Diamond Holdco 1 Limited

Report and Accounts

Registered number 7236769

2 August 2014

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Strategic Report

The directors present their strategic report for the year ended 2 August 2014.

STRATEGY

Our strategy for DFS is to maintain and enhance our position as the leading upholstered furniture retailer in the United Kingdom by expanding our target market, delivering profitable sales growth through selective space expansion, growth in branded product sales and the development of our multichannel offering, while maintaining stable and strong cash generation and improving profitability. DFS's vision is to move from the best known to the best loved retailer in the upholstered furniture sector.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Key performance indicators

	2014	*2013*	*% change*
Gross sales	£853.4m	£804.3m	+6.1%
Revenue	£656.8m	£614.4m	+6.9%
Underlying EBITDA	£80.0m	£84.6m	-5.4%
Underlying EBITDA margin	12.2%	13.8%	
Net debt	£256.6m	£269.3m	
Number of DFS stores	100	97	

***Gross sales** means the total amounts payable by external customers, without adjustment for the time value of money, for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.*

***Revenue** means gross sales value added and other sales taxes, the charges made by providers of credit to customers and the amounts relating to services for which the Group acts as an agent.*

***Underlying EBITDA** means earnings before interest, income taxes, depreciation and amortisation and non-underlying items.*

***Underlying EBITDA margin** means Underlying EBITDA for the period divided by revenue for that period.*
***Net Debt** means cash and cash equivalents less corporate bonds outstanding and related unamortised issue costs and finance lease liabilities.*

Trading performance

Demand in the first half of the financial year was relatively weak during unseasonably warm weather and also coincided with the transition of our website to its new platform. However there was a significant uplift in trading from December with the launch of our Winter Sale and this continued through the rest of the financial year. Gross sales for the 53 weeks ended 2 August 2014 (including those from businesses acquired during the year) were up 6.1% to £853.4 million (2013: £804.3 million); revenue was £656.8 million (2013: £614.4 million), an increase of 6.9%.

The strong second half performance made up the majority of the shortfall in EBITDA experienced in the first half. Underlying EBITDA for the full year, after adding back non-recurring exceptional legal and professional costs of £4.4m decreased by 5.4% to £80.0 million (2013: £84.6 million) reflecting the higher cost base associated with our investment for growth.

Stores

We opened three new DFS upholstery stores during the year, giving us a total of 100 stores at the year-end.

Strategic Report

We plan to continue our retail expansion at the rate of three to five new DFS stores per year, and have three new UK DFS stores scheduled to open early in the new financial year. We also plan to launch our first trial of the DFS concept in Continental Europe with the opening of a new store at Cruquius in The Netherlands later in 2014.

Online

During Autumn 2013 we launched our new website designed to ensure ease and efficiency for the growing number of customers who access our online channel through tablets and mobile phones. This has delivered strong results, contributing to our improved performance in the second half and further strengthening our position as the market leader for online upholstered furniture sales. .

Products

We have continued to extend our product range and develop our offer for more aspirational customers through our brand partnerships with Sofa Workshop and Dwell. Both these businesses were acquired by the Group in the year and their results consolidated from the relevant date of acquisition. The partnerships with these complementary brands build on the success we have already achieved with our exclusive ranges of high quality sofas handcrafted in the UK under brands such as Country Living, House Beautiful and French Connection, which achieved more than £60 million of gross sales orders in the year.

Manufacturing and supply chain

We have continued to pursue our strategy of flexible sourcing from our own UK factories at Alfreton, Carcroft and Long Eaton, and from a range of supplier partners in Britain, Europe and the Far East. Our integrated manufacturing capability is a unique asset to DFS, giving us direct control of design and standards, reducing delivery lead times and enabling us to offer our customers a great range of truly exclusive quality products made in Britain.

Following a successful trial in South East England we extended our Customer Distribution Centre concept into the North West during the second half. Pooling our stores' warehouse and distribution operations in this way has created additional selling space in existing stores, allowing us to sell an extended range of products and reducing the cost of our warehouse space. This concept has now proven its ability to create additional sales profitably and has improved our customers' experience. We will consider further extending the concept across our national estate over the next few years.

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. During the year we have continued to invest in significant marketing activity with focus on broadening our customer appeal without losing our core base. Our ongoing store network expansion across the UK will enable us to achieve further marketing efficiency by allowing us to spread our national advertising costs across a broader store base, with only limited incremental local marketing.

Investment

As expected, net cash flow on capital expenditure during the year remained significant at £14.6 million (2013: £17.4 million), largely driven by our store opening programme. We have also made a significant investment in the development of our web platform and e-commerce capability. These projects are in addition to our continued investment in our vehicle fleet and ongoing programme of store refurbishment, ensuring that all our existing stores continue to offer an outstanding environment for the display of our products. As in previous years, all capital expenditure remains self-financed from our strong cash flow.

Management

The longstanding DFS senior management team has considerable experience, knowledge and skill in the upholstered furniture sector. This team has been enhanced by new recruits in key areas to bring additional expertise to the business in this period of strategic growth initiatives.

Strategic Report

Cash flow and balance sheet

DFS remains a strongly cash generative business. Cash balances at the year-end were £53.8 million (2013: £38.4 million) after shareholder dividends totalling £1.3 million in the period. The business has an efficient capital structure through a £310 million bond issue, with a blended cost of external borrowing of circa 7.50%.

Outlook

The improved trading momentum of the second half has continued in the current year to date, and we remain confident that DFS enjoys excellent prospects for long term profitable growth as the UK market leader in upholstered furniture.

CORPORATE RESPONSIBILITY

At DFS, we recognise that we have a responsibility to understand and endeavour to meet the needs of everyone involved in our business. We count among our stakeholders suppliers, customers, employees, shareholders and the people in the communities in which we operate. DFS is also a member of Business in the Community. Throughout our interaction with all these parties, we aim to have a positive impact in UK society and on the environment whilst striving to achieve our commercial objectives.

Corporate Responsibility ("CR") is represented on our Senior Management Team by Human Resources Director Andrew Stephenson. Regular reports to the Audit and Risk Committee of our board help to ensure that CR remains integral to the way we do business.

Employees

The real key to DFS's continuing success is the exceptional team of people we employ. 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 3,381 (2013: 3,353) people. We expect our ongoing expansion programme to continue to create new jobs.

We remain strongly committed to helping all our employees to make the most of their talents through our continuing programmes of training and development. Internal training courses are accredited to National Standards, and formal training was delivered during the year in a wide variety of areas including retail, business and administration, customer service, distribution and logistics. At July 2014 263 (2013: 332) employees were engaged in formal apprenticeship programmes or NVQs and over 500 qualifications have been issued since we started the programme. Our customer service and administration training programme has been accredited by the Institute of Customer Service.

