

Registered No 02307708

# **Furniture Village Limited**

## **Report and Financial Statements**

For the 52 weeks ended 1 April 2012

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## Furniture Village Limited

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## Furniture Village Limited

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### **Directors**

J C Hodkinson (Chairman)  
P J Harrison  
E G Wynne  
E Duggan (Resigned 1<sup>st</sup> April 2012)  
M A Walker  
C E Shiels (Appointed 2<sup>nd</sup> April 2012)

### **Secretary**

C E Shiels

### **Auditors**

Ernst & Young LLP  
Apex Plaza  
Reading  
Berkshire RG1 1YE

### **Bankers**

Bank of Scotland (part of Lloyds Banking Group)  
The Atrium  
Davidson House  
Forbury Square  
Reading  
Berkshire RG1 3EU

### **Registered Office**

258 Bath Road  
Slough  
Berkshire SL1 4DX

## Chairman's statement

At the start of the financial year, Management completed a high level review of the strategic outlook facing the business and the opportunities to enhance efficiencies and protect both profit and cash. In keeping with the challenging trading environment, a cautious approach was initially adopted, with focus on cost reduction and margin enhancement, including a reduction in both marketing expenditure and promotional activity. In tandem with the unfavourable hot weather and concentrated succession of Bank Holidays, trading in Quarter 1 fell well short of expectations and led to a radical change in strategy which cascaded throughout the business. Whilst efficiency improvements continued to be sought, a more aggressive promotional stance was deployed and marketing activity increased, including the introduction of free delivery in August 2011.

After a difficult start to the financial year, I am pleased to report that the actions taken by Management resulted in both significant volume growth in the second half of the year and a fitter, more efficient business now better equipped than ever to serve the needs and wants of the ever more discerning furniture customer. Furthermore, the strategic changes continue to serve us well with significant volume growth in the new financial year.

During the year, extensive market research was undertaken in order to better understand today's Furniture Village customer, brand awareness and advertising recall. The results both confirmed the relevance and appropriateness of the current proposition and values, whilst also driving subtle changes to our advertising campaigns that have resulted in major improvements in both areas.

Choice, value and quality continue to be the key drivers of product selection and these factors have remained of paramount importance during the year as we continue to review and enhance our product offering and ensure it's relevance for today's customer. The year has seen the introduction of many new successful product initiatives, with an increasing emphasis on quality Brands, British manufacturing and interactive technology. Whilst recognising that value plays an increasingly important role in today's buying decisions, we are also committed to ensuring that our furniture remains exciting and innovative, whilst always meeting our exacting quality requirements.

A full review during the year resulted in enhancements to operational processes and systems generating long term cost savings and efficiency improvements. Customer service remains of the utmost importance at every stage of the customer buying cycle and this has been the driver for many of the operational changes in the year. Whilst these changes have required one-off cost investments and have naturally impacted profitability in the current year, they have secured a more robust operational platform on which we will continue to invest for the future. Further investment in our National Distribution Centre has facilitated the introduction of a wider range of shorter lead time products for those customers for whom this is important, although this has also required additional one-off costs.

### Trading Review

Gross order intake (bookings) for the 52 weeks to the 1 April 2012 was £210.0m, in line with the previous year, including a softer performance in the first half of the year, being impacted by both sustained hot weather and the unfavourable 'bunching' of Bank Holidays due to the Royal Wedding. Second half order intake was much stronger with the Quarter 4 performance being 17.8% ahead of the previous year on a like for like basis and endorsing the changes made by Management during the year.

Deliveries during the year were impacted by both a soft opening order book and weaker trading in the first half of the year. Of equal significance however was the timing of Chinese New Year, which falling early in the year resulted in circa £3m Winter Sale volumes being undeliverable in the current financial year. As such, net deliveries were £170.5m, 5.6% lower than the previous year though resulting in a strong order book to be carried forward into the next financial year.

The work done in recent years to deliver a robust product margin has allowed the business to accommodate a degree of product-cost pressures, whilst also facilitating a significant increase in promotional price-focussed competition, in part driving the increase in order intake in the second half of the year.

## Chairman's statement (continued)

Overheads continue to be well controlled, although 'one-off' costs of over £1.6m were incurred in order to implement long term efficiency improvements in both the customer service operation, administration and warehousing.

The profit for the 52 weeks to the 1 April 2012 before the cost of new and re-launched store and warehouses and restructuring costs is £0.5m, £3.6m lower than the previous year (2011 – profit of £4.1m). EBITDA for the 52 week year was £2.0m after charging £1.6m relating to 'one-off' re-launch store costs, new warehouse opening costs and restructuring costs. After difficult trading in the first half, which naturally impacted full year profitability, the second half and current run rate has seen a return to more traditional levels of profitability.

