

MUNCHKIN UK TRADING COMPANY LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2010

Company Registration Number 07114749

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MUNCHKIN UK TRADING COMPANY LIMITED
FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2010

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MUNCHKIN UK TRADING COMPANY LIMITED
OFFICERS AND PROFESSIONAL ADVISERS
PERIOD ENDED 31 DECEMBER 2010

The board of directors	S Dunn M Hardin
Company secretary	Petty Rader
Business address	Unit 760 Thorp Arch Trading Estate Thorp Arch Wetherby LS23 7F
Registered office	5th Floor Alder Castle 10 Noble Street London EC2V 7QJ
Auditor	Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR
Bankers	Barclays Bank plc 10 Market Street Bradford BD1 1EG

MUNCHKIN UK TRADING COMPANY LIMITED

THE DIRECTORS' REPORT

PERIOD ENDED 31 DECEMBER 2010

The directors present their report and the financial statements of the group for the period ended 31 December 2010

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are, individually, aware

- there is no relevant audit information of which the group's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Principal activities and business review

The principal activity of the company during the period was that of a holding company.

On 14 January 2010, Munchkin UK Trading Company Limited acquired the entire share capital of Lindam Limited. Munchkin UK Trading Company Limited was incorporated on 31 December 2009.

The ultimate controlling party of Munchkin UK Trading Company Limited is Munchkin Inc, a company registered in the United States of America.

The principal activity of the group during the period was that of design, development and manufacture of high quality, affordable products for babies and young children.

Lindam Limited is a product design and development company involved primarily in the baby safety and nursery sector. The company distributes products in the UK and worldwide.

During the period under review, key financial performance of Lindam Limited as measured by turnover and gross profit have both increased. Underlying this result has been growth in sales generated by the introduction of new products and new customers, and the control of underlying business costs.

MUNCHKIN UK TRADING COMPANY LIMITED

THE DIRECTORS' REPORT

PERIOD ENDED 31 DECEMBER 2010

The economic, social and political environment are considered stable at the present time and the principle risks facing the business are monitored continuously so that the business can react to changes and opportunities accordingly

Any comments contained within this review reflect the knowledge and information available to the Directors at the date of this review and may be subject to the effect of unforeseen future events outside of the Directors' control

Results and dividends

The profit for the period, after taxation, amounted to £87,928. The directors have not recommended a dividend.

Principal risks and uncertainties

Risk

The group's activities expose it to a number of financial risks including price risk, credit risk, cashflow risk and liquidity risk. The use of financial derivatives is governed by the group's policies approved by the board of directors, the objective of which is to limit risk to an appropriate level. The group does not use derivative financial instruments for speculative purposes.

Cash Flow Risk

The group's activities expose it to the financial risks of changes in foreign currency exchange rates. The group periodically assesses this risk and may use foreign exchange forward contracts and foreign currency options to hedge these exposures.

Credit Risk

The group's principle financial assets are bank balances and trade receivables. The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cashflows. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity Risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the group primarily uses short-term debt finance.

Price Risk

The group is exposed in some degree to commodity price risk. The group does not manage its exposure to commodity price risk due to cost benefit considerations.

Directors

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

S Dunn
M Hardin

MUNCHKIN UK TRADING COMPANY LIMITED

THE DIRECTORS' REPORT

PERIOD ENDED 31 DECEMBER 2010

Research and development

The group continues to invest in the creation, research, design and development of products to ensure that they remain innovative and functionally at the leading edge of similar products currently available to consumers

Going concern

The directors have made reasonable enquiries, including a review of existing customer and supplier relationships and future financial forecasts to enable them to form a reasonable expectation that the group has adequate reserves to continue in operational existence for the foreseeable future

As highlighted in note 14 to the financial statements, the group has significant short term loans which give rise to net current liabilities at the period end. Subsequent to the balance sheet date these short term loans together with balances disclosed in note 15 falling due after more than one year were all owed to the ultimate parent company, Munchkin Inc

The directors, having assessed responses from the directors of the groups parent company, Munchkin Inc have no reason to believe that a material uncertainty exists that may cast doubt about the ability of Munchkin UK Trading Company Limited and group to continue as a going concern

The group is expected to continue to generate positive cashflow on its own account for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements

