

Furniture Village Limited

Report and Financial Statements

For the year ended 28 March 2004

ERNST & YOUNG



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Directors

J C Hodgkinson (Chairman)
P J Harrison
D J G Imrie
J M L Clark
E G Wynne (appointed 15 January 2004)

Secretary

A J F Burton

Auditors

Ernst & Young LLP
Apex Plaza
Reading
Berkshire
RG1 1YE

Bankers

Bank of Scotland
Beauclerc House
3 Queens Road
Reading
Berkshire
RG1 4AR

Registered Office

258 Bath Road
Slough
Berkshire
SL1 4DX

Directors' Report

The Directors present their report and financial statements for the year ended 28 March 2004.

Principal activity and review of the business

The principal activity of the Company continues to be the sale of quality furnishings in the retail market.

Turnover has increased by 6% to £128,478,000 (2003: £120,909,000) during the year and operating profit increased by 5% from £5,301,000 to £5,592,000. Two new outlets were opened during the year with one closure, bringing the number of trading outlets to thirty-three.

Results and Dividends

The profit for the year, after taxation but before dividends, amounted to £4,267,000 (2003: £4,951,000). The Directors do not recommend the payment of a dividend (2003: £nil). Preference dividends of £222,000 (2003: £222,000) were also paid during the year.

Future Developments

A new store in South Ruislip, Middlesex, was opened in April 2004. Three new stores are planned for 2004/05 with further expansion opportunities being investigated.

Directors and their Interests

The current Directors, who are listed on page 1, all served throughout the year covered by this report, with the exception of Mr E G Wynne, who was appointed as a Director on 15 January 2004.

No Director held any "A" ordinary shares, any "B" ordinary shares nor any beneficial interest in the preference shares of the Company at 31 March 2003 or throughout the year ended 28 March 2004.

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.

Employee involvement

During the year, the policy of providing employees with information about the Group has been continued. Regular meetings are held between local management and employees to allow a free flow of information and ideas. Employees participate directly in the success of the business through the various incentive arrangements, which cover everyone employed within the business.

Charitable Contributions

The Company's charitable donations for the period were £29,076 (2003: £30,750).

Events Subsequent to the Balance Sheet Date

On 9 April 2004 a new store opened in South Ruislip, Middlesex, and on 12 April 2004, the Aylesbury store closed.

Directors' Report

Auditors

A resolution to reappoint Ernst & Young LLP as the Company's auditors and to set their remuneration will be put to the members at the Annual General Meeting.

By order of the Board



Secretary

27 July 2004

Statement of Directors' responsibilities in respect of the financial statements

Company law requires the Directors to prepare financial statements for each financial year which 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 those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Furniture Village Limited

We have audited the Company's financial statements for the year ended 28 March 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Independent auditors' report

to the members of Furniture Village Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 28 March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Reading

13 August 2004

Profit and Loss Account

For the year ended 28 March 2004

	Note	2004 £'000	2003 £'000
Turnover	2	128,478	120,909
Cost of sales		(72,706)	(69,574)
Gross Profit		55,772	51,335
Distribution costs		(27,776)	(25,039)
Administrative expenses		(22,212)	(20,268)
Profit before cost of New Store Openings		5,784	6,028
New store pre-trading costs		(192)	(727)
Operating Profit		5,592	5,301
Non operating exceptional items	3	(119)	1,772
Profit Before Interest and Tax	4	5,473	7,073
Bank interest receivable		143	231
Interest payable	7	(44)	(1)
Profit on Ordinary Activities Before Tax		5,572	7,303
Tax on profit on ordinary activities	8	(1,305)	(2,352)
Profit for the Financial Year		4,267	4,951
Preference dividends on non-equity shares	9	(222)	(222)
Profit Retained for the Financial Year	16	4,045	4,729

STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 28 March 2004 there are no recognised gains and losses other than the profit of £4,045,000 (2003: £4,729,000).

