

# **DFS Furniture Company Limited**

Report and Accounts for the period  
ended 28 June 2020

Registered number 00972107



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## Directors' report

The directors present their report together with the audited financial statements for the period ended 28 June 2020.

### Principal Activities

The company acts as an intermediate holding company.

### Dividends

No interim dividend was paid during the period (2019: £nil). The directors do not recommend the payment of a final dividend (2019: £nil).

### Directors

The directors of the Company are listed below.

N.J. Bancroft	(resigned 1 July 2019)
T. G. Stacey	
M. Schmidt	

### Political and charitable donations

The company made no political or charitable donations during the current or prior period.

### Going concern

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries of the Group.

Notwithstanding net current liabilities of £2.1m as at 28 June 2020, a loss for the year then ended of £0.1m, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company is part of the DFS Furniture plc Group ("the Group"). The Company meets its day to day working capital requirements from cash resources and through the centralised treasury arrangements referred to above. Therefore, in light of the Group's funding arrangements and the operational and financial support provided by the Group, the going concern assessment of the Company is dependent on that of the Group as a whole.

The DFS Furniture plc Group, has a £250.0m revolving credit facility in place until August 2022, and in April 2020, to increase resilience to the short-term effects of the Covid-19 pandemic, secured an additional twelve month facility of £70.0m from the same group of lending banks. In the same month the Group also secured £63.9m of equity funding from a placing of ordinary shares. During the period from the inception of the additional £70.0m facility through to June 2021, existing covenants on the revolving credit facility (of 3.0x net Debt / EBITDA and 1.5x Fixed Charge Cover) have been replaced by new minimum quarterly EBITDA and net debt covenants. At the date of approval of these financial statements, none of the £70.0m facility had been utilised and a further £185.0m of the revolving credit facility remained undrawn, giving the Group a total of £255.0m available facility in addition to cash in hand and at bank of £54.9m.

In June 2020 the directors of the ultimate parent company prepared cash flow forecasts for the Group covering a period of 18 months to March 2022. Taking into account current trading to 31 October 2020 these forecasts indicated that the Group will be in compliance with the minimum quarterly EBITDA and net debt covenants applicable for that period, which are assessed monthly, as well as the original covenants which become effective once more from June 2021. These forecasts include a number of assumptions in relation to: level of customer order intake; gross profit margins; and achievement of cost savings in line with the Group's strategic plans.

The directors of the ultimate parent company also prepared severe but plausible downside sensitivity scenarios which covered the same period as the base case. These downside scenarios included specific consideration of a range of impacts that could arise from the continued coronavirus pandemic and the UK's exit from the EU. These scenarios included: significantly reduced customer spending; a second lockdown during FY21 leading to reduced order intake and customer deliveries; and disruptions to manufacturing and supply chain causing delays in receiving stock; and possible changes in the regulatory environment surrounding product warranty insurance. As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur were also considered. These mitigating actions included reducing discretionary advertising expenditure, a pause on expansionary capital

investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group to operate within the committed facilities and to comply with all relevant banking covenants during the forecast period.

The Directors of the Company have assessed the conclusions reached by the directors of the ultimate parent company and, having considered the impact on this assessment of the UK pandemic restrictions in place as at the date of approving these financial statements, the Directors agree that conclusion remains appropriate.

The individual assessment for DFS Furniture Company Limited is dependent on DFS Furniture plc not seeking repayment of the amounts currently due to the group, which at 28 June 2020 amounted to £173.8m. DFS Furniture plc has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

## **Section 172 Statement**

Our Section 172(1) Statement describes how the Directors, individually and collectively, acting in good faith have exercised their duties over the course of the year to promote the long-term success of the Company for the benefit of its members as a whole, and in doing so have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006.

### ***Our stakeholders***

The Directors consider that the following groups are the Company's key stakeholders. The Directors believe that understanding the respective interests of such stakeholder groups so that these may be properly considered in their decisions, is not only the right thing to do, but is fundamental to our ability to drive value creation over the longer term. Now, as we enter a new financial year adapting to new ways of working and living due to the impact of the global Covid-19 pandemic, balancing the needs and expectations of our stakeholders has never been more challenging or more important.

We have grouped our stakeholders into two key categories and have provided an overview of the way in which the Directors acted with regard to these groups when making key strategic decisions.

