



Company

Watch tracking corporate financial health

November 2006

European Home Retail Plc

Parent company of Farepak Food & Gifts Ltd

“Farepak went into administration on October 13th, leaving more than 100,000 people without expected Christmas hampers and savings.....

Ian McCartney described the failure as a “national emergency”.....”

Financial Times, London, 9 November 2006



what the Company Watch model says

company in the news



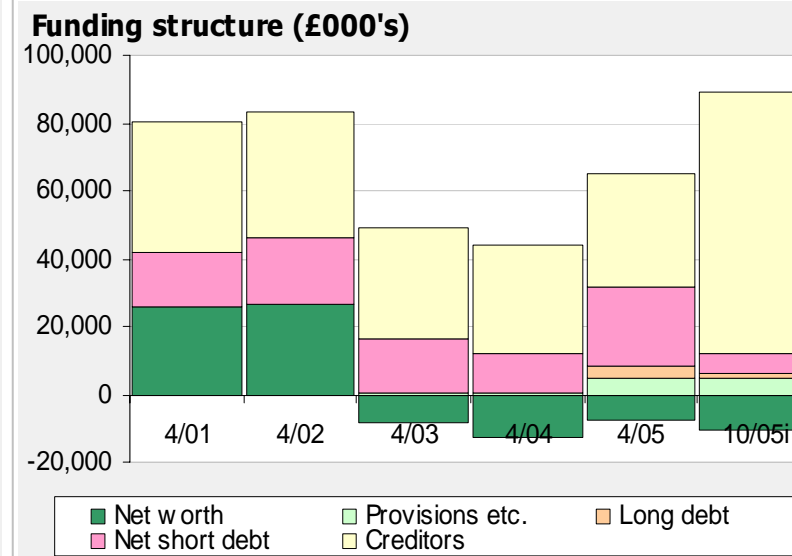
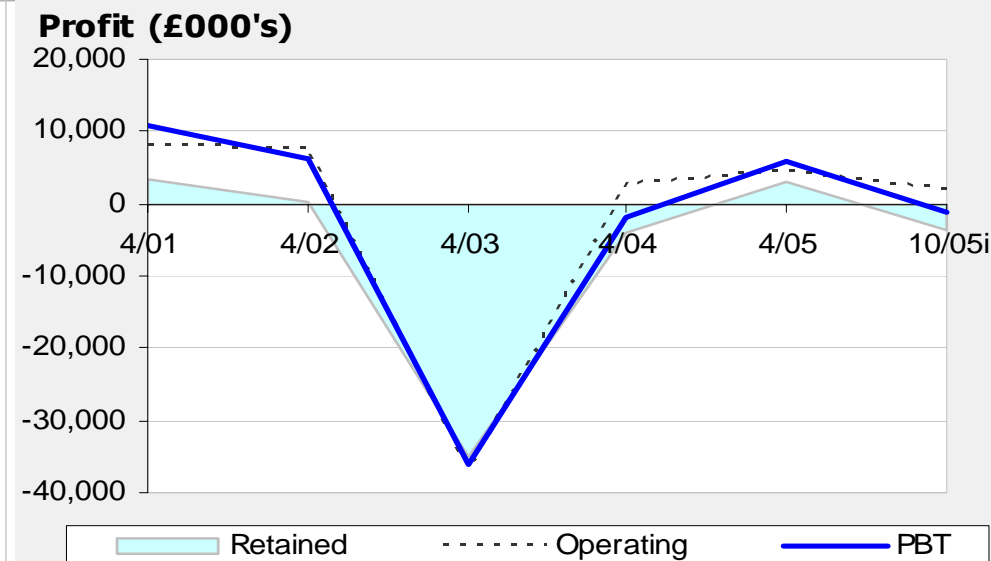
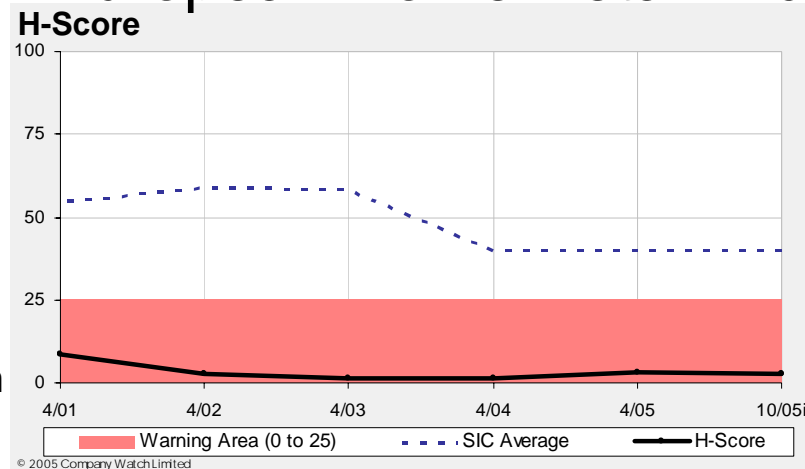
Company Watch