Events since the balance sheet date

On 23 March 2011 the group entered into a long term leasehold for the premises known as Unit 760, Thorp Arch Trading Estate. The term of the lease runs from 19 January 2011 until 1 August 2017 at an average annual rent of £270,654

On 17 January 2011 the group redeemed the \$12,000,000 loan note issued by the Dunn Family Trust and replaced it with similar £7,500,000 loan note issued by Munchkin Inc. This loan note, including principal and accrued interest charged at a rate of 3% for the first year, and thereafter at the greater of 3% or the sum of the One Month LIBOR (as published in the Wall street Journal) plus 2.75%, will be repaid in monthly instalments of £125,000 plus accrued interest each month. The maturity date of this loan note is 31 December 2015, upon which time all the outstanding principal and interest will be payable

Auditor

During the period, Mazars LLP resigned as auditors of the company and Ernst & Young LLP were appointed by the directors to fill the casual vacancy

Ernst & Young are deemed to be reappointed under section 487(2) of the Companies Act 2006

Signed by order of the directors



Petty Rader
Company Secretary

Approved by the directors on 27 09 11

MUNCHKIN UK TRADING COMPANY LIMITED
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
MUNCHKIN UK TRADING COMPANY LIMITED

PERIOD ENDED 31 DECEMBER 2010

We have audited the group and parent company financial statements ("the financial statements") of Munchkin UK Trading Company Limited for the period ended 31 December 2010 on pages 7 to 22 which comprise the consolidated profit and loss account, the consolidated and company balance sheet, the consolidated cashflow statement and related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 2, 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 group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2010 and of the group's profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

MUNCHKIN UK TRADING COMPANY LIMITED

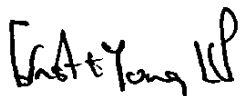
**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
MUNCHKIN UK TRADING COMPANY LIMITED (continued)**

PERIOD ENDED 31 DECEMBER 2010

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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



Alistair Denton, Senior Statutory Auditor
For and on behalf of

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

Date - 27/9/11

MUNCHKIN UK TRADING COMPANY LIMITED
GROUP PROFIT AND LOSS ACCOUNT
50 WEEK PERIOD ENDED 31 DECEMBER 2010

	Note	2010 £
Group turnover	2	21,794,573
Cost of sales		(15,327,195)
Gross profit		<u>6,467,378</u>
Administrative expenses		(5,351,503)
Operating profit	3	<u>1,115,875</u>
Interest payable and similar charges	6	(547,522)
Profit on ordinary activities before taxation		<u>568,353</u>
Tax on profit on ordinary activities	7	(480,425)
Profit for the financial period	20	<u><u>87,928</u></u>

All of the activities of the group are classed as continuing

The group has no recognised gains or losses other than the results for the period as set out above

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account (note 8)

The notes on pages 11 to 22 form part of these financial statements

MUNCHKIN UK TRADING COMPANY LIMITED

GROUP BALANCE SHEET

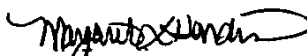
31 DECEMBER 2010

	Note	£	2010 £
Fixed assets			
Intangible assets	9		13,623,521
Tangible assets	10		698,957
			<u>14,322,478</u>
Current assets			
Stocks	12	2,480,166	
Debtors	13	3,474,277	
Cash at bank		1,218,339	
		<u>7,172,782</u>	
Creditors Amounts falling due within one year	14	(10,269,933)	
Net current liabilities			(3,097,151)
Total assets less current liabilities			<u>11,225,327</u>
Creditors: Amounts falling due after more than one year	15		(11,061,572)
Provisions for liabilities			
Deferred taxation	16		(75,826)
			<u>87,929</u>
Capital and reserves			
Called-up share capital	19		1
Profit and loss account	20		87,928
Shareholders' funds	21		<u>87,929</u>

These financial statements were approved by the directors and authorised for issue on 27 09 11, and are signed on their behalf by



