Focus DIY (Finance) plc

Directors' report and financial statements

Registered number 4526040

22 February 2009

Contents

Directors' report

The directors present their directors' report and financial statements for the 52 week period ended 22 February 2009 *(2008: 43 weeks ended 24 February 2008).*

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.

The financial statements for the period ended 22 February 2009 have been prepared under UK GAAP and for the Company only as the Company has no securities admitted to trading on a regulated market of an EU state.

Directors

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

W Grimsey	
R Bird	
G West	(resigned 31 January 2009)
WJ Hoskins	(resigned 28 April 2008)
S Thomas	(resigned 23 September 2008)
R Gladwin	(appointed 7 April 2008)
AV Unitt	(appointed 28 April 2008)
P Teale	(appointed 2 February 2009)

Political and charitable contributions

The Company made no political or charitable donations and incurred no political expenditure during the year *(2008: £nil).*

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 which were delisted from the Irish Stock Exchange in June 2007.

Auditors

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

By order of the board

AV Unitt
Finance Director

Gawsworth House
Westmere Drive
Crewe
Cheshire
CW1 6XB

29 September 2009

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 period ended 22 February 2009 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 2.

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 22 February 2009 and of its loss 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

29 September 2009

Profit and Loss Account
for the year ended 22 February 2009

	Note	**52 weeks 22 February 2009 Continuing operations**			43 weeks 24 February 2008 Continuing operations		
		Before exceptional items	**Exceptional items**	**Total**	Before exceptional items	Exceptional items	Total
		£000	**£000**	**£000**	£000	£000	£000
Administrative expenses	*2*	**(26)**	**-**	**(26)**	(29)	(1,947)	(1,976)
Operating loss		**(26)**	**-**	**(26)**	(29)	(1,947)	(1,976)
Other interest receivable and similar income	*6*	**-**	**-**	**-**	6,011	-	6,011
Interest payable and similar charges	*7*	**-**	**-**	**-**	(5,695)	-	(5,695)
Other exceptional finance income	*2*	**-**	**-**	**-**	-	60,000	60,000
(Loss)/profit for the financial period before taxation		**(26)**	**-**	**(26)**	287	58,053	58,340
Tax on (loss)/profit on ordinary activities	*8*			**-**			-
(Loss)/profit for the financial period				**(26)**			58,340

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 22 February 2009

	Note	22 February 2009 £000	22 February 2009 £000	24 February 2008 £000	24 February 2008 £000
Fixed assets					
Investments	9		-		-
Current assets					
Debtors	10	747,393		747,406	
Creditors: amounts falling due within one year	11	(116,287)		(116,274)	
Net current assets			631,106		631,132
Total assets less current liabilities			631,106		631,132
Creditors: amounts falling due after more than one year	12		(3,184)		(3,184)
Net assets			627,922		627,948
Capital and reserves					
Called up share capital	13		456,872		456,872
Profit and loss account	14		171,050		171,076
Shareholders' funds			627,922		627,948

These financial statements were approved by the board of directors on 29 September 2009 and were signed on its behalf by:

AV Unitt
Finance Director

Reconciliation of Movements in Shareholders' Funds
for the period ended 22 February 2009

	52 weeks 22 February 2009 £000	43 weeks 24 February 2008 £000
(Loss)/profit for the financial period	**(26)**	58,340
Net (reduction in)/addition to shareholders' funds	**(26)**	58,340
Opening shareholders' funds	**627,948**	569,608
Closing shareholders' funds	**627,922**	627,948

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.

Basis of preparation

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

The accounts have been prepared on a going concern basis which the directors believe to be appropriate for the following reasons. As discussed in note 16 the Group implemented a successful Company Voluntary Arrangement on 24 September 2009. As a result of this, the onerous lease costs and guarantees associated with non-trading properties are to be compromised through the payment of a dividend in two tranches, in January and April 2010.

In addition, since the year-end, the Group has reached agreement with its Revolving Credit Facility ('RCF') lenders to extend its £50m facility for a two year period to 31 December 2011. The Group now meets its working capital needs through this facility and £160m of senior debt, of which £100m is repayable in 2013 and £60m in 2014.

The directors have considered the future profitability of the Group and have prepared profit and cash flow forecasts for the period up to February 2012. These projections indicate that the banking covenants attached to the extended RCF will be complied with throughout the forecast period and that the facility should provide sufficient working capital for the Group for the whole of the extension period.

The directors have further considered a number of sensitised forecasts to reflect the inherent uncertainty in the current economic climate. The directors are satisfied that on the low case sensitised forecast there is sufficient flexibility in the overhead cost base and discretional spend lines to meet its projected working capital requirement and liabilities arising on financing and investment obligations and banking covenants.

Based on their consideration of the projections above and the continuing support of the major stakeholders, Cerberus European Investments LLC, the directors have a reasonable expectation that, for the foreseeable future the Group, of which this company is part, can meet its projected working capital requirement and satisfy liabilities arising on financing and investment obligations and banking covenants. Accordingly, they continue to adopt the going concern basis in preparing the group and company financial statements.

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 FLP2 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 the Group can be obtained from the address in note 17.

Investments

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

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.

Notes *(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.

2 Exceptional items

	52 weeks 22 February 2009 £000	43 weeks 24 February 2008 £000
Administration		
Refinancing costs	-	1,947
Exceptional operating costs	-	1,947
Other exceptional finance income		
Gain on settlement of Mezzanine Notes valued at redemption price	-	(60,000)

Refinancing costs in February 2008 relate to the strategic review of the future options of the Group which was concluded by way of the acquisition of the Group by Cerberus European Investments LLC.