tracking corporate financial health

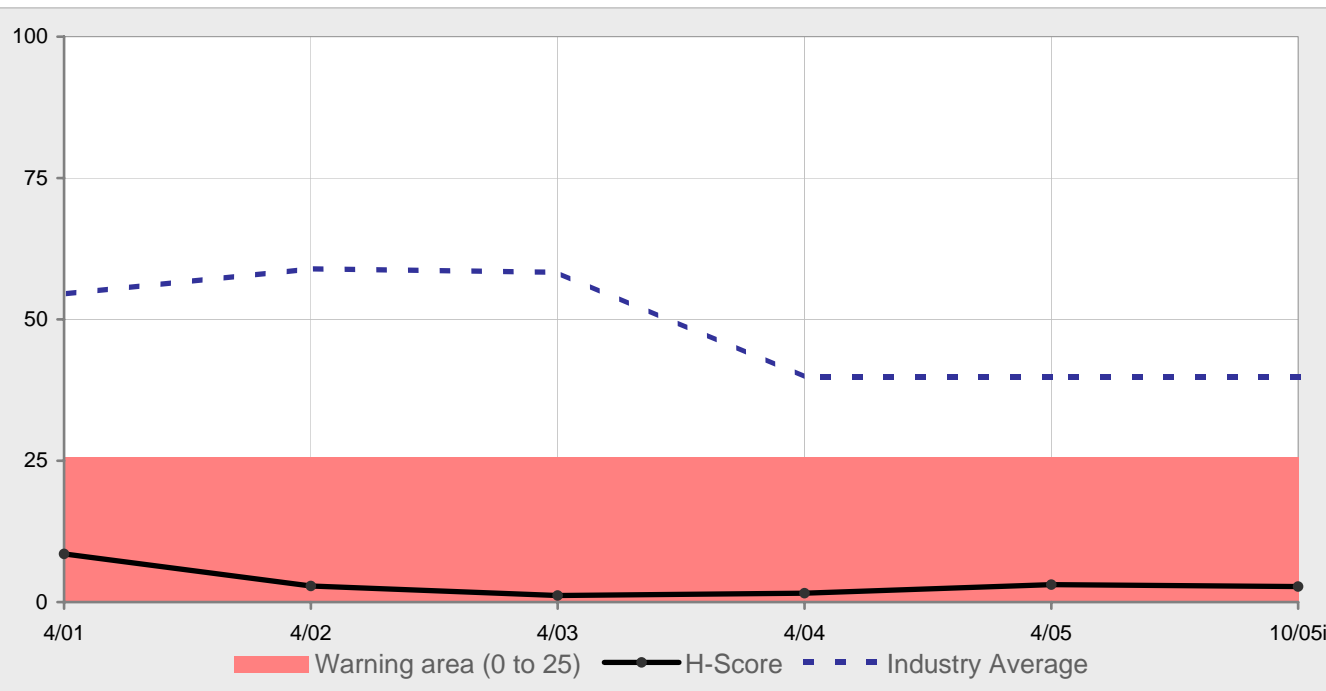
Comment

The company's poor profit record, accompanied by a weak funding structure provided them with a very poor financial health profile over many years. Net Worth was negative and the company's assets (including a substantial amount of intangibles) were funded by the company's creditors (including customers' payments in advance) and short term bank debt.

European Home Retail Plc



Health Profile - H-Score[®]



H-Score[®]: 3

The **H-Score** is the overall measure of the company's financial health. Companies in the Warning Area may be vulnerable and should be viewed with care. As long as any company remains outside the Warning Area, it has a low likelihood of failure. For further information please see Appendix 2 (page 9).

Industry Average: 40 The Industry Average is the average H-Score of companies in the same Industry sector.

	4/01	4/02	4/03	4/04	4/05	10/05i
H-Score	9	3	1	2	3	3
Industry Average	54	59	58	40	40	40

Financial Summary

Currency: GBP'000s

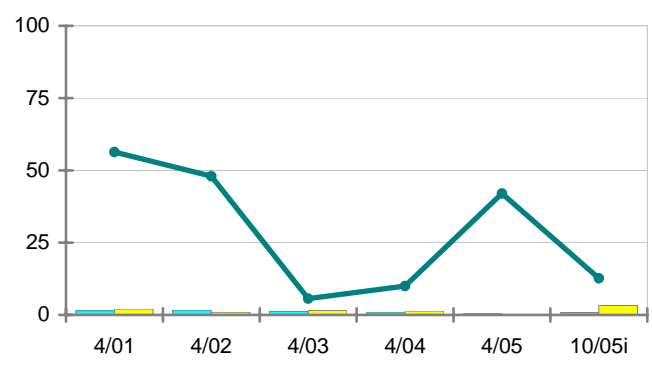
(See pages 5 to 7)

Period	Sales	Earnings before tax	Total assets	Net worth
10/05i	101,642	-558	80,622	-10,890
04/05	175,874	5,865	58,114	-7,511
04/04	162,237	-2,021	32,174	-12,828
04/03	198,211	-36,033	42,991	-8,671
04/02	212,612	6,300	84,215	26,288
04/01	185,703	10,808	83,362	25,716

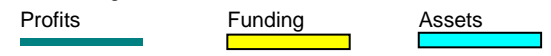
Comments

[Distressed company](#) - indicated by documents filed.
[Interim accounts](#) - where the reported data lacks detail, values have been extrapolated from the previous year-end.