We do this through various methods, including: direct engagement by the Directors; receiving reports and updates from members of management who engage with such groups; and coverage in our senior leadership team papers of relevant stakeholder interests with regard to proposed courses of action.

### ***Our Investors***

We rely on the shareholders of the DFS Furniture plc Group, of which this Company is a subsidiary, and providers of debt funding as essential sources of capital to further our business objectives. They rely on us to protect and manage their investment in the DFS Furniture plc Group in a responsible and sustainable way that generates value for them over the long term.

### ***Our Regulators***

We seek to enjoy a constructive and cooperative relationship with the bodies that authorise and regulate our business activities. This helps us maintain a reputation for high standards of business conduct.

## ***Considering the need of the Company to maintain a reputation for high standards of business conduct***

### ***Corporate governance***

Our reputation is key. It underpins our ability to earn the loyalty of our customers and to grow our business. The Directors recognise the importance of operating a robust corporate governance framework.

***Ethical trading and responsible sourcing***

The DFS Furniture plc Group Audit Committee exercises strong oversight over the Company's activities in these areas including reviewing the work of the internal audit function, and reports to the Group Board on such topics as appropriate.

During the year, the Group Board approved the Group's Employee Code of Conduct with which all our People, employees, consultants and sub-contractors must comply and the 2019 Modern Slavery Transparency Statement, published at <https://www.dfscorporate.co.uk/governance/policies>.

A new employee training module on understanding Modern Slavery was rolled out across the Company. All our Suppliers are required to sign up to our Supplier Code of Conduct and to confirm that they comply with the Modern Slavery Act.

A copy of our Supplier Code of Conduct and our Modern Slavery Statement can be found at [www.dfscorporate.co.uk/governance/policies](http://www.dfscorporate.co.uk/governance/policies).

***Regulators***

Our Company is regulated by the Financial Conduct Authority in respect of the provision of credit broking. As a responsible authorised company, we seek always to cooperate and engage constructively with the FCA and meet its standards.

The Group Audit Committee exercises independent oversight over the regulated Finance business that includes updates on matters under discussion with the FCA.

***Tax Strategy***

We manage our tax affairs responsibly and proactively to comply with tax legislation. The Company's approach is to seek to build solid and constructive working relationships with all tax authorities.

***Financial reporting***

The reporting of the DFS Furniture plc Group's financial results, of which these statements form part of, is subject to oversight by the Financial Conduct Authority ("FCA"). In preparing its annual report and accounts, the DFS Furniture plc Group maintains an awareness of published FCA guidance to support the quality of its reporting, and where specific enquiries are raised seeks to engage with the regulator in a positive and constructive manner.

***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***

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board



**M Schmidt**  
Director

27 November 2020

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 year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **Independent auditor's report to the members of DFS Furniture Company Limited**

### **Opinion**

We have audited the financial statements of DFS Furniture Company Limited ("the company") for the period ended 28 June 2020 which comprise the Profit and Loss Account, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 28 June 2020 and of its loss for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### **Directors' report**

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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.



**Frances Simpson (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

27 November 2020

**Profit and loss account**  
*for period ended 28 June 2020*

	<i>Note</i>	<b>52 weeks to 28 June 2020 £m</b>	<b>48 weeks to 30 June 2019 £m</b>
<b>Revenue</b>	1	<b>1.1</b>	<b>2.2</b>
Cost of sales		-	-
		<hr/>	<hr/>
<b>Gross profit</b>		<b>1.1</b>	<b>2.2</b>
Selling and distribution costs		0.1	-
Administrative expenses		(1.1)	(2.2)
<b>Operating loss before depreciation and amortisation</b>		<b>0.1</b>	<b>-</b>
Depreciation		(0.2)	(0.1)
		<hr/>	<hr/>
<b>Operating loss</b>	2	<b>(0.1)</b>	<b>(0.1)</b>
Investment income		-	-
		<hr/>	<hr/>
<b>Loss before tax</b>		<b>(0.1)</b>	<b>(0.1)</b>
Taxation	4	-	-
		<hr/>	<hr/>
<b>Loss for the period</b>		<b>(0.1)</b>	<b>(0.1)</b>
		<hr/>	<hr/>

Accompanying notes on pages 10 to 18 form part of the financial statements.

**Statement of Other Comprehensive Income**  
*for period ended 28 June 2020*

Loss for the period and total comprehensive loss for the period are entirely attributable to the shareholders of the Company.

