DFS FURNITURE HOLDINGS PLC

REPORT AND ACCOUNTS

30 JULY 2011

Company no 7218977

Contents

Chairman's Statement

In the financial year ended July 2011, DFS has achieved record EBITDA and continued strong cash generation against the backdrop of a difficult retail trading environment These good results in our first full year under the ownership of Advent International reflect our focus on driving market share and improving efficiency Our targeted expansion plans are also on track to deliver 10 new stores in the year ahead and further develop our successful online proposition

A large part of what has been achieved this year is due to the hard work and commitment of our employees and I thank them all for the outstanding contribution they have made

We anticipate that the economic uncertainty and weak consumer confidence that inhibited our sales performance in the second half of 2010/11 will continue to affect us in the current financial year Our plans reflect this, with our focus remaining on the areas within DFS's control continuing to grow market share by offering exceptional products and services both in store and online, and expanding our retail network to bring a DFS store within easy reach of even more customers, financed from our own strong cash flow We will also continue to manage margins and costs, maximising cash generation and maintaining a robust balance sheet

Our strategy of continued innovation in products and services, measured store expansion, and investment in the DFS brand and our people will provide a strong platform for profitable growth in the future

Richard Baker
Chairman

HIGHLIGHTS

- Record adjusted EBITDA* of £80 0m (2010 £71 8m+) – up 11 4%
- Strong cash generation continues
  - year end cash balances £38 9m (2010 £7 0m)
  - £15 0m bond repayment
- Sales £638 4m (2010 £653 0m+), down 2 2%
- Expansion strategy on track with further new store openings in the year ahead

**excluding non-recurring items*

+full year results of DFS Furniture Company Ltd and its subsidiaries

Directors' report

The directors present their report together with the audited financial statements for the year ended 30 July 2011

INCORPORATION

DFS Furniture Holdings plc ("the Company") was incorporated on 9 April 2010 and acquired 100% of the issued share capital of DFS Furniture Company Limited on 9 June 2010

PRINCIPAL ACTIVITIES

The principal activities of DFS Furniture Holdings plc and its subsidiaries ("the Group") are the retailing and manufacture of furniture The Company acts as a holding company and financing company

DFS is the leading retailer of upholstered furniture in the United Kingdom We design, manufacture, sell and deliver to our customers an extensive range of upholstered furniture products The business operates a national retail network of upholstered furniture stores and dining stores, which have been established and developed gradually over more than 40 years of operating history, and has an expanding online proposition We attract customers to our stores and website through our substantial and continued investment in nationwide marketing activities and our reputation for high quality products and service, breadth of product ranges and price points and favourable consumer financing options

RESULTS AND DIVIDENDS

The consolidated financial statements cover the 52 week period to 30 July 2011 Comparative figures relate to the 16 week period from the date of incorporation of the Company to 31 July 2010, including the results of DFS Furniture Company Limited and its subsidiary undertakings for the 7 week period from the effective date of acquisition to 31 July 2010

The profit on ordinary activities before taxation for the Group was £19 0m (2010 loss of £0 8m) After providing for taxation, an amount of £7 5m has been transferred to reserves (2010 £2 1m transferred from reserves)

The directors do not recommend the payment of a dividend

STRATEGY

Our strategy for DFS is firmly based on the principles that were pursued so successfully for over 40 years prior to the acquisition We have maintained the Group's focus on fresh, high quality upholstered furniture, and successfully extended the range of optional products on offer to our customers We have also continued to invest substantially in our stores and people In marketing, we have been able to achieve substantial cost efficiencies in media buying without compromising the volume or impact of our advertising The effectiveness of our marketing activities will be further improved by the broadening of our store base as we press ahead with our measured store rollout programme, while simultaneously expanding and developing our successful online proposition

Directors' report *(continued)*

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Comparative figures in the detailed business review below refer to the results of DFS Furniture Company Limited and its subsidiary undertakings for the 52 weeks ended 31 July 2010

Key performance indicators

£m	*2011*	*2010**	*% change*
Turnover	£638 4m	£653 0m	- 2 2%
EBITDA	£80 0m	£78 1m	+2 4%
Adjusted EBITDA	£80 0m	£71 8m	+11 4%
Adjusted EBITDA margin	12 5%	11 0%	+1 5%
Number of stores	80	79	

***EBITDA** means earnings before interest, income taxes, depreciation and amortisation*
***Adjusted EBITDA** means EBITDA as adjusted for certain items that we believe to be non-recurring within the operating results of the periods presented*
***Adjusted EBITDA margin** means Adjusted EBITDA for the period divided by turnover for that period*

**Consolidated results of DFS Furniture Company Limited and its subsidiaries for 52 weeks ended 31 July 2010*

Trading performance

Turnover in the 52 weeks ended 30 July 2011 was £638 4 million (2010 £653 0 million), a reduction of 2 2% Although sales slowed in the second half, reflecting the softening of overall UK consumer spending in 2011, we achieved a resilient performance over the year as a whole This was based on a further increase in DFS's share of the upholstered furniture market, driven by the consumer's trust in our established brand, exceptional range and superior interest-free credit offering, backed by our continued investment in powerful marketing