Factor Profile - Fundamentals

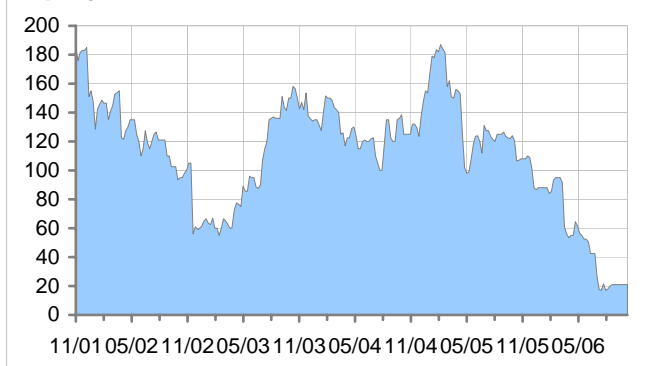


The contribution to the Financial Health from the strength of the management of:



For further information please see Appendix 3 (page 10)

Equity Profile - Market view

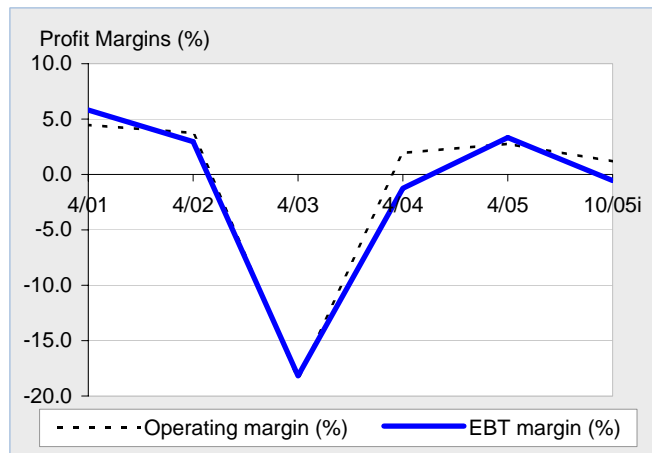
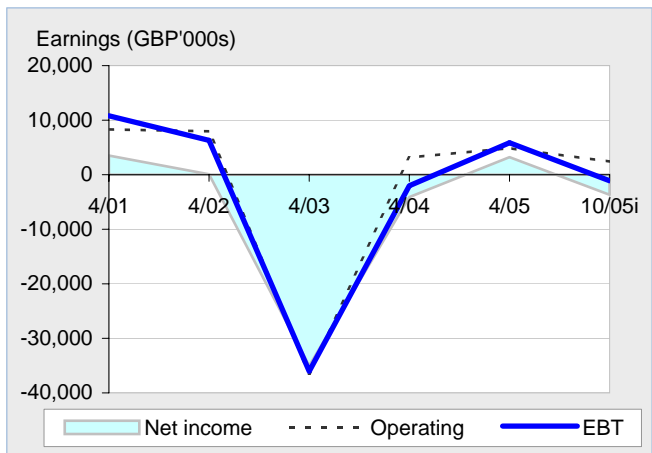
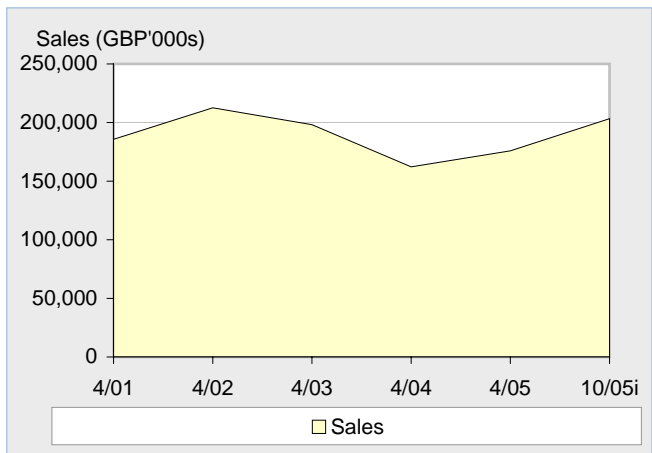


Data as at: 13 Oct 2006 (GBP)

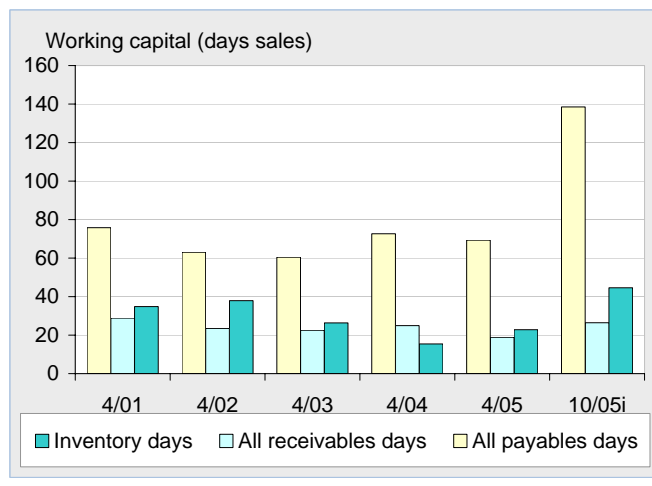
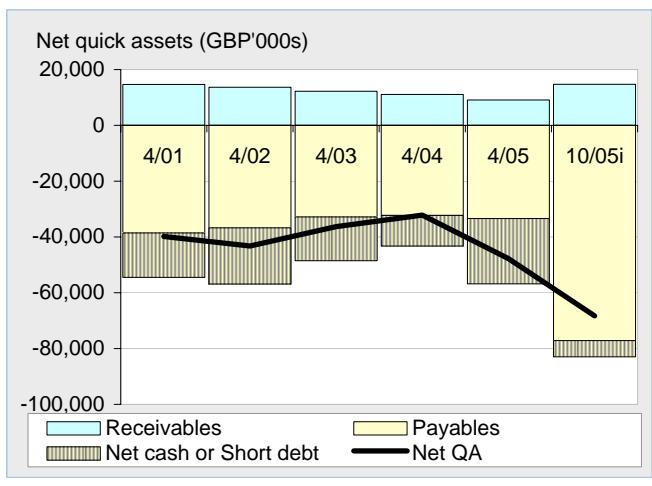
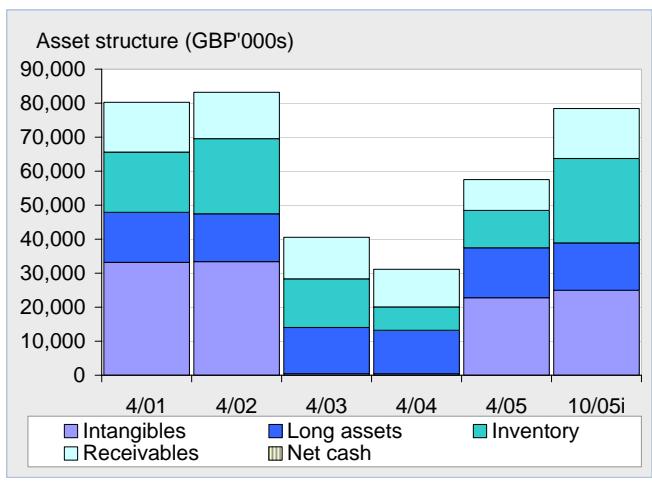
Stock Price (p)	52 Week High (p)	52 Week Low (p)	PE Ratio	Market Cap. (m)
21	121	17	8.86	9.0

