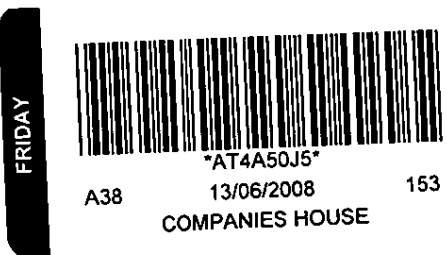


KENWOOD APPLIANCES LIMITED (FORMERLY KENWOOD APPLIANCES PLC)

Report and Financial Statements

31 December 2006



# **Kenwood Appliances Limited (formerly Kenwood Appliances plc)**

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## **DIRECTORS**

D Melo'

F De'Longhi

G De'Longhi

## **SECRETARY**

Mr I Fry

## **AUDITORS**

PricewaterhouseCoopers LLP

Savannah House

3 Ocean Way

Ocean Village

Southampton

Hampshire

SO14 3TJ

## **REGISTERED OFFICE**

New Lane

Havant

Hampshire

PO9 2NH

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

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## DIRECTORS' REPORT

The directors present their report and audited financial statements for the financial year ended 31 December 2006

### PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Company's principal activity is the holding company for Kenwood's subsidiary undertakings operating in the United Kingdom and overseas largely in the manufacturing and distribution of domestic appliances

The business will continue to be the holding company for Kenwood's subsidiary undertakings operating in the United Kingdom and overseas

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development and position of the business

On the 22 December 2006 the company was re-registered under the Companies Act 1985 as a private limited company

### RESULTS AND DIVIDENDS

The profit after taxation for the year amounted to £805,000 (31 December 2005 loss £1,068,000)

The directors do not recommend the payment of a dividend (31 December 2005 £nil)

### POST BALANCE SHEET EVENTS

The company allotted 260 million Ordinary shares of 10p each, fully paid, to its immediate parent undertaking, De Longhi Household S A , for a total consideration of £26 million on 21 December 2007

The company subsequently invested £26.1 million in a wholly owned undertaking, Kenwood Appliances Luxembourg S A , by way of a capital contribution, on 24 December 2007

### DIRECTORS AND THEIR INTERESTS

The names of all those who were directors during the financial year were as follows

D Melo'  
F De'Longhi  
G De Longhi

The directors in office at 31 December 2006 and their families had no beneficial interests in the share capital of the Company

### CREDITOR PAYMENT POLICY

It is not the Company's policy to follow a code or standard on payment practice. It is the Company's policy wherever possible to agree terms of payment with suppliers in advance to ensure that suppliers are made aware of the terms of payment and abide by those terms.

### DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company's assets and liabilities include the following financial instruments

- cash, liquid resources and short-term debtors and creditors that arise directly from the company's activities

The company does not enter into forward exchange contracts as a means of limiting its exposure to foreign currencies, due to the low level of currency balances held

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

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## DIRECTORS' REPORT

The potential areas of risk arising from the Company's financial instruments are foreign currency risk, interest rate risk, and liquidity risk

### *Foreign currency risk*

The Company's profits and net assets are not significantly affected by currency movements as only a very low level of the Company's assets and liabilities are denominated in currencies other than sterling

### *Interest rate risk*

The Company's finances are assisted by short-term borrowing facilities. Changes in interest rates affect the Company's bottom line profit/(loss)

### *Liquidity risk*

Any additional funding requirements may be met by short term borrowing, potentially supported by the ultimate parent company, De'Longhi S p A

## AUDITORS

In accordance with S386 of the Companies Act 1985 the company has by a resolution of the members dated 1 March 2004 dispensed with the obligation to appoint auditors annually. As such PricewaterhouseCoopers LLP remain in office until removed

## DONATIONS

No charitable donations were made by the Company during 2006 (2005 £nil)

## STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the Board



I Fry  
Secretary

## Kenwood Appliances Limited (formerly Kenwood Appliances plc)

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### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare financial statements for each financial year, which 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 those financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KENWOOD APPLIANCES LIMITED (FORMERLY KENWOOD APPLIANCES PLC)**

We have audited the financial statements of Kenwood Appliances Limited (formerly Kenwood Appliances plc) for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

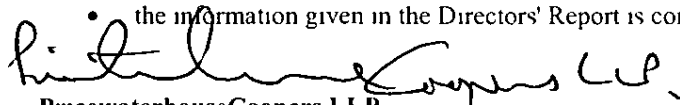
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Registered Auditors**  
**Southampton**

