DFS Furniture Holdings Plc

Report and Accounts for the period
ended 27 June 2021
Registered number 07218977

Directors' report

The directors present their report together with the audited financial statements for the period ended 27 June 2021.

Principal Activities

The Company acts as an intermediate holding company.

Dividends

No interim dividend was paid during the period (2020: £nil). The directors do not recommend the payment of a final dividend (2020: £nil).

Directors

The directors of the Company are listed below.

T. G. Stacey
M. Schmidt

Strategic report

The company was exempt by virtue of section 414b of the Companies Act 2006 from the requirements to prepare a Strategic Report.

Political and charitable donations

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

Going concern

Notwithstanding net current liabilities of £834.6m as at 27 June 2021, a loss for the year then ended of £17.6m, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company is part of the DFS Furniture plc Group ("the Group"). The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with the subsidiaries of the Group.

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

The DFS Furniture plc Group, has a £225.0m revolving credit facility with a consortium of seven banks maturing in December 2023, with two one-year options to extend the facility, subject to mutual agreement. At the date of approval of these condensed financial statements, £190.0m of the revolving credit facility remained undrawn, in addition to cash in hand, at bank (£12.5m as at 16 December 2021).

Covenants applicable to the revolving credit facility are consistent with those on the previous facility (prior to the temporary alternative covenants in place from April 2020 to December 2020): 3.0x net Debt / EBITDA and 1.5x Fixed Charge Cover, and are assessed on a six-monthly basis at June and December.

The directors of the ultimate parent company prepared cash flow forecasts for the Group covering a period of at least twelve months from the date of approval of these financial statements, which indicate that the Group will be in compliance with these covenants. These forecasts include a number of assumptions in relation to: market size and the Group's order intake; impacts on gross margin from regulatory and other changes; sector-wide manufacturing and supply chain capacities; and achievement of cost savings in line with the Group's strategic plans.

The directors of the ultimate parent company have also prepared severe but plausible downside sensitivity scenarios which cover the same period as the base case. These scenarios included: further two-month Covid-19 related showroom closures; significantly reduced customer spending; and impacts on gross margin from inflationary cost pressures. As part of this analysis, mitigating actions within the Group's control should these severe but plausible scenarios occur have also been considered. These mitigating actions included reducing discretionary advertising expenditure, a pause on expansionary capital investment and other measures to protect cash balances. These forecast cash flows, considering the ability and intention of the directors to implement mitigating actions should they need to, indicate that there remains sufficient headroom in the forecast period for the Group to operate within the committed facilities and to comply with all relevant banking covenants during the forecast period.

The directors of the Company have assessed the conclusions reached by the directors of the ultimate parent company and, having considered the inherent uncertainty in forecasting the impact of the Covid-19 pandemic, the directors agree with their conclusion.

The individual assessment for DFS Furniture Holdings plc is dependent on DFS Furniture plc not seeking repayment of the amounts currently due to the Group, which at 27 June 2021 amounted to £817.3m, and providing additional financial support during that period. DFS Furniture plc has indicated its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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

Section 172 Statement

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

OUR STAKEHOLDERS

We have set out some examples below of how the directors have had regard to the matters in section 172(1)(a)–(f) when discharging their Section 172 duty and the effect on certain decisions taken by them during the year.

We have grouped our stakeholders into two key categories. As a Company we look to balance the needs and views of all of our stakeholders, in the light of our purpose, values, culture, and strategy, to ensure all our decisions have a clear and consistent rationale. We do this through various engagement processes which help us to understand the views and needs of our stakeholder groups, and the long-term consequences of any decision made. Our stakeholders' interests are considered through direct engagement by directors and reports and updates from members of the management team detailing the impact on stakeholders of key decisions.

The following provides an overview of the way in which the directors acted with regard to these groups when making key strategic decisions.

Our investors

We rely on the shareholders of the DFS Furniture plc Group ("the Group"), of which this Company is a subsidiary, and providers of debt funding as essential sources of capital to further our business objectives. They rely on us to protect and manage their investments responsibly to generate value for them over the long term.

Our regulators

We seek to enjoy a constructive and cooperative relationship with the bodies that authorise and regulate our business activities. We require all our colleagues to apply the high standards of business ethics in their business dealings.

CONSIDERING THE LONG-TERM IMPACT OF OUR DECISIONS

When considering an investment proposition, the directors consider the likely consequences of any decision making in the long-term.