### Balance sheet

The underlying business model remains cash generative and in the year a cash inflow for the group of £4.9m is driven from continuing operating activities, after 'one-off' costs of £1.6m mentioned previously. The final cash balance of £9.9m was £1.9m below the previous year, after capital expenditure on the existing store portfolio of £3.0m.

### People

Furniture Village is a 'people business' and the culture of development, training, recognition and reward are of the utmost importance to Management, and never more so than in the current trading environment. Significant investment in training continues across the business, ensuring that product knowledge is continuously developed and enhanced, along with skills for all customer service, distribution and administrative functions.

### New stores

During the year, an extensive capital investment programme was rolled out, expanding showroom space in seven existing stores. This included the significant expansion of the Guildford and Hurrocks store, the latter now trading successfully as Furniture Village International. Several potential new sites are currently being appraised though the 'prudent' expansion strategy which has served the business well will continue.

### Outlook

Consumer confidence is fragile and naturally both the housing market and 'big ticket' retail remain impacted. Nevertheless, significant opportunities exist for retailers who recognise the changing needs of consumers and are able to offer value, quality, choice and customer service at every stage of the buying cycle. These values have and always will remain central to the ethos of Furniture Village and in communicating them well to our customers, have facilitated a significant upturn in trading in the second half of the year. We remain committed to our strategy, committed to our people and absolutely committed to our customers. We are determined to offer an unrivalled shopping experience and remain an ever stronger presence in furniture retail in the years to come.

J C Hodgkinson  
Chairman

## Directors' report

The directors present their report and financial statements for the 52 weeks ended 1 April 2012

### Strategy overview

The Furniture Village strategy is to position itself at the upper end of the volume furniture retail market in the UK

### Our mission

To provide our customers with an unrivalled shopping experience An Awesome Experience

### Statement of intent

To continue to grow and develop our business and reputation, on the basis of sustainable competitive advantage through the levels of service we offer, the passion and skill of the people who provide it and the range, quality and value of our products

### Results and dividends

The profit for the 52 weeks to the 1 April 2012 before the cost of new and re-launched store and warehouses and restructuring costs is £0.5m, £3.6m lower than the previous year (2011 – profit of £4.1m). This is predominantly due to difficult trading conditions in the first half of the year, combined with the timing of Chinese New Year which resulted in deliveries being carried forward into the next financial year, reflected in the closing like for like order book which is 14.1% ahead of the previous year. The directors have paid an ordinary dividend to Furniture Village Group Limited, the parent company, in 2012 of £750k (2011 – £750k). Preference dividends of £222k (2011 – £222k) were paid to Furniture Village Group Limited during the year. These preference dividends have been classified as interest paid in accordance with FRS 25 - Financial Instruments: Disclosure and Presentation.

### Principal activities and review of the business

The principal activity of the company is the sale of quality furniture in the retail market.

Gross order intake (bookings) for the 52 weeks to the 1st April 2012 was £210.0m, in line with the previous year, including a softer performance in the first half of the year, the Quarter 4 performance being 17.8% ahead of the previous year on a like for like basis and endorsing changes made by Management during the year.

Turnover (deliveries) during the year were impacted by both a soft opening order book, weaker trading in the first half of the year and the timing of Chinese New Year. As such, net deliveries were £170.5m (2011 – £180.7k), 5.6% lower than the previous year though resulting in a strong order book to be carried forward into the next financial year.

The profit for the 52 weeks to the 1 April 2012 before the cost of new and re-launched store and warehouses and restructuring costs is £0.5m, £3.6m lower than the previous year (2011 – profit of £4.1m). EBITDA for the 52 week year was £2.0m after charging £1.6m relating to 'one-off' re-launch store costs, new warehouse opening costs and restructuring costs. After difficult trading in the first half, which naturally impacted full year profitability, the second half and current run rate has seen a return to more traditional levels of profitability.

### Future developments

The 'Change for the Better' programme which started in the autumn of 2010 identified operational, efficiency and cost enhancements which were implemented during the current financial year, with full year benefits to be realised in the year ahead. These changes leveraged existing assets and experience, significantly improving all aspects of our Supply Chain and Customer Service propositions, reinforcing our already strong reputation in those areas in which consumers are placing increasing importance.

Trading conditions remain challenging and whilst the year started below expectations, the changes that have been implemented during the year have resulted in both significantly improved trading and a change to cost and operational structures that will be of enduring benefit to the business.