Adjusted EBITDA, excluding non-recurring items in 2010, increased by 11 4% to £80 0 million (2010 £71 8 million) There were no non-recurring items in 2011, while in 2010 there was a net credit of £6 3 million, including a £5 9 million benefit from the temporary reduction in VAT to 15 0% during 2009 The company's adjusted EBITDA margin showed a substantial improvement to 12 5% (2010 11 0%), principally reflecting more effective media purchasing These have enabled us to make significant savings in our advertising expenditure without a reduction in our share of voice or impact on the consumer

Including the non-recurring items last year, the increase in EBITDA was 2 4% to £80 0 million (2010 £78 1 million)

Stores

We opened one new upholstery store during the year, in Dundee on Boxing Day 2010, giving us a total of 80 stores (including five Dining Centres) at the year-end

Since the beginning of our new financial year we have opened several new upholstery stores and secured further leaseholds, with ten new stores expected to open during the current financial year

Our plans to bring a DFS store within easy reach of all significant customer bases in the UK are well on track, with the current retail property environment providing an excellent opportunity to acquire suitable leasehold properties on favourable terms

Directors' report *(continued)*

Online

Our online presence is continuing to grow strongly, and we are currently trialling a fully transactional website as the next stage in our development from the personal shopper service launched in 2007

Brand and marketing

DFS built its market-leading position as one of the UK's best-known brands through sustained and substantial investment in marketing We have continued to pursue this strategy, though efficiencies in our media buying arrangements have enabled us to achieve substantial savings that have reduced costs without affecting our ability to reach consumers Further change through the appointment of a new creative agency is on our agenda for the current year Our ongoing store network expansion across the UK will enable us to achieve further marketing efficiency by allowing us to direct our national advertising costs across a broader store base, with only limited incremental local marketing support

Products

DFS continues to offer consumers exclusive, innovative, design-led products that also provide outstanding value for money Everything we sell is handmade to order, and our confidence in the quality of our products is underlined by the free, ten-year guarantee we provide on everything we make and on products that we have exclusively sourced from our supplier partners We pride ourselves on offering the broadest range of any upholstered furniture retailer in the UK, covering the widest spread of price points and product styles, and with the greatest choice of colour and fabric options and accessories, this enables us to attract customers of all ages and tastes, and with a wide range of budgets During the year we have focused on extending our appeal still further, providing an even greater choice of covers for our sofas and expanding the range of occasional tables and other complementary accessories on offer to our customers, with the aim of ensuring that we really do offer something for everyone

Manufacturing and supply chain

We have continued to pursue our strategy of flexible sourcing from our own UK factories at Long Eaton, Alfreton and Carcroft, and from a range of supplier partners in Britain, Europe and the Far East Having our own manufacturing capability gives DFS an important competitive edge, not just by providing us with a unique point of difference with customers, but also by affording us real insights into the furniture market and production process that are invaluable in developing our relationships with other suppliers We benefit from direct control of design, quality and lead times in our own factories, as well as from the additional manufacturing margin they generate This year we increased the proportion of the product we sell that we manufacture ourselves, achieving record output by adding a further shift in two factories

Investment

Capital expenditure during the year was £8 4 million (2010 £10 3 million) The main elements in our capital programme last year were our rolling programme of store refurbishment, ensuring that all our existing stores continue to offer an outstanding environment for the display of our products, and continued investment in our vehicle fleet We anticipate a substantial increase in capital expenditure in 2011/12, self-financed from our strong cash flow, as the store expansion programme gathers momentum

Management

We have strengthened our operating board with two senior appointments during the year Graham Field joined us from Lloyds Banking Group in March as financial services director, following the retirement of Stuart Glover, taking responsibility for the development of our relationships with the finance houses that provide our interest free credit offer Tim Stacey joined us from Boots in July in the new role of online and business development director, focusing particularly on the further development of our online proposition We are delighted to welcome both of them to the DFS team

Directors' report *(continued)*

Cash flow and balance sheet

DFS remains a strongly cash generative business, enabling us to reduce net debt by £46 0 million during the year Cash balances at the year-end grew to £38 9 million (2010 £7 0 million) and we were able to repay £15 million of the £240 million seven-year, fixed rate bond issued in July 2010 In addition to the cash generated from operations, we have raised £6 9 million through the sale and leaseback of our freehold store in Inverness, the majority of which will be received in 2011/12 The business has the benefit of a robust balance sheet and is well placed to pursue our strategy for growth in the years ahead

Outlook

Like all UK retailers, we are operating in a climate of great economic uncertainty and falling consumer confidence This slowed our sales performance through the second half of 2010/11, and we expect that it will continue to affect same store sales in the current financial year Our plans have been made on the assumption that there will be no early improvement in the trading environment, and are once again focused on the areas within our own control ensuring that DFS continues to increase its market share by offering an outstanding proposition and providing excellent service both in store and online, and making us accessible to even more customers through our programme of store expansion, financed from our strong cash flow We will also continue to focus on managing margin and costs, maximising cash generation and maintaining a robust balance sheet