S Dunn
Director



M Hardin
Director

The notes on pages 11 to 22 form part of these financial statements


MUNCHKIN UK TRADING COMPANY LIMITED
Registered Number 07114749

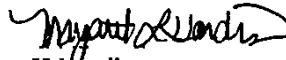
COMPANY BALANCE SHEET

31 DECEMBER 2010

	Note	£	2010 £
Fixed assets			
Investments	11		18,484,902
Current assets		-	
Creditors Amounts falling due within one year	14	(7,423,329)	
Net current liabilities			(7,423,329)
Total assets less current liabilities			11,061,573
Creditors: Amounts falling due after more than one year	15		(11,061,572)
			<u>1</u>
Capital and reserves			
Called-up share capital	19		1
Shareholders' funds			<u>1</u>

These financial statements were approved by the directors and authorised for issue on 22 09 11, and are signed on their behalf by


S Dunn
Director


M Hardin
Director

The notes on pages 11 to 22 form part of these financial statements

MUNCHKIN UK TRADING COMPANY LIMITED
GROUP CASH FLOW CASH FLOW STATEMENT
PERIOD ENDED 31 DECEMBER 2010

	Note	2010 £
Net cash inflow from operating activities	22	2,191,725
Returns on investments and servicing of finance	22	(547,522)
Taxation	22	(894,112)
Capital expenditure and financial investment	22	(169,338)
Acquisitions and disposals	22	(18,373,121)
Cash outflow before financing		(17,792,368)
Financing	22	18,484,901
Increase in cash		<u>692,533</u>

Reconciliation of net cash flow to movement in net debt

	2010 £	£
Increase in cash in the period	692,533	
Net cash inflow from long-term amounts owed to group undertakings	(18,484,903)	
Change in net debt resulting from cash flows	22	(17,792,370)
Translation differences		19,930
Movement in net debt in the period		(17,772,440)
Net debt at 31 December 2010	22	<u>(17,772,440)</u>

The notes on pages 11 to 22 form part of these financial statements

MUNCHKIN UK TRADING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2010

1. Accounting policies

Basis of accounting

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over twenty years from the date of acquisition. The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006.

Turnover

Turnover comprises revenue recognised by the group in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts. Revenue is recognised when the group obtains the right to consideration in exchange for its performance. Revenue is measured at fair value of consideration received excluding discounts, rebates, VAT and other taxes or duty. The following criteria must also be met:

- **Sales of goods**

Revenue from the sale of goods is recognised, when significant risks and rewards of ownership have passed to the buyer, usually on despatch of goods.

- **Interest income**

Revenue is recognised as interest accrues.

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with expected future sales from the related project.

Goodwill

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the Profit and Loss Account on a straight line basis over its estimated economic life up to a presumed maximum of 20 years. An impairment review is undertaken at the end of each period if circumstances indicate that the carrying value may not be recoverable.

Intangible assets

Intangible fixed assets are capitalised at cost and are stated at cost less accumulated amortisation.

The carrying value of intangible assets is reviewed at the end of each period where circumstances indicate the carrying value may not be recoverable.

MUNCHKIN UK TRADING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2010

1. Accounting policies (continued)

Amortisation

Intangible assets arising on the acquisition of Lindam Limited are being amortised over the directors estimate of their useful economic lives as follows

Patents	-	6 years straight line
Trademarks	-	20 years straight line
Customer relationships	-	15 years straight line
Non compete agreements	-	2 years straight line
Backlog of customer orders	-	3 months straight line
Other non specific goodwill	-	20 years straight line

Other patents and artwork, not acquired in relation to the acquisition of Lindam Limited are being amortised over their useful economic lives of 2 to 5 years

The carrying value of intangible fixed assets is reviewed for impairment at the end of each period where circumstances indicate that the carrying value may not be recoverable

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Cost represents purchase price together with any incidental costs of acquisition

Depreciation

Depreciation is calculated so as to write off the cost of an asset, net of anticipated disposal proceeds, over the useful economic life of that asset as follows

Fixtures & Fittings	-	20% straight line
Motor Vehicles	-	25% straight line
Office Equipment	-	20% to 33% straight line
Tooling	-	20% straight line
Machinery and racking	-	20% straight line

Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review

Foreign currency

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

Interest bearing – loans and borrowings

All interest bearing loans and borrowings are initially recognised at net proceeds. The debt is then increased by the finance costs in respect of the reporting period and reduced by payments made in the same period

Finance costs of debt are allocated over the term of the debt at prevailing or contracted rates on the carrying amount

MUNCHKIN UK TRADING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2010

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.

Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates expected to be effective at the time the timing differences are expected to reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

2. Turnover

The turnover and profit before tax are attributable to the one principal activity of the group.

An analysis of turnover is given below.

	50 week period 2010 £
United Kingdom	17,561,749
Overseas sales	2,549,346
Rest of world	1,683,478
	<u>21,794,573</u>

3. Operating profit

Operating profit is stated after charging

	50 week period 2010 £
Amortisation of intangible assets	1,503,816
Research and development expenditure written off	203,690
Depreciation of owned fixed assets	174,367
Auditors remuneration	27,000
Operating lease rentals	
- Land and buildings	<u>98,229</u>

MUNCHKIN UK TRADING COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2010

4. Particulars of employees

The average number of staff employed by the group during the financial period amounted to

	50 week period 2010 No
Number of administrative staff	33
Number of management staff	6
	<u>39</u>

The aggregate payroll costs of the above were

	50 week period 2010 £
Wages and salaries	1,432,813
Social security costs	120,425
	<u>1,553,238</u>

5. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services were

	50 week period 2010 £
Remuneration receivable	<u>201,600</u>

Remuneration of highest paid director:

	50 week period 2010 £
Total remuneration (excluding pension contributions)	<u>201,600</u>

6. Interest payable and similar charges

	50 week period 2010 £
Interest payable on bank borrowing	13,630
Other similar charges payable	533,892
	<u>547,522</u>

MUNCHKIN UK TRADING COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2010

7. Taxation on ordinary activities

(a) Analysis of charge in the period

	50 week period 2010 £
In respect of the period	
UK Corporation tax	483,433
Deferred tax	
Origination and reversal of timing differences	(3,008)
Tax on profit on ordinary activities	<u>480,425</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 28%

	50 week period 2010 £
Profit on ordinary activities before taxation	<u>568,353</u>
Profit on ordinary activities by rate of tax	159,139
Effects of	
Expenses not deductible for tax purposes	425,023
Capital allowances for period in excess of depreciation	(4,901)
Short term timing difference	3,246
Pre acquisition loss	<u>(99,074)</u>
Total current tax (note 7(a))	<u>483,433</u>

Factors that may affect tax charges

Based on current capital investment plans the group expects to continue to be able to claim capital allowances in excess of depreciation in future years, but with current reductions on the main rate of corporation tax this will be at lower levels than in the current period

8. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company in the 50 week period ending 31 December 2010 was £Nil

MUNCHKIN UK TRADING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2010

9 Intangible fixed assets

Group	Patents and Artwork	Trademark	Customer relationship	Non compete agreements	Backlog of customer orders	Other non specific goodwill	Total
	£	£	£	£	£	£	£
Cost							
Additions	49,200	-	-	-	-	-	49,200
Acquisition	1,471,000	4,779,000	4,841,100	61,000	490,000	3,436,037	15,078,137
At 31 Dec 2010	<u>1,520,200</u>	<u>4,779,000</u>	<u>4,841,100</u>	<u>61,000</u>	<u>490,000</u>	<u>3,436,037</u>	<u>15,127,337</u>
Amortisation							
Charge for the period	249,824	238,950	322,740	30,500	490,000	171,802	1,503,816
At 31 Dec 2010	<u>249,824</u>	<u>238,950</u>	<u>322,740</u>	<u>30,500</u>	<u>490,000</u>	<u>171,802</u>	<u>1,503,816</u>
Net book value							
At 31 Dec 2010	<u>1,270,376</u>	<u>4,540,050</u>	<u>4,518,360</u>	<u>30,500</u>	<u>-</u>	<u>3,264,235</u>	<u>13,623,521</u>

10. Tangible fixed assets

Group	Fixtures & Fittings	Motor Vehicles	Equipment	Tooling	Machinery and Racking	Total
	£	£	£	£	£	£
Cost						
Additions	11,060	-	38,590	69,785	703	120,138
Acquisition	67,508	9,433	88,207	557,303	30,735	753,186
At 31 Dec 2010	<u>78,568</u>	<u>9,433</u>	<u>126,797</u>	<u>627,088</u>	<u>31,438</u>	<u>873,324</u>
Depreciation						
Charge for the period	18,675	2,358	23,944	124,645	4,745	174,367
At 31 Dec 2010	<u>18,675</u>	<u>2,358</u>	<u>23,944</u>	<u>124,645</u>	<u>4,745</u>	<u>174,367</u>
Net book value						
At 31 Dec 2010	<u>59,893</u>	<u>7,075</u>	<u>102,853</u>	<u>502,443</u>	<u>26,693</u>	<u>698,957</u>