During the year we were delighted to obtain external recognition for excellence in employee conditions by the award of Top Employer certification from the Top Employers Institute.

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. The Group's strategy is communicated in detail to all employees through presentations from senior management. Employee views are sought through regular feedback sessions with directors and an active programme of employee engagement surveys, the results of which are communicated back to staff.

DFS aims to support the health and welfare of our employees and their families through a variety of initiatives including a proactive musculoskeletal programme, life and critical illness cover, and an employee assistance service. 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 the great work they have done over the year to maintain DFS's number one position in our market, and for their effective response to the challenging trading conditions we faced during the first half.

Strategic Report

Customers

DFS makes a significant investment in staff training in order to deliver the highest levels of customer service and to treat our customers fairly. Staff performance and customer satisfaction are monitored through regular inspections, surveys and mystery shoppers carried out through an independent consumer research group.

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 upholstered furniture items are offered with a ten year guarantee.

Suppliers

DFS maintains close contact with its suppliers through frequent visits by operational and senior management and has established a dedicated forum for working in partnership with suppliers to improve performance. 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.

We have continued to invest in new technologies to improve the energy efficiency of lighting schemes in our stores and factories. In addition we have introduced a biomass solution to heat one of our factories using waste wood from production.

The Group has also made changes made to its company car programme, with a move to more fuel efficient models achieving a 9% reduction in average vehicle emissions over the last two years.

Waste management remains an important consideration for the Group and during the year further progress has been made, with the level of recycling of cardboard increased by a further 10% compared to the previous year.

Community

Charitable donations made by the Group during the period amounted to £237,067 (2013: £194,669). There were no political donations made in the current period (2013: £nil).

DFS has continued its partnership with The British Heart Foundation to raise funds for the charity while offering customers a way to recycle their old sofas. This project raised a total of £3.2 million in the year (2013: £1.0 million). During 2014 we have extended this facility to our customers in the Republic of Ireland through a similar partnership with the Irish Red Cross.

We also saw a successful first year of our support for BBC Children in Need, raising £625,000 through a range of initiatives, including one team's completion of the Three Peaks Challenge carrying a sofa as well as a variety of local activities in all stores.

DFS continues to be 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. This includes our apprentice service managers completing the Duke of Edinburgh gold award as part of their training. Again, a similar arrangement is in place in the Republic of Ireland where DFS is a gold partner of Gaisce – The President's Award.

In addition to major national charities above, DFS supports a number of charities and initiatives based locally to our operations, particularly those promoting opportunities for young people.

Strategic Report

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 documented and reviewed to assess progress and enable any remedial actions to be taken on a timely basis. Senior management are set specific objectives for their business area which are aligned to the strategy and a proportion of their remuneration is dependent on the achievement of these objectives.

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, the availability of credit 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 and now has long term contracts in place with three providers which more than covers the total requirement for customer finance. These arrangements enable a 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.

Strategic Report

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. Successful execution of any new store roll-out also depends upon a number of other factors, including the hiring, training and retention of qualified personnel and the capability of the Group's existing information technology and distribution systems to accommodate new stores. 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.

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 £30.0 million revolving credit facility in place until February 2018 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. Changes to other legislation which may have significant retrospective or future economic effects could also impact operating results. Comprehensive training and monitoring programmes are in place to ensure that employees are appropriately skilled to deliver high levels of customer service and maintain regulatory compliance. A Reputational Risk Committee is in place to monitor management information and review processes and procedures to ensure our customers are treated fairly.

On behalf of the Board

M Ristaino
Director

30 October 2014

Directors' Report

The directors present their report together with the audited financial statements for the year ended 2 August 2014.

PRINCIPAL ACTIVITIES

The principal activities of Diamond Holdco 1 Limited and its subsidiaries ("the Group") are the retailing and manufacture of furniture. The Company acts as a holding company for the Group and is itself owned by Advent International.

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 retail network of upholstered furniture stores across the United Kingdom and Republic of Ireland, together with an online channel. These have been established and developed gradually over more than 40 years of operating history. 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 profit on ordinary activities before taxation for the Group was £3.6 million (2013: loss of £10.1 million). After paying interim dividends of £1.3 million (2013: £51.9 million) during the year and providing for taxation, an amount of £9.8 million (2013: £67.3 million) has been transferred from reserves.

The directors do not recommend the payment of a final dividend (2013:£nil).

DIRECTORS

The directors of the Company are listed below.

M. Ristaino

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.

The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including £310.0 million of senior secured loan notes maturing in 2018 and a £30.0 million revolving credit facility in place until February 2018 which is as yet unutilised.

The Group has net liabilities of £74.8 million at 2 August 2014 (2013: £65.0 million), after taking into account amounts due to its parent company of £194.6 million (£183.5 million). The directors, having assessed the responses of the directors of the Company's parent Advent Diamond (Luxembourg) Sarl to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Advent Diamond (Luxembourg) Sarl group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of Advent Diamond (Luxembourg) Sarl, 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

DISCLOSURE OF INFORMATION TO AUDITOR

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 auditor is 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 auditor is aware of that information.

AUDITOR

In accordance with Section 489 of the Companies Act 2006 the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

PA Walker
Company Secretary

30 October 2014

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

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the 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;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, 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 the 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 Diamond Holdco 1 Limited

We have audited the financial statements of Diamond Holdco 1 Limited for the 53 weeks ended 2 August 2014 set out on pages 13 to 41. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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 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 Statement of Directors' Responsibilities set out on page 12, 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
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 2 August 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

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

20 November 2014

Consolidated Income Statement

for year ended 2 August 2014 (27 July 2013)

	Note	**2014 £m**	2013 £m
Gross sales	1,2	**853.4**	804.3
Revenue	2	**656.8**	614.4
Cost of sales		**(544.9)**	(503.5)
Gross profit		**111.9**	110.9
Administrative expenses		**(31.9)**	(26.3)
Underlying operating profit before depreciation and amortisation		**80.0**	84.6
Depreciation		**(12.3)**	(11.4)
Amortisation		**(2.4)**	(1.2)
Non-underlying items	3	**(4.4)**	-
Operating profit	2,3	**60.9**	72.0
Finance income	5	**0.2**	0.2
Finance expenses	5	**(57.5)**	(59.9)
Exceptional refinancing costs	5	**-**	(22.4)
Profit/(loss) before tax		**3.6**	(10.1)
Taxation	6	**(8.1)**	(7.0)
Loss for the year		**(4.5)**	(17.1)
Attributable to:			
Owners of the Company		**(5.0)**	(14.5)
Non-controlling interests		**0.5**	(2.6)
		(4.5)	(17.1)

