Registered No. 05268170

Home Décor GB Limited

Reports and Financial Statements

31 December 2016

Corporate information

Directors
B M Crosby-Browne
J P Limbert

Secretary
SNR Denton Secretaries
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London
EC4M 7WS

Auditors
Ernst & Young LLP
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Bankers
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Solicitors
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Registered Office
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S13 9AD

Strategic report

The directors present their strategic report and the financial statements for the year ended 31 December 2016.

Review of the business

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

On 16 May 2016, Home Decor GB Limited acquired a 100% investment in Optiplan Kitchens Limited with the purchase of 70,368 £1 shares, for consideration of £6,000,000. Optiplan Kitchens Limited is engaged in the design, manufacture, distribution and installation of fitted kitchens.

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

	2016	*2015*	*Change*
	£	*£*	*%*
Turnover	**29,953,081**	28,861,547	4%
Operating profit/ (loss)	**308,434**	(277,357)	211%
Profit/ (loss) after tax	**633,478**	(553,507)	214%
Shareholders' funds	**9,759,537**	9,126,059	7%
Current assets as % of current liabilities	**127%**	106%	
Average number of employees	**189**	172	10%
Total number of doors sold	**305,000**	305,000	-

Turnover remained broadly flat to that of 2015 with an overall increase of 4%. The increase was mainly due to an increase in domestic turnover through our Contract and Direct to Consumer channels, with a small increase in sales into Europe.

The operating loss from 2015 turned round to an operating profit in 2016. This was driven by a reduction in direct costs and underlying overhead costs remaining in line with the previous year. This is excluding the restructuring costs associated with the investment in the Optiplan Kitchens Limited group of companies.

The profit after tax was turned round from a loss after tax in 2015 of £553,507 to a profit of £633,478. This was due to an increase in sales of higher margin products and reduction in sales to less profitable customers. £536,674 of exceptional costs were incurred during the year in respect of the acquisition of the Optiplan Kitchens Limited group, however the financial impact of this has been mostly mitigated by additional income from investments of £500,000 during the year.

Shareholders' funds increased by 7% due to the profit for the year. The company's 'quick ratio' (current assets as a percentage of current liabilities) increased from 106% in 2015 to 127% for 2016.

There was a small increase in the number of employees during the year from 172 in 2015 to 189 in 2016. There were no significant increases in any particular department, just general increases across all associated with the growth within the year.

Number of doors sold in 2016 was similar to the number sold in 2015 with no overall increase or decrease.

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.

Strategic report (continued)

Principal risks and uncertainties

The principal risks and uncertainties facing the company are outlined below;

- Exchange rates and commodity prices

The directors consider that exchange rates and commodity prices are the two main factors that they are unable to control that may impact on the profitability of the business. A proportion of the company's operating expenses are denominated in non-Sterling currencies. The value of Sterling has fallen since the UK referendum decision to leave the European Union, making imports more expensive. The directors have recognised this and exposures of each currency is monitored and managed by the use of forward exchange contracts and currency loans. The forward foreign exchange contracts all mature within 6 months. Whilst the directors are confident that any adverse movement in either of the above would ultimately be recovered through selling prices, there could be some short-term additional costs to the business.

- Competitive risk

The directors do not consider the competitive risk of the business to be any greater than would normally be expected for a company operating in an open market environment.

- Credit, liquidity and cash flow risk

This is the risk that the company will not be able to meet its financial liabilities as they fall due. Management monitors rolling forecasts of the company's cash and cash equivalents on the basis of expected cash flows. This reduces the risk through management of bank accounts, trade debtors and trade creditors, by utilising the availability of finance leases and through controls of expenditure.

On behalf of the Board

J P Limbert
Director
3 July 2017

Registered No. 05268170

Directors' report

The directors present their report and financial statements for the year ended 31 December 2016.

Directors of the company

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

B M Crosby-Browne
J P Limbert

Results and dividends

The profit for the year after taxation amounted to £633,478 (2015 – loss £553,507). The directors do not recommend a final dividend (2015 – £nil).

Future developments

The directors expect the company to continue trading at comparable profit levels to the previous year.

