

Faith Funding Limited

**Directors' report and financial
statements**

Registered number 5276346

30 June 2007

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Directors and advisers

Directors

S Cotter
PE O'Neil
LA Dunsmuir
S Swaby

Secretary

L A Dunsmuir

Auditor

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

Registered office

Faith House
40-48 Chase Road
Park Royal
London
NW10 6PX

Directors' report

The directors present the audited financial statements for the year ended 30 June 2007

Principal activities

The principal activity of the company is the holding of investments in subsidiary companies

Business review

The results for the year are set out on page 6

On 30 August 2006, the company undertook the following transactions -

- 27,759,563 £1 deferred ordinary shares were issued to the holder of the shareholder unsecured deep discounted bonds 2011 in exchange for the cancellation and waiving of 85% of the discount charged on the bonds up until 30 August 2006. The amount outstanding under the remaining shareholder deep discounted bonds 2011 at 30 August 2006 was £4,898,376,
- The Group entered into a contract with the holders of its management loan notes 2011 the terms of which give the Group the option to buy 85% of the loan notes and associated interest charges by issuing deferred ordinary shares of an equal nominal value

As a result of the events described above the carrying value of the investment in subsidiaries has been reassessed by the directors and they concluded that the carrying value of £27.5 million remains appropriate

Directors

The directors who held office during the year were as follows

S Cotter	(appointed 11 August 2007)
PE O'Neill	
LA Dunsmuir	
S Swaby	(appointed 11 August 2007)

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming annual general meeting

By order of the board



L Dunsmuir
Secretary

Faith House
40-48 Chase Road
Park Royal
London
NW10 6PX

15 October 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 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)

The financial statements are required by law to give a 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 the 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 LLP

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

Independent auditors' report to the members of Faith Funding Limited

We have audited the financial statements of Faith Funding Limited for the year ended 30 June 2007 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.

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 Directors' Report and 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 4.

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 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 UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2007 and of its loss 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.

KPMG LLP

Chartered Accountants

Registered Auditor

15 October 2007

KPMG LLP

Profit and loss account
for the year ended 30 June 2007

	<i>Note</i>	2007 £000	2006 £000
Interest payable and similar charges	3	(2,744)	(2,929)
Loss on ordinary activities before taxation	4	(2,744)	(2,929)
Tax on loss on ordinary activities	5	-	-
Loss on ordinary activities after taxation for the financial year	10	(2,744)	(2,929)

The result for the year has been derived from continuing activities

The company has no recognised gains or losses for the financial year other than those reported above

Balance sheet
at 30 June 2007

	<i>Note</i>	2007 £000	2006 £000
Fixed assets			
Investments	6	27,515	27,515
Creditors amounts falling due within one year	7	(3,273)	(3,273)
Total assets less current liabilities		<u>24,242</u>	<u>24,242</u>
Creditors , amounts falling due after more than one year	8	(12,444)	(37,460)
Net assets/(liabilities)		<u>11,798</u>	<u>(13,218)</u>
Capital and reserves			
Share capital	9	39,979	12,219
Profit and loss account	10	(28,181)	(25,437)
Shareholders' funds/(deficit)		<u>11,798</u>	<u>(13,218)</u>

These financial statements were approved by the board of directors on 15 October 2007 and were signed on its behalf by



Director

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 company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. In addition, they are prepared on a going concern basis, which assumes the continued support of the parent company. If this was not the case adjustments would have to be made to restate the assets to their recoverable amounts and accrue for further liabilities that may arise.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. The financial statements present information about the company as an individual undertaking and not about its group.

As 100% of the company's voting rights are controlled within the group headed by Faith Holdings Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Faith Holdings Limited, within which this company is included, can be obtained from Companies House.

Cash flow statement

The company is exempt from the requirement of FRS1 (revised) to prepare a cash flow statement as it is a wholly owned subsidiary of Faith Holdings Limited and its cash flows are included within the consolidated cash flow statement of that company.

Capital instruments

In accordance with FRS4, finance costs are charged to the profit and loss account over the life of the loan.

Taxation

The charge for taxation is based on the profit for the year 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.

2 Remuneration of directors and staff numbers

No directors' emoluments were paid during the year or previous financial year. The directors were the only employees of the company.