Consolidated Statement of Comprehensive Income

for year ended 2 August 2014 (27 July 2013)

	2014 £m	2013 £m
Loss for the year	**(4.5)**	(17.1)
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	**(8.1)**	2.8
Net change in fair value of cash flow hedges reclassified to profit or loss	**2.4**	(1.1)
Income tax on items that are or may be reclassified subsequently to profit or loss	**1.2**	(0.3)
Other comprehensive (expense)/income for the year, net of income tax	**(4.5)**	1.4
Total comprehensive expense for the year	**(9.0)**	(15.7)
Attributable to:		
Owners of the Company	**(9.5)**	(13.1)
Non-controlling interests	**0.5**	(2.6)
	(9.0)	(15.7)

Consolidated Balance Sheet
at 2 August 2014 (27 July 2013)

	Note	**2014 £m**	2013 £m
Non-current assets			
Property, plant and equipment	7	**50.9**	47.7
Intangible assets	8	**490.2**	483.7
Other financial assets	10	**0.1**	0.2
Deferred tax assets	11	**11.2**	9.8
		552.4	541.4
Current assets			
Inventories	12	**28.8**	23.1
Other financial assets	10	**-**	2.5
Trade and other receivables	13	**26.0**	25.5
Cash and cash equivalents		**53.8**	38.4
		108.6	89.5
Total assets		**661.0**	630.9
Current liabilities			
Trade payables and other liabilities	14	**(337.8)**	(305.1)
Provisions	18	**(5.8)**	(6.0)
Other financial liabilities	15	**(3.1)**	-
Current tax liabilities		**(7.3)**	(6.6)
		(354.0)	(317.7)
Non-current liabilities			
Senior secured notes	16	**(306.6)**	(305.7)
Provisions	18	**(4.4)**	(4.5)
Other liabilities	14	**(70.8)**	(68.0)
		(381.8)	(378.2)
Total liabilities		**(735.8)**	(695.9)
Net liabilities		**(74.8)**	(65.0)
Equity attributable to equity holders of the parent			
Share capital	19	**42.6**	42.6
Cash flow hedging reserve	19	**(3.0)**	2.7
Retained earnings	19	**(113.5)**	(108.7)
Equity attributable to owners of the Company		**(73.9)**	(63.4)
Non-controlling interests	19	**(0.9)**	(1.6)
Total equity	19	**(74.8)**	(65.0)

These financial statements were approved by the board of directors on 30 October 2014 and were signed on its behalf by:

M Ristaino
Director

Company registered number: 7236769

Consolidated Statement of Changes in Equity

	Share capital £m	Cash flow hedging reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 28 July 2012	**42.6**	**1.0**	**(41.9)**	**0.6**	**2.3**
Loss for the year	-	-	(14.6)	(2.5)	(17.1)
Other comprehensive income/(expense)	-	1.7	(0.3)	-	1.4
Total comprehensive income/(expense) for the year	-	1.7	(14.9)	(2.5)	(15.7)
Issue of shares in subsidiary	-	-	-	0.3	0.3
Dividends	-	-	(51.9)	-	(51.9)
Balance at 27 July 2013	**42.6**	**2.7**	**(108.7)**	**(1.6)**	**(65.0)**
Loss for the year	-	-	(5.0)	0.5	(4.5)
Other comprehensive income/(expense)	-	(5.7)	1.2	-	(4.5)
Total comprehensive income/(expense) for the year	-	(5.7)	(3.8)	0.5	(9.0)
Issue of shares in subsidiary	-	-	-	0.2	0.2
Dividends	-	-	(1.3)	-	(1.3)
Capital contribution	-	-	0.3	-	0.3
Balance at 2 August 2014	**42.6**	**(3.0)**	**(113.5)**	**(0.9)**	**(74.8)**

Consolidated Cash Flow Statement

for year ended 2 August 2014 (27 July 2013)

	Note	**2014**	2013
		£m	£m
Operating profit		**60.9**	72.0
Adjustments for:			
Depreciation, amortisation and impairment		**14.7**	12.6
Gain on sale of property, plant and equipment		**(0.7)**	(0.6)
Share based payment expense		**0.3**	-
Increase in trade and other receivables		**0.2**	(0.4)
Increase in inventories		**(5.0)**	(2.5)
Increase in trade and other payables		**13.2**	3.3
Decrease in provisions		**(0.4)**	(0.9)
		83.2	83.5
Tax paid		**(8.0)**	(5.7)
Net cash from operating activities		**75.2**	77.8
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**0.8**	0.7
Interest received		**0.2**	0.2
Acquisition of subsidiaries		**(1.4)**	(0.6)
Acquisition of property, plant and equipment		**(12.9)**	(14.9)
Acquisition of other intangible assets		**(2.5)**	(3.2)
Net cash from investing activities		**(15.8)**	(17.8)
Cash flows from financing activities			
Proceeds from new loan		**-**	310.0
Interest paid		**(42.1)**	(117.2)
Repayment of borrowings		**-**	(189.3)
Payment of finance lease liabilities		**(0.6)**	(0.2)
Dividends paid		**(1.3)**	(51.9)
Net cash from financing activities		**(44.0)**	(48.6)
Net increase in cash and cash equivalents		**15.4**	11.4
Cash and cash equivalents at beginning of year		**38.4**	27.0
Cash and cash equivalents at end of year		**53.8**	38.4

Notes to the consolidated financial statements

1 Accounting policies

Diamond Holdco 1 Limited (the "Company") is a company incorporated and domiciled in the UK.

The consolidated financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.16.

1.1 Basis of preparation

The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). The financial statements are prepared on the historical cost basis except for certain financial instruments and share based payment liabilities which are measured at their fair value. The financial statements are for the 53 weeks to 2 August 2014 (last year 52 weeks to 27 July 2013).

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 41 to 42.

The Group remains highly cash generative and currently has sufficient medium and long term facilities in place, including £310.0 million of senior secured loan notes maturing in 2018 and a £30.0 million revolving credit facility in place until February 2018 which is as yet unutilised.

The Group has net liabilities of £74.8 million at 2 August 2014 (2013: £65.0 million), after taking into account amounts due to its parent company of £194.6 million (£183.5 million). The directors, having assessed the responses of the directors of the Company's parent Advent Diamond (Luxembourg) Sarl to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Advent Diamond (Luxembourg) Sarl group to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the directors of Advent Diamond (Luxembourg) Sarl, 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.