Financial instruments

The company's financial instruments comprise cash and liquid resources, bank loans and various items, such as trade receivables and trade payables that arise directly from its operations. The company also uses foreign exchange forward contracts to mitigate its exposure to movements in foreign exchange rates. The main purpose of these financial instruments is to provide working capital for the company's operations.

Going concern

The company meets its day-to-day working capital requirements through an invoice discounting facility. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company will be able to operate within the level of its current facility with a significant margin of headroom.

During the year the company obtained two loans and each carry covenants. Management expect that compliance of these covenants shall be achieved at the established future measurement dates.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' liabilities

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 liability provision remains in force as at the date of the Directors' report.

Directors' report (continued)

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, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

J P Limbert
Director
3 July 2017

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial 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), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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 Home Décor GB Limited

We have audited the financial statements of Home Décor GB Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 24. 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), including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland".

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 6, 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 Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 31 December 2016 and of its profit for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland"; 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, based on the work undertaken in the course of the audit:

- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent auditors' report (continued)

to the members of Home Décor GB Limited

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

Eddie Diamond (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

4 July 2017

Statement of comprehensive income

for the year ended 31 December 2016

	Notes	2016 £	2015 £
Turnover	2	29,953,081	28,861,547
Cost of sales		(19,827,545)	(19,821,688)
Gross profit		10,125,536	9,039,859
Administrative expenses:			
Before exceptional items	3	(9,280,428)	(9,317,216)
Exceptional item - acquisition costs	4	(536,674)	-
		(9,817,102)	(9,317,216)
Operating profit/ (loss)	3	308,434	(277,357)
Income from investments	8	500,000	-
Bank interest receivable	7	478	209
Interest payable and similar charges	9	(229,761)	(235,462)
Profit/ (loss) on ordinary activities before taxation		579,151	(512,610)
Tax on profit/ (loss) on ordinary activities	10	54,327	(40,897)
Profit/ (loss) and total comprehensive income for the financial year attributable to the parent undertaking		633,478	(553,507)

All amounts in the current year relate to continuing operations.

Statement of financial position

at 31 December 2016

	Notes	2016 £	2015 £
Fixed assets			
Intangible assets	11	4,798,960	5,230,038
Tangible assets	12	2,339,154	2,619,799
Investments	13	6,007,152	7,152
		13,145,266	7,856,989
Current assets			
Stocks	14	2,781,213	2,466,750
Debtors:			
- amounts falling due within one year	15	6,285,388	6,170,786
- amounts falling due after one year	15	2,009,492	1,949,676
		8,294,880	8,120,462
Cash at bank and in hand		57,626	213,197
		11,133,719	10,800,409
Creditors: amounts falling due within one year	16	(7,186,621)	(8,314,850)
Net current assets		3,947,098	2,485,559
Total assets less current liabilities		17,092,364	10,342,548
Creditors: amounts falling due after more than one year	17	(7,332,827)	(1,216,489)
Net assets		9,759,537	9,126,059
Capital and reserves			
Called up share capital	20	3,937,690	3,937,690
Profit and loss account		5,821,847	5,188,369
Shareholders' funds		9,759,537	9,126,059

The financial statements were approved by the board of directors on 3 July 2017 and signed on its behalf by:

J P Limbert
Director

Registered No. 05268170

Statement of changes in equity

For the year ended 31 December 2016

	Called-up share capital	*Profit and loss account*	*Total Equity*
	£	*£*	*£*
At 1 January 2015	3,937,690	5,741,876	9,679,566
Loss for the year	-	(553,507)	(553,507)
Total comprehensive loss for the year	-	(553,507)	(553,507)
At 31 December 2015	**3,937,690**	**5,188,369**	**9,126,059**
Profit for the year	-	633,478	633,478
Total comprehensive profit for the year	-	633,478	633,478
At 31 December 2016	**3,937,690**	**5,821,847**	**9,759,537**

Notes to Financial Statements

at 31 December 2016

1. Accounting policies

Statement of compliance

Home Decor GB Limited is a private limited company incorporated and domiciled in the UK. The address of the registered office is Innovation Way, Woodhouse Mill, Sheffield, S13 9AD.

The registered number of the company is 05268170.

A description of the company's principal activities is provided in the Strategic report on page 2.