(p = pence)

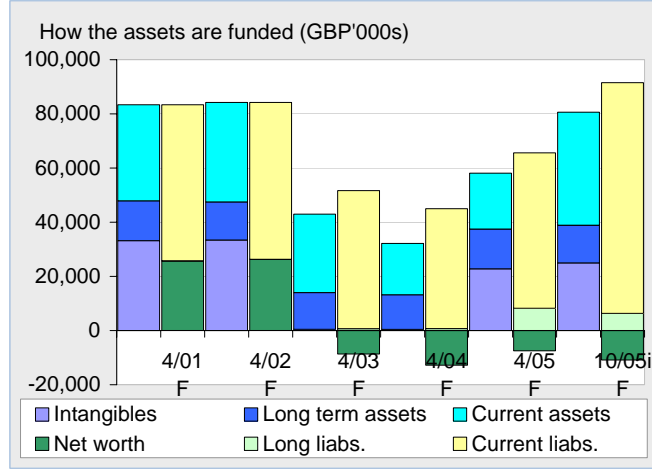
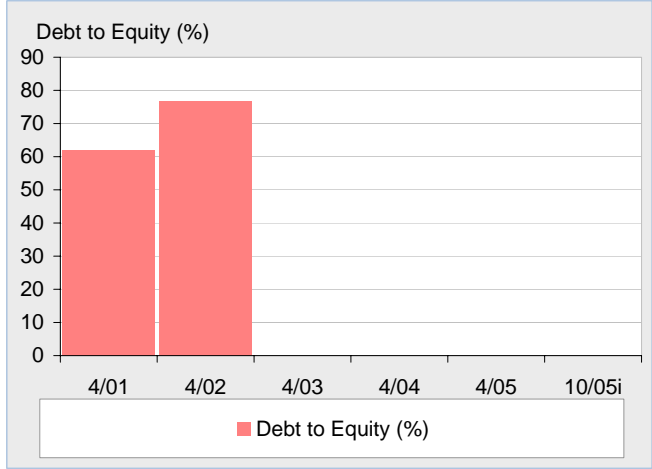
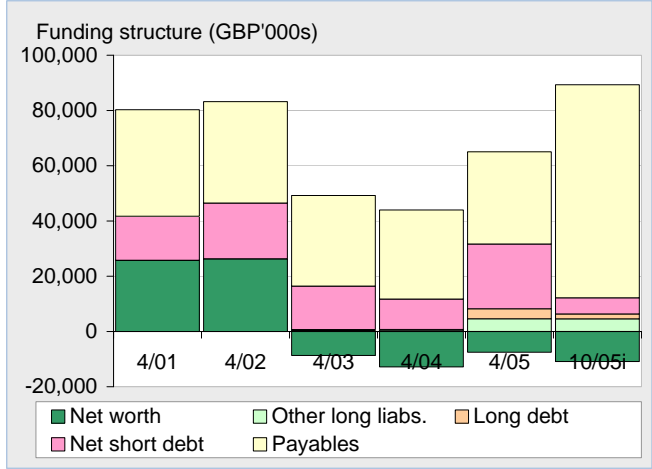
Income



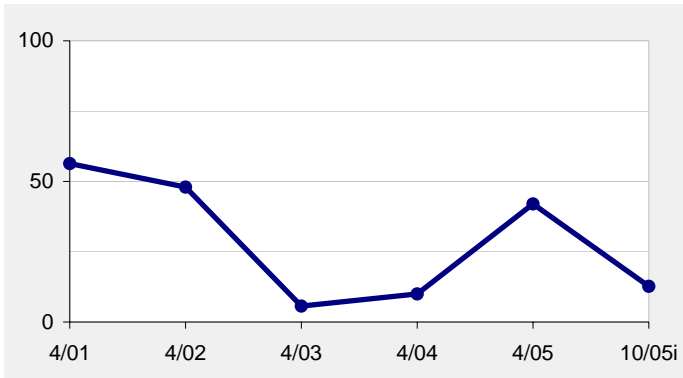
Assets



Funding



PROFIT MANAGEMENT - 1. Profitability



Factor Description

The Profit Management factor measures the contribution that profits are making towards minimising immediate financial risk.