## **Directors' report (continued)**

### **People, products and promotions**

Furniture Village is a 'people business' and the culture of development, training, recognition and reward are of the utmost importance to Management. Significant investment in training continues across the business, ensuring that product knowledge is continuously developed and enhanced, along with skills for all customer service, distribution and administrative functions. Lines of communication, facilitated by a relatively flat structure, are open and honest and are endorsed by excellent retention rates and long service to the business. That being said, Management is far from complacent and recognises the increased challenges in a difficult trading environment and continues to recognise excellent performance in every area of the business. This includes the introduction of a Group profit based bonus scheme in the year ahead, encompassing all employees across the business.

Choice, value and quality continue to be the key drivers of product selection and these factors have remained of paramount importance during the year as we continue to review and enhance our product offering and ensure it's relevance for today's customer. The year has seen the introduction of many new successful product initiatives, with an increasing emphasis on Brands, British manufacturing and interactive technology. We also remain committed to ensuring that our highly skilled sales personnel understand the needs of all our customers and are able to impart expertise across the full range of product categories.

During the year, extensive market research was undertaken in order to 'test' the strategic direction of the business and to better understand the Furniture Village customer, brand awareness and advertising recall. The results both confirmed the relevance and appropriateness of the current proposition and values, whilst also driving subtle changes to our advertising campaigns that have resulted in an increase in brand awareness and better customer recall. The furniture market remains highly competitive and we have continued to attract new customers with exciting, value driven promotional offers whilst also leveraging our extensive previous customer base to ensure our existing Furniture Village customers remain so for life.

### **Disabled employees**

The company gives full consideration to applications for employment from disabled persons where requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

### **Charitable contributions**

The company's charitable donations for the year were £16k (2011 – £23k).

### **Directors' qualifying third party indemnity provisions**

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought about by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision was in force throughout the year and remains in force as at the date of approving the Directors' report.

## Directors' report (continued)

### Risk

The size of our business necessitates a lean management structure, which in turn dictates the amount of resource that can be allocated to managing risk as a unique 'subject'

Instead we segment risk and manage it accordingly

- Strategic risk,
- Financial risk,
- Operational risk, and
- Health & Safety risk

### Strategic risk

The changes made during the year have undoubtedly made positive contributions to the performance in the second half of the year and they will continue to be revisited and reviewed to ensure their appropriateness to today's trading environment and customer. This includes frequent domestic and global economic analysis, in conjunction with a detailed review of other changes potentially impacting the business, whether financial, supply chain or from a consumer and marketing perspective. That being said, we remain convinced that the broad strategic direction which has served us so well over many years remains the right one for the market in which we operate, as consumers exercise more scrutiny and place more emphasis on trust, service, quality choice and value, playing strongly to our existing core strengths

### Financial risk

The trading environment continues to be challenging and our focus in recent years on a strong cash model has and will continue to serve us well. This has been augmented with operational cost savings which have been identified through increased centralisation and automation which will enhance our overall offer, leaving the business both healthier and leaner

One of the key areas of focus for financial risk management includes that of exchange rate movements. As an element of our product is sourced in US dollars we attempt to provide a degree of certainty around this area by adopting a hedging strategy which could include forward contracts, options and spot purchases

### *Derivatives – Fair value*

The fair value at 1 April 2012 of derivatives held by the company was as follows

Forward foreign exchange contracts £68k (unrealised loss) (2011 – £48k unrealised loss)

### Operational risk

Store managers, supported by regional management who ensure operational standards, manage our stores at a local level. Our concentration on quality stores, systems and infrastructure seek to ensure consistency of performance. Our supplier base is managed in an open, honest and constructive fashion, with quality of service being of huge importance to us

### Health & Safety

The business takes its health and safety responsibilities very seriously. We ensure in all areas that we seek to comply with all relevant legislation and allocate management time to this subject at the highest level on a regular basis. The result of this focus is an exemplary record for a business of this size



## Directors' report (continued)

### Directors

The directors who served during the year and to the date of this report were as follows

J C Hodgkinson (Chairman)  
P J Harrison  
E G Wynne  
E Duggan (Resigned 1<sup>st</sup> April 2012)  
M A Walker  
C E Shiels (Appointed 2<sup>nd</sup> April 2012)

### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Going concern

Furniture Village Limited results are consolidated into a group, the ultimate parent company of which is Furniture Village Holdings Limited. Furniture Village Limited is the trading company of the group and funding is provided within the group through loans held in the ultimate parent company, Furniture Village Holdings Limited. As such, the following statement on going concern is extracted from the consolidated accounts of the group due to its direct relevance to Furniture Village Limited.

The group's business activities, together with the factors likely to affect its future development, its financial position and financial risk management objectives are described in this Directors' report.