Our strategy of continued innovation in products and services, measured store expansion, and investment in the DFS brand and our people, will provide a strong platform for profitable growth and DFS has excellent prospects for the future

CORPORATE RESPONSIBILITY

Employees

This year's good results are a testimony to the hard work and commitment of DFS's people, and their determination to deliver great customer service in a most challenging trading environment Our logistics team, in particular, are to be congratulated for their achievements in reducing average order lead times and ensuring that customers received their scheduled deliveries in the peak pre-Christmas period, despite the exceptionally challenging weather We are also very grateful for the commitment shown by our skilled manufacturing colleagues in moving to the two shift system to increase output from our factories

One of the most pleasing aspects of our planned expansion is the opportunity it creates for both new and existing employees, as we recruit additional staff and are able to offer opportunities for promotion to our talented people By the end of the financial year the DFS team had grown to 2,792 (2010 2,603) people, and we expect to create more than 200 new jobs through our new store openings in 2011/12 We remain strongly committed to helping all our employees to make the most of their talents through our continuing programmes of training and development

Employees are provided with information and consulted on matters which are, in the opinion of the directors, of concern to them as employees and likely to affect their interests It is the policy of the Group to support the employment of disabled people, wherever possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Group as well as generally through training and career development

We thank all our staff for their commitment to DFS in a highly competitive market place, through the understandable uncertainties of a change of ownership, and for their individual contributions to the year's strong results

Directors' report *(continued)*

Customers

DFS makes a significant investment in staff training in order to deliver the highest levels of customer service Staff performance and customer satisfaction are monitored through regular inspections, surveys and mystery shoppers

The Group goes to great lengths to ensure the quality and safety of all the products it sells Our own detailed quality checks are supported by the use of independent safety specialists, and all furniture items are offered with a five or ten year guarantee

Suppliers

The Group agrees payment terms with each of its suppliers individually when it enters into binding purchase contracts The Group uses its best efforts to meet payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions

Environment

DFS is committed to responsible business and is working to reduce the potential impact of its activities on the environment The Group has formulated an Energy Management Policy to support the reduction of the Group's energy use where practical and consistent with the operational needs of the business In the current year, activity has focused on the installation of automated meter readers and energy-efficient lighting schemes in stores

Waste management is also an important consideration for the Group and during the year further progress has been made to reduce overall packaging usage while extending the recycling of cardboard and polythene across the store portfolio

Community

Charitable donations made by the Group during the period amounted to £154,667 (2010 £nil) DFS is a Gold Partner of the Duke of Edinburgh's Award, supporting young people to develop new skills for work and life and contribute to their communities

There were no political donations made in the current period (2010 £nil)

BUSINESS RISKS AND UNCERTAINTY

The Group faces a number of risks and uncertainties in both the development and day-to-day operations of its business The Board regularly reviews key business risks and oversees the implementation by executive directors and operational management of processes to manage these risks

Those risks that could potentially have a significant impact on the business are discussed below, together with the Group's related mitigating activities Other risks which are currently either not known to the Group or are not considered material could also impact the Group's reported performance or assets

Business strategy

The success of the Group depends upon the formulation and implementation of appropriate strategies by the Board Strategic issues are regularly discussed at Board meetings in addition to dedicated strategy days Performance against strategic targets is reviewed to assess progress and enable any remedial actions to be taken on a timely basis

Directors' report *(continued)*

Economy and market conditions

The retail market for upholstered furniture in the UK is highly competitive The Group's success is therefore dependent on its ability to compete effectively, particularly during peak trading periods The Group continues to make substantial investments in marketing to maintain its leading brand status Detailed sales information by product and store is reviewed daily, enabling changes to product selection, incentive structures and advertising strategy to be made on a dynamic basis to optimise sales

The Group's products represent a significant discretionary spend for customers and demand is heavily influenced by factors affecting the wider UK economy including (but not limited to) consumer confidence, income levels, interest rates and the level of housing market activity Products and services are continually reviewed to ensure they suit customers' needs, are competitively priced, offer good value and are supported by excellent customer service, in order to enhance the Group's market-leading position

Supply chain management

A large portion of the Group's products are supplied by a core of manufacturers, with many produced in continental Europe and Asia The Group's internal manufacturing operations also supply a significant proportion of goods sold and may not wholly be able to compensate for the failure of any of the Group's key external suppliers to satisfy their delivery obligations The Group maintains flexible supply arrangements to facilitate switching between suppliers where necessary and uses a variety of freight forwarders to avoid reliance on any one transport link All external upholstered furniture suppliers are frequently inspected by the Group to ensure that production is proceeding smoothly and that quality standards are maintained