Basis of preparation and change in accounting policy

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company is a wholly owned subsidiary of HD Holdings II Limited into which the company's financial statements are consolidated. The company has, therefore, taken the exemptions permitted under FRS 102 to not disclose remuneration paid to key management personnel, a cash flow statement and to not disclose a detailed breakdown of financial instruments.

The financial statements are presented in Sterling (£).

Group financial statements

The company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group. Group financial statements are prepared for HD Holdings II Limited a company incorporated in England and Wales.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 and 3 and the Directors' Report on pages 4 and 5.

The company meets its day-to-day working capital requirements through an invoice discounting facility. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facility.

During the year the company obtained two loans and each carry covenants. Management expect that compliance of these covenants shall be achieved at the established future measurement dates.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Notes to Financial Statements

at 31 December 2016

1. Accounting policies (continued)

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgments and estimates have been made include:

Goodwill and intangible assets useful economic life

The Company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected usual life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Impairment of non-financial assets

Where there are indicators of impairment of individual assets, the Company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Recognition of deferred tax assets

The company is subject to UK corporation tax and judgement is required in determining the provision for income and deferred taxation. The company recognises taxation assets and liabilities based upon estimates and assessments of many factors including judgements about the outcome of future events. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. At 31 December 2016 the company has recognised a deferred tax asset consisting of the tax effect of timing differences in respect of the excess of taxation allowances over depreciation upon fixed assets of £85,111 (2015: £32,852); and other timing differences of £72,117 (2015: £70,049) both on the basis that they will be suitably utilised in future periods.

Significant accounting policies

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 acquired on each business combination is capitalised, classified as an asset on the statement of financial position and amortised on a straight line basis over its useful life up to a presumed maximum of twenty 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.

Intangible assets

Intangible assets are measured at cost less accumulated amortisation ad any accumulated impairments losses.

Acquired computer software is shown at historical cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss on a straight line basis over its estimated useful life of three years from the date the assets is available for use.

Notes to Financial Statements

at 31 December 2016

1. Accounting policies (continued)

Investments

Investments in subsidiaries are initially stated at cost.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Leasehold building improvements	–	over the term of the lease
Plant, machinery and equipment	–	straight-line over 3-10 years

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

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 discounts, rebates and VAT.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Basic financial instruments

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

There was no impairment recognised in the statement of comprehensive income for the period in respect of bad and doubtful trade debtors (2015 - £6,987).

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings which are basic financial instruments are initially recognised at the present value of cash payable to the bank (including interest). After initial recognition they are measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate amortisation is included in finance revenue in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits. Bank overdrafts that are repayable upon demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

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.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to profit or loss as they become payable in accordance with the rules of the scheme.

Notes to Financial Statements

at 31 December 2016

1. Accounting policies (continued)

Deferred taxation

Deferred taxation 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 right to pay less or to receive more, tax, with the following exception:

- 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 an 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.

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.

Foreign currencies

The functional and presentation currency of the company is Sterling (£).

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange rate differences are recognised in profit or loss in the period in which they arise.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Derivative Financial instruments

The company uses forward foreign currency contracts to reduce the exposure to foreign exchange rates. The derivative financial instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently measured at fair value through profit or loss.

At 31 December 2016, the outstanding contracts all mature within 6 months (2015 – nil) of the year end. The company is committed to buy USD$2,100,000 equally over six contracts and pay each at a fixed Sterling amount (2015 – nil).

The company does not undertake any hedge accounting transactions.

Notes to Financial Statements

at 31 December 2016

1. Accounting policies (continued)

Leased assets: Lessee

Where assets are financed by leasing agreements that give rights approximately to ownership (finance leases), the assets are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit or loss over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that is represents a constant proportion of the balance of capital repayments outstanding. The capital part reduced the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

2. Turnover

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

Geographical area

	2016	*2015*
	£	£
United Kingdom	27,440,748	26,402,316
Europe	2,022,028	1,832,491
Rest of the World	490,305	626,740
	29,953,081	28,861,547

Notes to Financial Statements

at 31 December 2016

3. Operating profit/ (loss)

This is stated after charging:

