. Field
A.H. Vaughan-Jones
A.W. Stephenson
G.S. Pitchford
T.G. Stacey
H.E. Normoyle
N.J. Bancroft

Political and charitable donations

The Company made charitable donations of £237,067 (2013: £194,669). The Company made no political donations 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)*

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out above. The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries.

The directors, having assessed the responses of the directors of the Company's parent DFS Furniture Holdings plc to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the DFS Furniture Holdings plc group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of DFS Furniture Holdings plc, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP 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

2 October 2014

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 they 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 the profit or loss of the Company 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 the 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 auditor's report to the shareholder of DFS Trading Limited

We have audited the financial statements of DFS Trading Limited for the 53 weeks ended 2 August 2014 set out on pages 7 to 19. 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 Chapter 3 of Part 16 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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, and express an opinion on, 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2 August 2014 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 auditor's 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.



Greg Watts
Senior Statutory Auditor
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

8 October 2014

Profit and loss account

53 weeks ended 2 August 2014 (52 weeks ended 27 July 2013)

	Notes	2014 £m	2013 £m
Turnover	1.2	690.0	670.8
Cost of sales		(595.6)	(573.7)
Gross profit		94.4	97.1
Administrative expenses		(30.0)	(26.4)
Underlying operating profit before depreciation		80.0	83.2
Depreciation		(14.4)	(12.5)
Non-underlying items	2	(1.2)	-
Operating profit	2	64.4	70.7
Net interest payable and similar charges	4	(0.2)	(0.1)
Profit on ordinary activities before taxation		64.2	70.6
Taxation on profit on ordinary activities	5	(7.6)	(4.8)
Profit for the period	13	56.6	65.8

All activities were continuing throughout both the current and previous periods.

The notes on pages 10 to 19 form part of these financial statements.

Balance sheet

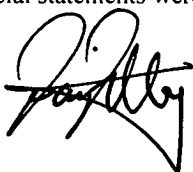
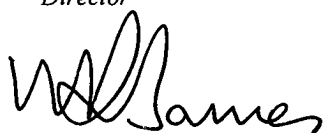
As at 2 August 2014 (27 July 2013)

	Notes	2014		2013	
		£m	£m	£m	£m
Fixed assets					
Tangible assets	6		51.2		48.3
Current assets					
Stocks	7	22.8		20.7	
Debtors	8	99.0		90.2	
Cash at bank and in hand		52.6		37.1	
		<u>174.4</u>		<u>148.0</u>	
Creditors: amounts falling due within one year	9	<u>(128.5)</u>		<u>(116.7)</u>	
Net current assets			45.9		31.3
Total assets less current liabilities			<u>97.1</u>		<u>79.6</u>
Creditors: Amounts falling due after one year	10		(22.6)		(21.8)
Provisions for liabilities and charges	11		(8.5)		(8.7)
Net assets			<u>66.0</u>		<u>49.1</u>
Capital and reserves					
Called up share capital	12		-		-
Profit and loss account	13		66.0		49.1
Shareholder's funds			<u>66.0</u>		<u>49.1</u>

The notes on pages 10 to 19 form part of these financial statements.

The financial statements were approved by the Board on 2 October 2014 and were signed on its behalf by:

IF Filby
Director

WR Barnes
Director

Company number 1735950

Reconciliation of movements in shareholder's funds

53 weeks ended 2 August 2014 (52 weeks ended 27 July 2013)

	2014 £m	2013 £m
Profit for the financial period	56.6	65.8
Dividends paid on equity shares	(40.0)	(80.0)
Capital contribution	0.3	-
	<hr/>	<hr/>
Net addition/(reduction) to shareholder's funds	16.9	(14.2)
Shareholders' funds at the beginning of the period	49.1	63.3
	<hr/>	<hr/>
Shareholder's funds at the end of the period	66.0	49.1
	<hr/>	<hr/>

The notes on pages 10 to 19 form part of these financial statements.

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 UK Generally Accepted Accounting Practice under the historical cost accounting rules.

The Company's intermediate parent company, DFS Furniture Holdings PLC, 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. Turnover comprises retail sales in the UK and the Republic of Ireland to external customers.

Due to the related nature of the Company's products, the common distribution channel and the manner in which the Company's activities are organised, the directors do not believe that the Company has different classes of business as defined in SSAP 25. Accordingly the additional disclosures set out in SSAP 25 are not considered to be required.

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.

Notes (continued)

1 Accounting policies (continued)

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".

1.10 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. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

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.