In the 52 weeks to 1 April 2012 the Group has maintained order intake against the previous financial year, despite difficult trading in the first half of the year. Turnover (deliveries) during the year were impacted by both a soft opening order book, weaker trading in the first half of the year and the timing of Chinese New Year and this has adversely impacted profitability in the year. A profit of £0.5m was maintained before the cost of new and re-launched store and warehouses and restructuring costs and EBITDA for the 52 week year was still healthy at £2.0m, with a strong closing cash position of £10m. Furthermore, after difficult trading in the first half of the year, the second half and current run rate has seen a return to more traditional levels of profitability.


The shareholding of the ultimate parent company, Furniture Village Holdings Ltd, is all held by Directors and senior Employees of the Company, and as such the business is able to respond quickly to changes in the economic and trading environment. The directors therefore believe the group is well placed to manage its business risks successfully and are confident that the group has adequate resources to continue trading effectively for the foreseeable future. This position is supported by a continued strong and supportive relationship with Lloyds Banking Group and since the Balance Sheet date the outstanding £10m loan has been restructured over a longer term, to be repaid equally over the next 5 years. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

### Elective resolution and auditors

The company has passed Elective Resolutions to dispense with the laying of the financial statements before the company in General Meeting, the appointment of auditors annually and the holding of the Annual General Meetings, pursuant to section 485 of the Companies Act 2006.

By order of the Board

C Shiels  
Director



Date 26 October 2012

## Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 then 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 proper 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 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 Furniture Village Limited

We have audited the financial statements of Furniture Village Limited for the 52 weeks ended 1 April 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 8, 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 Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chairman's Report and the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **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 April 2012 and of its loss for the period then ended,
- have been properly prepared in accordance with United Kingdom 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 period for which the financial statements are prepared is consistent with the financial statements.

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## Independent auditors' report

to the members of Furniture Village 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

Ernst & Young LLP

Debbie O'Hanlon (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Reading

Date 30 October 2012

## Profit and loss account

for the 52 weeks ended 1 April 2012

		52 weeks ended 1 April 2012 £000	52 weeks ended 3 April 2011 £000
	Notes		
<b>Turnover</b>	2	170,533	180,706
Cost of sales		(88,892)	(92,945)
<b>Gross profit</b>		81,641	87,761
Distribution costs		(46,677)	(47,882)
Administrative expenses		(34,487)	(35,824)
<b>Profit before cost of new and re-launched stores and warehouses, and restructuring costs</b>		477	4,055
New and re-launched store and warehouse costs		(1,175)	(245)
Restructuring costs		(399)	–
<b>Operating (loss) / profit</b>		(1,097)	3,810
Loss on disposal of fixed assets	3	(51)	(74)
<b>(Loss) / profit before interest and tax</b>	4	(1,148)	3,736
Interest receivable and similar income	7	51	99
Interest payable and similar charges	8	(262)	(235)
<b>(Loss) / profit on ordinary activities before taxation</b>		(1,359)	3,600
Tax	9	226	(579)
<b>(Loss) / profit for the financial period</b>	19	(1,133)	3,021

All the activity of the company has been generated through continuing operations in both the current and prior period

## Statement of total recognised gains and losses

for the 52 weeks ended 1 April 2012

There are no recognised gains and losses other than the loss of £1,133k attributable to the shareholders of the company for the 52 weeks ended 1 April 2012 (52 weeks ended 3 April 2011 – profit of £3,021k)

## Balance sheet

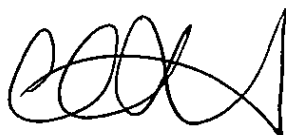
at 1 April 2012

		1 April 2012 £000	3 April 2011 £000
	Notes		
<b>Fixed assets</b>			
Tangible assets	11	21,214	21,630
<b>Current assets</b>			
Stocks	12	11,651	9,486
Debtors	13	32,860	27,960
Cash at bank and in hand	20(c)	9,940	11,792
		54,451	49,238
<b>Creditors</b> amounts falling due within one period	14	(56,022)	(48,304)
<b>Net current (liabilities) / assets</b>		(1,571)	934
<b>Total assets less current liabilities</b>		19,643	22,564
<b>Preference shares</b>	16	(3,150)	(3,150)
<b>Provisions for liabilities</b>	17	(2,331)	(3,369)
<b>Net assets</b>		14,162	16,045
<b>Capital and reserves</b>			
Called up share capital	18	650	650
Share premium account	19	274	274
Profit and loss account	19	13,238	15,121
<b>Shareholders' funds</b>	19	14,162	16,045