			2016	2015
			£	£
Auditors' remuneration	–	audit of financial statements	34,000	37,000
	–	other taxation	22,000	16,650
Depreciation of owned assets	–	owned assets	514,690	505,510
	–	assets held under finance	66,125	66,124
Operating lease rentals	–	land and buildings	682,494	682,494
	–	other	300,628	272,175
Amortisation	–	goodwill	360,159	360,159
	–	owned intangible assets	167,184	167,917
Gain/(loss) on exchange rates			10,713	(44,294)

4. Exceptional items

	2016	2015
	£	£
Acquisition costs	536,674	-
Waiver of intercompany creditor	-	(856,149)
Impairment of investment in subsidiary	-	856,149
	536,674	-

5. Directors' remuneration

Two directors received remuneration from the company during the year (2015 – two). There were two directors accruing benefits under a money purchase scheme (2015 – two).

	2016	2015
	£	£
Aggregate remuneration	355,316	314,482
Company contributions paid to defined contribution pension schemes	56,622	49,605
	411,938	364,087

Notes to Financial Statements

at 31 December 2016

5. Directors' remuneration (continued)

In respect of the highest paid director:

	2016	2015
	£	£
Aggregate remuneration	194,991	171,858
Company contributions paid to defined contribution pension schemes	30,776	26,948
	225,767	198,806

6. Staff costs

	2016	2015
	£	£
Wages and salaries	5,925,300	5,457,150
Social security costs	558,032	524,254
Pension	371,867	325,673
	6,855,199	6,307,077

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

	2016	2015
	No.	No.
Production	56	52
Administration and management	67	62
Sales and distribution	66	58
	189	172

7. Interest receivable and similar income

	2016	2015
	£	£
Bank interest receivable	478	209

8. Income from investments

	2016	2015
	£	£
Dividends received from subsidiary undertaking	500,000	-

Notes to Financial Statements

at 31 December 2016

9. Interest payable and similar charges

	2016	2015
	£	£
Bank interest payable	(136,471)	(92,244)
Finance charges payable under finance leases and hire purchase contracts	(5,544)	(17,549)
Other interest payable	(87,746)	(125,669)
	(229,761)	(235,462)

10. Tax

(a) Tax on profit/ (loss) on ordinary activities

The tax charge is made up as follows:

	2016	2015
	£	£
Current tax:		
UK corporation tax at 20% (2015 – 20.25%)	-	-
Group relief receivable	-	-
Tax under provided in previous years	-	1,201
Total current tax	-	1,201
Deferred tax:		
Origination and reversal of timing differences	21,363	(24,550)
Effect of changes in tax rates	7,688	11,060
Adjustments in respect of prior periods	(83,378)	53,186
Total deferred tax	(54,327)	39,696
Tax on profit/(loss) on ordinary activities	(54,327)	40,897

Notes to Financial Statements

at 31 December 2016

10. Tax (continued)

(b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20% (2015 – 20.25%). The differences are explained below:

	2016	*2015*
	£	£
Profit/ (loss) on ordinary activities before tax	579,151	(512,610)
Profit/ (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 – 20.25%)	115,830	(103,804)
Expenses not deductible for tax purposes (including goodwill amortisation)	138,457	83,397
Tax (over)/ under provided in previous years	(83,378)	54,387
Exempt dividends	(100,000)	-
Change in tax laws and rates	3,918	11,060
Tax losses not recognised / (utilised)	(129,154)	(4,143)
Total tax (credit)/ expense	(54,327)	40,897

(c) Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 21% to 20% was substantively enacted in July 2013 and took effect from 1 April 2015. Further reductions in the UK corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020 were substantively enacted in September 2016.

The company has no tax losses to offset against future taxable profits (2015: £143,116). Deferred tax assets have not been recognised in respect of the losses as they may not be used to offset taxable profits.

