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Home Décor GB Limited

Report and Financial Statements

31 December 2008

Registered No: 05268170

Directors
P Buchanan
V Carre
M Crosby-Browne
J Limbert

Secretary
DWS Secretaries Limited
1 Fleet Place
London
EC4M 7WS

Auditors
Ernst & Young LLP
1 Bridgewater Place
Water Lane
Leeds
LS11 5QR

Bankers
Wachovia Bank, N.A.
London Branch
3 Bishopsgate
London
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Solicitors
Morgan Lewis
2 Gresham Street
London
EC2V 7PE

Registered Office
Beighton Road East
Waterthorpe
Sheffield
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Directors' report

The directors present their report and financial statements for the year ended 31 December 2008.

Results and dividends

The profit for the year, after taxation, is £748,619 (2007: £2,879,742). Operating profit was £473,508 in 2008 versus £4,107,309 in 2007.

The Directors do not recommend the payment of a dividend (2007: £nil)

Principal activities

The principal activity of the Company during the period was the manufacture of domestic furnishings.

Review of the business

The Company's principal activities during the year continued to be the manufacture and distribution of domestic furnishings.

The Company's key financial and other performance indicators during the year were as follows:

	2008	2007	Change
	£'000	£'000	%
Company Turnover	21,202	25,787	(18)%
Total operating profit	474	4,107	(88)%
Profit after tax	749	2,880	(74)%
Shareholders' funds	11,408	10,659	+7%
Current assets as % of current liabilities	289%	276%	+13%
Average number of employees	89	83	+7%

Turnover decreased by 18% during the year due to the combined effect of the global economic recession in the second half of the year and the loss of a significant customer at the end of 2007. Sales initiatives put in place in 2008 will ensure that despite the economic outlook, turnover is not expected to decline further in 2009.

Operating profit declined in 2008 not only driven by the decline in sales volume, but also due to significant commodity price increases and one off restructuring costs relating to changes in our haulage partner. The commodity price increases that the business incurred at the beginning of 2008 began to reverse at the end of 2008. Due to the one off nature of costs incurred in 2008 and the reduction in commodity prices, a significant increase in operating profit is expected for 2009.

Profit after tax decreased in 2008 due to the decline in operating profit. The 2008 accounts also includes a prior year adjustment for tax of £192,853.

Shareholders' funds increased by 7% due to an increase in retained earnings.

The Company's "quick ratio" (current assets as a percentage of current liabilities) has increased slightly in 2008.

Directors' report

The total average number of employees increased by 7% during the year. This is due to previous vacant positions now being filled and the strengthening of the commercial team.

The products manufactured and sold by the Company have minimal environmental impact. However, the Board believes in good environmental practice as a matter of principle. Additionally the Company will benefit from such practice in terms of its reputation of the Company. Consequently, the Company continues to put environmental responsibilities high on the agenda.

Principal risks and uncertainties

Exchange rates pose the main risk to the business.

Future developments

The directors are confident that measures have been put in place to ensure that the business will weather the current economic environment, whilst at the same time implementing initiatives that will provide growth in the future.

Directors

The directors who served the Company during the year were as follows:

D Mariano	(resigned 19 February 2009)
A Carles	(resigned 19 February 2009)
W Ramsey	(resigned 19 February 2009)
P Buchanan	

Director appointments since the year end are as follows:

V Carre	(appointed 19 February 2009)
M Crosby-Browne	(appointed 19 February 2009)
J Limbert	(appointed 19 February 2009)

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 auditors in connection with preparing their report, of which the auditors are unaware. Having made enquiries of fellow directors, each director has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Directors qualifying third party indemnity provisions

The Company granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of the Directors' report.

Directors' report

Auditors

In accordance with S.385 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditors of the Company.

By order of the board

P Buchanan
Director

24 July 2009

Statement of directors' responsibilities in respect of the financial statements

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 year. 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). The financial statements are required by law to 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 judgments 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 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.

ERNST & YOUNG

Independent auditors' report

to the members of Home Décor GB Limited

We have audited the Company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 22. These financial statements have been prepared under 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Ernst & Young

Independent auditors' report

to the members of Home Décor GB Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Leeds

24 July 2009

Profit and loss account
for the year ended 31 December 2008

	Notes	*2008* £	*2007* £
Turnover	2	21,201,873	25,786,902
Cost of sales		(16,537,879)	(18,528,348)
Gross profit		4,663,994	7,258,554
Administrative expenses		(4,190,486)	(3,151,245)
Operating profit	3	473,508	4,107,309
Exceptional items	4	(248,738)	(607,403)
Net Interest receivable	7	401,463	226,667
Profit on ordinary activities before taxation		626,233	3,726,573
Tax on profit on ordinary activities	8	122,386	(846,831)
Retained profit for the financial year		748,619	2,879,742

All items dealt with in arriving at the operating profit above relate to continuing activities

Statement of total recognised gains and losses
for the year ended 31 December 2008

There are no recognised gains or losses other than the profit of £748,619 (2007 - profit of £2,879,742) attributable to the shareholders for the year ended 31 December 2008.