P J Harrison  
Director



C E Shiels  
Director



Date

26 October 2012

## Statement of cash flows

for the 52 weeks ended 1 April 2012

		52 weeks ended 1 April 2012 £000	52 weeks ended 3 April 2011 £000
	Notes		
<b>Net cash inflow from continuing operating activities</b>	20(a)	2,835	1,629
<b>Returns on investments and servicing of finance</b>	20(b)	(214)	(135)
<b>Taxation</b>	20(b)	(764)	(1,790)
<b>Capital expenditure and financial investment</b>	20(b)	(2,956)	(2,455)
<b>Equity dividends paid to parent company</b>	10	(750)	(750)
<b>Financing</b>	20(b)	(3)	(31)
<b>(Decrease) in cash</b>		<u>(1,852)</u>	<u>(3,532)</u>

## Reconciliation of net cash flow to movement in net funds

		52 weeks ended 1 April 2012 £000	52 weeks ended 3 April 2011 £000
	Notes		
(Decrease) in cash		(1,852)	(3,532)
Repayment of capital element of finance lease		3	31
<b>Change in net funds resulting from cash flows</b>		<u>(1,849)</u>	<u>(3,501)</u>
<b>Net funds at beginning of financial period</b>	20(c)	11,789	15,290
<b>Net funds at end of financial period</b>	20(c)	<u>9,940</u>	<u>11,789</u>

## Notes to the financial statements

at 1 April 2012

### 1 Accounting policies

#### *Basis of preparation*

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards

The accounting policies used in preparing the financial statements are consistent with those of the previous financial period

#### *Tangible fixed assets*

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows

Short leasehold property	–	over the lease term
Fixtures and fittings	–	over 10 periods
Equipment	–	over 4 periods

The carrying values of tangible fixed assets are reviewed for impairment annually if events or changes in circumstances indicate the carrying value may not be recoverable

#### *Website development costs*

Design and content development costs are capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the costs of developing the design and content are charged to the profit and loss account as incurred

Depreciation is provided on all capitalised website development costs at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows

Website development costs	–	over 2 periods
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#### *Revenue recognition*

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding value added tax. The following criteria must also be met before revenue is recognised

#### *Sale of goods*

Revenue from the sale of goods is recognised on delivery of the goods to the customer

#### *Delivery service*

Revenue from the delivery service provided to our customers is recognised on completion of the delivery of the goods

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and comprises the purchase price of the goods and other directly attributable costs incurred in bringing the product to its present location and condition

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal



## Notes to the financial statements (continued)

at 1 April 2012

### 1 Accounting policies (continued)

#### **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date

Deferred taxation assets are only recognised to the extent that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted

#### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss account

#### **Leasing and hire purchase commitments**

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

#### **Pension costs**

The company operates a defined contribution pension scheme for eligible employees. Eligibility is defined by length of service. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme

#### **New and re-launched stores pre-trading costs**

The costs associated with the pre-trading period of new and re-launched stores are written off in the period in which they are incurred

#### **Rent free periods and reverse premiums**

During the course of opening new stores, operating leases are negotiated which may include rent-free periods and/or reverse premiums. Rent free periods and reverse premiums are amortised from the date of lease commencement on a straight-line basis over the period to the next open market rent review

#### **Provisions and liabilities**

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

## Notes to the financial statements (continued)

at 1 April 2012

### 1. Accounting policies (continued)

#### *Classification of shares as debt or equity*

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and

(ii) the instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the company exchanging a fixed amount of cash or other assets for a fixed number of the company's own equity instruments

When shares are issued, any component that creates a financial liability of the company is presented as a liability in the balance sheet. The corresponding dividends relating to the liability component are charged as interest expense in the income statement.

### 2 Turnover

Turnover, which is stated net of value added tax, represents the value of goods and services delivered and invoiced to customers. Turnover relates to one continuing activity, the retailing of household furniture within the United Kingdom.

### 3 Loss on disposal of fixed assets

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
Loss on disposal of fixed assets	(51)	(74)

The effect on the taxation charge for the period of the exceptional items recognised below operating profit is disclosed in note 9.

## Notes to the financial statements (continued)

at 1 April 2012

### 4 (Loss)/profit before interest and tax

This is stated after charging

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
Audit of the financial statements		
– Furniture Village Limited and Group Companies	80	80
Other fees to auditors		
– Corporation tax services	27	65
– VAT services	–	23
– Other services	13	1
Depreciation of owned assets	3,178	3,031
Depreciation of assets held under finance leases and hire purchase contracts	7	27
Operating lease rentals		
– Property	15,582	15,628
– Other	1,038	919

### 5 Directors' remuneration

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
Aggregate remuneration	947	1,089
Company contributions paid to money purchase pension schemes	34	63
	<i>52 weeks ended 1 April 2012 No</i>	<i>52 weeks ended 3 April 2011 No</i>
Members of money purchase pension scheme	4	4

The amounts in respect of the highest paid director were aggregate remuneration of £274k (52 weeks ended 3 April 2011 – £336k) and company contributions paid to pension schemes of £24k (52 weeks ended 3 April 2011 – £23k). Directors' remuneration includes bonuses relating to the period in which they accrue, although these may be paid after the period end.