(d) Deferred tax

The movement in the deferred tax asset during the year was as follows:

	£
At 1 January 2016	102,901
Origination and reversal of timing differences	(21,363)
Adjustments in respect of prior periods	83,378
Effect of decreased tax rate on deferred tax balance	(7,688)
At 31 December 2016 (note 15)	157,228

The deferred tax asset consists of the tax effect of timing differences in respect of:

	2016	*2015*
	£	£
Excess of taxation allowances over depreciation on fixed assets	85,111	32,852
Other timing differences	72,117	70,049
	157,228	102,901

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at 31 December 2016

11. Intangible fixed assets

	Goodwill	Computer Software	Total
	£	£	£
Cost			
At 1 January 2016	7,049,138	782,510	7,831,648
Additions	-	96,265	96,265
At 31 December 2016	7,049,138	878,775	7,927,913
Depreciation and impairment			
At 1 January 2016	2,127,911	473,699	2,601,610
Charge for the year	360,159	167,184	527,343
At 31 December 2016	2,488,070	640,883	3,128,953
At 31 December 2016	4,561,068	237,892	4,798,960
At 1 January 2016	4,921,227	308,811	5,230,038

Goodwill arising on the acquisition of Home Décor GB UK trade (purchased in November 2004) of £3,506,287 is being amortised evenly over its presumed useful economic life of 20 years.

On 17 February 2014, Home Decor GB Limited acquired a 100% investment in Portico (Midlands) Limited with the purchase of 1,000 £1 shares for consideration of £4,400,000. As part of a group restructuring, on 31 December 2014 the trade and net assets of Portico (Midlands) Limited were transferred to Home Decor GB Limited at their book value. The cost of the company's investment in Portico (Midlands) Limited reflected the underlying fair value of its net assets and goodwill at the time of its acquisition. As a result of this transfer, the value of the company's investment in Portico (Midlands) Limited fell below the amount at which it was stated in the company's accounting records. Schedule 4 to the Companies Act 2006 requires that the investment be written down accordingly and that the amount be charged as a loss in the company's profit and loss account. However the directors considered that, as there had been no overall loss to the company, it would fail to give a true and fair view to charge the diminution to the company's profit and loss account and it should instead be re-allocated to goodwill and the identifiable net assets transferred, so as to recognise in the company's individual balance sheet the effective cost to the company of those net assets and goodwill. The effect on the company's balance sheet of this departure during the prior year was to recognise goodwill of £3,542,851 net of amortisation of £Nil.

Goodwill arising on the acquisition of Portico (Midlands) Limited of £3,542,851 is being amortised evenly over its presumed useful economic life of 19 years and 2 months.

Notes to Financial Statements

at 31 December 2016

12. Tangible fixed assets

	Leasehold buildings improvements	*Plant, machinery and equipment*	*Total*
	£	*£*	*£*
Cost			
At 1 January 2016	2,195,421	2,508,995	4,704,416
Additions	9,430	309,762	319,192
Disposals	–	(37,914)	(37,914)
At 31 December 2016	2,204,851	2,780,843	4,985,694
Depreciation			
At 1 January 2016	683,458	1,401,159	2,084,617
Charge for the year	229,884	350,931	580,815
Disposals	–	(18,892)	(18,892)
At 31 December 2016	913,342	1,733,198	2,646,540
Net book value			
At 31 December 2016	1,291,509	1,047,645	2,339,154
At 1 January 2016	1,511,963	1,107,836	2,619,799

Included in the amounts for plant and machinery are the following amounts relating to leased assets held under hire purchase arrangements.

	Total
	£
Cost:	
At 1 January 2016	609,297
Additions	–
At 31 December 2016	609,297
Depreciation:	
At 1 January 2016	186,737
Charge for the year	66,125
At 31 December 2016	252,862
Net book value:	
At 31 December 2016	356,435
At 1 January 2016	422,560

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at 31 December 2016

13. Investments

Total fixed asset investments comprise:

	£
At 1 January 2016	7,152
Additions	6,000,000
At 31 December 2016	6,007,152

Interests in subsidiaries

At 31 December 2016 the company had interests in the following subsidiaries:

Name of company	*Country*	*Holding*	*Proportion of voting rights and shares held*	*Registered office*
Space Pro USA Inc	USA	Ordinary shares	100%	2150 Park Drive, Charlotte, NC 28204
Portico (Midlands) Limited	UK	Ordinary shares	100%	Innovation Way, Woodhouse Mill, Sheffield, S13 9AD
Optiplan Kitchens Limited	UK	Ordinary shares	100%	Innovation Way, Woodhouse Mill, Sheffield, S13 9AD
Optiplan Contracts Limited	UK	Ordinary shares	*100%	Innovation Way, Woodhouse Mill, Sheffield, S13 9AD
Optiplan Kitchens (Thatcham) Limited	UK	Ordinary shares	*100%	Innovation Way, Woodhouse Mill, Sheffield, S13 9AD
Granite Dynamics Limited	UK	Ordinary shares	*100%	Innovation Way, Woodhouse Mill, Sheffield, S13 9AD
The Manor Cabinet Company Limited	UK	Ordinary shares	*100%	Innovation Way, Woodhouse Mill, Sheffield, S13 9AD
Optiplan Limited	UK	Ordinary shares	*100%	Innovation Way, Woodhouse Mill, Sheffield, S13 9AD

* these companies are indirectly owned by Home Decor GB Limited through Optiplan Kitchens Limited.