Balance Sheet

at 31 December 2008

	Notes	2008 £	2007 £
Fixed assets			
Intangible assets	9	2,790,421	2,965,735
Tangible assets	10	360,466	386,361
		3,150,887	3,352,096
Current assets			
Stock	11	1,735,211	1,834,888
Debtors:			
- Amounts falling due after one year	12	5,025,564	4,073,942
- Amounts falling due within one year	12	5,145,230	4,662,889
		10,170,794	8,736,831
Cash at bank and in hand		728,899	877,597
		12,634,904	11,449,316
Creditors: amounts falling due within one year	13	4,377,885	4,142,125
Net current assets		8,257,019	7,307,191
Total assets less current liabilities		11,407,906	10,659,287
Provisions for liabilities and charges	14	-	-
		11,407,906	10,659,287
Capital and reserves			
Called up share capital	15	3,937,690	3,937,690
Profit and loss account	16	7,470,216	6,721,597
	17	11,407,906	10,659,287

The financial statements were approved for issues by the Board of Directors on 24 July 2009 and signed on their behalf by:

P Buchanan
Director

24 July 2009

Statement of cash flows

for the year ended 31 December 2008

	Notes	2008 £	2007 £
Net cash inflow from operating activities	20(a)	2,694,467	1,048,219
Returns on investments and servicing of finance			
Interest received		24,270	53,877
Interest paid		(9,118)	-
		15,152	53,877
Taxation			
Corporation tax paid		(2,015,544)	-
Capital expenditure			
Payments to acquire tangible fixed assets		(277,460)	(116,923)
Deferred proceeds from the sale of fixed assets		-	160,000
		(277,460)	43,077
Net cash inflow before management of liquid resources And financing		416,615	1,145,173
Financing			
Issue of new long-term loan		(565,313)	(1,300,527)
		(565,313)	(1,300,527)
Decrease in cash		(148,698)	(155,354)

Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2008

	Notes	2008 £	2007 £
Decrease in cash		(148,698)	(155,354)
Intercompany loan notes issued		565,313	1,300,527
Change in net debt resulting from cash flows	20(b)	416,615	1,145,173
Other non-cash movements		386,309	1,229,350
Movement in net debt		802,924	2,374,523
Net debt at 1 January 2008		4,951,539	2,577,016
Net debt at 31 December 2008	20(b)	5,754,463	4,951,539

Notes to the financial statements

at 31 December 2008

1. Accounting policies

Basis of preparation

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

Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's acquired identifiable assets and liabilities.

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full year after acquisition and subsequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold land & building improvements	-	straight line over 3 years
Machinery & equipment	-	straight line over 5-15 years
Tooling	-	straight line over 5 years
Fixtures & fittings	-	straight line over 3-5 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes direct materials, labour costs and those overheads that have been incurred in bringing the stock to its present location and condition. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

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 assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Notes to the financial statements

at 31 December 2008

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.

Pension costs

The Company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Related party transactions

The company is exempt under the terms of FRS 8 from disclosing related party transactions with entities where 90 per cent or more of the voting rights are controlled within the HD Europe Holdings Limited Group.

Group relief payments

The Group takes advantage of provisions within the Taxes Act which enable certain tax benefits available in one Group Company to be transferred to another group company. No consideration is passed for these benefits

Notes to the financial statements

at 31 December 2008

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties.

An analysis of turnover by geographical market is given below:

	2008	*2007*
	£	£
United Kingdom	13,552,435	14,812,101
Europe	7,052,219	10,133,184
Rest of the world	597,219	841,617
	21,201,873	25,786,902

3. Operating profit

This is stated after charging:

	2008	*2007*
	£	£
Amortisation of goodwill	175,314	175,314
Auditors' remuneration		
- Audit of financial statements	25,000	25,000
- Other - taxation	10,000	10,000
Depreciation of owned assets	162,571	247,595
Operating lease rentals – other	492,769	454,090

4. Exceptional Items

This amount relates to costs incurred as part of the fundamental Company restructuring process during the year.