## Notes to the financial statements (continued)

at 1 April 2012

### 6. Staff costs

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
Wages and salaries	24,655	25,585
Social security costs	2,594	2,695
Pension costs	198	825
	<u>27,447</u>	<u>29,105</u>

The average monthly number of employees during the period was as follows

	<i>52 weeks ended 1 April 2012 No</i>	<i>52 weeks ended 3 April 2011 No</i>
Office and management	85	82
Retailing and distribution	641	676
	<u>726</u>	<u>758</u>

### 7 Interest receivable and similar income

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
Bank interest	38	91
Other interest	13	8
	<u>51</u>	<u>99</u>

## Notes to the financial statements (continued)

at 1 April 2012

### 8 Interest payable and similar charges

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
Dividends paid on non-equity preference shares to parent company	222	222
Finance charges payable under finance leases and hire purchase contracts	—	1
Other interest	40	12
	<u>262</u>	<u>235</u>

Preference dividends are paid solely to the parent company Furniture Village Group Limited, which holds 100% of the ordinary share capital of Furniture Village Limited

### 9. Tax

(a) Tax on loss on ordinary activities

The tax is made up as follows

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
<i>UK corporation tax</i>		
UK corporation tax on the loss (2011 - profit) for the period	814	1,366
Tax over provided in previous periods	(2)	(464)
Total current tax (note 9(b))	<u>812</u>	<u>902</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences – current period	(1040)	(258)
– prior period	2	(65)
Total deferred tax (note 17)	<u>(1038)</u>	<u>(323)</u>
Tax on loss (2011 - profit) on ordinary activities	<u>(226)</u>	<u>579</u>

The effect in the profit and loss account relating to exceptional items recognised below operating loss is £nil (52 weeks ended 3 April 2011 – £nil)

## Notes to the financial statements (continued)

at 1 April 2012

### 9. Tax (continued)

#### (b) Factors affecting the current tax charge for the period

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 26% (52 weeks ended 3 April 2011 – 28%) The differences are explained below

	52 weeks ended 1 April 2012 £000	52 weeks ended 3 April 2011 £000
Loss on ordinary activities before tax	(1,359)	3,600
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26% (52 weeks ended 3 April 2011 – 28%)	(353)	1,008
<i>Effects of</i>		
Disallowed expenses and non-taxable income	489	554
Depreciation in excess of capital allowances	68	87
Short term timing differences	(20)	(85)
Tax over provided in previous periods	(2)	(464)
Group relief	(171)	(198)
Rollover or holdover gains	801	–
Current tax for the period (note 9(a))	812	902

#### Changes to UK Corporation Tax

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date

In the 2011 Budget on 23 March 2011, the Chancellor of the Exchequer announced a reduction in the UK rate of corporation tax to 26%. This reduced rate applied from 1 April 2011 and was enacted using secondary legislation, called the Provisional Collection of Taxes Act. A further 1% rate reduction to 25% was also announced and it was intended that this would be effective from 1 April 2012.

In the budget of 21 March 2012, the Chancellor of the Exchequer announced a number of further changes to the UK Corporation Tax rate. These included a reduction in the UK corporation tax rate from 25% to 24% effective from 1 April 2012 (and substantively enacted as of 26 March 2012 and dealt with by Resolution under the Provisional Collection of Taxes Act). The UK government intends to further reduce the UK corporate income tax rate, to 22%, in annual increments of 1% per annum which will be enacted in successive Finance Bills. Consequently, the company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements.

Further, from 1 April 2012, there will be a 2% reduction in the rates of capital allowances, the main rate pool going down from 20% to 18% and the special rate pool from 10% to 8%.

The aggregate impact of the proposed reductions from 24% to 22% would reduce the Company's unrecognised deferred tax assets by approximately £191k.