On 4 April 2012, Home Decor GB Limited acquired a 100% investment in Space Pro USA Inc with the purchase of 1,000 $10 shares. The $10,000 investment has been converted at the closing balance sheet exchange rate of 1.6255 to give a total investment of £6,152. Space Pro USA Inc is a distributor of domestic furnishings.

On 17 February 2014, Home Decor GB Limited acquired a 100% investment in Portico (Midlands) Limited with the purchase of 1,000 £1 shares, for consideration of £4,400,000. Portico (Midlands) Limited is a manufacturer and distributor of domestic furnishings. The investment in Portico (Midlands) Limited was subsequently reduced to the value of the remaining net assets in Portico (Midlands) Limited being £857,149, following a hive up of the company's trade and assets in to Home Decor GB Limited on 31 December 2014; in turn a goodwill addition of £3,542,851 has been recognised at the hive up date.

During the financial year ending 31 December 2015, Portico (Midlands) Limited waived their intercompany debtor totalling £857,149 which was owed by Home Décor GB Limited, and in turn the investment carrying value recognised by Home Décor GB Limited was impaired to the same extent.

Notes to Financial Statements

at 31 December 2016

13. Investments (continued)

On 16 May 2016, Home Decor GB Limited acquired a 100% investment in the Optiplan Kitchens Limited group with the purchase of 70,368 £1 shares, for consideration of £6,000,000. Optiplan Kitchens Limited is engaged in the design, manufacture, distribution and installation of fitted kitchens.

14. Stocks

	2016	*2015*
	£	£
Raw materials and consumables	2,130,710	1,728,717
Finished goods and goods for resale	650,503	738,033
	2,781,213	2,466,750

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

Stocks recognised as an expense in the period were £17,815,153 (2015 - £18,263,264). Impairment losses of £95,170 were released in the period in cost of sales against stock (2015 - £37,000 losses were recognised in cost of sales).

15. Debtors

	2016	*2015*
	£	£
Debtors amounts falling due after more than one year:		
Amounts owed by parent undertakings	2,009,492	1,949,676
Debtors amounts falling due within one year:		
Trade debtors	5,054,808	5,063,330
Amounts owed by subsidiary undertakings	526,940	477,816
Prepayments	486,869	526,739
Derivative financial instruments	59,543	-
Deferred tax asset (note 10)	157,228	102,901
	6,285,388	6,170,786

The company enters into forward foreign exchange contracts to reduce the exchange risk for certain foreign currency payables. At 31 December 2016, the outstanding contracts all mature within 6 months (2015- nil) of the year end. The company is committed to buy USD$2,100,000 equally over six contracts and pay each at a fixed Sterling amount (2015 – nil).

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the forward and spot exchange rates for GBP:USD. The fair value of the forward-foreign currency contracts is £59,543 (2015 – nil).

Notes to Financial Statements

at 31 December 2016

16. Creditors: amounts falling due within one year

	2016	2015
	£	£
Bank loan (note 18)	1,898,871	1,000,000
Invoice discounting facility	1,163,922	2,578,263
Obligations under finance leases and hire purchase contracts (note 19)	41,155	61,972
Trade creditors	2,990,275	3,534,839
Amounts owed to subsidiary undertakings	1,000	1,000
Other taxes and social security costs	204,821	183,617
Other creditors and accruals	886,577	955,159
	7,186,621	8,314,850

17. Creditors: amounts falling due after more than one year

	2016	2015
	£	£
Bank loan (note 18)	4,393,616	1,166,667
Obligations under finance leases and hire purchase contracts (note 19)	14,211	49,822
Amounts owed to parent undertakings	2,925,000	-
	7,332,827	1,216,489