Consumer finance

The majority of the Group's sales are to customers that utilise its interest free finance offerings, which are provided by external finance houses that, in return for a fee, bear the risk of customer default Credit standards with respect to customer finance offerings typically tighten during periods of economic downturn, which may limit the Group's ability to offer customer finance on commercially acceptable terms and/or may increase the amount of the fee payable to the external providers of customer finance The Group has longstanding relationships with a number of finance houses, enabling redistribution of business in the event of withdrawal by one or more providers and acceptance rates and fee levels are continuously reviewed to ensure that each provider remains competitive

Expansion of retail store network

The growth of the Group depends on its ability to open and operate new stores on a timely and cost-effective basis while continuing to increase sales at existing stores Competition for desirable retail sites has historically been significant, which may reduce the availability and/or increase the rental costs of such sites A detailed appraisal model is applied to assess the payback period and expected profitability of each potential new store, including its impact on existing stores in the area Appraisals are subject to thorough review and approval by the Board before any investment is made The Group has an established supporting infrastructure in place to recruit and train staff and fit out and open stores to schedule

Employees

The success of the Group depends significantly on its ability to attract and retain a workforce that includes experienced sales, product design and production personnel and to retain members of its senior management team, many of whom have significant experience in the Group's business and industry Employee remuneration is structured to be at attractive levels and to incentivise employees towards results that are aligned with the objectives of the Group In addition, senior management may participate in equity in the Group or in longer term incentive plans operating over a three year cycle

Directors' report *(continued)*

IT systems

The Group's operations depend upon the continued availability and integrity of its IT systems, including its website Full back up and business continuity procedures, comprising both internal and third party resources, are in place and are regularly reviewed, tested and updated

Financial risk and liquidity

A downturn in the macroeconomic environment may impact the Group's ability to obtain financing The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including a £30m revolving credit facility in place until June 2016 which is as yet unutilised

The Group is also exposed to foreign currency exchange risk on certain purchases sourced from overseas This risk is managed through the use of foreign currency forward contracts in accordance with its Board-approved treasury policy No derivatives are entered into for speculative purposes

Regulatory environment

The Group is subject to an increasing burden of compliance in many of its activities from regulatory and other authorities and is subject to regulatory risk with potential for significant financial impact or reputational damage Comprehensive training and monitoring programmes are in place, including a dedicated Treating Customers Fairly committee, to ensure that employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance

DIRECTORS

The directors of the Company are listed below

F E Wakeman	
A J M Dawson	
R A Baker	
I F Filby	(appointed 6 September 2010)
J H Massey	
W R Barnes	

F E Wakeman and A J M Dawson are investor directors who represent Advent International

GOING CONCERN

The Group and Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review section of the Directors' Report The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries

As noted in the Business Risks and Uncertainties section of the Directors' Report, the Company remains highly cash generative and currently has sufficient medium and long term facilities in place, including £225m (2010 £240m) of senior secured loan notes maturing in 2017 and a £30m revolving credit facility in place until June 2016 which is as yet unutilised

On the basis of their assessment of the Company's financial position and expected future performance, the Company's directors have a reasonable expectation that the Company will be able 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' report *(continued)*

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

AUDITORS

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

By order of the Board

PA Walker
Company Secretary

11 October 2011

1 Rockingham Way
Redhouse Interchange
Adwick-le-Street
Doncaster
South Yorkshire
DN6 7NA

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 group and parent company and of their profit or loss for that period

In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

Independent auditor's report to the members of DFS Furniture Holdings PLC

We have audited the financial statements of DFS Furniture Holdings plc for the 52 weeks ended 30 July 2011 set out on pages 13 to 31 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, 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 (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 July 2011 and of the group's profit for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report to the members of DFS Furniture Holdings PLC (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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

GA Watts
Senior Statutory Auditor
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

11 October 2011

Group profit and loss account

52 weeks ended 30 July 2011 (16 weeks ended 31 July 2010)

	Notes	2011 £m	2010 £m
Turnover	1 4	**638.4**	92 5
Operating profit before depreciation and amortisation		**80.0**	7 5
Depreciation		(9.0)	(1 6)
Amortisation of goodwill		(25.0)	(3 6)
Operating profit	2	**46.0**	2 3
Net interest payable and similar charges	4	**(27.0)**	(3 1)
Profit/(loss) on ordinary activities before taxation	2	**19 0**	(0 8)
Taxation on profit on ordinary activities	5	**(11.5)**	(1 3)
Retained profit/(loss) for the period	17	7.5	(2 1)

There were no recognised gains or losses in the period other than those reported in the Group profit and loss account

Balance Sheets

as at 30 July 2011 (31 July 2010)