There was no comprehensive income/loss for the period ended 28 June 2020 other than reported profit or loss after taxation.

**Balance Sheet**  
**at 28 June 2020**

	<i>Note</i>	<b>28 June 2020</b> <b>£m</b>	<b>30 June 2019</b> <b>£m</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	5.9	6.1
Investments	6	33.4	33.4
Deferred tax assets	7	0.1	0.1
Goodwill		1.2	1.2
		<u>40.6</u>	<u>40.8</u>
<b>Current assets</b>			
Trade and other receivables	8	178.1	109.4
Cash and cash equivalents		0.1	-
		<u>178.2</u>	<u>109.4</u>
<b>Current liabilities</b>			
Trade payables and other liabilities	9	(174.9)	(111.5)
Provisions	10	(5.0)	-
Current tax liabilities		(0.4)	(0.4)
		<u>(180.3)</u>	<u>(111.9)</u>
<b>Net current liabilities</b>		<u>(2.1)</u>	<u>(2.5)</u>
<b>Net assets</b>		<u>38.5</u>	<u>38.3</u>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	11	5.6	5.6
Share premium account		32.9	32.9
Capital redemption reserve		0.1	0.1
Retained earnings		(0.1)	(0.3)
<b>Total equity</b>		<u>38.5</u>	<u>38.3</u>

Accompanying notes on pages 10 to 18 form part of the financial statements.

These financial statements were approved by the board of directors on 27 November 2020 and were signed on its behalf by:



**M Schmidt**  
*Director*

Company registered number: 00972107

## Statement of Changes in Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 28 July 2018</b>	<b>5.6</b>	<b>32.9</b>	<b>0.1</b>	<b>(0.5)</b>	<b>38.1</b>
Loss for the period	-	-	-	(0.1)	(0.1)
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>	<b>(0.1)</b>
Capital contribution	-	-	-	0.3	0.3
<b>Balance at 30 June 2019</b>	<b>5.6</b>	<b>32.9</b>	<b>0.1</b>	<b>(0.3)</b>	<b>38.3</b>
Loss for the period	-	-	-	(0.1)	(0.1)
Other comprehensive income	-	-	-	0.3	0.3
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.2</b>	<b>0.2</b>
<b>Balance at 28 June 2020</b>	<b>5.6</b>	<b>32.9</b>	<b>0.1</b>	<b>(0.1)</b>	<b>38.5</b>

Accompanying notes on pages 10 to 18 form part of the financial statements.

## Notes to the financial statements

### 1 Accounting policies

DFS Furniture Company Limited (the "Company") is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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. Where it is necessary to choose between accounting policies, those selected are judged by the directors to be the most appropriate to the Company's particular circumstances for the purpose of giving a true and fair view.

#### 1.1 Basis of preparation

The financial statements cover the 52 weeks ended 28 June 2020. Comparative figures relate to the 48 weeks ended 30 June 2019.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, DFS Furniture plc includes the Company in its consolidated financial statements. The consolidated financial statements of DFS Furniture plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from 1 Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster, DN6 7NA.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of DFS Furniture plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### 1.1 Going concern

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries of the Group.

## Notes to the financial statements

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Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

### 1.2 Revenue

Revenue represents management charge levied on the Company's subsidiary undertaking, DFS Trading Ltd.

## Notes to the financial statements

### 1.3 Expenses

#### *Finance and investment income*

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 Company's right to receive payments is established.

### 1.4 Taxation

Tax on the profit or loss for the period 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 period, 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.

### 1.5 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.

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:

- Short leasehold property 50 years

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

### 1.6 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.

### 1.7 Impairment

The carrying amounts of the Company's tangible and intangible assets 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.

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.

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.

## Notes to the financial statements

### 1.8 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.

#### *Share based payments*

The fair value of equity settled share based payments is recognised as an expense over the vesting period of the related awards, with a corresponding increase in equity. Fair values are calculated using option pricing models appropriate to the terms and conditions of the awards. The amount charged as an expense is regularly reviewed and adjusted to reflect the achievement of service and non-market based performance conditions.

### 1.9 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 10 and the related significant estimates and judgements in note 1.11.