Balance Sheet

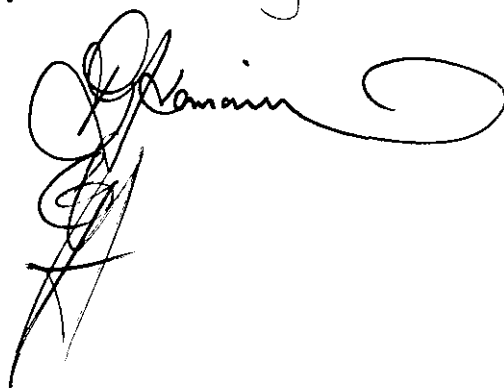
At 28 March 2004

	Note	2004 £'000	2003 £'000
Fixed Assets			
Tangible assets	10	23,525	22,314
Current Assets			
Stocks	11	9,198	9,141
Debtors	12	7,270	7,454
Cash at bank and in hand	17(c)	6,848	6,973
		<u>23,316</u>	<u>23,568</u>
Creditors: amounts falling due within one year	13	(26,346)	(29,586)
		<u>(3,030)</u>	<u>(6,018)</u>
Net Current Liabilities			
		<u>20,495</u>	<u>16,296</u>
Total Assets Less Current Liabilities			
Provisions for Liabilities and Charges			
Deferred tax	14	(3,744)	(3,590)
		<u>16,751</u>	<u>12,706</u>
Capital and Reserves			
Called up share capital (including non-equity capital)	15	3,800	3,800
Share premium account	16	274	274
Profit and loss account	16	12,677	8,632
		<u>16,751</u>	<u>12,706</u>
Shareholders' Funds (including non-equity interest)	16	<u>16,751</u>	<u>12,706</u>

Approved by the Board on 27 July 2004

Director

Director



Statement of Cash Flows

For the year ended 28 March 2004

	Note	2004 £'000	2003 £'000
Net Cash Inflow from Continuing Operating Activities	17(a)	4,104	7,186
Returns on Investments and Servicing of Finance	17(b)	(123)	8
Taxation	17(b)	(974)	(1,643)
Capital Expenditure and Financial Investment	17(b)	(3,132)	(5,565)
Decrease in Cash		<u>(125)</u>	<u>(14)</u>

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	2004 £'000	2003 £'000
Decrease in cash		(125)	(14)
Movement in Net Debt		<u>(125)</u>	<u>(14)</u>
Net Debt at beginning of financial year	17(c)	6,973	6,987
Net Debt at end of financial year	17(c)	<u>6,848</u>	<u>6,973</u>

Notes to the Financial Statements

For the year ended 28 March 2004

1. Accounting Policies

Accounting Convention

The financial statements have been 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 year.

Fixed assets

All fixed assets are initially recorded at cost. The carrying value of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation

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

Short leasehold property	-	over the lease term
Fixtures, fittings and equipment	-	over 4-10 years
Motor vehicles	-	over 3-5 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred taxation is provided on all timing differences, arising from the different treatment for financial statements and taxation purposes of transactions and events recognised in the financial statements of the current and previous years. Deferred taxation is measured on an undiscounted basis at rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws 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.

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 stores pre-trading costs

The costs associated with the pre-trading period of new stores are written off in the year 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 net reverse premiums are amortised from the date of trading on a straight-line basis over the period to the next open market rent review.

Leasing commitments

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

Notes to the Financial Statements

For the year ended 28 March 2004

1. Accounting Policies (continued)

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.

2. Turnover

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

3. Non Operating Exceptional Items

	2004 £'000	2003 £'000
Proceeds on disposal of leasehold interests	460	3,250
Loss on disposal of fixed assets	(513)	(1,428)
Other costs relating to disposals	(66)	(50)
	<u>(119)</u>	<u>1,772</u>

The effect on the taxation charge for the year of the exceptional items recognised below operating profit is disclosed in note 8.

4. Profit Before Interest and Tax

	2004 £'000	2003 £'000
This is stated after charging:		
Auditors' remuneration		
- as auditors	33	30
- as advisors	42	77
Depreciation of owned assets	2,477	2,003
Operating lease rentals - property	10,939	9,754
- other	383	464
	<u></u>	<u></u>

Notes to the Financial Statements

For the year ended 28 March 2004

5. Directors' Emoluments

	2004 £'000	2003 £'000
Emoluments	692	652
Company contributions paid to money purchase pension schemes	9	8
	2004 No.	2003 No.
Members of money purchase pension scheme	3	2

The amounts in respect of the highest paid Director were emoluments of £231,000 (2003: £231,000) and Company contributions paid to pension schemes of £4,000 (2003: £4,000). Directors' emoluments include bonuses relating to the period in which they accrue, although these may be paid after the year end.