1.12 Minimum future lease payment uplifts

Operating leases are accounted for under SSAP 21 incorporating the effect of minimum future lease payment uplifts on a straight line basis.

1.13 Non-underlying items

Items that are material in size, unusual or non-recurring in nature are disclosed separately in the profit and loss account in order to provide an indication of the Company's underlying business performance.

2 Profit on ordinary activities before taxation

	2014 £m	2013 £m
Profit on ordinary activities before taxation is stated after charging:		
Depreciation	14.4	12.5
Profit on disposal of fixed assets	(0.6)	(0.5)
Operating lease payments - properties	52.0	47.0
	<hr/>	<hr/>
Non-underlying items:		
Share based payments charge	0.3	-
International set-up costs	0.3	-
Non-recurring and exceptional legal and professional costs	0.6	-
	<hr/>	<hr/>
	1.2	-
	<hr/>	<hr/>
Auditor's remuneration:		
Audit of these financial statements	0.1	0.1
Other services including taxation advice	0.1	0.1
	<hr/>	<hr/>
	0.2	0.2
	<hr/>	<hr/>

Notes (continued)

3 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	
	2014	2013
Selling and administration	1,645	1,610
Transport and warehouse	729	732
Production	1,011	896
	<u>3,385</u>	<u>3,238</u>

The aggregate payroll costs of these persons were as follows:

	£m	£m
Wages and salaries	97.6	90.5
Social security costs	9.9	9.2
Other pension costs	2.2	1.8
	<u>109.7</u>	<u>101.5</u>

Payroll costs include £0.8m (2013:£nil) in respect of enhanced staff rewards relating to prior periods.

4 Net interest payable and similar charges

	2014 £m	2013 £m
Interest payable:		
Finance lease interest	0.2	0.1
	<u>0.2</u>	<u>0.1</u>

Net interest payable

Notes (continued)

5 Taxation on profit on ordinary activities

5.1 Analysis of charge for the period

	2014 £m	2013 £m
UK corporation tax		
Current tax on income for the period	7.9	4.6
Adjustments in respect of prior periods	-	0.1
	<hr/>	<hr/>
Total current tax charge	7.9	4.7
	<hr/>	<hr/>
Deferred tax		
Current period	(0.3)	0.2
Adjustments in respect of prior periods	-	(0.1)
	<hr/>	<hr/>
Total deferred tax (credit)/charge	(0.3)	0.1
	<hr/>	<hr/>
Total tax charge	7.6	4.8
	<hr/>	<hr/>

5.2 Factors affecting the tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 22.33% (2013: 23.67%). The differences are explained below:

	2014 £m	2013 £m
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 22.33% (2013: 23.67%)	14.3	16.7
Expenses not deductible for tax purposes	0.9	0.9
Depreciation for period in excess of capital allowances	0.9	0.7
Short term timing differences	(0.4)	(0.4)
Adjustments in respect of prior periods	-	0.1
Group relief	(7.8)	(13.3)
	<hr/>	<hr/>
Total current tax charge	7.9	4.7
	<hr/>	<hr/>

Notes *(continued)*

6 Tangible assets

	Plant and equipment £m	Motor vehicles £m	Total £m
<i>Cost</i>			
At 27 July 2013	123.3	23.8	147.1
Additions	11.3	6.1	17.4
Disposals	-	(3.8)	(3.8)
At 2 August 2014	134.6	26.1	160.7
<i>Depreciation</i>			
As at 27 July 2013	83.5	15.3	98.8
Provided during the period	10.0	4.4	14.4
Disposals	-	(3.7)	(3.7)
At 2 August 2014	93.5	16.0	109.5
<i>Net book value</i>			
As at 2 August 2014	41.1	10.1	51.2
As at 27 July 2013	39.8	8.5	48.3

Included in the total net book value of motor vehicles is £3.4m (2013:£1.9m) in respect of assets held under finance leases. Depreciation for the year on these assets was £0.9m (2013:£0.3m).