CONSIDERING OUR REGULATORS

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

The Company engages with HMRC constructively, honestly and in a timely and professional manner, and seeks to resolve disputed matters through active and transparent engagement.

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

Disclosure of information to auditor

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

Auditor

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

On behalf of the board

M Schmidt
Director

20 December 2021

1 Rockingham Way
Redhouse Interchange
Adwick-le-Street
Doncaster
South Yorkshire
DN6 7NA

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Independent auditor's report to the members of DFS Furniture Holdings plc

Opinion

We have audited the financial statements of DFS Furniture Holdings plc ("the company") for the year ended 27 June 2021 which comprise the Profit and Loss Account, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 27 June 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included enquiring of directors and inspection of policy documentation as to DFS Furniture plc's policies and procedures to prevent and detect fraud that apply to this group company as well as enquiring whether the directors have knowledge of any actual, suspected or alleged fraud.
As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no revenue transactions. We did not identify any additional fraud risks.

We performed procedures including agreeing accounting entries in the period to supporting documentation.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

The company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

This company, as a holding company, is not subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Directors' report

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

F. Simpson

Frances Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

20 December 2021

Profit and loss account
for period ended 27 June 2021

	Note	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Administrative expenses		**(10.0)**	(2.3)
Operating loss	2	**(10.0)**	(2.3)
Finance expenses	3	**(9.3)**	(9.1)
Loss before tax		**(19.3)**	(11.4)
Taxation	4	**1.7**	2.2
Loss for the period		**(17.6)**	(9.2)

Statement of other comprehensive income
for period ended 27 June 2021

	Note	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Loss for the period		**(17.6)**	(9.2)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges		**1.9**	(1.2)
Income tax on items that are or may be reclassified subsequently to profit or loss		**(0.4)**	0.2
Other comprehensive loss for the period, net of income tax		**1.5**	(1.0)
Total comprehensive loss for the period		**(16.1)**	(10.2)

The notes on pages 11 to 18 form part of these financial statements.

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

Balance sheet
at 27 June 2021

	Note	**27 June 2021 £m**	28 June 2020 £m
Non-current assets			
Investments	5	**519.9**	519.9
Other financial assets	6	**1.6**	0.8
Deferred tax assets	7	**0.3**	2.6
Trade and other receivables	8	**402.5**	-
		924.3	523.3
Current assets			
Trade and other receivables	8	**-**	181.9
Other financial assets	6	**6.8**	4.5
Cash and cash equivalents		**-**	15.8
		6.8	202.2
Current liabilities			
Bank overdraft		**(16.9)**	-
Trade payables and other liabilities	9	**(817.7)**	(418.5)
Other financial liabilities	10	**(6.8)**	(4.5)
		(841.4)	(423.0)
Net current liabilities		**(834.6)**	(220.8)
Non-current liabilities			
Interest bearing loans and borrowings	11	**(23.1)**	(218.7)
Other financial liabilities	10	**(1.6)**	(2.7)
		(24.7)	(221.4)
Net assets		**65.0**	81.1
Equity attributable to equity holders of the parent			
Share capital	12	**102.3**	102.3
Share premium		**5.9**	5.9
Cash flow hedge reserve		**-**	(1.9)
Retained earnings		**(43.2)**	(25.2)
Total equity		**65.0**	81.1

The notes on pages 11 to 18 form part of these financial statements.

These financial statements were approved by the board of directors on 20 December 2021 and were signed on its behalf by:

M. Schmidt

M Schmidt
Director

Company registered number: 07218977

Statement of changes in equity

	Share capital £m	Share Premium £m	Cash flow hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 30 June 2019	**102.3**	**5.9**	**(0.7)**	**(16.2)**	**91.3**
Loss for the period	-	-	-	(9.2)	(9.2)
Other comprehensive (loss)/income	-	-	(1.2)	0.2	(1.0)
Total comprehensive loss for the period	-	-	(1.2)	(9.0)	(10.2)
Balance at 28 June 2020	**102.3**	**5.9**	**(1.9)**	**(25.2)**	**81.1**
Loss for the period	-	-	-	(17.6)	(17.6)
Other comprehensive income/(expense)	-	-	1.9	(0.4)	1.5
Total comprehensive income/(expense) for the period	-	-	1.9	(18.0)	(16.1)
Balance at 27 June 2021	**102.3**	**5.9**	**-**	**(43.2)**	**65.0**

The notes on pages 11 to 18 form part of these financial statements.

