Focus DIY (Finance) plc

Directors' report and financial statements

Registered number 4526040

29 October 2006

Contents

Directors' report

The directors present their annual report and the audited financial statements for the 52 week period ended 29 October 2006.

Principal activity

The Company's principal activity is that of an intermediate holding and finance Company.

Business review

The results of the company for the period are set out in the accompanying financial statements.

Subsequent events

In January 2007 the Group announced a strategic review of future options for the Group. The Group held discussions with a co-ordination committee of senior lenders and an ad-hoc committee of mezzanine note holders, as well as its shareholders, about the requirement to restructure its debt and equity. The strategic review included the potential sale of the business and had the full support of all the stakeholders.

As a result of the strategic review, FW No. 4 Limited and all of its subsidiaries were disposed of as a going concern. The acquirer, FLP2 Limited, a company affiliated with Cerberus European Investments LLC purchased FW No.4 Limited for £1. The acquiring Group also purchased the senior debt at par and made an offer of 40p per £1 nominal value for the mezzanine notes which was accepted by 92.04% of the mezzanine note holders.

Post the sale, FLP 2 Limited has a £100 million senior debt facility and a £60 million second lien facility, fully drawn. The senior debt, on which interest is payable in cash, is split into 2 tranches of £50 million with bullet repayment of the first tranche due after 6 years and the second after 7 years. The second lien is also a bullet repayment due after 8 years and carries PIK interest payable on maturity.

Directors

The directors who held office during the period were as follows:

WE Archer	(resigned 26 July 2007)
GC Wilson	(resigned 26 July 2007)
SR Johnson	(resigned 26 July 2007)
DR Williams	(resigned 26 July 2007)

The following directors where appointed after the balance sheet date:

W Grimsey	(appointed 26 July 2007)
WJ Hoskins	(appointed 26 July 2007)

Political and charitable contributions

The Company made no political or charitable donations and incurred no political expenditure during the period.

Directors' report *(continued)*

Disclosure of information to auditors

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

Financial Instruments

The Company's principal financial instrument is Mezzanine Loan Notes. The main purpose of this instrument is to provide finance for the Group's acquisitions and operations.

Throughout the period under review it has always been the Company's policy that no trading in financial instruments should be undertaken.

The main risk arising from the Company's financial instruments is interest rate risk and this is effectively managed via the fixed interest rate nature of the loan notes.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

WJ Hoskins

WJ Hoskins
Finance Director

Gawsworth House
Westmere Drive
Crewe
Cheshire
CW1 6XB

2007

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

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

Company law requires the directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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; and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They 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.

KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of Focus DIY (Finance) plc

We have audited the financial statements of Focus DIY (Finance) plc for the 52 week period ended 29 October 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 judgements 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.

Independent auditors' report to the members of Focus DIY (Finance) plc *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 29 October 2006 and of its profit for the period 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.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

23/08/2007

Profit and loss account
for the 52 week period ended 29 October 2006

	Note	2006 £000	2005 £000
Administrative expenses		**(8)**	(8)
Operating loss – continuing operations		**(8)**	(8)
Income from shares in group undertakings	*5*	**-**	141,000
Other interest receivable and similar income	*6*	**116,174**	101,053
Interest payable and similar charges	*7*	**(9,432)**	(34,346)
Profit on ordinary activities before taxation	*2-7*	**106,734**	207,699
Tax on profit on ordinary activities	*8*	**(55,271)**	-
Profit for the financial period		**51,463**	207,699

The Company has no recognised gains or losses in either the current or preceding period, other than those reported above and therefore no statement of total recognised gains and losses has been presented.

Balance sheet
at 29 October 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets					
Investments	*10*		**-**		-
Current assets					
Debtors	*11*	**799,262**		687,420	
Creditors: amounts falling due within one year	*12*	**(127,858)**		(68,068)	
Net current assets			**671,404**		619,352
Total assets less current liabilities			**671,404**		619,352
Creditors: amounts falling due after more than one year	*13*		**(96,353)**		(95,764)
Net assets			**575,051**		523,588
Capital and reserves					
Called up share capital	*15*		**456,872**		456,872
Profit and loss account	*16*		**118,179**		66,716
Shareholders' funds			**575,051**		523,588

These financial statements were approved by the board of directors on 23 August 2007 and were signed on its behalf by:

WJ Hoskins

WJ Hoskins
Finance Director

Reconciliation of movements in shareholders' funds
for the 52 week period ended 29 October 2006

	Note	**52 weeks ended 29 October 2006 £000**	52 weeks ended 30 October 2005 £000
Profit for the financial period		**51,463**	207,699
Dividends on shares classified in shareholders funds	*9*	-	(200,000)
Retained profit for the financial period		**51,463**	7,699
Opening shareholders' funds		**523,588**	515,889
Closing shareholders' funds		**575,051**	523,588

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are restated in accordance with the new policies.

