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Early Learning Centre Limited

Report and Financial Statements

7 May 2005

MACFARLANES
10, NORWICH ST.
LONDON EC4A 1BD

Registered No: 102194

Directors
T J S Waterstone
N M I Roberston
K L Selber

Secretary
K L Selber

Bankers
Bank of Scotland
2 West Marketgait
Dundee
DD1 1QN

Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered Office
South Marston Park
Swindon
SN3 4TJ

Directors' report

The directors present their report and financial statements for the year ended 7 May 2005.

Principal activities

The principal activity of the company is the retailing, distribution, design and sourcing of toys.

Financial review and dividends

The operating profit for the year, before exceptional items, amounted to £11.2m (2004 - £8.4m). Exceptional charges of £1.1m were made in the year (2004 - £4.6m) which are detailed in note 4 to the financial statements.

Further details of the company's results for the year ended 7 May 2005 are shown in the profit and loss account and in the notes to the financial statements. No dividends are proposed by the directors (2004 - £1.3m).

Directors

The directors of the company during the year were as follows:

T J S Waterstone
N M I Roberston
K L Selber (appointed 1 November 2004)

None of the directors, or their families, have any interest in the shares of the company.

The interests of T J S Waterstone, N M I Robertson and K L Selber in the shares of the ultimate parent undertaking, Chelsea Stores Holdings Limited, of which they are also directors, are stated in the financial statements of that company.

Employees

The company's employment policies follow those of the parent company, Early Learning Holdings Limited, and are disclosed in the annual report of that company.

Donations

The company continued its support for the NSPCC raising £48,000 in the year (2004 - £26,000), raised through in-store and staff collections. In addition, £10,000 was donated to Save the Children in response to the Asian tsunami disaster. The company does not make any political donations.

Supplier payment policy

It is the company's policy that payments to suppliers are made in accordance with the terms and conditions agreed in advance with the suppliers, provided that all trading terms and conditions have been complied with by the supplier.

At the balance sheet date the company had an average 80 days (2004 – 66 days) outstanding in trade creditors.

Events since the balance sheet date

A Court of Appeal ruling in July 2005 in relation to the Debenhams merchant charges case has impacted the way in which these financial statements are presented. The changes that have been made are discussed in note 1 to the financial statements.

Directors' report

Directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The board has elected to dispense with the holding of an Annual General Meeting. The appointment of Ernst & Young LLP as auditors will remain in force until revoked.

By order of the Board

Director

Date 16/6/06.

Independent auditors' report

to the members of Early Learning Centre Limited

We have audited the company's financial statements for the year ended 7 May 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 25. These financial statements have been prepared on the basis of 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 auditors' 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the company 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 United Kingdom Auditing Standards 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 7 May 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor
London

Date 29 June 2006.

Profit and loss account

for the year ended 7 May 2005

	Notes	2005 £m	As restated 2004 £m
Turnover	2	177.7	174.0
Cost of sales		(92.5)	(92.9)
Gross profit		85.2	81.1
Net operating expenses excluding exceptional items		(74.0)	(72.7)
Exceptional operating expenses	4	(1.1)	(4.6)
Net operating expenses	3	(75.1)	(77.3)
Operating profit before exceptional items		11.2	8.4
Exceptional operating expenses		(1.1)	(4.6)
Operating profit	5	10.1	3.8
Net interest payable and similar charges	8	(0.2)	(0.3)
Profit on ordinary activities before taxation		9.9	3.5
Tax on profit on ordinary activities	9	(3.1)	(1.1)
Profit for the financial year		6.8	2.4
Ordinary dividends on equity shares		-	(1.3)
Profit retained for the financial year	17	6.8	1.1

Statement of total recognised gains and losses

for the year ended 7 May 2005

	Notes	2005 £m	As restated 2004 £m
Total recognised gains and losses relating to the year		6.8	2.4
Prior year adjustment	1	-	-
Total gains and losses recognised since last annual report		6.8	2.4