1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

1.3 Gross sales and revenue

Gross sales represent the total amounts payable by external customers, without adjustment for the time value of money, for goods and services supplied by the Group, including aftercare services (for which the Group acts as an agent), delivery charges and value added and other sales taxes.

Revenue is measured at the fair value of the consideration receivable by the Group for the provision of goods and services to external customers, being gross sales less: value added and other sales taxes, the charges made by providers of credit to customers and the amounts relating to services for which the Group acts as an agent.

Both gross sales and revenue are stated net of returns and sales allowances, and are recognised at the point the Group fulfils its commercial obligations to the customer, the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured.

1.4 Expenses

Non-underlying and exceptional items

Items that are material in size, unusual or non-recurring in nature are disclosed separately in the income statement in order to provide an indication of the Group's underlying business performance. The principal items which may be included as non-underlying are:

- Significant profit or loss on the disposal of non-current assets
- Impairment charges
- Accelerated fair value charges arising on equity settled share based payments
- Costs and benefits associated with significant corporate, financial or operating restructuring, including acquisitions

Material finance income or expenses associated with significant changes in the Group's borrowings are disclosed separately as exceptional items below operating profit.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and expenses

Finance expenses comprise interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method and unwinding of the discount on provisions. Finance income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the Group's right to receive payments is established.

1.5 Employee benefits

Defined contribution plans

Payments to defined contribution pension plans are recognised as an expense in the income statement as they fall due.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

1.6 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised on deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.7 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on qualifying cash flow hedges, which are recognised directly in other comprehensive income.

1.8 Business combinations

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Goodwill is initially measured at cost, being the excess of the acquisition cost over the Group's interest in the assets and liabilities recognised. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Acquisitions prior to 31 July 2011 (date of transition to IFRSs)

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group and Company elected not to restate business combinations that took place prior to 31 July 2011. In respect of acquisitions prior to transition, goodwill is included at 31 July 2011 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that goodwill was amortised. On transition, amortisation of goodwill ceased as required by IFRS 1.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

1.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described in 1.4 above.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- buildings 50 years
- plant and equipment 4 to 10 years
- motor vehicles 4 years
- computer equipment 3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.10 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. Estimated useful lives are as follows:

- computer software and website costs 3 years
- acquired brand names 20 years

1.11 Inventories

Inventories are stated 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.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

1.12 Impairment

The carrying amounts of the Group's tangible and intangible assets other than goodwill are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Details of provisions recognised are in note 18 and the related significant estimates and judgments in note 1.16.

1.14 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Notes to the consolidated financial statements

1 Accounting policies *(continued)*

1.15 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss remains in the hedging reserve and is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For other cash flow hedges the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.16 Significant areas of estimation and judgment

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions that affect the value of reported assets, liabilities, revenues and expenses. The estimates and associated assumptions are based on historical experience and other relevant factors, but may differ from actual results. Significant areas of estimation for the Group include the costs of meeting customer guarantees and property related provisions (note 18), the selling prices applied in determining net realisable values of inventories (note 12) and the assumptions underlying the value in use calculation for the impairment of goodwill (note 8).

1.17 Adopted IFRS not yet applied

The following standards and interpretations have been issued and endorsed by the EU (except where noted) but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (mandatory for years commencing on or after 1 January 2014; not yet EU-endorsed).
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (mandatory for years commencing on or after 1 January 2014; not yet EU-endorsed).
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (mandatory for years commencing on or after 1 January 2014).
- Amendments to IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting' (mandatory for years commencing on or after 1 January 2014).
- Amendments to IAS 36 'Impairment of assets' (mandatory for years commencing on or after 1 January 2014)
- IFRIC 21 Levies (mandatory for years commencing on or after 1 January 2014).
- IFRS 13 Fair value measurement (mandatory for year commencing on or after 1 July 2014; not yet EU-endorsed).
- IFRS 15 Revenue from contracts with customers (mandatory for years commencing on or after 1 January 2017; not yet EU-endorsed).
- IFRS 9 Financial Instruments (mandatory for years commencing on or after 1 January 2018; not yet EU-endorsed).

Notes to the consolidated financial statements

2 Segmental Analysis

The Group's operating segments under IFRS 8 have been determined based on management accounts reports reviewed by the Board. Segment performance is assessed based upon earnings before interest and tax excluding depreciation charges and non-underlying items ("underlying EBITDA").

The Group has only one reportable segment, which derives its revenues from the retailing of upholstered furniture and related products. Activities included in other segments comprise the manufacture and distribution of upholstered furniture.

The Group's operations and related assets and its external revenue derive wholly within the UK & Eire and accordingly no separate analysis by geographical area has been presented.

	External sales		**Internal sales**		**Total gross sales**	
	2014	2013	**2014**	2013	**2014**	2013
	£m	£m	**£m**	£m	**£m**	£m
Retail	853.4	804.3	-	-	**853.4**	804.3
Other segments	-	-	89.1	76.1	**89.1**	76.1
Eliminations	-	-	(89.1)	(76.1)	**(89.1)**	(76.1)
Gross sales	853.4	804.3	-	-	**853.4**	804.3

	2014	2013
	£m	£m
Total segments gross sales	**853.4**	804.3
Less: value added and other sales taxes	**(131.8)**	(124.2)
Less: costs of interest free credit and aftercare services	**(64.8)**	(65.7)
Revenue	**656.8**	614.4

	2014	2013
	£m	£m
Retail underlying EBITDA	**75.2**	83.2
Other segments underlying EBITDA	**4.8**	1.4
	80.0	84.6
Depreciation & amortisation	**(14.7)**	(12.6)
Non-underlying items (note 3)	**(4.4)**	-
Operating profit	**60.9**	72.0
Finance income	**0.2**	0.2
Finance expenses	**(57.5)**	(59.9)
Exceptional refinancing costs	**-**	(22.4)
Profit(loss) before tax	**3.6**	(10.1)

Notes to the consolidated financial statements

3 Operating profit

Group operating profit is stated after charging/(crediting):

	2014	2013
	£m	£m
Depreciation on tangible assets	**12.3**	11.4
Net gain on disposal of property, plant and equipment	**(0.7)**	(0.6)
Amortisation of intangible assets	**2.4**	1.2
Cost of inventories recognised as an expense	**267.6**	247.0
Write down of inventories to net realisable value	**2.0**	2.0

Non-underlying items	**2014**	2013
	£m	£m
Accelerated share based payments charge	**0.3**	-
International and acquired business set-up costs	**1.5**	-
Non-recurring and exceptional legal and professional costs	**2.0**	-
Acquisition costs	**0.4**	-
Restructuring costs	**0.2**	
	4.4	-