MUNCHKIN UK TRADING COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2010

11. Investments

Company	2010 Group companies £
Cost	
Additions	18,484,902
At 31 December 2010	<u>18,484,902</u>
Net book value	
At 31 December 2010	<u>18,484,902</u>

The net book value of investments at 31 December 2010 comprises the company's 100% holding in Lindam Limited, a trading company registered in England and Wales

12. Stocks

	2010 Group £
Finished goods	<u>2,480,166</u>

13. Debtors

	2010 Group £
Trade debtors	3,057,541
VAT recoverable	86,961
Prepayments and accrued income	329,775
	<u>3,474,277</u>

14. Creditors: Amounts falling due within one year

	2010 Group £	2010 Company £
Overdrafts	505,877	-
Trade creditors	1,580,513	-
Other creditors including taxation and social security		
Corporation tax	283,433	-
Other taxation and social security	36,677	-
Accruals and deferred income	440,104	-
Other creditors	7,423,329	7,423,329
	<u>10,269,933</u>	<u>7,423,329</u>

Loan amounts repayable, included within other creditors, are secured by a charge over the share capital of Lindam Limited

MUNCHKIN UK TRADING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2010

15. Creditors: Amounts falling due after more than one year

	2010 Group £	2010 Company £
Amounts owed to group undertakings	11,061,572	11,061,572

Amounts owed to group undertakings are all due to the company's ultimate parent company, Munchkin Inc. No set terms and conditions have been put in place regarding these amounts. In the absence of a set repayment term, the directors believe it is most appropriate to disclose such amounts as due after more than one year, reflecting the true substance of this balance.

16. Deferred taxation

The movement in the deferred taxation provision during the period was

	2010 Group £
Provision brought forward	78,834
Profit and loss movement arising during the year	(3,008)
Provision carried forward	75,826

The group's provision for deferred taxation consists of the tax effect of timing differences in respect of

	Provided
Excess of taxation allowances over depreciation on fixed assets	75,826

The budget on 23 March 2011 announced that the UK Corporation Tax rate will reduce from 28% to 23% over a period of four years from the 2011 tax year. A reduction in the UK corporate tax rate from 28% to 27% was substantively enacted on 20 July 2010 although, following the latest budget, a 26% tax rate will be effective from 1 April 2011. This will reduce the Group's future current tax charge accordingly. Any deferred tax expected to reverse in the year to December 2010 has been calculated using the substantively enacted reduced rate of 27%.

The aggregate impact of the proposed reductions from 27% to 23% would reduce the deferred tax asset by approximately £11,200.

17. Commitments under operating leases

At 31 December 2010 the group had annual commitments under non-cancellable operating leases as set out below:

Group	Land and buildings 2010 £
Operating leases which expire Within 2 to 5 years	102,500

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18. Related party transactions

At the period end the group owed an amount due of £7,423,329 in respect of a \$12,000,000 loan note issued by the Dunn Family Trust on 17 January 2010. This loan note including principal and accrued interest charged at a rate equal to the greater of 7% or the Wall Street Journal "prime rate" plus 3.75% will become fully repayable on 17 January 2011.

Parent Company

The Dunn family are the ultimate controlling shareholders of Munchkin Inc, the company's ultimate parent undertaking. Munchkin Inc is incorporated in the USA.

The company has taken advantage of the exemption in FRS8 not to disclose transactions with wholly owned subsidiaries.

19. Share capital

Allotted, called up and fully paid:

	2010 No	2010 £
1 Ordinary shares of £1 each	<u>1</u>	<u>1</u>
On 14 January 2010, 1 ordinary share with an aggregate nominal value of £1 was allotted for cash of £1.		