Notes to the financial statements

1 Accounting policies

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

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

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company. Where it is necessary to choose between accounting policies, those selected are judged by the directors to be the most appropriate to the Company's particular circumstances for the purpose of giving a true and fair view.

1.1 Basis of preparation

The financial statements cover the 52 weeks ended 27 June 2021. Comparative figures relate to the 52 weeks ended 28 June 2020.

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

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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

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

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

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

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

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

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

1.1 Going concern

Notwithstanding net current liabilities of £834.6m as at 27 June 2021, a loss for the year then ended of £17.6m, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

Notes to the financial statements

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Covenants applicable to the revolving credit facility are consistent with those on the previous facility (prior to the temporary alternative covenants in place from April 2020 to December 2020): 3.0x net Debt / EBITDA and 1.5x Fixed Charge Cover, and are assessed on a six-monthly basis at June and December.

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The directors of the Company have assessed the conclusions reached by the directors of the ultimate parent company and, having considered the inherent uncertainty in forecasting the impact of the Covid-19 pandemic, the directors agree with their conclusion.

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

1.2 Expenses

Finance income and expenses

Finance expenses comprise bank fees and interest payable on the Company's borrowings. Finance income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the Company's right to receive payments is established.

1.3 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

Notes to the financial statements

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised on deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.4 Foreign Currency

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on qualifying cash flow hedges, which are recognised directly in other comprehensive income.

1.5 Impairment

The carrying amounts of the Company's tangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

1.6 Investments

Investments are stated at cost, less provision for any impairment.

1.7 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Notes to the financial statements

1.8 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Derivatives linked to investments in equity instruments that do not have a quoted market price in an active market, and that must be settled by delivery of the unquoted equity instrument are measured at cost where the fair value is not reliably measurable.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss remains in the hedging reserve and is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For other cash flow hedges the associated cumulative gain or loss is removed from equity and recognised in the profit and loss account in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the profit and loss account immediately.

2 Loss before taxation

Auditor's remuneration in respect of the statutory audit of the Company was £nil (2020: £nil). Audit fees are borne by another group undertaking.

Fees paid to the auditor and its associates in respect of non-audit services amounted to £nil (2020: £nil).

3 Finance expense

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Finance expense		
Senior revolving credit facility	**6.1**	7.9
Bank fees	**0.1**	0.2
Refinancing costs	**3.1**	1.0
Total finance expense	**9.3**	9.1

Notes to the financial statements

4 Taxation

Recognised in the profit and loss account

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Current tax		
Current period	**(3.6)**	-
Deferred tax		
Current period	**1.7**	(2.2)
Adjustments for prior periods	**0.2**	-
Total tax credit	**(1.7)**	(2.2)

Reconciliation of effective tax rate

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
Loss before tax for the period	**(19.3)**	(11.4)
Tax using the UK corporation tax rate of 19.00% (2020: 19.00%)	**(3.7)**	(2.2)
Adjustments in respect of prior periods	**0.2**	-
Non-deductible expenses	**1.9**	-
Impact of change in tax rate on deferred tax balances	**(0.1)**	-
Total tax credit	**(1.7)**	(2.2)

The Finance Act 2021, which was substantively enacted in May 2021, included provisions to increase the rate of UK corporation tax to 25% with effect from 1 April 2023.

Deferred taxation is measured at tax rates that are expected to apply in the periods in which temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly, a tax rate of 25% has been applied when calculating deferred tax assets and liabilities at 27 June 2021 (19% at 28 June 2020).

5 Investments

Name	Ordinary share holding	Principal activity
DFS Furniture Company Limited[1]	100%	Intermediate holding company
DFS Trading Limited[1]	100%	Furniture retailer
Coin Retail Limited (Jersey)[2]	100%	Intermediate holding company
Coin Furniture Limited (Investment held by Coin Retail Limited)[1]	100%	Furniture retailer
DFS Spain Limited[1]	100%	Furniture retailer
Sofology Limited[4]	100%	Furniture retailer
Sofaworks Limited[1]	100%	Dormant
Haydock Furniture Limited[4]	100%	Dormant
The Sofa Delivery Company Limited[1]	100%	Contract logistics
The Sofa Manufacturing Company Limited[1]	100%	Dormant
The Sofa Servicing Company Limited[1]	100%	Dormant

Registered offices:
1. Rockingham Way, Redhouse Interchange, Adwick-le-Street, Doncaster DN6 7NA.
2. 13-14 Esplanade, St Helier, Jersey JE1 1BD.
3. Ashton Road, Golborne, Warrington, WA3 3UL.