## Notes to the financial statements (continued)

at 1 April 2012

### 10 Ordinary dividends on equity shares to parent company

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
Dividends paid on ordinary shares to parent company	750	750

In the period £750k of equity dividends were paid to Furniture Village Group Limited for the ordinary shares (52 weeks ended 3 April 2011 – £750k)

Ordinary dividends are paid solely for the funding of the parent company, Furniture Village Group Limited, which holds 100% of the ordinary share capital of Furniture Village Limited

### 11 Tangible fixed assets

	<i>Short leasehold property £000</i>	<i>Fixtures and fittings £000</i>	<i>Equipment and website £000</i>	<i>Total £000</i>
Cost				
At 3 April 2011	35,663	6,298	3,945	45,906
Additions	1,924	303	598	2,825
Disposals	(406)	(58)	(9)	(473)
At 1 April 2012	37,181	6,543	4,534	48,258
Depreciation				
At 3 April 2011	16,832	4,402	3,042	24,276
Provided during the period	2,283	424	478	3,185
Disposals	(361)	(47)	(9)	(417)
At 1 April 2012	18,754	4,779	3,511	27,044
Net book value				
At 1 April 2012	18,427	1,764	1,023	21,214
At 3 April 2011	18,831	1,896	903	21,630

The net book value of the company's fixtures, fittings, equipment and website at 1 April 2012 includes £nil (3 April 2011 – £7k) in respect of assets held under finance leases and hire purchase contracts

## Notes to the financial statements (continued)

at 1 April 2012

### 12 Stocks

	<i>1 April</i>	<i>3 April</i>
	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>
Goods for resale	11,651	9,486

### 13 Debtors

	<i>1 April</i>	<i>3 April</i>
	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	1,042	1,187
Other debtors	2,897	2,005
Prepayments and accrued income	5,969	4,795
Owed by ultimate parent company – Furniture Village Holdings Limited	22,952	19,973
	<u>32,860</u>	<u>27,960</u>

### 14. Creditors' amounts falling due within one period

	<i>1 April</i>	<i>3 April</i>
	<i>2012</i>	<i>2011</i>
	<i>£000</i>	<i>£000</i>
Deposits on goods not yet delivered	9,507	7,627
Obligations under finance leases and hire purchase contracts (see note 15)	–	3
Trade creditors	26,705	21,884
Corporation tax	814	766
Other taxes and social security costs	3,081	2,834
Other creditors and accruals	6,425	6,667
Owed to parent company – Furniture Village Group Limited	9,490	8,523
	<u>56,022</u>	<u>48,304</u>



## Notes to the financial statements (continued)

at 1 April 2012

### 15 Obligations under finance leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts

	1 April 2012 £000	3 April 2011 £000
Amounts payable		
Within one period	–	3
In two to five periods	–	–
	<u>–</u>	<u>3</u>
Less finance charges allocated to future periods	–	–
	<u>–</u>	<u>3</u>

### 16 Preference shares

	1 April 2012 £000	3 April 2011 £000
<i>Allotted, called up and fully paid</i>		
Cumulative preference shares of £1 (on which a total dividend of £96,000 is payable)		
– Number of shares – 1,400,000 (2011 – 1,400,000)	1,400	1,400
7.2% Cumulative redeemable preference shares of £1 each		
– Number of shares – 1,750,000 (2011 – 1,750,000)	1,750	1,750
	<u>3,150</u>	<u>3,150</u>

The cumulative redeemable preference shares were due to be redeemed by 31 December 2003. However, the parent company has exercised the right to roll this redemption date forward and has not specified a future redemption date. Dividends on preference shares are payable quarterly in arrears to the parent company. Furniture Village Group Limited has the right to redeem these preference shares and they are redeemable at par. Furniture Village Group Limited has stated it will not redeem these preference shares within the next period.

## Notes to the financial statements (continued)

at 1 April 2012

### 17 Provisions for liabilities

	<i>Provision for dilapidations</i>	<i>Deferred tax</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 3 April 2011	40	3,329	3,369
Released during the current period	–	(1,040)	(1,040)
Prior period over provision	–	2	2
At 1 April 2012	<u>40</u>	<u>2,291</u>	<u>2,331</u>

The provision for dilapidations is to cover estimated costs the Company may incur on the exit of leasehold properties when the leases expire

The deferred tax consists of

	<i>1 April 2012</i>	<i>3 April 2011</i>
	<i>£000</i>	<i>£000</i>
<i>Deferred tax liability</i>		
Accelerated capital allowances	1,250	1,398
Other timing differences	(15)	(16)
Capital gains	1,056	1,947
Total deferred tax liability	<u>2,291</u>	<u>3,329</u>

### 18 Issued equity share capital

		<i>1 April 2012</i>		<i>3 April 2011</i>
	<i>No</i>	<i>£000</i>	<i>No</i>	<i>£000</i>
<i>Allotted, called up and fully paid</i>				
A' ordinary shares of £1 each	150,000	150	150,000	150
'B' ordinary shares of £1 each	500,340	500	500,340	500
		<u>650</u>		<u>650</u>