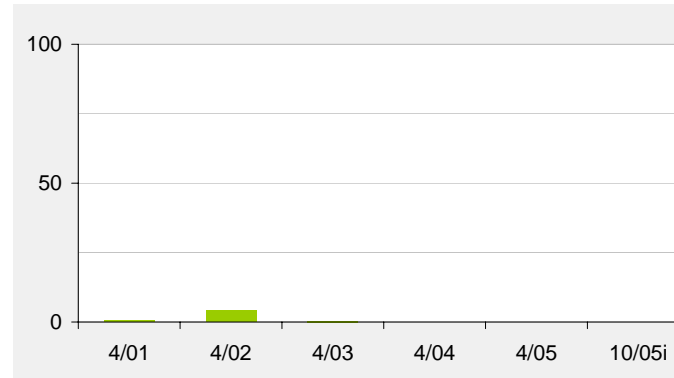
(H) : the higher the better;
(L) : the lower the better

Period		04/01	04/02	04/03	04/04	04/05	10/05i
Factor Score		56	48	6	10	42	13
Earnings before tax -1 (H)		10,808	6,300	-36,033	-2,021	5,865	-1,116
Current liabilities - 2 (L)		54,500	56,905	48,538	43,261	56,844	82,997

- (1) In cases where the financial year is shorter or longer than 12 months EBT has been annualised
- (2) Cash (incl. Marketable securities) & Debt due within 1 year are netted off

ASSET MANAGEMENT - 2. Liquidity

Currency: GBP'000s



Factor Description

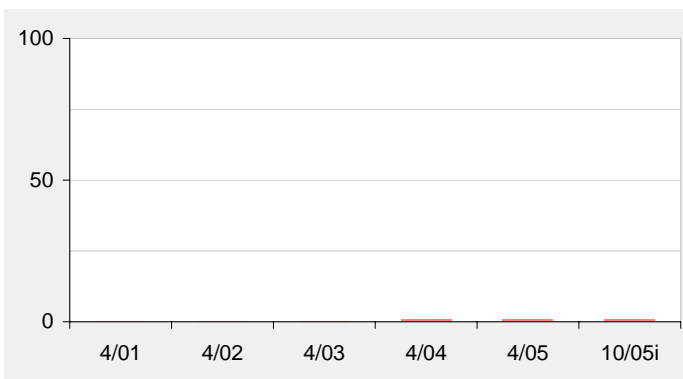
The Liquidity Factor is a measure of: The adequacy of the Quick Assets (Cash & Receivables) taking into account the immediate demand on them from the Current liabilities (Payables & Short term debt) and the ongoing Expenses of the business.

(H) : the higher the better;
(L) : the lower the better

Period		04/01	04/02	04/03	04/04	04/05	10/05i
Factor Score		1	4	0	0	0	0
Quick assets -1 (H)		14,674	13,667	12,232	11,087	9,087	14,718
Current liabilities -2 (L)		54,500	56,905	48,538	43,261	56,844	82,997
Expenses - 3, 4 (L)		174,895	206,312	234,244	164,258	170,009	204,400

- (1) Receivables & cash (cash (incl. Marketable securities) & debt due within 1 year are netted off)
- (2) Cash (incl. Marketable securities) & Debt due within 1 year are netted off
- (3) Sales less Earnings before tax
- (4) In cases where the financial year is shorter or longer than 12 months Expenses have been annualised

3. Inventory & Receivables Management



Factor Description

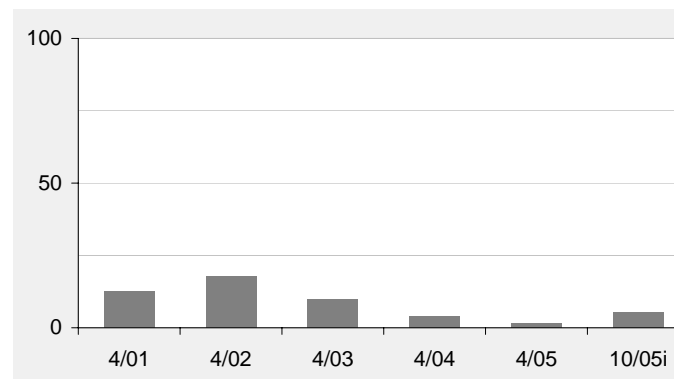
The Inventory & Receivables Management factor measures the degree to which the investment in working capital is supported by long term funding (net of intangibles)

(H) : the higher the better;
(L) : the lower the better

Period		04/01	04/02	04/03	04/04	04/05	10/05i
Factor Score		0	0	0	1	1	1
Inventory (L)		17,718	22,079	14,313	6,861	10,986	24,831
Receivables (L)		14,674	13,667	12,232	11,087	9,087	14,718
Long term funding -1 (H)		-7,404	-7,094	-8,419	-12,526	-22,090	-29,534

- (1) Net worth (after netting off Intangibles) + Long term liabilities

4. Current Asset Cover



Factor Description

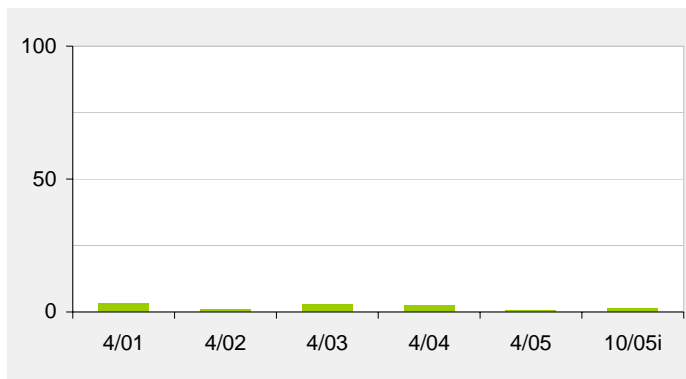
The Current Asset Cover Factor measures the cover available from the Current assets (Inventory, Receivables & Cash) to meet the short- and long-term liabilities of the company