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

Notes to the financial statements

Cost and net book value:

	27 June 2021 £m	28 June 2020 £m
Shares in DFS Furniture Company Limited	**519.9**	519.9

6 Other financial assets

	27 June 2020 £m	28 June 2020 £m
Non-current		
Foreign exchange contracts	**1.6**	0.8
Current		
Foreign exchange contracts	**6.8**	4.5

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases. Interest rate derivatives are used to hedge interest rate risk on the Company's floating rate debt.

7 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	27 June 2021 £m	28 June 2020 £m
Tax losses carried forward	**0.3**	0.4
Corporate interest rate restriction	-	1.8
Revaluation of derivatives to fair value	-	0.4
Net tax assets	**0.3**	2.6

The deferred tax movement in the period is as follows:

	52 weeks to 27 June 2021 £m	52 weeks to 28 June 2020 £m
At start of the period	**2.6**	0.2
Credited to the profit and loss account:		
Tax losses carried forward	**(0.1)**	0.4
Corporate interest restriction	**(1.8)**	1.8
Recognised in the statement of comprehensive income	**(0.4)**	0.2
At end of the period	**0.3**	2.6

Notes to the financial statements

8 Trade and other receivables

	27 June 2021 £m	28 June 2020 £m
Non-current		
Amounts owed by Group companies	**402.5**	-
Current		
Amounts owed by Group companies	-	181.8
Prepayments	-	0.1
	-	181.9

Amounts owed by Group companies are interest free, unsecured and repayable on demand. During the year the Directors reviewed the expectation of the timing of settlement of these balances and accordingly reclassified them to non-current assets. No material impairment of the receivable was recorded at 27 June 2021 or 28 June 2020.

9 Trade payables and other liabilities

	27 June 2021 £m	28 June 2020 £m
Current		
Amounts owed to Group companies	**817.3**	417.5
Accruals	**0.4**	1.0
	817.7	418.5

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

10 Other financial liabilities

	27 June 2021 £m	28 June 2020 £m
Current		
Foreign exchange contracts	**6.8**	4.5
Non-current		
Interest rate derivatives	-	1.9
Foreign exchange contracts	**1.6**	0.8
	1.6	2.7

Foreign exchange contracts comprise forward contracts which are used to hedge exchange risk arising from the Group's overseas purchases. Interest rate derivatives are used to hedge interest rate risk on the Company's floating rate debt.

Notes to the financial statements

11 Interest bearing loans and borrowings

	27 June 2021 £m	28 June 2020 £m
Non-Current		
Senior revolving credit facility	**25.0**	220.0
Unamortised issue costs	**(1.9)**	(1.3)
	23.1	218.7

The revolving credit facility bears interest at a rate of 3 month LIBOR plus 2.75% and is currently repayable on 21 December 2023, with two one-year options to extend the facility, subject to mutual agreement. The revolving credit facility is secured on a first priority basis with fixed and floating charges over substantially all of the assets of the Group. On 21 December 2020 the Group agreed the revolving credit facility of £225.0m, reducing to £215.0m from 26 June 2022.

12 Share capital

Share capital
Ordinary shares of £1 each

	Number of shares		Ordinary shares	
	27 June 2021 '000	28 June 2020 '000	**27 June 2021 £m**	28 June 2020 £m
Allotted, called up and fully paid	**102,275**	102,275	**102.3**	102.3

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

Cash flow hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

13 Directors' emoluments

The directors consider the qualifying services provided to the Company to be negligible in the context of their overall services provided to the Group and the associated remuneration is deemed to be a negligible element of their overall remuneration a disclosed in the DFS Furniture plc annual report.

14 Ultimate parent company and controlling party

The Company is a direct subsidiary undertaking of Diamond Holdco 7 Limited which is registered in England and Wales. The largest group in which the results of the Company are consolidated is that headed by DFS Furniture plc, incorporated in England and Wales. Copies of its group accounts, which include the Company are available on www.dfscorporate.co.uk. The ultimate holding company and controlling party is DFS Furniture Plc.