*10th June 2008*

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

## PROFIT AND LOSS ACCOUNT for the year ended 31 December 2006

		<i>Year ended 31 December 2006 £000</i>	<i>Year ended 31 December 2005 £000</i>
	<i>Notes</i>		
Administrative expenses		(86)	(177)
Exchange (loss) / gain on translation of loan balances		(59)	2
<b>OPERATING LOSS</b>	<b>2</b>	<b>(145)</b>	<b>(175)</b>
Income from investments	4	2,041	-
Interest receivable	5	6	1
Interest payable	6	(884)	(894)
<b>PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>1,018</b>	<b>(1,068)</b>
Taxation on profit / (loss)	7	(213)	-
<b>RETAINED PROFIT / (LOSS) FOR THE YEAR</b>	<b>13</b>	<b>805</b>	<b>(1,068)</b>

There are no gains or losses for the year attributable to the members other than the profit for the year of £805,000 (Year ended 31 December 2005 loss £1,068,000) Therefore no separate statement of total recognised gains and losses has been presented

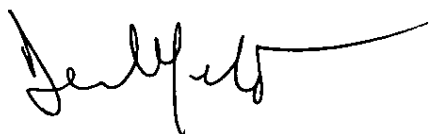
The results for both periods are derived from continuing operations and there are no material differences between the profit on ordinary activities before tax and retained profit for the year stated above and their historical cost equivalent

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

## BALANCE SHEET at 31 December 2006

		<i>31 December</i>	<i>31 December</i>
		<i>2006</i>	<i>2005</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
<b>FIXED ASSETS</b>			
Investments	8	85,408	74,674
		<u>85,408</u>	<u>74,674</u>
<b>CURRENT ASSETS</b>			
Debtors	9	3,176	503
Cash at bank and in hand		224	4
		<u>3,400</u>	<u>507</u>
<b>CREDITORS amounts falling due within one year</b>	11	(30,740)	(17,918)
<b>NET CURRENT LIABILITIES</b>		<u>(27,340)</u>	<u>(17,411)</u>
<b>NET ASSETS</b>		<u>58,068</u>	<u>57,263</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	4,586	4,586
Share premium	13	25,101	25,101
Special reserve	13	33,000	33,000
Profit and loss account	13	(4,619)	(5,424)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	13	<u>58,068</u>	<u>57,263</u>

The financial statements on pages 6-15 were approved by the board of directors on 4 JUNE 2008  
and were signed on its behalf by



**D Melo**

**Director**



# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

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## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

### 1. ACCOUNTING POLICIES

#### *Accounting convention*

The financial statements are prepared under the historical cost convention and in accordance with applicable Accounting Standards

These financial statements present information about the company as an individual undertaking and not about its group Kenwood Appliances Limited (formerly Kenwood Appliances plc) is a wholly owned subsidiary undertaking of an EU parent undertaking and, as such, avails itself of the exemption from preparing consolidated financial statements under section 228 of the Companies Act 1985

#### *Cash flow statement*

The Company has utilised the exemptions provided under Financial Reporting Standard No 1 (Revised) and has not presented a cash flow statement A cash flow statement has been presented in the group financial statements of the ultimate parent undertaking

#### *Deferred Taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled into replacement assets and charged to tax only when the replacement assets are sold
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

#### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date All differences are taken to the profit and loss account

#### *Fixed Asset Investments*

Investments in subsidiary companies are shown at cost less provisions

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

### 2 OPERATING LOSS

Auditors remuneration for the year was not borne by the Company, but was incorporated within the overall auditors remuneration of a subsidiary undertaking

### 3 DIRECTORS' REMUNERATION

The directors received no remuneration from the Company during the year (Year ended 31 December 2005 £Nil), their duties being incidental to the duties on behalf of the Group

The Company has no employees

### 4 INCOME FROM INVESTMENTS

	<i>Year ended 31 December 2006 £000</i>	<i>Year ended 31 December 2005 £000</i>
Dividends receivable from subsidiaries	2,041	-
	<u>2,041</u>	<u>-</u>

During the year, De'Longhi Capital Services S p A declared a dividend

### 5 INTEREST RECEIVABLE

	<i>Year ended 31 December 2006 £000</i>	<i>Year ended 31 December 2005 £000</i>
Interest receivable on bank balances	6	1
	<u>6</u>	<u>1</u>

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

### 6. INTEREST PAYABLE

	<i>Year ended 31 December 2006 £000</i>	<i>Year ended 31 December 2005 £000</i>
Interest payable on intercompany balances	884	894
	<u>884</u>	<u>894</u>