Balance sheet

at 7 May 2005

	Notes	2005 £m	As restated 2004 £m
Fixed assets			
Tangible assets	10	11.3	10.9
		11.3	10.9
Current assets			
Stocks		16.9	16.2
Debtors:			
amounts falling due after one year		3.6	1.2
amounts falling due within one year		30.9	26.7
	11	34.5	27.9
Cash at bank and in hand		5.9	4.8
		57.3	48.9
Creditors: amounts falling due within one year	12	(37.3)	(34.7)
Net current assets		20.0	14.2
Total assets less current liabilities		31.3	25.1
Creditors: amounts falling due after more than one year	13	(1.7)	(2.3)
Provision for liabilities and charges	15	(1.1)	(1.1)
Net assets		28.5	21.7
Capital and reserves			
Called up share capital	16	24.4	24.4
Profit and loss account	17	4.1	(2.7)
Equity shareholder's funds	18	28.5	21.7

Approved by the Board on 16 June 2006

Director

[redacted]

Notes to the financial statements

at 7 May 2005

1. Accounting policies

Accounting convention

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

The company has taken advantage of the exemption under Section 230 of the Companies Act 1985 and not published group accounts.

Fundamental accounting concept

The financial statements have been prepared on a going concern basis as the directors have received an undertaking from the shareholders that it is their intention to ensure the company can meets its liabilities as they fall due.

Prior year adjustment

A Court of Appeal ruling in July 2005 in relation to the Debenhams merchant charges case clarified the contract law position of companies involved in arrangements that are substantially the same as those the company entered into with ELC Merchant Services Limited, a subsidiary undertaking of the company. As a result, that company's activities are treated as if it were acting as an agent of Early Learning Centre Limited and all income, costs and profits arising from its agency activities have been accounted for by Early Learning Centre Limited, whilst all monies from Early Learning Centre Limited are treated as loans to group undertakings. This change in presentation has been accounted for by way of a prior year adjustment.

This adjustment has no impact on the net assets of the company at 1 May 2004 but decreases its profit before tax for the year then ended by £0.5m. The impact on the current year is to increase reported profit before tax by £1.8m. The prior year comparatives have been restated accordingly, including the cancellation of a dividend from ELC Merchant Services Limited previously reflected as being paid to the company.

Cash flow statement

At the balance sheet date the company was a wholly owned subsidiary of Early Learning Holdings Limited, itself a wholly owned subsidiary of Chelsea Stores Holdings Limited and the cash flows of the company are included in the consolidated group cash flow statement of Chelsea Stores Holdings Limited.

New product development

The nature of the business is such that, from time to time, opportunities arise which require investment in the development of new products, ranges or concepts.

Expenditure on any development may be capitalised when its future recoverability can be reasonably regarded as assured. Any capitalised expenditure is amortised in line with expected future sales from the related product(s).

Tooling equipment, acquired for the manufacture of new products, constitutes part of such expenditure but it is separately capitalised within tangible fixed assets.

Packaging development costs and other related costs to bring new products to market are expensed as incurred.

Notes to the financial statements

at 7 May 2005

1. Accounting policies (continued)

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value, based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life as follows:

Short leasehold properties	- over the remaining lease term
Fixtures, fittings and equipment	- 5 to 6 years
Computer equipment	- 3 to 5 years
Tooling equipment	- 2 years

Additional depreciation may be charged where the directors consider there to have been an impairment in the underlying value of an asset.

Property fit out contributions

Contributions received in respect of property fit-out costs are amortised over the shorter of the lease term and the period to the first rent review.

Stocks

Stocks, being goods for resale, are stated at the lower of cost and net realisable value.

Pensions

Contributions to individual employee pension plans under stakeholder pension arrangements are charged in the profit and loss account as they become payable in accordance with the rules of the arrangement.

Deferred taxation

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

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that they will be recovered.