20. Reserves

Group	2010 Profit and loss account £
Profit for the period	87,928
Balance carried forward	<u>87,928</u>

21. Reconciliation of movements in shareholders' funds

	Group 2010 £
Profit for the financial period	87,928
New ordinary share capital subscribed	<u>1</u>
Net addition to shareholders' funds	87,929
Closing shareholders' funds	<u>87,929</u>

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22. Notes to the cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2010
	£
Operating profit	1,115,875
Amortisation	1,503,816
Depreciation	174,367
Increase in stocks	(418,821)
Increase in debtors	(1,152,432)
Increase in creditors	988,850
Gain on foreign currency retranslation on debt	(19,930)
Net cash inflow from operating activities	<u>2,191,725</u>

Returns on investments and servicing of finance

	2010
	£
Interest paid	(547,522)
Net cash outflow from returns on investments and servicing of finance	<u>(547,522)</u>

Taxation

	2010
	£
Taxation	<u>(894,112)</u>

Capital expenditure

	2010
	£
Payments to acquire intangible fixed assets	(49,200)
Payments to acquire tangible fixed assets	(120,138)
Net cash outflow from capital expenditure	<u>(169,338)</u>

Acquisitions and disposals

	2010
	£
Cash paid to acquire subsidiaries	(18,484,902)
Net cash acquired with subsidiary	111,781
Net cash outflow from acquisitions and disposals	<u>(18,373,121)</u>

MUNCHKIN UK TRADING COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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Financing

	2010 £
Issue of loan notes	7,423,329
New amounts due to participating interests	11,061,572
Net cash inflow from financing	<u>18,484,901</u>

Analysis of changes in net debt

	At Incorporation £	Cash acquired £	Cash flow £	Exchange movement £	At 31 December 2010 £
Net cash					
Cash in hand and at bank	-	111,781	1,106,558	-	1,218,339
Overdrafts	-	-	(525,807)	19,930	(505,877)
	<u>-</u>	<u>111,781</u>	<u>580,751</u>	<u>19,930</u>	<u>712,462</u>
Debt					
Debt due within 1 year	-	-	(7,423,330)	-	(7,423,330)
Debt due after 1 year	-	-	(11,061,572)	-	(11,061,572)
Net debt	<u>-</u>	<u>111,781</u>	<u>(17,904,151)</u>	<u>19,930</u>	<u>(17,772,440)</u>

23. Pension commitments

The group operates a defined contribution pension scheme. The pension cost charge for the period represents the contributions payable by the group to the scheme and amounted to £nil.

MUNCHKIN UK TRADING COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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24. Acquisitions

On 14 January 2010 the company acquired the entire issued share capital of Lindam Limited, a company incorporated in England and Wales. Details of the acquisition are set out in the table below

	Provisional Fair value and book value £
Other intangible assets	11,642,100
Tangible fixed assets	753,186
Stocks	2,055,949
Debtors	2,327,140
Cash	111,781
Creditors	(1,762,457)
Deferred tax	(78,834)
	<u>15,048,865</u>
Goodwill acquired on the acquisition of Lindam Limited	<u>3,436,037</u>
Satisfied by Consideration paid	<u>18,484,902</u>

In the opinion of the directors, there was no material differences between the fair value and the book value of assets acquired

The directors have reviewed the accounting policies of Lindam Limited and the company and identified no requirement to change any policies across the group

The pre-acquisition results of Lindam Limited from 1 January 2010 to 13 January 2010 showed turnover of £658,918, an operating loss of £353,137 and a loss before taxation of £353,137

The post acquisition results of Lindam Limited from 14 January 2010 to 31 December 2010 showed turnover of £21,494,542, an operating profit of £2,023,389 and profit before taxation of £2,009,859

25. Events since the balance sheet date

On 23 March 2011 the group entered into a long term leasehold for the premises known as Unit 760, Thorp Arch Trading Estate. The term of the lease runs from 19 January 2011 until 1 August 2017 at an average annual rent of £270,654

On 17 January 2011 the group redeemed the \$12,000,000 loan note issued by the Dunn Family Trust and replaced it with similar £7,500,000 loan note issued by Munchkin Inc. This loan note, including principal and accrued interest charged at a rate of 3% for the first year, and thereafter at the greater of 3% or the sum of the One Month LIBOR (as published in the Wall street Journal) plus 2.75%, will be repaid in monthly instalments of £125,000 plus accrued interest each month. The maturity date of this loan note is 31 December 2015, upon which time all the outstanding principal and interest will be payable