### 7 TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES

#### a) Analysis of tax charge / (credit) in period

	<i>Year ended 31 December 2006 £000</i>	<i>Year ended 31 December 2005 £000</i>
Based on the profit / (loss) for the period		
Current tax		
UK Corporation tax at 30%	-	-
Other current tax		
Charge in respect of prior periods	743	-
Total current tax	<u>743</u>	<u>-</u>
Deferred tax		
Credit for period	(269)	-
Credit in respect of prior periods	(261)	-
Total deferred tax	<u>(530)</u>	<u>-</u>
Tax on profit on ordinary activities	<u>213</u>	<u>-</u>

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

### b) Factors affecting tax charge / (credit) for the period

The tax assessed for the period is lower (2005 higher) than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below

Profit / (Loss) on ordinary activities before tax	1,018	(1,068)
Profit / (Loss) multiplied by standard rate of corporation tax in the UK of 30%	305	(320)
<i>Effects of</i>		
Dividends receivable not taxable	(612)	-
Tax losses carried forward	270	272
Other expenses not tax deductible	37	48
Total current tax for period	-	-

Other factors which may affect the tax position of the company are detailed in note 14

### 8 INVESTMENTS

	2006	2005
	£000	£000
Investments in subsidiary undertakings	85,408	74,674

#### (a) Investments in subsidiary undertakings

	£000
Historical cost	
At 31 December 2005	74,674
Additional investment in the period	10,734
As at 31 December 2006	85,408
Net book value	
At 31 December 2006	85,408
At 31 December 2005	74,674

<i>Name of Company</i>	<i>Country of registration (or incorporation) and operation</i>
Ariete S p A	Italy
Kenwood Limited	England

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

Kenwood International Limited	England
* Kenwood Manufacturing GmbH	Austria
* Kenwood Appliances (Malaysia) SND BHD	Malaysia
Kenwood Appliances Luxembourg SA	Luxembourg
* Kenwood Appliances (Singapore) Limited	Singapore
* Kenwood Home Appliances (PTY) Limited	South Africa
De'Longhi Capital Services S p A	Italy

All the undertakings are wholly owned, with the exception of De'Longhi Capital Services S p A (where the holding is 88.68%) and Ariete S p A (where the share holding is 50%) (\*denotes that shares are held through an intermediate holding Company)

De'Longhi Capital Services S p A is engaged in making portfolio, cash and securities investments on behalf of the De'Longhi Group. Kenwood Appliances Luxembourg SA is engaged in the collection of licence fees and royalties arising from the use of the Kenwood trademark. Kenwood International Limited acts as the intermediate holding Company for overseas subsidiary undertakings. All other subsidiary undertakings are principally engaged in the manufacture and/or distribution of domestic appliances.

During the year Kenwood Appliances Limited (formerly Kenwood Appliances plc) acquired 50% of Ariete S p A from Kenwood International Limited. Ariete S p A is a small domestic appliances company, based in Italy which distributes products in the Italian domestic and export markets.

Kenwood Appliances Limited (formerly Kenwood Appliances plc) is a wholly owned subsidiary of an EU parent undertaking and, as such, avails itself of the exemption from preparing consolidated financial statements under section 228 of the Companies Act 1985.

### 9. DEBTORS

	2006	2005
	£000	£000
Amounts owed by subsidiary undertakings	2,546	403
Other debtors	100	100
Deferred tax asset (note 10)	530	-
	<u>3,176</u>	<u>503</u>

Amounts due from subsidiary undertakings are unsecured, interest free or for certain balances interest is charged at 0.75% above the EBR and repayable on demand.

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

### 10 DEFERRED TAX ASSET

	2006	2005
	£000	£000
Estimated recoverable within one year	530	-

The company's potential deferred tax asset comprises the following major components, calculated at the current standard corporation tax rate of 30%

	Recognised		Not Recognised	
	2006	2005	2006	2005
	£000	£000	£000	£000
Provision for expenses deductible in future periods	208	-	-	-
Tax losses carried forward	322	-	-	627
	530	-	-	627

The deferred tax asset has not been discounted. The total potential deferred tax asset at 31 December 2006 is £530,000 (2005 £627,000). The decrease in the year of £97,000 is attributable to the current year movement (see note 7a) of £269,000 resulting from tax losses incurred during the year, offset by a decrease of £366,000 due to a revision of the tax estimates for prior periods.