6. Staff Costs

	2004 £'000	2003 £'000
Wages and salaries	14,786	13,097
Social security costs	1,621	1,355
Pension costs	304	280
	16,711	14,732

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

	2004 No.	2003 No.
Office and management	69	60
Retailing and distribution	440	378
	509	438

7. Interest Payable

	2004 £'000	2003 £'000
Bank loan and overdrafts	12	1
Other interest	32	-
	44	1

Notes to the Financial Statements

For the year ended 28 March 2004

8. Tax on Profit on Ordinary Activities

	2004 £'000	2003 £'000
UK Corporation Tax		
Tax on profits in the period	1,097	1,215
Tax under provided in previous years	54	6
Total current tax	1,151	1,221
Deferred Tax		
Originated and reversal of timing differences (note 14)	154	1,131
	1,305	2,352

The tax effect in the profit and loss account relating to exceptional items recognised below operating profit is a debit of £49,000 (2003: debit of £219,000).

Factors Affecting the Tax Charge for the Period

The tax assessed on the profit on ordinary activities for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities	5,572	7,303
Expected tax charge on profit on ordinary activities calculated At the standard rate of tax in the UK of 30% (2003: 30%)	1,671	2,191
Effect of:		
Disallowed expenses and non-taxable income (Capital allowances in excess of depreciation) / Depreciation in excess of capital allowances	464 (261)	(221) (366)
Short term timing differences	65	(1)
Tax under provided in previous years	54	6
Accounting profit on chargeable assets	118	970
Capital gains	(69)	(751)
Group relief	(891)	(607)
Current tax charge for the period	1,151	1,221

9. Dividends

	2004 £'000	2003 £'000
Dividends paid on non-equity preference shares	222	222

Notes to the Financial Statements

For the year ended 28 March 2004

10. Tangible Fixed Assets

	<i>Short Leasehold Property £'000</i>	<i>Fixtures fittings equipment & vehicles £'000</i>	<i>Total £'000</i>
Cost:			
At 31 March 2003	23,770	6,047	29,817
Additions	3,169	1,038	4,207
Disposals	(737)	(169)	(906)
At 28 March 2004	<u>26,202</u>	<u>6,916</u>	<u>33,118</u>
Depreciation:			
At 31 March 2003	4,623	2,880	7,503
Provided during the year	1,738	739	2,477
Disposals	(271)	(116)	(387)
At 28 March 2004	<u>6,090</u>	<u>3,503</u>	<u>9,593</u>
Net Book Value:			
At 28 March 2004	<u>20,112</u>	<u>3,413</u>	<u>23,525</u>
At 31 March 2003	<u>19,147</u>	<u>3,167</u>	<u>22,314</u>

11. Stocks

	<i>2004 £'000</i>	<i>2003 £'000</i>
Goods for resale	<u>9,198</u>	<u>9,141</u>

12. Debtors

	<i>2004 £'000</i>	<i>2003 £'000</i>
Trade debtors	1,252	1,197
Other debtors	2,061	1,922
Prepayments and accrued income	3,957	4,335
	<u>7,270</u>	<u>7,454</u>

Notes to the Financial Statements

For the year ended 28 March 2004

13. Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Deposits on goods not yet delivered	6,205	6,036
Trade creditors	10,829	11,540
Corporation tax	647	470
Other taxes and social security costs	2,539	1,899
Other creditors and accruals	5,970	5,076
Owed to parent company	156	4,565
	<u>26,346</u>	<u>29,586</u>

14. Provisions for Liabilities and Charges

Provision for deferred tax:

	£'000
At 31 March 2003	3,590
Provided during the current year	265
Prior period overprovision	(111)
At 28 March 2004	<u>3,744</u>

The deferred tax consists of:

	2004 £'000	2003 £'000
Accelerated capital allowances	1,514	1,364
Other timing differences	(74)	(9)
Capital gains	2,304	2,235
Total deferred tax liability	<u>3,744</u>	<u>3,590</u>

15. Share Capital

	2004 £'000	2003 £'000
Authorised:		
Equity interest		
"A" Ordinary shares of £1 each		
Number of shares – 150,000 (2003 – 150,000)	150	150
"B" Ordinary shares of £1 each		
Number of shares – 550,000 (2003 – 550,000)	550	550
	<u>700</u>	<u>700</u>
Non-equity interest		
Cumulative preference shares of £1 (on which a total dividend of £96,000 is payable)		
Number of shares – 1,400,000 (2003 – 1,400,000)	1,400	1,400
7.2% Cumulative redeemable preference of shares of £1 each		
Number of shares – 3,000,000 (2003 – 3,000,000)	3,000	3,000
	<u>5,100</u>	<u>5,100</u>