	Notes	**Group 2011 £m**	Group 2010 £m	**Company 2011 £m**	Company 2010 £m
Fixed assets					
Intangible assets	7	**470.6**	495 6	-	-
Tangible assets	8	**33.6**	38 9	-	-
Investments	9	-	-	**514.0**	514 0
		504.2	534 5	**514 0**	514 0
Current assets					
Stocks	10	**13 5**	13 6	-	-
Debtors	11	**30.9**	29 7	**0.3**	7 7
Cash at bank and in hand		**38.9**	7 0	-	-
		83.3	50 3	**0.3**	7 7
Current liabilities					
Creditors amounts falling due within one year	12	**(109 1)**	(105 1)	**(127.2)**	(95 9)
Net current liabilities		**(25.8)**	(54 8)	**(126.9)**	(88 2)
Total assets less current liabilities		**478.4**	479 7	**387.1**	425 8
Creditors: amounts falling due after more than one year	13	**(264.1)**	(273 5)	**(221.1)**	(235 2)
Provisions for liabilities and charges	14	**(11.6)**	(11 0)	-	-
Net assets		**202.7**	195 2	**166.0**	190 6
Capital and reserves					
Called up share capital	16	**197.3**	197 3	**197.3**	197 3
Profit and loss account	17	**5.4**	(2 1)	**(31.3)**	(6 7)
Equity shareholders' funds		**202.7**	195 2	**166 0**	190 6

The financial statements were approved by the Board on 11 October 2011 and were signed on its behalf by

IF Filby
Director

WR Barnes
Director

Company number 7218977

Group cash flow statement

52 weeks ended 30 July 2011 (16 weeks ended 31 July 2010)

	Notes	2011 £m	2010 £m
Net cash inflow/(outflow) from operating activities	22 1	**88 3**	(2 9)
Returns on investments and servicing of finance	22 2	**(22.5)**	(7 9)
Taxation		**(8.6)**	-
Capital expenditure	22 3	**(7 1)**	(1 3)
Acquisitions and disposals	22 4	**(3 7)**	(237 6)
Net cash inflow/(outflow) before financing		**46.4**	(249 7)
Financing	22 5	**(14 5)**	256 7
Increase in cash in the period		**31.9**	7 0

Reconciliation of movements in Group shareholders' funds

52 weeks ended 30 July 2011 (16 weeks ended 31 July 2010)

	2011 £m	2010 £m
Share issued at incorporation	-	-
Shares issued 9 June 2010	-	442 5
Shares extinguished 27 July 2010	-	(245 2)
Retained profit/(loss) for the period	7.5	(2 1)
Net addition to shareholders' funds	7.5	195 2
Shareholders' funds at the beginning of the period	195.2	-
Shareholders' funds at the end of the period	**202.7**	195 2

Note to the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Group and the Company Where it is necessary to choose between accounting policies, those selected are judged by the directors to be the most appropriate to the Group's particular circumstances for the purpose of giving a true and fair view

1.1 Basis of preparation

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

1.2 Consolidation

The consolidated financial statements incorporate the results of the Company and all of its subsidiary undertakings made up to the end of the Group's financial period

Under Section 408 of the Companies Act 2006, the Company is not required to present its own profit and loss account

1.3 Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

1.4 Turnover

Turnover represents the ticket price (excluding value added tax) of furniture delivered to third parties Turnover comprises retail sales wholly in the UK to external customers

Due to the related nature of the Group's products, the common distribution channel and the manner in which the Group's activities are organised, the directors do not believe that the Group has different classes of business as defined in SSAP 25 Accordingly the additional disclosures set out in SSAP 25 are not considered to be required

1.5 Store developments

Pre-opening and launch costs for new stores are written off against operating profit as incurred No interest is capitalised on new store developments

1.6 Tangible fixed assets

Tangible fixed assets are shown at cost, less depreciation and any provision for impairment in value

Notes *(continued)*

1 Accounting policies (continued)

1.7 Depreciation

Depreciation is provided in equal amounts each period in order to write off the cost or valuation of fixed assets less the estimated residual value, over their anticipated useful economic lives The estimated useful economic lives used are

Freehold buildings	50 years
Leasehold buildings	The shorter of 50 years or the unexpired portion of the lease
Plant and equipment	4 to 7 years
Motor vehicles	4 years

No depreciation is provided on freehold or long leasehold land Short leasehold land (less than 50 years) is depreciated over the unexpired portion of the lease

1 8 Investments

Investments are stated at cost, less provision for any impairment

1.9 Goodwill

Goodwill represents the excess of the fair value of consideration over the fair value of the net assets acquired Goodwill is capitalised and amortised to nil by equal instalments over its estimated useful life of 20 years

1.10 Stocks

Stocks are valued at the lower of cost and net realisable value The cost of finished goods manufactured by the Group includes direct materials, direct labour and appropriate overhead expenditure

1.11 Financing costs

Bank fees incurred in order to secure bank loans are capitalised and offset against the loan creditor Amounts paid are amortised over the term of the loan

1.12 Pensions

The cost of providing pensions through defined contribution schemes is charged to the profit and loss account in the period in respect of which contributions become payable All contributions are paid into funds managed and held separately from the Group

1 13 Taxation

The charge for taxation is based on the profit for the period and takes into account deferred tax balances

Deferred taxation is recognised, with discounting where relevant, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except where otherwise required by FRS 19 "Deferred Tax"

1.14 Operating leases

The costs of operating leases in respect of land and buildings are charged to profit on ordinary activities on a straight line basis over the lease period