### 1.10 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.

### 1.11 Significant areas of estimation and judgment

In the application of the Company'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. No significant areas of judgement arose in the current financial statements. Significant areas of estimation for the Company are explained below:

#### *Contingent consideration*

The terms of the acquisition of Sofology Limited included deferred contingent consideration payable based on profits of the acquired business post-acquisition. The value of this deferred consideration has yet to be finalised, and therefore the financial statements include a provision of the amount potentially payable of £5.0m. This estimate is based on an analysis of the detailed terms of the sale and purchase agreement and consideration of the possible outcomes of the expert determination process. The final value of the consideration payable may therefore materially differ from the amount provided for.

## Notes to the financial statements

### 2 Operating loss

Operating loss is stated after charging/(crediting):

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Depreciation on tangible assets	0.2	0.1
Net gain on disposal of property, plant and equipment	-	-

Auditor's remuneration in respect of these financial statements was £nil (2019: £nil).

Fees paid to the auditor and their associates in respect of non-audit services relating to taxation amounted to £nil (2019: £nil).

### 3 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	52 weeks to 30 June 2020	48 weeks to 30 June 2019
Sales and administration	7	8

The aggregate payroll costs of these persons were as follows:

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Wages and salaries	0.8	1.7
Social security costs	0.1	0.2
	<u>0.9</u>	<u>1.9</u>

### 4 Taxation

Recognised in the profit and loss

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
<i>Current tax</i>		
Current period	-	-
Adjustments for prior years	-	-
Current tax credit	-	-
<i>Deferred tax</i>		
Origination and reversal of temporary differences	-	-
Adjustment for prior periods	-	-
Deferred tax expense	-	-
Total tax credit in income statement	-	-

## Notes to the financial statements

### Reconciliation of effective tax rate

	52 weeks to 28 June 2020 £m	48 weeks to 30 June 2019 £m
Profit before tax for the period	(0.1)	(0.1)
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	-	-
Non-deductible expenses	-	-
Non-taxable income	-	-
Group relief	-	-
Over provided in prior years	-	-
Total tax credit	-	-

A UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the Company's future current tax charge accordingly. The deferred tax asset at 28 June 2020 has been calculated at 19% (2019: 17%).

### 5 Property, plant and equipment

	Freehold £m	Short leasehold £m	Total £m
<b>Cost</b>			
Balance at 28 July 2018	0.5	8.2	8.7
Additions	-	0.3	0.3
Disposals	(0.1)	-	(0.1)
Balance at 30 June 2019	0.4	8.5	8.9
Additions	-	-	-
Disposals	-	-	-
Balance at 28 June 2020	0.4	8.5	8.9
<b>Depreciation and impairment</b>			
Balance at 28 July 2018	-	2.7	2.7
Depreciation charge for the period	-	0.1	0.1
Balance at 30 June 2019	-	2.8	2.8
Depreciation charge for the period	-	0.2	0.2
Balance at 28 June 2020	-	3.0	3.0
<b>Net book value</b>			
At 28 July 2018	0.5	5.5	6.0
At 30 June 2019	0.4	5.7	6.1
At 28 June 2020	0.4	5.5	5.9

## Notes to the financial statements

### 6 Investments

Cost and net book value:

	28 June 2020	30 June 2019
	£m	£m
Ordinary shares in subsidiary undertakings	32.9	32.9
Preference shares in subsidiary undertakings	0.5	0.5
	<u>33.4</u>	<u>33.4</u>

Name	Ordinary share holding	Principal activity
DFS Trading Limited <sup>1</sup>	100%	Furniture retailer
Coin Retail Limited <sup>1</sup>	100%	Holding company
Coin Furniture Limited (Investment held by Coin Retail Limited) <sup>2</sup>	100%	Furniture retailer
The Sofa Workshop Limited <sup>3</sup>	100%	Furniture retailer
DFS Spain Limited <sup>1</sup>	100%	Furniture retailer
Sofology Limited <sup>4</sup>	100%	Furniture retailer
C.S Lounge Suites Limited <sup>1</sup> (dissolved on 29 September 2020)	100%	Dormant
Soundsofa Limited <sup>1</sup> (dissolved on 29 September 2020)	100%	Dormant
LoveSeats Limited <sup>1</sup> (dissolved on 22 September 2020)	100%	Dormant
Slothworks Limited <sup>1</sup> (dissolved on 29 September 2020)	100%	Dormant
Sofaworks Limited <sup>1</sup>	100%	Dormant
Sleepology Limited <sup>1</sup> (dissolved on 29 September 2020)	100%	Dormant
Haydock Furniture Limited <sup>4</sup>	100%	Dormant

Registered offices:

1. Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster DN6 7NA.
2. 13-14 Esplanade, St Helier, Jersey JE1 1BD.
3. 2nd Floor, Mill Pool House, Mill Lane, Godalming, Surrey, GU7 1EY.
4. Ashton Road, Golborne, Warrington, WA3 3UL.