(H) : the higher the better;
(L) : the lower the better

Period		04/01	04/02	04/03	04/04	04/05	10/05i
Factor Score		13	18	10	4	2	5
Current assets - 1 (H)		32,392	35,746	26,545	17,948	20,073	39,549
Total liabilities -1 (L)		54,551	56,923	49,232	43,983	65,044	89,322

- (1) Cash (incl. Marketable securities) & Debt due within 1 year are netted off

FUNDING MANAGEMENT - 5. Equity Base



Factor Description

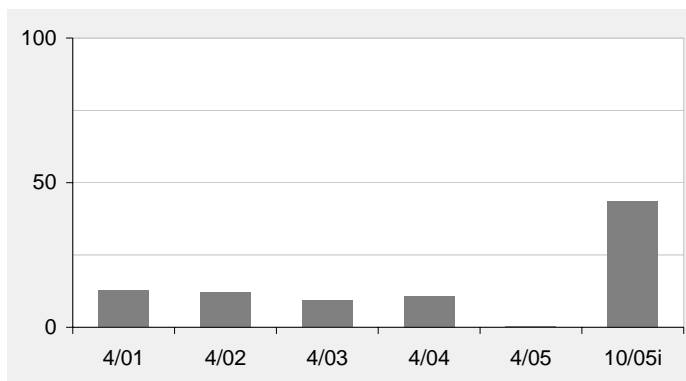
The Equity Base Factor measures the adequacy of the company's capital base. It compares the Net worth to all its liabilities (including, but not restricted to, its borrowing).

(H) : the higher the better;
(L) : the lower the better

Period		04/01	04/02	04/03	04/04	04/05	10/05i
Factor Score		3	1	3	3	1	1
Total Liabilities - 1	(L)	54,551	56,923	49,232	43,983	65,044	89,322
Net Worth - 2	(H)	-7,455	-7,112	-9,113	-13,248	-30,290	-35,859

- (1) Cash (incl. Marketable securities) and Debt due within 1 year are netted off
- (2) Net of Intangibles

7. Debt Dependency



Factor Description

The Debt Dependency Factor measures the degree to which the company is dependent on debt for its funding. The higher the reliance on external bank debt, the worse.

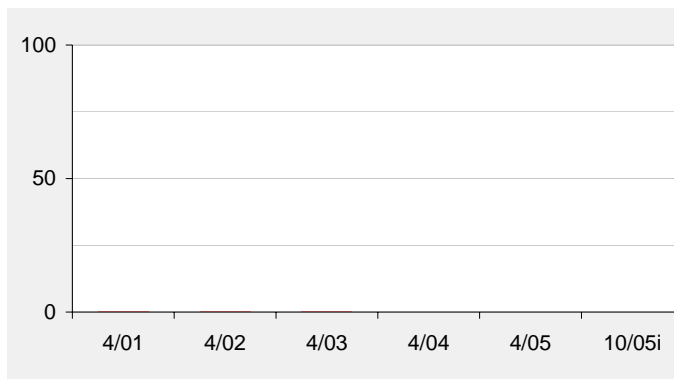
(H) : the higher the better;
(L) : the lower the better

Period		04/01	04/02	04/03	04/04	04/05	10/05i
Factor Score		13	12	9	11	0	44
Short term debt - 1	(L)	15,923	20,180	15,701	10,980	23,436	5,848
Long term debt	(L)	0	0	330	209	3,598	1,760
Total debt	(L)	15,923	20,180	16,031	11,189	27,034	7,608
Total tang. assets -1	(H)	47,096	49,811	40,119	30,735	34,754	53,463

- (1) Debt due within 1 year (net of Cash and Marketable securities)
- (2) Total tangible assets after netting off Short-term debt (due within 1 year) with Cash & Marketable securities

6. Current Funding

Currency: GBP'000s



Factor Description

The Current Funding Factor measures the degree to which the Total tangible assets are funded out of Short-term liabilities. The greater the reliance on Short-term funding, the worse.

(H) : the higher the better;
(L) : the lower the better

Period		04/01	04/02	04/03	04/04	04/05	10/05i
Factor Score		0	0	0	0	0	0
Current Liabilities - 1	(L)	54,500	56,905	48,538	43,261	56,844	82,997
Total tang. assets -1	(H)	47,096	49,811	40,119	30,735	34,754	53,463

- (1) Cash (incl. Marketable securities) and Debt due within 1 year are netted off

Comment

The H-Score model initially reviews any company from seven points of view (the seven fundamental Factors) simultaneously in order to obtain a comprehensive evaluation of its financial health. This measures the strength of the company's fundamentals.

The **power** that each Factor has, to materially affect the H-Score will vary from company to company depending on the nature of the company's financial structure.