1 15 Financial instruments

The group uses forward contracts to purchase US Dollars to reduce their exposure to changes in exchange rates The contracts allow management to fix the rates at which US Dollars are purchased Although management use the contracts to hedge foreign currency risk, they do not apply hedge accounting

Notes *(continued)*

2 Operating profit

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Turnover	**638.4**	92 5
Cost of sales	**(545.8)**	(78 3)
Gross profit	**92.6**	14 2
Administrative expenses	**(46.6)**	(11 9)
Operating profit	**46.0**	2 3

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Profit on ordinary activities before taxation is stated after charging		
Depreciation	**9.0**	1 6
Amortisation of goodwill	**25.0**	3 6
Profit on disposal of fixed assets	**(0.3)**	-
Operating lease payments – properties	**42.8**	5 8

Auditor's remuneration in respect of the statutory audit of the group was £0 1m (2010 £0 1m) Fees paid to the auditor and it's associates in respect of non-audit services relating to financing amounted to £0 1m (2010 £0 1m)

3 Staff costs and numbers

3 1 Employment costs of all employees

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Wages and salaries	**77 4**	15 7
Social security costs	**8.0**	1 7
Other pension costs	**1 4**	0 2
	86 8	17 6

Notes *(continued)*

3 Staff costs and numbers (continued)

3 2 Number of people employed

	52 weeks ended 30 July 2011 Number of employees	16 weeks ended 31 July 2010 Number of employees
Average:		
Production	**643**	616
Warehouse and transport	**683**	679
Selling and administration	**1,358**	1,310
	2,684	2,605
Period end ·		
Production	**695**	614
Warehouse and transport	**684**	678
Selling and administration	**1,413**	1,311
	2,792	2,603

4 Net interest payable and similar charges

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Interest receivable		
Bank	**0.3**	-
Interest payable		
Senior secured notes	**(23.7)**	(0 2)
Bank fees	**(0 5)**	(2 9)
Fair value lease provision unwind	**(2.8)**	-
Parent company loan	**(0 3)**	-
	(27.3)	(3 1)
Net interest payable	**(27.0)**	(3 1)

Notes *(continued)*

5 Taxation on profit on ordinary activities

5 1 Analysis of charge for the period	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
UK corporation tax		
Current tax on income for the period	11.3	1 7
Adjustments in respect of prior periods	0.3	-
Total current tax charge	11.6	1 7
Deferred tax		
Current period	(0.1)	(0 4)
Total deferred tax credit (note 15)	(0.1)	(0 4)
Total tax charge	11.5	1 3

5 2 Factors affecting the current tax charge for the period

The tax assessed for the period is higher than (2010 higher than) the standard rate of corporation tax in the UK of 27 33% (2010 28%) The differences are explained below

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 27 33% (2010 28%)	5.2	(0 2)
Expenses not deductible for tax purposes	0.5	0 4
Amortisation of goodwill not deductible for tax purposes	6.8	1 0
Depreciation in excess of capital allowances	0.5	0 7
Other timing differences	(0.1)	(0 2)
Adjustments in respect of prior period	0.3	-
Group relief	(1.6)	-
Total current tax charge	11.6	1 7

5 3 Factors affecting the future tax charge

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011 The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effect from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively This will reduce the Company's future current tax charge accordingly The deferred tax asset at 30 July 2011 has been calculated based on the rate of 25% substantively enacted at the balance sheet date It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax accordingly

Notes *(continued)*

6 Parent company profit and loss account

The loss for the period in the financial statements of the parent company was £24 6m (2010 £6 7m)

7 Intangible assets

	Group 2011 £m
Goodwill	
Cost	
As at 30 July 2011 and at 31 July 2010	**499.2**
Amortisation	
At beginning of period	**3.6**
Amortised during the year	**25.0**
As at 30 July 2011	**28.6**
Net book value	
As at 30 July 2011	**470.6**
As at 31 July 2010	495 6

Goodwill is to be amortised to nil by equal instalments over its estimated useful life of 20 years

Notes *(continued)*

8 Tangible assets

	Land and Buildings Freehold	Short leasehold	Plant and equipment	Motor vehicles	Total
	£m	£m	£m	£m	£m
Group					
Cost					
At beginning of period	5 4	0 8	26 2	8 1	40 5
Additions	-	-	4 2	4 2	8 4
Disposals	(4 5)	-	(0 3)	(2 8)	(7 6)
As at 30 July 2011	**0 9**	**0.8**	**30.1**	**9.5**	**41.3**
Depreciation					
At beginning of period	-	-	1 0	0 6	1 6
Provided during the period	-	0 1	5 3	3 6	9 0
Disposals	-	-	(0 3)	(2 6)	(2 9)
As at 30 July 2011	**-**	**0.1**	**6.0**	**1.6**	**7.7**
Net book value					
As at 30 July 2011	**0.9**	**0 7**	**24.1**	**7.9**	**33.6**
As at 31 July 2010	5 4	0 8	25 2	7 5	38 9