Notes (continued)

3 Interest payable and similar charges (net)

	2007 £000	2006 £000
<i>Interest payable and similar charges</i>		
On shareholder bonds	891	2,927
On loan notes	508	297
Amortisation of finance costs in accordance with FRS 4 'Capital Instruments'	1,345	193
	<u>2,744</u>	<u>3,417</u>
<i>Interest receivable and similar income</i>		
Loan note interest waived	-	(488)
Net interest payable	<u>2,744</u>	<u>2,929</u>

4 Loss on ordinary activities before taxation

The company's audit fees for the current and previous financial years were borne by another group undertaking

5 Taxation

	2007 £000	2006 £000
<i>Current tax</i>		
UK corporation tax on profits of the year	-	-
	<u>-</u>	<u>-</u>
Taxation on profit on ordinary activities	-	-
	<u>-</u>	<u>-</u>

The current tax charge for the year is higher than (2006 higher than) the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained below

	2007 £000	2006 £000
Loss on ordinary activities before tax	(2,744)	(2,929)
	<u>-</u>	<u>-</u>
Loss on ordinary activities at the standard rate of corporation tax in the UK	(823)	(879)
Effects of		
Losses carried forward	823	879
	<u>-</u>	<u>-</u>
Current tax charge for year	-	-
	<u>-</u>	<u>-</u>

A deferred tax asset in respect of losses carried forward has not been recognised due to uncertainties over the future utilisation of these losses

Notes (continued)

6 Fixed asset investments

	Shares in group undertakings £000	Loans to group undertakings £000	Total £000
Cost			
At beginning and end of year	219	47,781	48,000
	<hr/>	<hr/>	<hr/>
Provision			
At beginning and end of year	(219)	(20,266)	(20,485)
	<hr/>	<hr/>	<hr/>
Net book value			
At beginning and end of year	-	27,515	27,515
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The principal undertakings in which the company's interest at the year end exceeded 20% are as follows

	Country of incorporation	Principal activity	Percentage of shares held
Subsidiary undertakings			
Faith Acquisitions Limited	UK	Holding company	100%
Faith Group Limited	UK	Holding company	100% *
Faith Footwear Limited	UK	Retail of footwear	100% *

* Held by subsidiary companies

7 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Amounts due to parent company	1,443	1,443
Amounts due to subsidiary companies	1,830	1,830
	<hr/>	<hr/>
	3,273	3,273
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Creditors: amounts falling due after more than one year

	2007 £000	2006 £000
Shareholder unsecured deep discount bonds 2011	5,108	30,632
Secured subordinated loan notes 2011	4,351	4,085
Management loan notes 2011	2,668	2,426
Amounts due to parent company	317	317
	<u>12,444</u>	<u>37,460</u>
Analysis of debt:		
	2006 £000	2006 £000
Debt can be analysed as falling due		
Between two and five years	12,323	-
In five years or more	-	38,684
Finance costs	(196)	(1,541)
	<u>12,127</u>	<u>37,143</u>

On 30 August 2006, the company undertook the following transactions -

- ♦ 27,759,563 £1 deferred ordinary shares were issued to the holder of the shareholder unsecured deep discounted bonds 2011 in exchange for the cancellation and waiving of 85% of the discount charged on the bonds up until 30 August 2006. The amount outstanding under the remaining shareholder deep discounted bonds 2011 at 30 August 2006 was £4,898,376,
- ♦ The Group entered into a contract with the holders of its management loan notes 2011 the terms of which give the Group the option to buy 85% of the loan notes and associated interest charges by issuing deferred ordinary shares of an equal nominal value

The unsecured deep discount bonds have a nominal value of £8,141,000 and mature on 31 December 2011. They are net of a discount of £3,952,000 which is being amortised at the rate of 10% per annum. At 30 June 2007 the unamortised discount amounted to £2,837,000 (2006 £22,101,000). The bonds stated above are net of finance costs of £196,000 (2006 £1,541,000) as required by FRS 4 'Capital Instruments'.

The secured subordinated loan notes mature on 31 December 2011. These carry interest at 6.5% pa. Interest is payable at maturity or such earlier date as the company may require.

Management loan notes mature on 31 December 2011. These carry interest at 10% pa. Interest is payable at maturity.

Notes (continued)

9 Called up share capital

	2007 Number	2006 Number	2007 £'000	2006 £'000
<i>Authorised, allotted, called up and fully paid</i>				
Ordinary shares of £1 each	219,378	219,378	219	219
Deferred Shares of £1 each	39,759,563	12,000,000	39,760	12,000
			39,979	12,219

10 Profit and loss account

	£000
At beginning of year	(25,437)
Retained loss for the year	(2,744)
At end of year	(28,181)

11 Reconciliation of movement in shareholders' funds

	2007 £000	2006 £000
Loss for the year	(2,744)	(2,929)
New share capital issued	27,760	12,000
Movement in shareholders' funds during the year	25,016	9,071
Opening shareholders' deficit	(13,218)	(22,289)
Closing shareholders' funds/(deficit)	11,798	(13,218)

12 Ultimate parent company

The company is a subsidiary of Faith Holdings Limited, incorporated in Great Britain. The largest group in which the results of the company are consolidated is that headed by Faith Holdings Limited. The consolidated accounts are available from Companies House.