For further information please see the Appendix

Income Statement

GBP'000s

	10/05i	4/05	4/04	4/03	4/02	4/01
Months in period	6	12	12	12	12	12
Sales	101,642	175,874	162,237	198,211	212,612	185,703
Cost of sales	-81,386	-140,824	-129,192	-161,534	-164,601	-146,359
Gross profit	20,256	35,050	33,045	36,677	48,011	39,344
Other operating income/costs	-19,048	-30,174	-29,890	-73,142	-40,040	-31,038
Operating profit	1,208	4,876	3,155	-36,465	7,971	8,306
Special items	0	938	-4,864	0	-2,306	0
Interest & other income	-891	649	736	1,394	1,391	3,000
Interest paid	-875	-598	-1,048	-962	-756	-498
Earnings before tax	-558	5,865	-2,021	-36,033	6,300	10,808
Tax	-179	-1,020	-636	1,051	-2,260	-3,326
Earnings after tax	-737	4,845	-2,657	-34,982	4,040	7,482
Other	-1,105	-1,623	-1,452	-45	-3,965	-3,965
Net income	-1,842	3,222	-4,109	-35,027	75	3,517
No. of employees (heads)	0	529	595	809	978	754

Cash flow statement

GBP'000s

	10/05i	4/05	4/04	4/03	4/02	4/01
Months in period	6	12	12	12	12	12
Operating activities	23,777	2,931	4,484	8,033	3,601	1,672
Investing activities	23	-10,896	328	-557	-1,514	-30,805
Financing activities	-7,005	-2,069	-482	-4,080	-9,693	-7,765
Other	0	0	0	0	0	23,650
Net change in cash	16,795	-10,034	4,330	3,396	-7,606	-13,248

In cases where the reported interim data lacks detail, the breakdown of the figures has been extrapolated from the previous year-end.

Balance Sheet

GBP'000s

	10/05i	4/05	4/04	4/03	4/02	4/01
Months in period	6	12	12	12	12	12
Cash and equivalent	2,190	581	1,019	2,430	1,004	3,095
Marketable securities	0	0	0	0	0	0
Accounts receivable	8,570	5,307	5,076	6,895	9,113	8,558
Other current receivables	6,148	3,780	6,011	5,337	4,554	6,116
Inventory	24,831	10,986	6,861	14,313	22,079	17,718
Other non-liquid assets	0	0	0	0	0	0
Current assets	41,739	20,654	18,967	28,975	36,750	35,487
Intangible assets	24,969	22,779	420	442	33,400	33,171
Property, plant & equipment	9,951	12,110	12,042	13,117	13,984	14,623
Other long term assets	3,963	2,571	745	457	81	81
Total long term assets	38,883	37,460	13,207	14,016	47,465	47,875
Total assets	80,622	58,114	32,174	42,991	84,215	83,362
Debt - due within 1 year	8,038	24,017	11,999	18,131	21,184	19,018
Accounts payable	59,506	25,768	27,599	29,211	28,956	27,994
Other current payables	17,643	7,640	4,682	3,626	7,769	10,583
Current liabilities	85,187	57,425	44,280	50,968	57,909	57,595
Long term debt	1,760	3,598	209	330	0	0
Other long liabilities	4,565	4,602	513	364	18	51
Long term liabilities	6,325	8,200	722	694	18	51
Minority interest	0	0	0	0	0	0
Shareholders' equity	-10,890	-7,511	-12,828	-8,671	26,288	25,716
Net worth	-10,890	-7,511	-12,828	-8,671	26,288	25,716
Total liabilities & Net worth	80,622	58,114	32,174	42,991	84,215	83,362

In cases where the reported interim data lacks detail, the breakdown of the figures has been extrapolated from the previous year-end.

Financial ratios

Profitability	10/05i	4/05	4/04	4/03	4/02	4/01
Operating margin (%)	1.2	2.8	1.9	-18.4	3.7	4.5
EBT margin (%)	-0.5	3.3	-1.2	-18.2	3.0	5.8
Return on net worth (%)	-ve NW	-ve NW	-ve NW	-ve NW	24.0	42.0
Return on assets (%)	0.8	11.1	n/a	n/a	8.4	13.6
Interest cover	0.4	9.2	3.7	-36.5	12.4	22.7
Tax rate (%)	n/a	17.4	n/a	n/a	35.9	30.8

Trading/Funding

Sales:Tangible long assets	20.4	14.5	13.5	15.1	15.2	12.7
Sales:Net worth	-ve NW	-ve NW	-ve NW	-ve NW	8.1	7.2
Debt to Equity (%)	-ve NW	-ve NW	-ve NW	-ve NW	76.8	61.9

Liquidity

Current ratio	0.5	0.4	0.4	0.6	0.6	0.6
Acid test ratio	0.2	0.2	0.3	0.3	0.3	0.3

Working capital:sales

Inventory days	44.6	22.8	15.4	26.4	37.9	34.8
Accounts receivable days	15.4	11.0	11.4	12.7	15.6	16.8
All other receivables days	11.0	7.8	13.5	9.8	7.8	12.0
Accounts payable days	106.8	53.5	62.1	53.8	49.7	55.0
All other payables days	31.7	15.9	10.5	6.7	13.3	20.8

Staff GBP'000s

Sales per head		332.5	272.7	245.0	217.4	246.3
Earnings before tax per head		11.1	-3.4	-44.5	6.4	14.3

In cases where the reported interim data lacks detail, the breakdown of the figures has been extrapolated from the previous year-end.