The Company has no tangible fixed assets

9 Investments

	Shares in subsidiary undertakings
Company	£m
Cost and net book value	
As at 30 July 2011 and 31 July 2010	**514.0**

The following companies are incorporated in Great Britain, are wholly owned by the Group and have been consolidated

	Principal activity
DFS Furniture Company Limited	Intermediate holding company
DFS Trading Limited*	Furniture retailer
Northern Upholstery Limited*	Dormant
Galegrove Limited*	Dormant
New DFS Furniture Limited*	Dormant
CF Ward Limited*	Dormant

*Investment held by DFS Furniture Company Limited

Notes *(continued)*

10 Stocks

	Group 2011 £m	Group 2010 £m
Raw materials and consumables	**2.2**	3 3
Finished goods and goods for resale	**11.3**	10 3
	13.5	13 6

11 Debtors

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Trade debtors	**5 3**	2 8	-	-
Other debtors	**6 2**	7 3	-	7 3
Prepayments and accrued income	**11 1**	11 4	**0 3**	0 4
Deferred tax asset (see note 15)	**8.3**	8 2	-	-
	30 9	29 7	**0.3**	7 7

Included within other debtors for the Group is £6 1m (2010 £nil) which relates to deferred consideration for the sale of the Inverness store freehold

12 Creditors: amounts falling due within one year

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Payments received on account	**15.5**	16 1	-	-
Trade creditors	**48.1**	33 9	-	-
Amounts owed to subsidiary undertakings	-	-	**121.6**	84 0
Corporation tax	**6.1**	3 2	-	-
Other creditors including taxation and social security	**12.5**	15 7	-	-
Accruals and deferred income	**22.4**	31 9	**1.1**	7 6
Amounts owed to parent company	**4.5**	4 3	**4 5**	4 3
	109.1	105 1	**127.2**	95 9

Notes *(continued)*

13 Creditors: amounts falling due after more than one year

	Group 2011 £m	Group 2010 £m	**Company 2011 £m**	Company 2010 £m
Senior secured notes	**221.1**	235 2	**221.1**	235 2
Accruals and deferred income	**21.2**	16 9	-	-
Other creditors	**21.8**	21 4	-	-
	264.1	273 5	**221.1**	235 2

	Group 2011 £m	Group 2010 £m	**Company 2011 £m**	Company 2010 £m
Maturity of senior secured notes				
Expiring after more than five years	**225.0**	240 0	**225.0**	240 0
Unamortised issue costs	**(3.9)**	(4 8)	**(3.9)**	(4 8)
	221.1	235 2	**221.1**	235 2

Included in unamortised issues costs are amounts falling due within one year of £0 7m, between one and two years of £0 7m, between two and five years of £1 9m, and over five years of £0 6m

As at 30 July 2011, the Company have in issue £225m of senior secured notes listed on the Luxembourg Stock Exchange These notes have a maturity date of 15 July 2017 on which date all amounts will be repaid Interest of 9 75% is payable 6 monthly on 15 January and 15 July and has been accrued for the period to the year end The notes are secured on the share capital and substantially all of the assets of the issuer and guarantors (DFS Furniture Company Limited and DFS Trading Limited)

Notes *(continued)*

14 Provisions for liabilities and charges

	Guarantee provision £m
Group	
At beginning of the period	11 0
Charged in the period to profit and loss account	5 8
Utilised in the period	(5 2)
Liability as at 30 July 2011	**11.6**

The guarantee provision is calculated on the basis of turnover during the current and previous accounting periods and reflects the estimated cost of the guarantee provided to retail customers

15 Deferred tax asset

	Group 2011 £m
At beginning of the period	8 2
Credited in the period to the profit and loss account	0 1
Asset as at 30 July 2011	**8.3**

The deferred tax asset is included within debtors in note 11

Deferred taxation

The asset recognised for deferred taxation, calculated at a corporation tax rate of 25% (2010 28%), is set out below

	Group 2011 £m
Accelerated capital allowances	(0 5)
Other timing differences	2 8
Fair value lease provision	6 0
Asset	**8.3**

The deferred tax asset relating to the fair value lease provision is recognised, after discounting, at a value of £6 0m If this asset were not discounted it would be recognised at a value of £18 6m

The Company does not have any deferred tax assets or liabilities at 30 July 2011

Notes *(continued)*

16 Called up share capital

Ordinary shares of £1 each	Number '000 (2011)	£m (2011)	Number '000 (2010)	£m (2010)
Issued, Alloted and Called Up	**197,275**	**197.3**	197,275	197 3

At the period end 197,275,001 ordinary shares of £1 each remained in issue, of which £332,784 remains unpaid at the year end

The share capital of the Company forms part of the security for the secured loan notes (see note 13)

17 Reserves

	Profit and loss account £m
Group	
As at 31 July 2010	(2 1)
Retained profit for the period	7 5
As at 30 July 2011	**5.4**
Company	
As at 31 July 2010	(6 7)
Retained loss for the period	(24 6)
As at 30 July 2011	**(31.3)**