Auditor's remuneration:	**2014**	2013
	£m	£m
Audit of these financial statements	**0.1**	0.1
Audit of the financial statements of Group subsidiaries	**0.1**	-
Amounts receivable by the company's auditor and its associates in respect of:		
Audit related compliance services	**-**	0.1
Taxation compliance services	**0.1**	0.1
Other corporate finance services	**0.6**	-
	0.9	0.3

Notes to the consolidated financial statements

4 Staff numbers and costs

The average number of persons employed by the group during the year, analysed by category, was as follows:

	Number of employees	
	2014	2013
Production	**1,011**	896
Warehouse and transport	**729**	732
Sales and administration	**1,798**	1,615
	3,538	3,243

The aggregate payroll costs of these persons were as follows:

	2014	2013
	£m	£m
Wages and salaries	**103.7**	92.3
Social security costs	**10.5**	9.4
Other pension costs	**2.2**	1.8
	116.4	103.5

Payroll costs include £0.8m (2013: £Nil) in respect of enhanced staff rewards relating to prior periods.

5 Finance income and expense

	2014	2013
	£m	£m
Finance income		
Interest income on bank deposits	**0.2**	0.2
Total finance income	**0.2**	0.2
Finance expense		
Interest payable on senior secured notes	**(23.6)**	(20.6)
Loss realised on repurchase of senior secured notes	**-**	(0.6)
Bank fees	**(0.5)**	(0.5)
Fair value lease adjustment unwind	**(3.0)**	(2.9)
Interest payable on parent company loan	**(29.8)**	(34.9)
Interest payable on 17% cumulative redeemable preference shares	**(0.2)**	(0.1)
Interest payable on 8% vendor loan notes	**(0.1)**	-
Unwind of discount on provisions	**(0.1)**	(0.2)
Finance lease interest	**(0.2)**	(0.1)
Total finance expense	**(57.5)**	(59.9)

Exceptional refinancing costs of £22.4m were incurred during the prior year with the early repayment of outstanding 9.75% senior secured notes due 2017 and their refinancing with the issue of new £310.0m senior secured notes due 2018 (note 16).

Notes to the consolidated financial statements

6 Taxation

Recognised in the income statement

	2014 £m	2013 £m
Current tax		
Current year	**8.8**	5.8
Adjustments for prior years	**-**	0.1
Current tax expense	**8.8**	5.9
Deferred tax		
Origination and reversal of temporary differences	**(0.7)**	(0.5)
Reduction in tax rate	**-**	1.6
Deferred tax expense	**(0.7)**	1.1
Total tax expense in income statement	**8.1**	7.0

Reconciliation of effective tax rate

	2014 £m	2013 £m
Profit/(loss) before tax for the year	**3.6**	(10.1)
Tax using the UK corporation tax rate of 22.33% (2013: 23.67%)	**0.8**	(2.4)
Reduction in tax rate on deferred tax balances	**-**	1.6
Non-deductible expenses	**6.7**	7.7
Deferred tax not recognised	**0.6**	-
Adjustments in respect of prior years	**-**	0.1
Total tax expense	**8.1**	7.0

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 2 August 2014 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

Income tax recognised in other comprehensive income

	2014 £m	2013 £m
Effective portion of changes in fair value of cash flow hedges	**0.5**	(0.2)
Net change in fair value of cash flow hedges reclassified to profit or loss	**(1.6)**	0.5
	(1.1)	0.3

Notes to the consolidated financial statements

7 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Motor Vehicles £m	Total £m
Cost				
Balance at 28 July 2012	2.2	43.4	11.1	56.7
Additions	0.9	11.4	4.6	16.9
Acquisition	0.2	-	-	0.2
Disposals	-	-	(3.0)	(3.0)
Balance at 27 July 2013	3.3	54.8	12.7	70.8
Additions	0.4	8.8	6.1	15.3
Acquisition	0.1	0.2	-	0.3
Disposals	-	-	(3.8)	(3.8)
Balance at 2 August 2014	3.8	63.8	15.0	82.6
Depreciation and impairment				
Balance at 28 July 2012	0.2	11.4	3.0	14.6
Depreciation charge for the year	0.1	7.2	4.1	11.4
Disposals	-	-	(2.9)	(2.9)
Balance at 27 July 2013	0.3	18.6	4.2	23.1
Depreciation charge for the year	0.2	7.7	4.4	12.3
Disposals	-	-	(3.7)	(3.7)
Balance at 2 August 2014	0.5	26.3	4.9	31.7
Net book value				
At 28 July 2012	2.0	32.0	8.1	42.1
At 27 July 2013	3.0	36.2	8.5	47.7
At 2 August 2014	**3.3**	**37.5**	**10.1**	**50.9**

Leased plant and machinery

Included in the total net book value of motor vehicles is £3.4m (2013: £1.9m) in respect of assets held under finance leases. Depreciation for the year on these assets was £0.9m (2013: £0.3m). The Company has no tangible fixed assets.

Capital commitments

At 2 August 2014 the Group had contracted capital commitments of £1.7m (2013: £3.2m) for which no provision has been made in the financial statements.

Notes to the consolidated financial statements

8 Intangible assets

	Computer software £m	Brand Names £m	Goodwill £m	Total £m
Cost				
Balance at 28 July 2012	1.9	-	479.6	481.5
Additions	3.2	-	-	3.2
Acquisition	-	0.5	-	0.5
Balance at 27 July 2013	5.1	0.5	479.6	485.2
Additions	2.5	-	-	2.5
Acquisition	-	2.0	4.4	6.4
Balance at 2 August 2014	7.6	2.5	484.0	494.1
Amortisation and impairment				
Balance at 28 July 2012	0.3	-	-	0.3
Amortisation charge for the year	1.2	-	-	1.2
Balance at 27 July 2013	1.5	-	-	1.5
Amortisation charge for the year	2.3	0.1	-	2.4
Disposals	-	-	-	-
Balance at 2 August 2014	3.8	0.1	-	3.9
Net book value				
At 28 July 2012	1.6	-	479.6	481.2
At 27 July 2013	3.6	0.5	479.6	483.7
At 2 August 2014	**3.8**	**2.4**	**484.0**	**490.2**

Acquisitions

On 17 October 2013 the Group acquired 100% of the issued share capital and obtained control of The Sofa Workshop Limited, a UK based retailer of upholstered furniture. This acquisition was made to increase the Group's sales in particular customer segments and product groups.