18. Loans

	2016	2015
Loans are repayable as follows:	£	£
Wholly repayable within 5 years	6,357,727	2,166,667
	6,357,727	2,166,667

During February 2014, the company had taken a 4 year term loan of £4,000,000; upon which interest was payable at 2.25% per annum. A fixed and floating mortgage charges over the company's assets in favour of Santander UK PLC had been provided in relation to this term loan facility. This loan has subsequently been repaid during May 2016 through loans provided by new bankers HSBC plc who now hold the fixed and floating charges over the company's assets. Two loans were provided by HSBC plc the total of which was £7,000,000. The first loan of £2,000,000 has a 2 year term; upon which interest is payable at a variable rate of 2% over GBP LIBOR per annum. The second loan of £5,000,000 has a 5 year term; upon which interest is payable at a variable rate of 2.3% over GBP LIBOR per annum.

The company also takes out short term loans provided by its banker, HSBC plc, to cover timings in payments made to some overseas suppliers. The loans are repayable 3 months from the date each loan is taken out and have an interest rate of 2.5% per annum above the bank's current variable rate on the date the loan is taken.

Notes to Financial Statements

at 31 December 2016

19. Leasing commitments

The company uses finance leases and hire purchase contracts to acquire plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the lessee. Future minimum lease payments due under finance leases and hire purchase contracts are as follows:

	2016	*2015*
	£	*£*
Not later than one year	41,155	61,972
Later than one year and not later than five years	14,211	49,822
	55,366	111,794

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016	*2015*
	£	*£*
Not later than one year	1,010,146	892,916
Later than one year and not later than five years	3,147,185	3,006,372
Later than five years	3,893,220	4,541,405
	8,050,551	8,440,693

20. Issued share capital

		2016		*2015*
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary shares of £0.01 each	100	1	100	1
Ordinary shares of $1 each	7,572,177	3,937,689	7,572,177	3,937,689
		3,937,690		3,937,690

21. Reserves

Issued share capital
Issued share capital represents the nominal value of shares that have been issued.

Profit and loss account
The profit and loss account includes all current and prior period realised and retained profits and losses.

22. Contingent liabilities

At the balance sheet date there were fixed and floating mortgage charges over the group's assets in favour of HSBC plc (first charge holder) and Saberasu Japan Investments II B.V. (second charge holder) an intermediate parent undertaking, incorporated in the Netherlands.

Notes to Financial Statements

at 31 December 2016

23. Related party transactions

During the year the company entered into transactions, in the ordinary course of business, with its immediate parent undertaking and sister subsidiaries. Transactions entered into and trading balances outstanding at 31 December, are as follows:

	2016	2015
	£	£
Amounts owed by Group undertakings due within one year		
Space Pro USA Inc	521,902	477,816
Optiplan (Kitchens) Limited	4,859	-
Manor Cabinet Company Limited	178	-
	526,939	477,816
Amounts owed by Group undertakings due after more than one year		
HD Holding II Limited	2,009,492	1,949,676
Amounts due to Group undertakings falling due within one year		
Portico (Midlands) Limited	(1,000)	(1,000)
Amounts owed to Group undertakings due after more than one year		
HD Holding II Limited	(2,925,000)	-

Transactions with related parties

	2016	2015
	£	£
Sales to Affiliates		
Space Pro USA Inc	271,208	108,369
Waiver of intercompany payable		
Portico (Midlands) Limited	-	857,149

During the year the holding company, HD Holdings II limited, provided a loan of £3m to Home Decor GB Limited to assist with the purchase of Optiplan Kitchens Limited group. The directors consider that this loan is not repayable within a year.

Terms and conditions of transactions with related parties

Sales and purchases between related parties are made at normal market prices. Outstanding balances with entities are unsecured, interest free and cash settlement is expected within normal trading terms. The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2016, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2015: nil).

Notes to Financial Statements

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24. Ultimate parent undertaking and controlling party

The parent undertaking of the smallest and largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is HD Holdings II Limited, which is incorporated in England and whose financial statements are publicly available from Companies House.

In the directors' opinion the Company's ultimate parent undertaking and controlling party is Cerberus Capital Management LP. The country of incorporation is the United States of America.