18 Contingent liabilities

Bank guarantees in favour of HM Customs & Excise amounting to £5,000 (2010 £5,000) have been counter-indemnified by DFS Trading Limited

Notes *(continued)*

19 Capital commitments

Capital commitments for which no provision has been made in these accounts were as follows

	Group 2011 £m	Group 2010 £m
Contracted	**3.1**	0 4

The Company did not have any capital commitments

20 Lease commitments

The annual commitments under operating leases in respect of land and buildings were

	Group 2011 £m	Group 2010 £m
Leases expiring		
Within one year	**0.5**	-
Two to five years	**3.3**	3 3
Over five years	**40.3**	39 9
	44.1	43 2

The Company did not have any commitments under operating leases

21 Pension commitments

The Group operates a number of defined contribution schemes under which contributions by the employees and the Group are administered by trustees in funds separate from the Group's assets The costs of these schemes are charged to the profit and loss account as they become payable under the rules of the scheme The total pension cost of the Group for the period was £1 4m (2010 £0 2m)

Notes *(continued)*

22 Group cash flow statement

22 1 Reconciliation of operating profit to net cash inflow from operating activities

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Operating profit	**46.0**	2 3
Depreciation	**9.0**	1 6
Amortisation of goodwill	**25.0**	3 6
Profit on disposal of fixed assets	**(0.3)**	-
Decrease in stocks	**0.1**	3 6
Decrease/(increase) in debtors	**4.4**	(9 0)
Increase/(decrease) in creditors and provisions	**4.1**	(5 0)
Net cash outflow from operating activities	**88.3**	(2 9)

22 2 Returns on investments and servicing of finance

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Interest received	**0.3**	-
Interest paid	**(22.8)**	(7 9)
	(22.5)	(7 9)

Interest paid includes £nil (2010 £4 8m) of fees relating to the issue of senior secured notes to the Group, which are being amortised over the term of the loans in accordance with FRS 4

22 3 Capital expenditure

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Purchase of tangible fixed assets	**(8.4)**	(1 3)
Sale of fixed assets	**1 3**	-
	(7.1)	(1 3)

Notes *(continued)*

22 Group cash flow statement (continued)

22 4 Acquisitions and disposals

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Acquisition of subsidiary undertakings (including deferred consideration)	(3.7)	(256 3)
Net cash acquired with subsidiary undertakings	-	18 7
	(3 7)	(237 6)

22 5 Financing

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Proceeds from issue of ordinary share capital	0.2	261 9
Payments to reacquire ordinary share capital	-	(245 2)
New senior secured notes	-	240 0
Repurchase of senior secured notes	(14.7)	-
	(14.5)	256 7

22 6 Analysis of changes in net debt

	As at 31 July 2010 £m	Amortisation of fees offset £m	Cash flow £m	As at 30 July 2011 £m
Cash in hand, at bank	7.0	-	31.9	38.9
Debt due after 1 year	(235 2)	(0.6)	14.7	(221.1)
Net debt	(228.2)	(0.6)	46.6	(182.2)

Notes *(continued)*

22 Group cash flow statement (continued)

22 7 Reconciliation of net cash flow to movement in net debt

	52 weeks ended 30 July 2011 £m	16 weeks ended 31 July 2010 £m
Increase in cash in the period	**31.9**	7 0
Cash outflow/(inflow) from decrease/(increase) in debt financing	**14.7**	(235 2)
Amortisation of fees offset	**(0.6)**	-
Change in net debt	**46.0**	(228 2)
Net debt at the beginning of the period	**(228.2)**	-
Net debt at the end of the period	**(182.2)**	(228 2)

23 Directors' emoluments

Directors' emoluments have been paid by DFS Furniture Company Limited

	52 weeks ended 30 July 2011 £000	16 weeks ended 31 July 2010 £000
Emoluments	**2,454**	261
Pension contributions	**85**	26
	2,539	287

The remuneration of the highest paid director was as follows

	52 weeks ended 30 July 2011 £000	16 weeks ended 31 July 2010 £000
Emoluments	**842**	136

Two directors accrued retirement benefits under pension schemes in the period (2010 two) All of the directors' pension contributions are to defined contribution schemes

Notes *(continued)*

24 Financial instruments

The fair value of the forward contracts outstanding as at 30 July 2011 is a loss of £1 5m (2010 £1 0m) The loss has not been recognised in these accounts as forward contracts mature over varying periods from the balance sheet date and the exchange rate is expected to fluctuate in the period up to maturity

25 Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3(c) of FRS 8 "Related Party Transactions" not to disclose transactions with other Group companies

26 Ultimate controlling party

The Company is a direct subsidiary undertaking of Diamond Holdco Limited which is registered in England and Wales The largest group in which the results of the Company are consolidated is that headed by Diamond Holdco 1 Limited, incorporated in England and Wales The ultimate holding company and controlling party is Advent Pathway (Cayman) Limited which is registered in The Cayman Islands