For the year ended 2 August 2014, The Sofa Workshop Limited contributed £10.7m to the Group's reported revenue and a loss of £0.5m the Group's reported profit before tax. If the acquisition had taken place on the first day of the financial year reported revenues would have been £658.2m and reported profit before tax would have been £81.4m. Acquisition related costs of £0.4m have been recognised in the income statement (note 3).

The goodwill of £4.4m arising from the acquisition is attributable to the workforces and operations of the acquired business and the significant synergies expected to arise following the acquisitions.

Prior year acquisitions

On 29 June 2013 the Group entered into call options for the acquisition of 100% of the issued share capital of Coin Retail Limited, a UK based retailer of furniture and homewares (trading as Dwell). Under the requirements of IFRS 10 these options conferred control to the Group, accordingly Coin Retail Limited and its subsidiary have been consolidated in the Group's financial statements from that date. The interest in Coin Retail Limited was purchased with a view to increasing the Group's sales in particular customer segments and product groups. On 1 August 2014 the call options were exercised and the Group formally acquired 100% of the issued ordinary share capital of Coin Retail Limited.

Notes to the consolidated financial statements

8 Intangible assets *(continued)*

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out below:

	The Sofa Workshop Limited	Coin Retail Limited
	£m	£m
Property, plant & equipment	**0.3**	0.2
Identifiable intangible assets	**2.0**	0.5
Inventories	**0.7**	0.1
Cash	**1.1**	0.4
Trade and other receivables	**0.7**	0.2
Trade payables and other liabilities	**(2.9)**	(0.4)
Deferred tax	**(0.4)**	-
Total identifiable assets	**1.5**	1.0
Goodwill	**4.4**	-
Total consideration	**5.9**	1.0
Satisfied by:		
8% vendor loan notes	**2.0**	-
17% preference shares in subsidiary	**1.0**	-
Equity shares in subsidiary	**0.3**	-
Other loan	**0.1**	-
Cash consideration	**2.5**	1.0
Total consideration	**5.9**	1.0
Net cash outflow arising on acquisition		
Cash consideration	**2.5**	1.0
Less: cash and cash equivalent balances acquired	**(1.1)**	(0.4)
	1.4	0.6

For the year ended 2 August 2014, the acquired businesses made the following contributions to the results of the Group:

	The Sofa Workshop Limited	Coin Retail Limited
	£m	£m
Revenue	10.7	11.4
Operating losses from initial period of ownership	(0.2)	(1.3)
Non-underlying items (note 3)	(0.3)	(1.3)
Operating losses for the period	(0.5)	(2.6)

Notes to the consolidated financial statements

8 Intangible assets *(continued)*

The carrying amount of goodwill is allocated to the following cash generating units:

	Goodwill	
	2014	2013
	£m	£m
DFS Trading Limited	**479.6**	479.6
The Sofa Workshop Limited	**4.4**	-
	484.0	479.6

Goodwill is tested annually for impairment on the basis of value in use. The key assumptions underlying the calculations are those regarding expected future sales volumes, changes in selling prices and direct costs and the discount rate applied.

Cash flow forecasts are prepared from the latest financial results and internal budgets for the next four years, which take into account external macroeconomic indicators as well as internal growth expectations. Selling prices and related costs are based on past practice and expected future changes in the market. These forecasts were extrapolated for six more years with no further growth assumed, and discounted at pre-tax discount rates between 8% and 10%. The discount rates are estimated based on the Group's weighted average cost of capital, risk adjusted for an individual unit's circumstances.

The Group has applied sensitivities to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements and no such impairments were identified.

9 Investments in subsidiaries

The following companies are incorporated in England & Wales, are wholly owned by the Group (unless otherwise indicated) and have been consolidated:

		Principal activity
Diamond Holdco 2 Limited		Intermediate holding company
Diamond Holdco 3 Limited		Intermediate holding company
Diamond Holdco 4 Limited		Intermediate holding company
DFS Investments Limited	(85% owned)	Intermediate holding company
Diamond Holdco 6 Limited		Intermediate holding company
Diamond Holdco 7 Limited		Intermediate holding company
Diamond Holdco 8 Limited		Intermediate holding company
Diamond Holdco Limited		Intermediate holding company
DFS Furniture Holdings plc		Intermediate holding company
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
Coin Retail Limited (Jersey)		Intermediate holding company
Coin Furniture Limited		Furniture retailer
The Sofa Workshop Limited		Furniture retailer

10 Other financial assets

	2014	2013
	£m	£m
Non-current		
Foreign exchange contracts	**0.1**	0.2
Current		
Foreign exchange contracts	**-**	2.5

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases (note 21).

Notes to the consolidated financial statements

11 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2014 £m	2013 £m
Accelerated capital allowances	**0.7**	-
Fair value lease creditor	**5.0**	5.0
Revaluation of derivatives to fair value	**0.6**	(0.5)
Other temporary differences	**4.9**	5.3
Net tax assets	**11.2**	9.8

The deferred tax movement in the year is as follows:

	2014 £m	2013 £m
At start of period	**9.8**	11.2
Charged to the income statement:		
Accelerated capital allowances	**0.7**	0.5
Fair value lease creditor	**-**	(0.9)
Other temporary differences	**-**	(0.7)
Acquisition of subsidiaries	**(0.4)**	-
Recognised in the statement of comprehensive income	**1.1**	(0.3)
At end of period	**11.2**	9.8

12 Inventories

	2014 £m	2013 £m
Raw materials and consumables	**5.9**	3.4
Finished goods and goods for resale	**22.9**	19.7
	28.8	23.1

13 Trade and other receivables

	2014 £m	2013 £m
Trade receivables	**10.9**	9.6
Amounts owed by non-controlling interests	**2.3**	2.3
Prepayments and accrued income	**12.2**	12.8
Other receivables	**0.6**	0.8
	26.0	25.5

No interest is charged on trade receivables; the Group bears no credit risk in respect of amounts due from retail customers under interest free credit arrangements. Prepayments and accrued income do not include impaired assets.

Notes to the consolidated financial statements

14 Trade payables and other liabilities

	2014 **£m**	2013 £m
Current		
Payments received on account	**24.2**	18.7
Trade payables	**62.4**	50.5
Other creditors including other tax and social security	**23.4**	24.8
Accruals and deferred income	**30.9**	27.0
Amounts owed to parent companies	**194.6**	183.5
Amounts due to non-controlling interests	**1.4**	0.2
Finance lease liabilities	**0.9**	0.4
	337.8	305.1

	2014 **£m**	2013 £m
Non-current		
Other creditors	**21.8**	22.4
Accruals and deferred income	**44.0**	44.0
Other loans & borrowings	**2.1**	-
Finance lease liabilities	**2.9**	1.6
	70.8	68.0

Trade payables do not bear interest and are paid within agreed credit terms. Property lease incentives are classified as non-current to the extent that they will be credited to the income statement more than one year from the reporting date.