The gain on settlement of mezzanine notes valued at redemption price in February 2008 related to the offer of 40p per £1 nominal value for the mezzanine notes as part of the acquisition of the Group by Cerberus. The redemption price was accepted by 92.04% of the mezzanine note holders. This was a majority vote and the remaining mezzanine notes were valued at 40p in the £1.

The tax effect of exceptional items was £nil.

Notes *(continued)*

3 (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities is stated after charging:	**52 weeks 22 February 2009 £000**	43 weeks 24 February 2008 £000
Auditors' remuneration		
Audit of these financial statements	**7**	7

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, FLP2 Limited.

4 Remuneration of directors

The directors receive no remuneration from the Company in their capacity as directors. All remuneration is provided by another group undertaking, Focus (DIY) Limited

	Number of directors	
	22 February 2009	24 February 2008
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**5**	5

5 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 directors	
	52 weeks 22 February 2009	43 weeks 24 February 2008
Administration	**5**	5

The aggregate payroll costs of these employees is borne by another group undertaking, Focus (DIY) Limited.

6 Other interest receivable and similar income

	52 weeks 22 February 2009 £000	43 weeks 24 February 2008 £000
Mezzanine note interest waived	**-**	6,011

Notes *(continued)*

7 Interest payable and similar charges

	52 weeks 22 February 2009 £000	43 weeks 24 February 2008 £000
Other loans	-	2,255
Amortisation of capitalised debt issue costs	-	99
Accelerated amortisation of capitalised debt issue costs	-	3,341
	-	5,695

8 Taxation

Analysis of credit/charge in the period:

	52 weeks 22 February 2009 £000	43 weeks 24 February 2008 £000
Current tax		
UK corporation tax on (loss)/profit for the period	-	-
Adjustments in respect of prior periods	-	-
Total current tax (see below)	-	-

Factors affecting the tax credit/charge for the period:

The current tax credit for the period is lower *(2008: charge, lower)* than the standard rate of corporation tax in the UK 28% (*2008: 30%*). The differences are explained below.

	52 weeks 22 February 2009 £000	43 weeks 24 February 2008 £000
(Loss)/profit on ordinary activities before taxation	**(26)**	58,340
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% *(2008: 30%)*	**(7)**	17,502
Effects of:		
Expenses not deductible for tax purposes	**7**	598
Non taxable income	-	(16,574)
Movement in other timing differences	-	(1,127)
Group relief sold at less than prevailing rate	-	(399)
Current tax credit for period (see above)	-	-

Notes *(continued)*

9 Fixed asset investments

	Shares in group undertakings 22 February 2009 £000
Cost	
At beginning and end of period	-

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

Subsidiary undertakings	Country of incorporation	Principal activity	Percentage and class of shares held Indirect Ordinary	Direct Ordinary
Focus DIY (Investments) Ltd	UK	Intermediate holding company	-	100%
Focus No. 1 Limited	UK	Intermediate holding company	100%	-
Focus Retail Group Limited	UK	Intermediate holding company	100%	-
Focus Group (Finance) Limited	UK	Intermediate holding company	100%	-
Focus (DIY) Limited	UK	Retail operator of DIY superstores	100%	-
Do It All Limited	UK	Retail operator of DIY superstores	100%	-

10 Debtors

	22 February 2009 £000	24 February 2008 £000
Amounts owed by group undertakings	747,393	747,406

11 Creditors: amounts falling due within one year

	22 February 2009 £000	24 February 2008 £000
Amounts owed to group undertakings	116,275	116,260
Accruals and deferred income	12	14
	116,287	116,274

12 Creditors: amounts falling due after more than one year

	22 February 2009 £000	24 February 2008 £000
Mezzanine loan notes	3,184	3,184

Notes *(continued)*

13 Called up share capital

	22 February 2009	24 February 2008
	£000	£000
Authorised		
Ordinary share of £1 each	**456,872**	468,872
Allotted, called up and fully paid		
Ordinary shares of £1 each	**456,872**	456,872

14 Reserves

	Profit and loss account
	£000
Company	
At beginning of period	171,076
Retained loss for the financial period	(26)
At end of period	**171,050**

15 Contingent liabilities

The Company has guaranteed certain borrowing of subsidiary undertakings which at 22 February 2009 amounted to £177.2m *(2008: £160.0m).*

16 Subsequent Events

In August 2009, the Group of which this Company is part commenced a Company Voluntary Arrangement in Payless DIY Limited, Do It All Limited, Focus (DIY) Limited and Focus No1 Limited with interlocking agreements in Do It All Limited, Focus (DIY) Limited and Focus No 1 Limited. The Company Voluntary Arrangements result in 38 closed premises landlord liabilities being compromised with £8.6m annual rent, service charges and insurance cash savings. A further element of the Company Voluntary Arrangements is monthly payment of rent on all trading properties until March 2011 which has the benefit of smoothing cash flows.

In September 2009 the Group received confirmation that the Do It All Limited, Focus (DIY) Limited and Focus No 1 Limited Company Voluntary Arrangements were approved.

The Payless DIY Company Voluntary Arrangement remains in progress and if not approved it is likely that Payless DIY Limited will be placed into administration. However, as Payless DIY Limited is a dormant company with no trade suppliers, the impact on the Group of just the Payless DIY Limited Company Voluntary Arrangement not being approved is negligible.

In September 2009 the Group successfully extended the £50m Revolving Credit Facility for two years to 31 December 2011.

On the 24 September 2009 the Group's Term B debt of £104.8m was agreed to carry PIK interest until March 2011. This is non cash pay interest and therefore has an annual cashflow benefit of £5.0m.

Notes *(continued)*

17 Ultimate parent company

At the period end FLP2 Limited 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