Notes to the Financial Statements

For the year ended 28 March 2004

15. Share Capital (continued)

	2004 £'000	2003 £'000
Allotted, called up and fully paid:		
Equity interest		
“A” Ordinary shares of £1 each		
Number of shares – 150,000 (2003 – 150,000)	150	150
“B” Ordinary shares of £1 each		
Number of shares – 500,340 (2003 – 500,340)	500	500
	<u>650</u>	<u>650</u>
Non-equity interest		
Cumulative preference of shares of £1 (on which a total dividend of £96,000 is payable)		
Number of shares – 1,400,000 (2003 – 1,400,000)	1,400	1,400
7.2% Cumulative redeemable preference of shares of £1 each		
Number of shares – 1,750,000 (2003 – 1,750,000)	1,750	1,750
	<u>3,800</u>	<u>3,800</u>

All of the ordinary shares rank pari passu. 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.

16. Reconciliation of Shareholders Funds and Movements on Reserves

	Share Capital	Share premium	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 31 March 2003	3,800	274	8,632	12,706
Retained profit for the year	-	-	4,045	4,045
At 28 March 2004	<u>3,800</u>	<u>274</u>	<u>12,677</u>	<u>16,751</u>

17. Notes to the Statement of Cash Flows

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

	2004 £'000	2003 £'000
Operating profit	5,592	5,301
Depreciation	2,477	2,003
Profit on disposal of fixed assets	-	(17)
Increase in stocks	(57)	(1,664)
Decrease / (Increase) in debtors	184	(843)
(Decrease) / Increase in creditors	(4,092)	2,406
Net cash inflow from operating activities	<u>4,104</u>	<u>7,186</u>

Notes to the Financial Statements

For the year ended 28 March 2004

17. Notes to the Statement of Cash Flows (continued)

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

	2004 £'000	2003 £'000
Returns on investments and servicing of finance:		
Interest received	143	231
Interest paid	(44)	(1)
Preference dividend paid	(222)	(222)
	<u>(123)</u>	<u>8</u>
Taxation:		
Corporation Tax paid	(974)	(1,730)
Corporation Tax repayment received	-	87
	<u>(974)</u>	<u>(1,643)</u>
Capital expenditure and financial investment:		
Proceeds from disposal of leasehold interests	460	3,250
Proceeds from disposal of other assets	6	131
Payments relating to disposal of leasehold interests	(66)	(25)
Payments to acquire tangible fixed assets	(4,207)	(8,921)
Receipt of contribution towards capital expenditure	675	-
	<u>(3,132)</u>	<u>(5,565)</u>

(c) Analysis of changes in net debt

	At 31 March 2003 £'000	Cash flow £'000	At 28 March 2004 £'000
Cash at bank and in hand	6,973	(125)	6,848
	<u>6,973</u>	<u>(125)</u>	<u>6,848</u>

Cash flows relating to non-operating exceptionals

Capital expenditure and financial investment cash flows include £460,000 (2003: £3,250,000) from the disposal of leasehold interests and £6,000 (2003: £nil) from the disposal of fixed assets.

18. Capital Commitments

Future capital expenditure not otherwise included in these financial statement

	2004 £'000	2003 £'000
Authorised by the Directors and contracted for	110	1,220
Authorised by the Directors but not yet contracted for	1,012	265
	<u>1,122</u>	<u>1,485</u>

Notes to the Financial Statements

For the year ended 28 March 2004

19. Other Financial Commitments

In respect of leases the following annual commitments existed at 28 March 2004 in respect of non-cancellable operating leases:

	<i>Land and Buildings</i>	<i>Land and buildings</i>	<i>Other</i>	<i>Other</i>
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating leases which expire:				
Within one year	-	-	123	103
In two to five years	-	-	154	213
In over five years	11,430	11,187	-	-
	<u>11,430</u>	<u>11,187</u>	<u>277</u>	<u>316</u>

20. Related Parties

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 Group, as the Company is a 100% subsidiary of a Group whose financial statements are publicly available.

21. Pension Arrangements

The company operated 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. Prepaid contributions at the year end amounted to £10,000 (2003: £22,000).

22. Parent Undertaking and Controlling Party

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