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The directors have considered the future profitability of the group on its ability to continue as a going concern and have prepared profit and cash flow forecasts for the period up to 31 October 2008. Based on these projections and the continuing support of the major stakeholders, Cerberus European Investments LLC (See Directors report – page 1), the directors are satisfied that, for the foreseeable future the group, of which this company is part of will be able to meet its debts as they fall due and consequently they have prepared the financial statements on a going concern basis.

The Company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare Group accounts. These financial statements present information about the Company as an individual undertaking and not about its Group.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Focus DIY Group Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group. The consolidated financial statements of Focus DIY Group Limited, within which this Company is included, can be obtained from the address given in note 19.

Investments

Investments are stated at cost less full provision for any impairment in value.

Dividends on shares presented within shareholders funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, 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 as otherwise required by FRS 19.

Financial Guarantees

The company has not adopted amendments to FRS 26 in relation to financial guarantee contracts.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make payment under the guarantee.

The company does not expect the amendments to have any impact on the financial statements for the period commencing 30 October 2006.

Derivatives and other financial instruments

The Company's financial instruments, other than derivatives comprise Mezzanine Loan Notes, cash and liquid resources, and various items such as debtors and creditors that arise directly from its operations.

Notes *(continued)*

2 Profit on ordinary activities before taxation

	2006	2005
	£000	£000
Profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration		
Audit	**8**	8

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Focus DIY Group Limited.

3 Remuneration of directors

The directors receive no remuneration from the company in there capacity as directors. All remuneration is provided by other group undertakings, Focus (DIY) Limited

	Number of directors	
	2006	2005
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**4**	4
Defined benefit schemes	**2**	2

4 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	
	2006	2005
Administration	**4**	4

The aggregate payroll costs of these persons were as follows:

	2006	2005
	£000	£000
Wages and salaries	-	-

Notes *(continued)*

5 Income from shares in group undertakings

	2006	2005
	£000	£000
Dividends received	-	141,000

6 Other interest receivable and similar income

	2006	2005
	£000	£000
Receivable from group undertakings	**116,174**	101,053

7 Interest payable and similar charges

	2006	2005
	£000	£000
On other loans	**9,324**	26,133
Amortisation of capitalised debt issue costs	**108**	8,213
	9,432	34,346

8 Taxation

Analysis of charge in period

	2006	2005
	£000	£000
Current tax		
UK corporation tax on profits for the period	**33,762**	-
Adjustments in respect of prior periods	**21,509**	-
Total current tax (see below)	**55,271**	-

Factors affecting the tax charge for the period

Notes *(continued)*

8 Taxation *(continued)*

The current tax charge for the period is higher *(2005: lower)* than the standard rate of corporation tax in the UK 30% *(2005: 30%)*. The differences are explained below.

	2006 **£000**	2005 £000
Profit on ordinary activities before taxation	**106,734**	207,699
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% *(2005: 30%)*	**32,020**	62,310
Effects of:		
Non taxable income	**-**	(42,300)
Group relief not paid for	**-**	(20,010)
Adjustment to tax charge in respect of prior periods	**21,509**	-
UK Transfer pricing adjustment	**1,742**	-
Current tax charge for period (see above)	**55,271**	-

9 Dividends

The aggregate amount of dividends comprises:

	2006 **£000**	2005 £000
Interim dividend paid in respect of current period	**-**	200,000

10 Fixed asset investments

	Shares in group undertakings £000
Cost and net book value	
At beginning and end of period	-

Notes *(continued)*

10 Fixed asset investments *(continued)*

The principal undertakings in which the Company's interest at the period end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held Indirect	Direct
Subsidiary undertakings				
Focus DIY (Investments) Ltd	UK	Intermediate holding company	-	100% ordinary
Focus No. 1 Limited	UK	Intermediate holding company	100% ordinary	-
Focus Retail Group Limited	UK	Intermediate holding company	100% ordinary	-
Focus Group (Finance) Limited	UK	Intermediate holding company	100% ordinary	-
Focus (DIY) Limited	UK	Retail operator of DIY superstores	100% ordinary	-
Do It All Limited	UK	Retail operator of DIY superstores	100% ordinary	-
Focus Retail Services Limited	UK	Provider of financial services to fellow Group companies	100% ordinary	-

11 Debtors

	2006 £000	2005 £000
Amounts owed by group undertakings	**799,249**	687,407
Prepayments and accrued income	**13**	13
	799,262	687,420

12 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Amounts owed to group undertakings	**124,052**	64,034
Accruals and deferred income	**3,806**	4,034
	127,858	68,068

13 Creditors: amounts falling due after more than one year

	2006 £000	2005 £000
Mezzanine notes	**96,353**	95,764

Mezzanine Loan Notes at 29 October 2006 comprise:

£100,000,000 9 3/8% Mezzanine Notes which mature on 3 March 2015.