The amounts owed to the parent company are repayable on demand and bear interest at LIBOR plus 17%, compounded annually.

15 Other financial liabilities

	2014 **£m**	2013 £m
Non-current		
Foreign exchange contracts	**-**	-
Current		
Foreign exchange contracts	**(3.1)**	-

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group’s overseas purchases (note 21).

Notes to the consolidated financial statements

16 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 21.

	2014	2013
	£m	£m
Senior secured fixed rates notes due August 2018	**200.0**	200.0
Senior secured floating rate notes due August 2018	**110.0**	110.0
	310.0	310.0
Unamortised issue costs	**(3.4)**	(4.3)
	306.6	305.7

As at 2 August 2014, the Group had in issue £310.0m of senior secured notes listed on the Luxembourg Stock Exchange. These notes have a maturity date of 15 August 2018 on which date all amounts will be repayable. The 2018 fixed rate notes carry an interest rate of 7.625% payable six monthly on 15 March and 15 September. Interest on the floating rate notes accrues at LIBOR plus 6% and is payable quarterly on 15 March, 15 June, 15 September and 15 December.

The notes are denominated in Pounds Sterling and 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).

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2014			2013		
	Minimum lease payments £m	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**1.1**	**(0.2)**	**0.9**	0.5	(0.1)	0.4
Between one and five years	**3.0**	**(0.1)**	**2.9**	1.7	(0.1)	1.6
More than five years	**-**	**-**	**-**	-	-	-
	4.1	**(0.3)**	**3.8**	2.2	(0.2)	2.0

Notes to the consolidated financial statements

17 Employee benefits

Defined contribution pension plans

The Group operates a number of defined contribution pension plans 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 income statement as they become payable under the rules of the scheme. The total pension cost of the Group for the year was £2.2m (2013: £1.8m).

18 Provisions

	Guarantee provision £m	**Property provisions £m**	**Total £m**
Balance at 27 July 2013	8.7	1.8	10.5
Provisions made during the year	5.4	-	5.4
Provisions used during the year	(5.6)	(0.2)	(5.8)
Unwind of discount	-	0.1	0.1
Balance at 2 August 2014	**8.5**	**1.7**	**10.2**
Current	5.6	0.2	5.8
Non-current	2.9	1.5	4.4
	8.5	**1.7**	**10.2**

The guarantee provision reflects the estimated cost of the guarantee provided to retail customers. Property provisions relate to onerous contracts and other obligations in respect of the Group's property leases.

Certain potential changes to employment legislation may retrospectively impact the Group. The Directors consider it is not probable that a liability will arise for the Group, and accordingly no provision has been made.

19 Capital and reserves

Share capital

Ordinary shares of £1 each

	Number of shares		**Ordinary shares**	
	2014 '000	2013 '000	**2014 £m**	2013 £m
Allotted, called up and fully paid	**42,615**	42,615	**42.6**	42.6

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividends

The following dividends were recognised during the year:

	2014 £m	2013 £m
£0.03 (2013: £1.22) per qualifying ordinary share	**1.3**	51.9

Notes to the consolidated financial statements

20 Financial instruments: categories and fair value

	2014 £m	2013 £m
Financial assets		
Derivatives in designated hedging relationships	**0.1**	2.7
Loans and receivables	**13.8**	12.7
Cash	**53.8**	38.4
Financial liabilities		
Derivatives in designated hedging relationships	**(3.1)**	-
Senior secured notes	**(306.6)**	(305.7)
Amortised cost	**(345.6)**	(315.7)
Finance lease obligations	**(3.8)**	(2.0)

All derivatives are categorised as Level 2 under the requirements of IFRS 7 as they are valued using techniques based significantly on observed market data.

Except as detailed below, the directors consider that the fair values of each category of the Group's financial instruments are the same as their carrying values in the Group's balance sheet.

	2014		2013	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Senior secured notes				
Fixed rates notes due August 2018	**200.0**	**208.5**	200.0	210.5
Floating rate notes due August 2018	**110.0**	**110.6**	110.0	112.5
	310.0	**319.1**	310.0	323.0

The fair values of the senior secured notes are their market values at the balance sheet date. Market values include accrued interest and changes in credit risk and interest rate risk and are therefore different to the reported carrying amounts.

Notes to the consolidated financial statements

21 Financial instruments: risk management

The objectives, policies and processes governing the treasury activities of the Group are reviewed and approved by the Board. The Group's documented treasury policy includes details of authorised counterparties, instrument types and transaction limits and principles for the management of liquidity, interest and foreign exchange risks. As part of its strategy for the management of these risks the Group uses derivative financial instruments. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Liquidity risk
The Group manages its cash and borrowing requirements to ensure that it has sufficient liquid resources to meet its obligations as they fall due while making efficient use of the Group's financial resources.

The table below shows the maturity analysis of the undiscounted remaining contractual cash flows (including interest) of the Group's financial liabilities:

2014	**Less than 1 year £m**	**1 to 2 years £m**	**2 to 5 years £m**	**Over 5 years £m**	**Total £m**
Trade and other payables	335.4	-	-	-	335.4
Finance lease liabilities	1.1	1.1	1.9	-	4.1
Senior secured notes	22.4	22.4	362.4	-	407.2
Other liabilities	5.7	3.1	0.6	2.1	11.5
	364.6	26.6	364.9	2.1	758.2
Derivatives: gross settled					
Cash inflows	(72.4)	(10.7)	-	-	(83.1)
Cash out flows	75.7	10.6	-	-	86.3
Total cash flows	367.9	26.5	364.9	2.1	761.4

2013	**Less than 1 year £m**	**1 to 2 years £m**	**2 to 5 years £m**	**Over 5 years £m**	**Total £m**
Trade and other payables	305.2	-	-	-	305.2
Finance lease liabilities	0.5	0.5	1.2	-	2.2
Senior secured notes	22.7	22.4	67.2	317.6	429.9
Other liabilities	5.9	3.1	0.6	2.3	11.9
	334.3	26.0	69.0	319.9	749.2
Derivatives: gross settled					
Cash inflows	(71.5)	(7.1)	-	-	(78.6)
Cash out flows	69.8	7.0	-	-	76.8
Total cash flows	332.6	25.9	69.0	319.9	747.4

The Group has a £30.0m revolving credit facility in place until February 2018 which is as yet unutilised.