5. Directors' emoluments

One Director received emoluments from the company during the year (2007 – nil). There was one Director accruing benefits under a money purchase scheme (2007 - nil).

	2008	*2007*
	£	£
Aggregate Emoluments	251,515	-
Company contribution to money purchase pension schemes	36,021	-

Notes to the financial statements

at 31 December 2008

6. Staff costs

	2008	2007
	£	£
Wages and salaries	2,914,686	3,016,187
Social security costs	290,600	273,586
Pension	280,413	302,599
	3,485,699	3,592,372

The average monthly number of employees during the year was made up as follows:

	2008	2007
	No.	No.
Production	49	52
Administration and management	40	31
	89	83

7. Interest receivable/(payable)

	2008	2007
	£	£
Group interest payable	-	(224,809)
Group interest receivable	386,307	470,887
Bank interest receivable	24,272	53,878
Other interest payable	(9,116)	(73,289)
	401,463	226,667

8. Taxation on ordinary activities

(a) Tax on profit on ordinary activities

The tax (credit)/charge is made up as follows:

	2008	2007
	£	£
Current tax:		
UK corporation tax	-	881,493
Adjustment for prior year	(192,853)	-
Total current tax (note 8(b))	(192,853)	881,493
Deferred tax:		
Origination and reversal of timing differences	70,467	(34,662)
Tax on profit on ordinary activities	(122,386)	846,831

Notes to the financial statements

at 31 December 2008

8. Taxation on ordinary activities (continued)

(b) Factors affecting current tax charge

During the year the corporation tax rate for the period reduced from 30% to 28%. The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28.5%.

The differences are reconciled below:

	2008	*2007*
	£	£
Profit on ordinary activities before tax	626,233	3,726,573
Tax on group profit on ordinary activities at standard UK corporation tax rate of 28.5% (2007 - 30%)	178,476	1,117,972
Expenses not deductible for tax purposes and non-taxable income	4,296	3,551
Accelerated capital allowances	11,841	38,038
Other including tax at marginal rates	-	(20,935)
Prior year adjustment	(192,853)	26,945
Transfer pricing adjustment	(194,613)	-
Group tax losses	-	(284,078)
Total current tax (note 8 (a))	(192,853)	881,493

There are tax losses to carry forward of £3,193k. A deferred tax asset has not been recognised in respect of these losses because it is not considered probable that there will be future taxable profits against which these losses can be utilised.

(c) Deferred tax

Deferred tax is provided at 28% (2007 – 30%) in the financial statements as follows:

	2008	*2007*
	£	£
Capital allowances in advance of depreciation	-	(70,467)
	-	(70,467)
Included in debtors	-	70,467

Notes to the financial statements
at 31 December 2008

9. Intangible fixed assets

	Goodwill
	£
Cost:	
At 1 January 2008 and 31 December 2008	3,506,287
Amortisation:	
At 1 January 2008	540,552
Provided during the year	175,314
At 31 December 2008	715,866
Net book value:	
At 31 December 2008	2,790,421
At 1 January 2008	2,965,735

Goodwill arising on the acquisition of Home Décor GB UK trade is being amortised evenly over its presumed useful economic life of 20 years.

10. Tangible fixed assets

	Leasehold land & buildings improvements	*Plant, machinery & equipment*	*Total*
	£	£	£
Cost:			
At 1 January 2008	10,011	1,021,657	1,031,668
Additions	23,108	113,568	136,676
At 31 December 2008	33,119	1,135,225	1,168,344
Depreciation:			
At 1 January 2008	719	644,588	645,307
Charge for the year	6,214	156,357	162,571
At 31 December 2008	6,933	800,945	807,878
Net book value:			
At 31 December 2008	26,186	334,280	360,466
At 1 January 2008	9,292	377,069	386,361

Notes to the financial statements

at 31 December 2008

11. Stock

	2008	*2007*
	£	£
Raw materials	1,235,636	1,430,732
Finished goods	499,575	404,156
	1,735,211	1,834,888

The difference between the purchase price or production cost of stocks and their replacement cost is not material

12. Debtors

	2008	*2007*
	£	£
Debtors falling due after more than one year		
Amounts owed by group undertakings	5,025,564	4,073,942
Debtors falling due within one year:		
Trade debtors	3,374,906	3,453,364
Amount owed by group undertakings	1,112,480	1,001,938
Prepayments and accrued income	430,910	137,120
Corporation tax	226,934	-
Deferred tax asset	-	70,467
	5,145,230	4,662,889

13. Creditors: amounts falling due within one year

	2008	*2007*
	£	£
Trade creditors	3,531,784	1,666,127
Amounts owed to group undertakings	66,408	13,621
Corporation tax	-	1,981,462
Other taxes and social security cost	100,802	83,009
Other creditors and accruals	678,891	397,906
	4,377,885	4,142,125

Notes to the financial statements

at 31 December 2008

14. Provisions

	Deferred tax	
	2008	*2007*
	£	£
At 1 January 2008	(70,467)	(35,805)
Deferred tax charge/(credit) for the year (note 8(a))	70,467	(34,662)
At 31 December 2008 (note 8(c))	-	(70,467)

The deferred tax asset in the prior year was recognised in accounts receivable.