Notes *(continued)*

14 Analysis of debt

	2006 £000	2005 £000
Debt can be analysed as falling due:		
In five years or more	**100,000**	100,000
Less future finance charges	**(3,647)**	(4,236)
	96,353	95,764

15 Called up share capital

	2006 £000	2005 £000
Authorised		
Equity: 465,000,000 ordinary share of £1 each	**465,000**	465,000
Allotted, called up and fully paid		
Equity: 456,871,941 ordinary shares of £1 each	**456,872**	456,872

16 Reserves

	Profit and loss account £000
At beginning of period	66,716
Retained profit for the period	51,463
At end of period	**118,179**

Notes *(continued)*

17 Derivatives and other financial instruments

Role of financial instruments

The Company raises its funds from various financial instruments and these funds are then used throughout the Group to finance acquisitions and trading activity.

The Company does not trade in financial instruments.

The main risk arising from the Company's financial instruments is interest rate risk. A discussion of how this risk impacts the Company is given in the Directors report on page 2.

Interest rate risk

The interest rate risk profile of the Company is as follows:

	29 October 2006			30 October 2005		
	Total gross debt £000	**Fixed interest rates £000**	**No interest paid £000**	Total gross debt £000	Fixed interest rates £000	No interest paid £000
Mezzanine notes	100,000	100,000	-	100,000	100,000	-
Issue costs	(3,647)			(4,236)		
	96,353			95,764		

The weighted average interest rate of the fixed rate financial liabilities is 9.375% *(2005: 9.375%)* and is fixed for a weighted average period of 8.35 years *(2005: 9.35 years).*

Liquidity risk

The maturity profile of the Company's financial instruments is as follows:

	29 October 2006		30 October 2005	
	Total gross debt £000	**In more than five years £000**	Total gross debt £000	In more than five years £000
Mezzanine notes	**100,000**	**100,000**	100,000	100,000
Issue costs	**(3,647)**		(4,236)	
	96,353		95,764	

Notes *(continued)*

17 Derivatives and other financial instruments *(continued)*

Fair values

The fair values of the financial liabilities held by the Company are as follows:

	29 October 2006		30 October 2005	
	Book value	**Fair value**	Book value	Fair value
	£000	**£000**	£000	£000
Financial liabilities				
Mezzanine notes	**100,000**	**38,500**	100,000	81,000
Issue costs	**(3,647)**		(4,236)	
	96,353		95,764	

The fair value of the mezzanine notes is the mid price market value of the notes as quoted on the Dublin Stock Exchange.

18 Post balance sheet events

On 21 March 2007, it was announced that the standard rate of corporation tax was to be changed to 28% and capital allowance legislation impacting on the calculation of the deferred tax provision of the company will be introduced for taxable periods arising on or after 1 April 2008. For the purpose of the company accounts to 29 October 2006, the standard rate of corporation tax and capital allowance legislation applicable prior to 30 March 2008 has been applied on the basis that these were enacted at 29 October 2006.

In January 2007 the Group announced a strategic review of future options for the Group. The Group held discussions with a co-ordination committee of senior lenders and an ad-hoc committee of mezzanine note holders, as well as its shareholders, about the requirement to restructure its debt and equity. The strategic review included the potential sale of the business and had the full support of all the stakeholders.

As a result of the strategic review, FW No. 4 Limited and all of its subsidiaries were disposed of as a going concern. The acquirer, FLP2 Limited, a company affiliated with Cerberus European Investments LLC purchased FW No.4 Limited for £1. The acquiring Group also purchased the senior debt at par and made an offer of 40p per £1 nominal value for the mezzanine notes which was accepted by 92.04% of the mezzanine note holders.

Post the sale, FLP 2 Limited has a £100 million senior debt facility and a £60 million second lien facility, fully drawn. The senior debt, on which interest is payable in cash, is split into 2 tranches of £50 million with bullet repayment of the first tranche due after 6 years and the second after 7 years. The second lien is also a bullet repayment due after 8 years and carries PIK interest payable on maturity.

19 Ultimate parent company

At the year end the Company was a subsidiary undertaking of Focus DIY Group Limited which was the ultimate parent company incorporated in the UK.

The consolidated financial statements of the group are available to the public and may be obtained from:

Companies House
Crown Way
Cardiff
CF4 3UZ