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2. The H-Score explained

3. The 7 Factors explained

APPENDIX

Corporate Information

Last Update: 07 November 2006

Industry: Retail sale via mail order houses

Address: Farepak House
Westmead Drive
Westlea
Swindon

**Accounting
Currency:** GBP

**Market
Cap (m):** 9.0

**Country of
Incorporation:** United Kingdom

Exchange: London Main

Symbol: EHR~

Activity

The group is engaged in the sale of products for the home and personal use through independent distributors, books and gifts to customers at work through sales agents, and food and gifts by mail order

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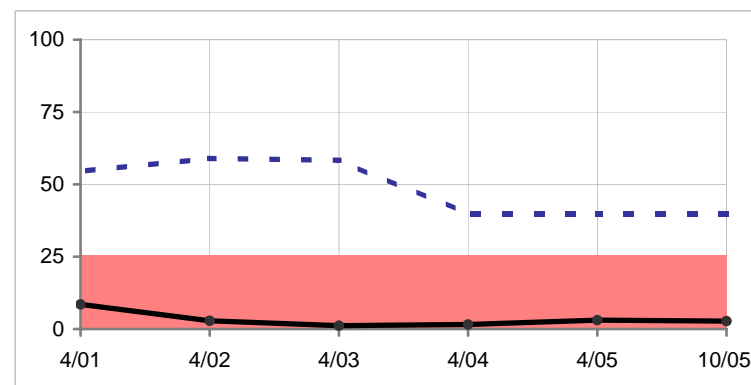
1. Corporate Information

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APPENDIX

The H-Score Explained



The H-Score is a measure of the financial health of a company. It is based on a statistical evaluation of a company's publicly available financial results, an evaluation that reviews a company from seven different points of view simultaneously in order to determine its overall financial health.

Displayed graphically over several years, it is a ranking of all companies on a scale of 0 (worst) to 100 (best). Companies in the Warning Area (H-Score of 25 or less) share the characteristics of companies that subsequently failed and may be vulnerable. It is rare for companies to fail or experience major distress as long as their H-Score remains outside the Warning Area.

Historically 1 in 4 companies in the Warning Area have either failed or had a major financial reconstruction within 3 years. Companies in the Warning Area will include:

- Companies that have one or more serious weaknesses and would be better off correcting them. This describes the majority of companies in the Warning Area.
- Companies temporarily weakened by a major event. (e.g. Major acquisition financed short term.) In many cases such companies are able to trade themselves out of such a position in a reasonably short time. However, it is important to recognise the existence of such an issue when it does arise, because it could turn into a serious weakness if not addressed.
- Companies that have a proven ability to run their business successfully from an inherently weak Balance Sheet position (e.g. Companies with a proven history of profitable sales growth but accompanied by negative tangible net worth and high levels of debt). Such companies are usually rather more dependent on their continuing sales growth and profitability in order to retain the confidence of their suppliers, lenders and investors.

The dotted line on the graph represents the average H-Score for companies with the same primary SIC code in three sizes (small, medium, large). It is not shown when the total number of companies is less than 4.

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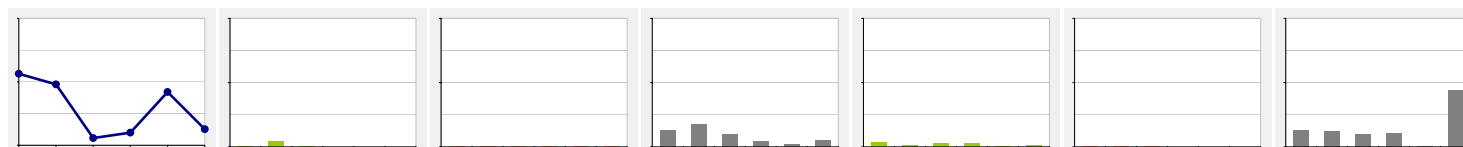
1. Corporate Information

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3. The 7 Factors explained

APPENDIX

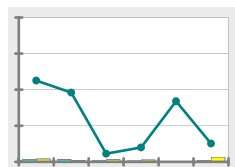
The 7 Factors Explained



Strengths and Weaknesses

The H-Score model reviews the fundamentals of each company from seven points of view in order to determine a comprehensive evaluation of its financial health. The 7 Factor Graphs direct your attention to the strengths and weaknesses that the model has detected. The figures below each graph provide the explanation. Not every company should be expected to be strong on all 7 factors. For example, property companies will be weak on “Current Asset Cover”. Food Retailers will have a poor “Liquidity Factor” because they will have received the cash for goods that they have yet to pay to their suppliers. Both examples are normal for such companies. So long as they compensate for that in other ways, that is not a problem. The model looks at the company as a whole and the result is reflected in the H-Score. The individual factors provide the explanation of the reasons why.

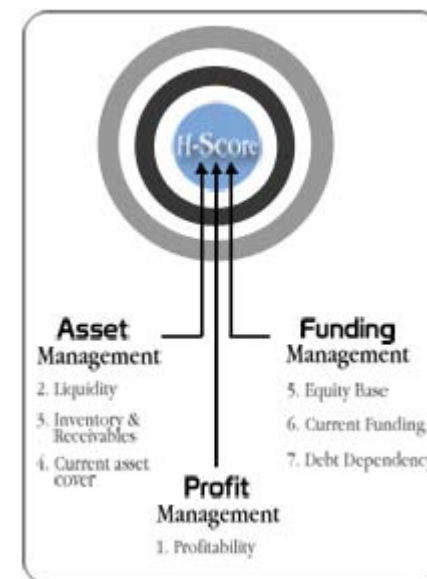
The Factor Profile



This summarises the 7 factors into a single graph and is the first level of drill-down which begins to explain where the company’s strengths and weaknesses lie and how they have changed over the past five years.

The Factor Profile is designed to act as a “signpost”, directing attention to where to look. The seven factors are summarised into three groups showing the contribution to the company’s financial health from:

1. The Profits
2. The strength of the financial management of its assets (liquidity, working capital etc.)
3. The strength of the funding (equity base, debt dependency, current funding)





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