Notes *(continued)*

7 Stocks

	2014 £m	2013 £m
Raw materials and consumables	5.9	3.4
Finished goods and goods for resale	16.9	17.3
	<hr/>	<hr/>
	22.8	20.7
	<hr/>	<hr/>

8 Debtors

	2014 £m	2013 £m
Trade debtors	10.7	9.6
Amounts owed by group undertakings	75.2	66.5
Prepayments and accrued income	11.3	12.6
Deferred tax	1.8	1.5
	<hr/>	<hr/>
	99.0	90.2
	<hr/>	<hr/>

Deferred taxation

The amount recognised for deferred taxation, calculated at a corporation tax rate of 20% (2013: 20%), is set out below:

	2014 £m	2013 £m
Accelerated capital allowances	0.9	0.2
Other timing differences	0.9	1.3
	<hr/>	<hr/>
Total	1.8	1.5
	<hr/>	<hr/>

Notes *(continued)*

9 Creditors: amounts falling due within one year

	2014 £m	2013 £m
Payments received on account	21.3	18.7
Trade creditors	56.2	48.1
Corporation tax	4.4	3.3
Other creditors including social security and other taxes	19.7	21.7
Accruals and deferred income	25.7	24.2
Amounts owed to group undertakings	0.3	0.3
Obligations under finance leases	0.9	0.4
	<hr/>	<hr/>
	128.5	116.7
	<hr/>	<hr/>

10 Creditors: amounts falling due after one year

	2014 £m	2013 £m
Accruals and deferred income	19.7	20.2
Obligations under finance leases	2.9	1.6
	<hr/>	<hr/>
	22.6	21.8
	<hr/>	<hr/>

Notes (continued)

11 Provisions for liabilities and charges

	Guarantee Provision £m
As at 27 July 2013	8.7
Provided in the period	5.4
Utilised in the period	(5.6)
	<hr/>
As at 2 August 2014	8.5
	<hr/>

The guarantee provision reflects the estimated cost of the guarantee provided to retail customers.

Certain potential changes to employment legislation may retrospectively impact the Company. The Directors consider it is not probable that a liability will arise for the Company, and accordingly no provision has been made.

12 Called up share capital

	2014 £	2013 £
Authorised, allotted, called up and fully paid:		
100 ordinary shares of £1 each	100	100
	<hr/>	<hr/>

13 Reserves

	Profit and loss reserves £m
As at 27 July 2013	49.1
Profit for the period	56.6
Dividends paid on equity shares	(40.0)
Capital contribution	0.3
	<hr/>
As at 2 August 2014	66.0
	<hr/>

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 wholly owned Group companies.

Mr Massey and Mr Barnes served as directors of Delphi Properties Limited for part of the year under an undertaking made by DFS Trading Limited at the time of the acquisition of the DFS Group by Advent International in 2010. Delphi Properties Limited is a former fellow subsidiary of Full Circle Future Limited. The Company made arm's length rental payments of £8.5m to Delphi Properties Limited on a property portfolio during the period whilst Mr Massey and Mr Barnes were serving as directors (2013: £16.6m).

Notes (continued)

15 Contingent liabilities

Bank guarantees in favour of HMRC amounting to £5,000 (2013:£5,000) have been counter-indemnified by the Company.

As at 2 August 2014, DFS Furniture Holdings plc has in issue £310.0m of senior secured notes listed on the Luxembourg Stock Exchange. The notes are secured on the share capital and substantially all of the assets of the issuer and the guarantors (DFS Furniture Company Limited and DFS Trading Limited).

16 Lease commitments

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

	2014 £m	2013 £m
Operating leases which expire:		
Within one year	1.0	1.4
Within two to five years	3.4	3.8
Over five years	51.5	49.6
	<hr/>	<hr/>
	55.9	54.8
	<hr/>	<hr/>

17 Directors' emoluments

IF Filby, JH Massey and WR Barnes received no remuneration for their services to the Company (2013:£nil). Their remuneration for services to the immediate holding company, DFS Furniture Company Limited are shown in the financial statements of that company.

	2014 £000	2013 £000
Emoluments	3,041	2,477
Pension contributions	215	209
	<hr/>	<hr/>
	3,256	2,686
	<hr/>	<hr/>
Remuneration of the highest paid director was as follows:		
Emoluments	469	299
Pension contributions	40	14
	<hr/>	<hr/>
	509	313
	<hr/>	<hr/>

Thirteen directors accrued retirement benefits under pension schemes in the period (2013:thirteen). All of the directors' pension contributions are to defined contribution pension schemes.

Notes *(continued)*

18 Capital commitments

Authorised and contracted capital commitments at 2 August 2014 were £1.7m (2013: £3.2m).

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 £2.2m (2013:£1.8m).

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 largest group in which the results of the Company are consolidated is that headed by Diamond Holdco 1 Limited, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by DFS Furniture Holdings plc incorporated in England and Wales. The ultimate holding company and controlling party is Advent Diamond (Cayman) Limited which is registered in The Cayman Islands.