All of the ordinary shares rank pari passu

## Notes to the financial statements (continued)

at 1 April 2012

### 19 Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 4 April 2010	650	274	12,850	13,774
Profit for the period	–	–	3,021	3,021
Ordinary dividends paid to parent undertaking (note 10)	–	–	(750)	(750)
At 3 April 2011	650	274	15,121	16,045
Loss for the period	–	–	(1,133)	(1,133)
Ordinary dividends paid to parent undertaking (note 10)	–	–	(750)	(750)
At 1 April 2012	650	274	13,238	14,162

### 20 Notes to the statement of cash flows

(a) Reconciliation of operating loss to net cash inflow from operating activities

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
Operating loss	(1,097)	3,810
Depreciation	3,185	3,058
(Increase) in stocks	(2,165)	(1,364)
(Increase) / decrease in non-intercompany debtors	(1,918)	213
Increase / (decrease) in non-intercompany creditors	6,842	(904)
(Decrease) in provisions	–	(440)
	4,847	4,373
(Increase) in intercompany debtors	(2,979)	(3,716)
Increase in intercompany creditors	967	972
Net cash inflow from continuing operating activities	2,835	1,629

## Notes to the financial statements (continued)

at 1 April 2012

### 20 Notes to the statement of cash flows (continued)

(b) Analysis of cash flows for heading netted in the statement of cash flows

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
Returns on investments and servicing of finance		
Interest received	48	100
Interest paid excluding preference dividends	(40)	(12)
Interest element of finance lease rental payments	-	(1)
Intercompany preference dividend paid to parent company	(222)	(222)
	<u>(214)</u>	<u>(135)</u>

Preference dividends are paid solely to the parent company, Furniture Village Group Limited, which holds 100% of the ordinary share capital of Furniture Village Limited

	<i>52 weeks ended 1 April 2012 £000</i>	<i>52 weeks ended 3 April 2011 £000</i>
Taxation		
Corporation tax paid	(764)	(1,790)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(2,961)	(2,534)
Fixed assets expensed	-	79
Proceeds from disposal of tangible fixed assets	5	-
	<u>(2,956)</u>	<u>(2,455)</u>
Financing		
Repayments of capital element of finance leases and hire purchase contracts	(3)	(31)

## Notes to the financial statements (continued)

at 1 April 2012

### 20. Notes to the statement of cash flows (continued)

(c) Analysis of net funds

	<i>At 3 April 2011 £000</i>	<i>Cash flow £000</i>	<i>At 1 April 2012 £000</i>
Cash at bank and in hand	11,792	(1,852)	9,940
Finance leases	(3)	3	–
	<u>11,789</u>	<u>(1 849)</u>	<u>9,940</u>

### 21. Capital commitments

Due to the timing of new store and refurbishment commitments, future capital expenditure not otherwise included in these financial statements is as follows

	<i>1 April 2012 £000</i>	<i>3 April 2011 £000</i>
Authorised by the directors and contracted for	–	28

The capital commitments in the prior period relate to the new National Distribution Centre

### 22 Operating lease commitments

In respect of leases, the following annual commitments existed at the period end and in respect of non-cancellable operating leases

	<i>Land and buildings 1 April 2012 £000</i>	<i>Land and buildings 3 April 2011 £000</i>	<i>Other 1 April 2012 £000</i>	<i>Other 3 April 2011 £000</i>
Operating leases which expire				
Within one period	577	–	112	160
In two to five periods	896	1,148	742	362
In over five periods	15,270	15,569	–	–
	<u>16,743</u>	<u>16,717</u>	<u>854</u>	<u>522</u>

### 23 Pension arrangements

The company operates a defined contribution pension scheme for eligible employees. The assets of the scheme are held separately from those of the company in an independently administered fund. Accrued contributions as at 1 April 2012 amounted to £nil (3 April 2011 – £nil).

## Notes to the financial statements (continued)

at 1 April 2012

### 24 Related party transactions

As part of their employment the directors and employees can purchase goods from the company at a discount. The amount of goods purchased by the directors is not considered to be material either to the company or to the individuals. The discounts for the directors are on the same terms as those of all other employees.

The company has taken advantage of the exemption allowed under FRS 8 'Related Party Disclosures', from disclosing transactions with related parties that are part of the Furniture Village Holdings Limited Group, as the company is a 100% subsidiary of a group whose financial statements are publicly available.

### 25 Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Furniture Village Group Limited, registered in England and Wales.

In the directors' opinion, the company's ultimate parent undertaking and controlling party is Furniture Village Holdings Limited, registered in England and Wales. Group financial statements are prepared by Furniture Village Holdings Limited and are available from the registered office at 258 Bath Road, Slough, SL1 4DX.