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

Foreign currencies

Transactions in foreign currencies are translated into sterling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date, or where applicable, at forward contracted rates. All exchange differences are dealt with through the profit and loss account.

Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and represent a constant proportion of the balance of capital repayments outstanding.

Notes to the financial statements

at 7 May 2005

1. Accounting policies (continued)

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Provision is made in respect of obligations for vacated leasehold properties where applicable sublet income is expected to be insufficient to meet obligations under head leases.

In addition, provision for the expected cost of repairs and maintenance of leasehold properties is made where, at the balance sheet date, there is a legal responsibility for such work to be carried out.

2. Turnover

Turnover, which is stated net of value added tax, represents retail sales of merchandise and amounts invoiced to third parties and is wholly attributable to the continuing principal activity of the company.

An analysis of turnover by geographical market is given below:

		As restated
	2005	*2004*
	£m	*£m*
United Kingdom	160.9	162.7
Rest of the World	16.7	11.3
Other group undertakings	0.1	-
	177.7	174.0

3. Net operating expenses

		As restated
	2005	*2004*
	£m	*£m*
Distribution costs	1.2	1.1
Administrative expenses	75.1	76.8
Other operating income	(1.2)	(0.6)
	75.1	77.3

Administrative expenses include exceptional operating costs of £1.1m (2004 - £4.6m).

4. Exceptional operating expenses

	2005	*2004*
	£m	*£m*
Organisation restructure costs	0.9	-
Exceptional legal costs	0.2	-
Fixed asset impairment	-	3.5
Fixed asset write downs	-	0.4
Dilapidations	-	0.7
	1.1	4.6

During the year the directors reviewed the structure of the business and an exceptional charge of £0.9m was made in the profit and loss account representing the costs of the subsequent restructure. In addition exceptional legal costs of £0.2m were incurred during the year.

Notes to the financial statements

at 7 May 2005

5. Operating profit

This is stated after charging/(crediting):

	2005	*2004*
	£m	*£m*
Operating lease rentals:		
Property	21.4	20.0
Other	0.3	0.3
Property rental income on sublet properties	(0.9)	(1.1)
Depreciation of tangible fixed assets:		
Assets owned	4.4	9.1
Under finance leases	0.6	0.6
Audit fees	0.1	0.1
Auditors' remuneration for non-audit services	-	0.1
Pension contributions	0.5	0.5

6. Directors' emoluments

	2005	*2004*
	£000	*£000*
Aggregate emoluments	-	657
Pension contributions paid to stakeholder pension schemes	-	50
	-	707

T J S Waterstone, N M I Robertson and K L Selber are also directors of Chelsea Stores Holdings Limited and their emoluments are disclosed with in the financial statements of that company.

The amounts in respect of the highest paid director are as follows:

	2005	*2004*
	£000	*£000*
Emoluments	-	302
Company contributions paid to stakeholder pension schemes	-	16

7. Staff costs

	2005	*2004*
	£m	*£m*
Wages and salaries	21.9	21.0
Social security costs	1.4	1.3
Other pension costs (note 22)	0.5	0.5
	23.8	22.8

Included in wages and salaries for 2005 are £0.9m of redundancy costs which were incurred as part of the organisational restructure and disclosed as an exceptional operating cost (note 4).

Notes to the financial statements

at 7 May 2005

7. Staff costs (continued)

The average number of employees of the company was:

	2005	2004
	No.	No.
Average monthly number of employees	2,493	2,633
Average full time equivalents	1,169	1,229

8. Net interest payable and similar charges

	2005	2004
	£m	£m
Bank loans and overdrafts	-	0.4
Finance charges payable under finance leases	0.1	0.2
Payable to other group undertakings	0.3	-
Interest payable	0.4	0.6
Interest receivable on bank deposits	(0.2)	(0.3)
	0.2	0.3

9. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

		As restated
	2005	2004
	£m	£m
Current tax:		
- UK corporation tax on profits of the year	2.9	2.3
- UK corporation tax underprovided in prior years	(0.1)	0.3
Total current tax	2.8	2.6
Deferred tax:		
- current year (note 11)	0.2	(1.2)
- prior year (note 11)	0.1	(0.3)
	3.1	1.1

Notes to the financial statements

at 7 May 2005

9. Tax (continued)

(b) Factors affecting the current tax charge

The tax assessed on the loss on ordinary activities for the period differs from the standard rate of corporation tax in the UK of 30% (2004 - 30%). The differences are reconciled below:

	2005 £m	As restated 2004 £m
Profit on ordinary activities before tax	9.9	3.5
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 - 30%)	3.0	1.1
Effect of:		
Fixed asset impairment exceptional charge	-	1.0
Depreciation in excess of capital allowances	-	0.3
Expenses not deductible for tax purposes	0.1	(0.1)
Other timing differences	(0.2)	0.2
Group relief not paid for	-	(0.2)
Adjustment to prior year provision	(0.1)	0.3
Total current tax	2.8	2.6

10. Tangible fixed assets

	Short leasehold property £m	Fixtures, fittings and other equipment £m	Computer equipment £m	Tooling equipment £m	Total £m
Cost:					
At 2 May 2004	7.5	50.2	10.6	9.6	77.9
Additions	0.1	3.7	0.6	1.0	5.4
Disposals	(0.1)	(1.6)	-	-	(1.7)
At 7 May 2005	7.5	52.3	11.2	10.6	81.6
Depreciation:					
At 2 May 2004	6.1	45.4	6.5	9.0	67.0
Charge for the year	0.4	2.4	1.4	0.8	5.0
Disposals	(0.1)	(1.6)	-	-	(1.7)
At 7 May 2005	6.4	46.2	7.9	9.8	70.3
Net book value:					
At 7 May 2005	1.1	6.1	3.3	0.8	11.3
At 2 May 2004	1.4	4.8	4.1	0.6	10.9

Notes to the financial statements

at 7 May 2005

10. Tangible fixed assets (continued)

Included in the depreciation charge for the year is £0.3m reversal of an impairment provision relating to stores where improvements in cash flows are expected following changes in local trading conditions.

The net book value of computer equipment above includes an amount of £2.2m (2004 - £2.8m) in respect of assets held under finance leases.

11. Debtors

	2005	As restated 2004
	£m	*£m*
Trade debtors	1.6	1.6
Amounts owed by other group undertakings	25.9	19.9
Other debtors	0.6	0.5
Deferred tax	1.7	2.0
Prepayments and accrued income	4.7	3.9
	34.5	27.9

Included within amounts owed by other group undertakings is £3.6m (2004 - £1.2m) which is due after than one year.

A deferred tax asset is recognised at 7 May 2005 on the basis that it has arisen due to timing differences, principally resulting from accelerated depreciation ahead of capital allowances, which will reverse in subsequent years, as opposed to deterioration in the underlying profit of the company.

Details of the deferred tax asset are as follows:

	At 2 May 2004	Profit and loss charge	At 7 May 2005
	£m	*£m*	*£m*
Accelerated capital allowances	1.7	(0.3)	1.4
Other timing differences	0.3	-	0.3
	2.0	(0.3)	1.7

12. Creditors: amounts falling due within one year

	2005	As restated 2004
	£m	*£m*
Obligations under finance leases (note 14)	0.7	0.6
Trade creditors	19.4	14.6
Amounts owed to other group undertakings	5.0	7.1
Corporation tax	2.5	1.3
Other taxes and social security costs	0.1	0.7
Accruals and deferred income	9.6	10.4
	37.3	34.7

Notes to the financial statements
at 7 May 2005

13. Creditors: amounts falling due after more than one year

	2005 £m	2004 £m
Obligations under finance leases (note 14)	1.7	2.3

14. Obligations under finance leases

The majority of these are as follows:

	2005 £m	2004 £m
Within one year	0.8	0.7
In two to five years	1.8	2.5
	2.6	3.2
Less: finance charges allocated to future periods	(0.2)	(0.3)
	2.4	2.9

15. Provisions for liabilities and charges

	Dilapidations £m	Vacant Property £m	Total £m
At 2 May 2004	0.9	0.2	1.1
Provided during the year	0.2	-	0.2
Utilised during the year	(0.2)	-	(0.2)
At 7 May 2005	0.9	0.2	1.1

16. Share capital

	2005 No.	2004 No.	2005 £	2004 £
Ordinary shares of £1 each				
Authorised	35,000,000	35,000,000	35,000,000	35,000,000
Allotted, called up and fully paid	24,431,596	24,431,596	24,431,596	24,431,596

Notes to the financial statements

at 7 May 2005

17. Reserves

	Profit and loss account
	£m
At 2 May 2004 as previously stated	(2.7)
Prior year adjustment (note 1)	-
At 2 May 2004 as restated	(2.7)
Profit for the year	6.8
At 7 May 2005	4.1

18. Reconciliation of movements in shareholders' funds

	2005	*2004*
	£m	*£m*
Opening shareholders' funds as restated	21.7	20.6
Profit for the financial year	6.8	2.4
Dividends payable	-	(1.3)
Closing shareholders' funds	28.5	21.7

19. Capital commitments

	2005	*2004*
	£m	*£m*
Amounted contracted for but not provided in the financial statements	0.2	-

20. Operating lease commitments

At 7 May 2005 the company had annual commitments under non-cancellable operating leases as set out below:

		Property		*Other*
	2005	*2004*	*2005*	*2004*
	£m	*£m*	*£m*	*£m*
Operating leases which expire:				
Within one year	0.8	1.7	-	0.1
In two to five years	4.2	3.0	0.3	0.3
In over five years	17.9	17.3	-	-
	22.9	22.0	0.3	0.4

Notes to the financial statements

at 7 May 2005

21. Contingent liabilities

The debt facilities of Chelsea Stores Holdings Limited, the company's ultimate parent undertaking, are secured on the assets of Early Learning Centre Limited. At the balance sheet date the amount outstanding on the relevant facilities was £34.2m.

The company has received an assessment notice from H M Customs and Revenue in respect of input tax due on notional income chargeable to its subsidiary company, ELC Merchant Services Limited, in the region of £1m. The directors consider that this assessment has no basis and therefore not provision has been made in the financial statements in respect of this.

22. Pension scheme

The group offers a Stakeholder Pension arrangement to all employees. Under this arrangement employees are able to contribute to individual pension plans to which the group also contributes. During the year ended 7 May 2005 group contributions amounted to £0.5m (2004 - £0.5m).

23. Related party transactions

The company has taken advantage of the exemption included in FRS 8 in relation to transactions with entities that are part of the Chelsea Stores Holdings Limited group.

24. Principal subsidiaries

Name	*Holding*	*Group interest*	*Nature of business*
Early Learning Centre (Hong Kong) Limited	Ordinary shares	100%	Sourcing
Early Learning Limited	Ordinary shares	100%	Property holding
ELC Merchant Services Limited	Ordinary shares	100%	Financial services
Early Learning (UK) Limited	Ordinary shares	100%	Dormant
ELC Limited	Ordinary shares	100%	Dormant
ELCI Limited	Ordinary shares	100%	Dormant

All subsidiaries are incorporated in England and Wales other than Early Learning Centre (Hong Kong) Limited which is incorporated in Hong Kong. All subsidiaries are owned directly by Early Learning Centre Limited.

25. Ultimate parent undertaking

The company's immediate parent undertaking is Early Learning Holdings Limited. The company's ultimate parent undertaking is Chelsea Stores Holdings Limited. Copies of the group financial statements can be obtained from the secretary of Chelsea Stores Holdings Limited. Both companies are registered in England and Wales. In the directors' opinion Chelsea Stores Holdings Limited is the company's controlling party.