	Year ended 31 December 2006 £000
Asset recognised at 1 January 2006	-
Deferred tax credit in profit and loss account for the period (note 7a)	530
Asset recognised at 31 December 2006	530

The recovery of the deferred tax asset recognised in the accounts has been assessed having regard to the estimated group relief capacity of the company's UK subsidiaries. These indicate that the company will recover the recognised asset by surrendering its losses, including its expenses incurred, but which are deductible for tax purposes in future periods to its UK subsidiaries in return for payment for the losses surrendered at the standard corporation tax rate of 30%.

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

### 11 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £000	2005 £000
Amounts owed to subsidiary undertakings	29,915	17,731
UK Corporation tax	743	-
Bank overdrafts	-	64
Accruals	82	123
	<u>30,740</u>	<u>17,918</u>

Amounts due to subsidiary undertakings are unsecured, interest free or for certain balances interest is charged at 0.75% above the EBR and repayable on demand

### 12 SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	2006 <i>No</i>	2005 <i>No</i>	2006 £000	2005 £000
Ordinary shares of 10p each	201,680,000	201,680,000	4,586	4,586

### 13. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share Capital £000</i>	<i>Share premium account £000</i>	<i>Non distributable special reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 31 December 2005	4,586	25,101	33,000	(5,424)	57,263
Profit for the year	-	-	-	805	805
At 31 December 2006	<u>4,586</u>	<u>25,101</u>	<u>33,000</u>	<u>(4,619)</u>	<u>58,068</u>

### 14 CONTINGENT LIABILITIES

The directors, after taking advice, consider that the dividend of £2.0 million receivable from an Italian subsidiary (see note 4) is not taxable in the UK on the grounds that the relevant UK tax legislation under which it is potentially taxable is in breach of Article 43 of the EC Treaty because it hinders the freedom of

# Kenwood Appliances Limited (formerly Kenwood Appliances plc)

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## NOTES TO THE ACCOUNTS

For the year ended 31 December 2006

establishment within the EU. The supremacy of EU law over UK tax law is however an area of uncertainty and there remains the possibility of the benefit of the EC Treaty being denied.

In December 2004 the company assigned its interest in the Kenwood Trade Marks to a Luxembourg subsidiary. The directors consider that the Trade Marks were assigned at their open market value, and their opinion is supported by an independent valuation. HM Revenue and Customs ("HMRC") has performed an initial review of the valuation. As a result of this review HMRC has indicated that it may be too low for UK tax purposes and, consequently, they have requested further information. The directors remain confident that no additional corporation tax over that recorded in these accounts will become payable as a result of HMRC's review, but they acknowledge that there is a significant degree of uncertainty inherent in the valuation process and consequently in the range of possible outcomes of negotiations with HMRC in agreeing the valuation. The amount of tax involved might be substantial. Under these circumstances of significant uncertainty, the directors do not consider it possible for the company to make a reasonable estimate of any additional tax liability which could arise from the assignment of the Trade Marks if HMRC was to successfully challenge the current valuation.

Kenwood Marks Ltd ("Marks"), a UK company which Kenwood Appliances Ltd sold in 2004, claimed £0.9 million tax losses from another member of the De'Longhi group for the year ended 31 December 2003. HM Revenue and Customs is enquiring into the tax returns of the surrendering company for 2004 and 2005 and, while the directors are confident no adjustments will arise in 2003 or those later years, it is possible the group relief available to Marks in 2003 will be reduced. In this event Kenwood Appliances Ltd may have an obligation to settle any tax liability which arises in Marks.

### 15 PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent undertaking is De'Longhi Household S.A. (previously named De'Longhi Finance S.A.). The Company's ultimate parent undertaking and controlling party is De'Longhi S.p.A. which is the parent undertaking of the smallest and largest group to consolidate these financial statements and is incorporated in Italy. Copies of its Group financial statements are available from Via L. Seitz 47, 31100 Treviso, Italy.

### 16 RELATED PARTY TRANSACTIONS

The Company has utilised exemptions under Financial Reporting Standard No. 8 as a wholly owned subsidiary not to disclose transactions with other group entities.

### 17 POST BALANCE SHEET EVENTS

The company allotted 260 million Ordinary shares of 10p each, fully paid, to its immediate parent undertaking, De'Longhi Household S.A., for a total consideration of £26 million on 21 December 2007.

The company subsequently invested £26.1 million in a wholly owned undertaking, Kenwood Appliances Luxembourg S.A., by way of a capital contribution, on 24 December 2007.