15. Share capital

Allotted, called up and fully paid		*2008*		*2007*
	No.	£	*No.*	£
Ordinary shares of £0.01 each	100	1	100	1
Ordinary shares of $1.00 each	7,572,177	3,937,689	7,572,177	3,937,689
		3,937,690		3,937,690

Authorised		*2008*		*2007*
	No.	£	*No.*	£
Ordinary shares of £0.01 each	3,000	30	3,000	30
Ordinary shares of $1.00 each	7,572,177	3,937,689	7,572,177	3,937,689
		3,937,719		3,937,719

16. Reserves

	Profit and loss account
	£
At 1 January 2008	6,721,597
Profit for the year	748,619
At 31 December 2008	7,470,216

Notes to the financial statements

at 31 December 2008

17. Reconciliation of shareholders' funds

	£
Retained profit for the year	748,619
Shares issued	-
Total movements during the year	748,619
Shareholders' funds at 1 January 2008	10,659,287
Shareholders' funds at 31 December 2008	11,407,906

18. Other financial commitments

The Company had annual commitments under non-cancellable operating leases as set out below:

	Land & Buildings 2008	*Land & Buildings 2007*	*Other 2008*	*Other 2007*
	£	£	£	£
Operating leases which expire:				
Within one year	-	-	24,088	-
In two to five years	-	-	35,896	78,878
After five years	376,631	376,631	77,633	-
	376,631	376,631	137,617	78,878

Notes to the financial statements

at 31 December 2008

19. Transactions with related parties

During the year the Company entered into transactions, in the ordinary course of business, with the Holding Company and other related parties. Transactions entered into and trading balances outstanding at 31 December 2008 are as follows:

Related party	*Sales*	*Purchases*	*Loan interest paid*	*Loan interest received*	*HQ recharges*	*Period end debtor*	*Period end creditor*
	£	£	£	£	£	£	£
Home Décor Holding Company							
2008	-	-	-	-	26,566	-	2,751
2007	-	-	15,719	127,928	-	-	2,010
Home Décor Company (US)							
2008	85,375	569	-	-	289,173	136,735	229,704
2007	157,980	26,197	63,514	21,944	145,344	55,015	77,632
HD Canada Inc							
2008	141,241	697,242	-	-	-	237,789	359,425
2007	196,026	427,858	119,276	40,571	-	292,181	-

The Company also entered into transactions with sister subsidiaries and has claimed exemption under FRS 8 from disclosing these transactions.

Notes to the financial statements

at 31 December 2008

20. Notes to the statement of cash flows

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

	2008	*2007*
	£	£
Operating profit	473,508	4,107,309
Depreciation of tangible fixed assets	162,571	247,595
Amortisation of intangible fixed assets	175,314	175,314
Exceptional items	(248,738)	(607,403)
Decrease/(increase) in stock	99,677	(240,776)
(Increase)/decrease in debtors	(222,104)	2,170,698
Increase/(decrease) in creditors	2,254,239	(4,804,518)
	2,694,467	1,048,219

(b) Analysis of net debt

	At 1 January 2008	*Cash flow*	*Exchange differences*	*Other non-cash movements*	*At 31 December 2008*
	£	£	£	£	£
Cash at bank	877,597	(148,698)	-	-	728,899
Intercompany loan notes issued	4,073,942	565,313	-	386,309	5,025,564
	4,951,539	416,615	-	386,309	5,754,463

21. Parent undertaking and controlling party

In the directors' opinion the Company's immediate parent undertaking is HD Europe Intermediary Limited which is incorporated in England. At the balance sheet date the Company's ultimate parent undertaking and controlling party was Wellspring Capital Management LLC.

The parent undertaking of the smallest and largest group of undertakings for which group accounts have are drawn up and of which the Company is a member is HD Europe Holdings Ltd, which is incorporated in England and whose financial statements are publicly available.

22. Post Balance Sheet Events

Following the restructuring in the immediate parent company on 19 February 2009 the ultimate controlling party is now Saberasu Japan Investments II B.V.