All subsidiary undertakings are incorporated in Great Britain with the exception of Coin Retail Limited which is incorporated in Jersey.

Preference shares are redeemable 'A' shares in Coin Furniture Limited. Holders of 'A' shares are entitled to receive notice and attend any general meeting on Coin Furniture limited but not to vote on any resolutions.

### 7 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	28 June 2020	30 June 2019
	£m	£m
Other temporary differences	0.1	0.1
Net tax assets	<u>0.1</u>	<u>0.1</u>

### 8 Trade and other receivables

	28 June 2020	30 June 2019
	£m	£m
Amounts owed by Group companies	178.1	109.4
	<u>178.1</u>	<u>109.4</u>

Amounts owed by Group companies are interest free, unsecured and repayable on demand.

## Notes to the financial statements

### 9 Trade payables and other liabilities

	28 June 2020 £m	30 June 2019 £m
Amounts owed to Group companies	173.8	105.0
Other creditors including other tax and social security	0.2	-
Accruals	0.9	6.5
Deferred income	-	-
	<u>174.9</u>	<u>111.5</u>

Amounts owed to Group companies are interest free, unsecured and repayable on demand.

### 10 Provisions

	Contingent consideration £m
Balance at 30 June 2019	-
Provisions made during the period	-
Transferred from accruals	5.0
Provision used during the period	-
Provisions released during the period	-
	<u>5.0</u>
<b>Balance at 28 June 2020</b>	<b>5.0</b>
Current	5.0
Non-current	-
	<u>5.0</u>

Under the terms of the acquisition of Sofology Limited, deferred contingent consideration was payable based on underlying earnings before interest, tax, depreciation and amortisation of the acquired business for the twelve months ended 30 September 2018. The acquisition accounting reflected the Directors' estimate that no further consideration would be payable, based on the immediate post-acquisition performance. Subsequent performance of the acquired business strengthened and in FY18 £5.0m of additional consideration was accrued and recognised as a non-underlying expense in the income statement. While the Directors' view of the amount potentially payable has not changed, there is increased uncertainty on the timing of the settlement and accordingly the £5.0m accrued has been reclassified to provisions. On determination and settlement, any difference between the final amount due and the amount provided will be recognised as a non-underlying expense or credit.

### 11 Share capital

#### Share capital

Ordinary shares of 5p each

	Number of shares		Ordinary shares	
	28 June 2020 '000	30 June 2019 '000	28 June 2020 £m	30 June 2019 £m
Allotted, called up and fully paid	<u>111,368</u>	<u>111,368</u>	<u>5.6</u>	<u>5.6</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and to one vote per share at meetings of the Company.

## Notes to the financial statements

### Share premium account

The share premium account represents the surplus of consideration received for issued ordinary share capital over its nominal value.

### 12 Directors' emoluments and interests

	52 weeks to 28 June 2020 £000	48 weeks to 30 June 2019 £000
Emoluments	426	884
Pension	27	-
Share based payments	92	-
	<u>545</u>	<u>884</u>

The remuneration of the highest paid director was as follows:

	52 weeks to 28 June 2020 £000	48 weeks to 30 June 2019 £000
Emoluments	304	470
Pension	27	-
Share based payments	98	-
	<u>429</u>	<u>470</u>

One director accrued retirement benefits under pension schemes in the period (2019: One).

### 13 Ultimate parent company and controlling party

The Company is a direct subsidiary undertaking of DFS Furniture Holdings plc which is registered in England and Wales. The largest group in which the results of the Company are consolidated is that headed by DFS Furniture plc, incorporated in England and Wales. Copies of its group accounts, which include the Company are available on [www.dfscorporate.co.uk](http://www.dfscorporate.co.uk).

### 14 Subsequent events

On 26 August 2020, the Group agreed the sale of the entire issued share capital of The Sofa Workshop Limited for cash consideration of £0.3m. This sale was subject to the receipt of regulatory approval from the FCA which was received on 1 September 2020 and the transaction formally completed on 18 September 2020.