Notes to the consolidated financial statements

21 Financial instruments: risk management *(continued)*

Interest rate risk management
The Group is exposed to fair value interest rate risk on its fixed rate senior secured notes and cash flow interest rate risk on floating rate senior secured notes. These risks are managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate derivatives where beneficial. As a result of the predominantly fixed rate debt, the Group has very limited sensitivity to movements in interest rates.

Foreign exchange risk management
The Group is exposed to the risks of exchange rate fluctuations on the purchase of products denominated in foreign currencies. Currency requirements are assessed by analysis of historic purchasing patterns by month, adjusted as appropriate to take into account current trading expectations. The Group's treasury policy allows for the use of forward foreign exchange contracts to hedge the exchange rate risk arising from these anticipated future purchases up to 18 months in advance. These contracts are designated as cash flow hedges.

The table below summarises the forward foreign exchange contracts outstanding at the period end:

	2014		**2013**	
	Notional amount £m	**Fair value £m**	**Notional amount £m**	**Fair value £m**
Derivatives in designated hedging relationships				
US Dollar	86.3	(3.0)	76.8	2.7

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2014 £m	2013 £m	**2014 £m**	2013 £m
US Dollar	**-**	0.3	**(0.6)**	(0.1)
Euro	**8.3**	1.8	**(0.7)**	(0.5)

Foreign currency sensitivity analysis
The Group's primary foreign currency exposures are to US Dollars and the Euro. The table below illustrates the hypothetical sensitivity of the Group's reported profit and closing equity to a 10% weakening of these currencies against Sterling, assuming all other variables were unchanged. The sensitivity rate of 10% represents the directors' assessment of a reasonably possible change, based on historic volatility.

The analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The analysis assumes that exchange rate fluctuations on currency derivatives that form part of an effective cash flow hedge relationship affect the cash flow hedging reserve in equity.

Positive figures represent an increase in profit or equity.

	Income statement		**Equity**	
	2014 £m	2013 £m	**2014 £m**	2013 £m
US Dollar	**0.1**	-	**(8.3)**	(8.0)
Euro	**(0.8)**	(0.1)	**-**	-

A 10% strengthening of the above currencies against the Sterling at the period end would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes to the consolidated financial statements

21 Financial instruments: risk management *(continued)*

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's investment securities.

Investments of cash, borrowings and derivative instruments are transacted only through counterparties meeting the credit rating and investment criteria specified in the Group's treasury policy. The Group's exposure and the credit ratings of its counterparties are regularly reviewed. Concentrations of risk are mitigated through the use of multiple counterparties and by counterparty limits which are reviewed and approved by the Board.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Capital management

The capital structure of the Group consists of debt, as analysed in note 24, and equity attributable to the equity holders of the parent company, comprising issued capital, reserves and retained earnings as shows in the consolidated statement of changes in equity. The Group manages its capital with the objective that all entities within the Group continue as going concerns while maintaining an efficient structure to minimise the cost of capital. The Group is not restricted by any externally imposed capital requirements.

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2014	2013
	£m	£m
Less than one year	**54.3**	52.8
Between one and five years	**208.1**	200.6
More than five years	**420.5**	440.9
	682.9	694.3

The Group has entered into operating leases in respect of stores, warehouses and equipment. These non-cancellable leases have remaining terms of between 3 months and 20 years. The majority of the Group's operating leases provide for their renewal by mutual agreement at the expiry of the lease term.

During the year £51.6m was recognised as an expense in the income statement in respect of operating leases (2013: £50.3m). At 2 August 2014, future rentals receivable under non-cancellable leases where the Group is the lessor were £14.3m (2013: £15.2m).

Notes to the consolidated financial statements

23 Related parties

Directors' emoluments

M. Ristaino received no remuneration for his services to the Company.

	2014	2013
	£000	£000
Key management emoluments including social security costs	**1,922**	1,845
Company contributions to money purchase pension schemes	**-**	-
	1,922	1,845

The remuneration of the highest paid director was as follows:

	2014	2013
	£000	£000
Key management emoluments including social security costs	**682**	588

No directors accrued retirement benefits under pension schemes in the year (2013: none). One manager waived his entitlement to pension contributions from the Group and requested a charitable donation be made as an alternative. This amount is £50,000 and is included in emoluments above (2013: £50,000).

Other related party transactions

Mr Massey and Mr Barnes served as directors of Delphi Properties Limited for part of the year under an undertaking made by DFS Trading Limited at the time of the acquisition of the DFS Group by Advent International in 2010. Delphi Properties Limited is a former fellow subsidiary of Full Circle Future Limited. The Group made arm's length rental payments of £8.5m (2013: £16.6m) to Delphi Properties Limited on a property portfolio during the period whilst Mr Massey and Mr Barnes were serving as directors.

Notes to the consolidated financial statements

24 Net debt

	July 2013 £m	Cash flow £m	Other non-cash changes £m	July 2014 £m
Cash in hand, at bank	38.4	15.4	-	53.8
Cash and cash equivalents	38.4	15.4	-	53.8
Senior secured notes	(305.7)	-	(0.9)	(306.6)
Finance lease liabilities	(2.0)	0.6	(2.4)	(3.8)
Total net debt	(269.3)	16.0	(3.3)	(256.6)

25 Ultimate parent company and controlling party

The Company is a direct subsidiary undertaking of Advent Diamond (Luxembourg) Sarl which is registered in Luxembourg. The ultimate holding company and controlling party is Advent Diamond (Cayman) Limited which is registered in the Cayman Islands

Company Balance Sheet

At 2 August 2014

	Note	**2014** **£m**	2013 £m
Fixed assets			
Investments	27	**42.6**	42.6
Net assets		**42.6**	42.6
Capital and reserves			
Called up share capital	28	**42.6**	42.6
Equity shareholders' funds		**42.6**	42.6

These financial statements were approved by the board of directors on 30 October 2014 and were signed on its behalf by:

M Ristaino
Director

Notes to the Company financial statements

26 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 Company.

Basis of preparation

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

Under Section 408 of the Companies Act 2006, the Company is not required to present its own profit and loss account or cash flow statement. The Company's profit for the period was £1.3m (2013: £50.2m).

Investments

Investments are stated at cost, less provision for any impairment.

Taxation

The charge for taxation is based on the profit for the period which 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*.

27 Investments

	Shares in subsidiary undertakings £m
Cost and net book value	
As at 27 July 2013 and 2 August 2014	**42.6**

Details of the Company's investments are given in note 9.

28 Called up share capital

Details of the Company's share capital are given in note 19.

29 Related party transactions

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